

PART ONE

# CLOSING THE INNOVATION GAP

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## CHAPTER ONE

# THE INNOVATION GAP

*“The problem is much more complex and challenging than we thought,” the CEO declared to his executive team. “Initially, we thought our challenge was to sustain our leading position in the new competitive environment. We thought we were an innovative pharmaceutical company—but really we’re only an innovative R&D company. And now our R&D pipeline has almost ground to a halt. Healthcare regulators are not approving our new products. Generic drug companies are contesting our patents through intense litigation. Doctors don’t have the time to see us. We’re facing unprecedented political pressure to reduce the costs of our drugs. It’s obvious that we must become innovative throughout our company and not just in R&D. But how do we do that quickly?”*

*“We’ve trained our best leaders to focus on short-term problems and ‘making’ the numbers. We haven’t trained them to think innovatively. Our few innovative leaders have left to join healthcare startups that appreciate their innovative thinking. So we don’t have the skilled innovative leaders who can help lead us out of this mess.”*

*The CEO raised his voice and challenged his executive team, “I’m not the only leader here. Together, we must radically change our culture and champion innovative leadership throughout our business to compete in our industry. Are you with me?” The executives saw the panic in the CEO’s eyes and nodded in agreement—but they didn’t believe they would make any meaningful changes—not because they didn’t want to, but because they just didn’t know how to do what the CEO wanted. And they didn’t believe the CEO knew either.*

It is stories like this one that motivated us to write this book. Many organizations are caught in the turbulent world of the knowledge economy. They may have good intentions to become more innovative—but not many of their

leaders know how to do it. They recognize that innovation is a key source of competitive advantage. However, despite extensive efforts to change, many organizations are having difficulty achieving the levels of innovation they require. This dynamic is an *innovation gap*.

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*Innovation Gap = The difference between the stated importance of innovation and the actual results in an organization*

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Our purpose in *Innovative Intelligence* is twofold:

- To provide business leaders and senior HR executives with an accelerated strategy to close the innovation gap.
- To supply a series of practical and implementable frameworks and tactics for developing leaders who can drive innovation in their organizations.

## THE INNOVATION CHALLENGE

Let's begin with the challenge of *innovation*.

Frequently it is only after the crisis has occurred—after the competition has captured market share, after the market has dried up, after organizations have slashed costs—that organizations react. Then they say they need to “innovate”—as best they can under the pressure of the crisis. Too often, they overreact and confuse systemic innovation with unbridled creativity. This kind of creativity merely produces high-risk ideas with no pragmatic means of applying them and no built-in process to sustain them.

Organizations face three major challenges as they attempt to respond to the innovation gap:

1. *Lack of a common understanding of what innovation is, how it happens, and what prevents it.* Despite many attempts at defining innovation, a lack of consensus on a common definition still exists. Too often, leaders define innovation only in terms of technology or scientific research, yet organizations require innovation in almost all areas.

2. *Lack of innovative leaders.* Most leaders have never learned how to be innovative and how to lead an organization so that it becomes more innovative. They may understand that they have a key role in innovation, but they do not know how to systematically generate new and better solutions. They also do not know how to reinforce the right innovative skills for their direct reports and teams.
3. *Lack of enabling organizational practices and cultures to reinforce innovation.* Many organizations inadvertently discourage innovation through their organizational practices (e.g. planning, budgeting, rewards). In addition, many organizations have cultures that drive short-term results and risk avoidance. Without changing some organizational practices and building a culture of innovation, leaders will not close the innovation gap.

Today, innovation is often extolled; however, on closer investigation, far more talk than action occurs. In this context, the old adage “talk is cheap” actually becomes “talk is expensive,” because organizations pay a hefty price if they do not practice what they preach. Failure to innovate can be terminal.

## WHAT IS INNOVATION?

Let's first define innovation. Then, we'll explain the innovation gap dynamic and substantiate it with our evidence.

Most use the concept of “innovation” as either an *outcome* or a *process*. This book is not about innovation as an *outcome*, although a great deal of research describes the innovation gap that is associated with the lack of innovative outcomes in organizations.

Instead, our approach focuses on the *process* of innovation and how innovation happens. Here are some key aspects of the innovation process:

- The innovation process applies to everything an organization does or could do, as well as how it does it. For example, innovation applies to how the organization develops and implements strategies, creates new products and services, manufactures products and services, and ensures that internal functions support the business.

## 6 Innovative Intelligence

- It is an essential enabler of business strategies and goals—but it is not, in and of itself, the strategy or the goal.
- It is simply about innovating. It is a process that enables the organization to deliver on its strategies and its goals, in the same way that manufacturing, marketing, or accounting enables the organization to achieve its goals—no more and no less.

We use the word *innovation* in a very different way than the way we use the word *creativity*. Here are some comparisons of creativity and innovation:

- Creativity is about having new ideas, relevant or not, useful or not, implementable or not, while the output of innovation achieves defined value for an organization.
- Creativity is a stand-alone output, not a sustainable business outcome. On the other hand, *innovation* is directed toward achieving a sustainable outcome that can improve what people do or how they do it.

Our definition of *innovation* in a business context is as follows:

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*Innovation = Applied creativity that achieves business value*

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The confusion between innovation and creativity has been costly to many organizations. Once, a CEO of a successful bank indicated he did not want more innovation (because it would be too disruptive). What he was actually referring to was not innovation but creativity without boundaries, direction, or a rigorous process for application.

It is difficult to blame executives for their anxiety with unbridled creativity. Many executives are focused on risk mitigation and ensuring that the formula for success for their organization can be repeated continuously. Uncontrolled creativity could put an organization at risk, and although some executives say they want new ideas and innovation, they do not always support it when it occurs.

Even the expression “unleashing creativity” reflects this anxiety. To “unleash” implies that creativity was formerly restrained on a leash because it was dangerous. As a result, many executives do not focus on developing

the innovation skills of their leaders because they are concerned that it will introduce uncontrollable risk.

Of course, managing risk is important—but concern with risk should not stop the innovation process. In fact, not taking risks and not changing is often the biggest risk of all, even if it is not immediately obvious. We need both innovation and risk mitigation at the same time.

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It is similar to the perceived oxymoron that higher quality can occur with lower cost. But it is true—better quality can be less expensive. The same is true for innovation: greater innovation can occur within acceptable levels of risk. Risk management should always be built into the innovative process.

Executives are correct in assuming that unbridled creativity could be disastrous—but focused innovation within acceptable risk levels can yield outstanding benefits for the business. To reduce associated risk, innovation needs to operate within clear boundaries and to be focused on achieving specific business outcomes.

The issue is that leaders often do not know how to foster innovation or how to manage risks on an ongoing basis. Risk is, just like innovation, an area that is spoken about frequently but with very little understanding or action. Risk is usually carefully evaluated for large projects or investments, but the discussion of risk for smaller projects is usually minimal. In most cases it is just glossed over, only to be discovered if something goes wrong later.

## **INNOVATIVE THINKING MAKES INNOVATION HAPPEN**

Although there are many ways to understand innovation, most experts agree that innovation happens when people use innovative thinking.

Our definition of *innovative thinking* is as follows:

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*Innovative thinking is the process of solving problems by discovering, combining, and arranging insights, ideas, and methods in new ways.*

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The process of innovating is done by individuals or small teams that engage in innovative thinking. Computers, systems, cultures, or organizations do not innovate—only people do. However, the role of organizations and systems is critical; they are key enablers or potential blockers of innovative thinking by individuals and teams.

## **The Challenge to Innovate in the Knowledge Economy**

The shift from the industrial economy to the knowledge economy has changed the nature of work more in the last 20 years than it changed in the last century. In the industrial economy, an organization could ask a few elite leaders to be innovative and focus everyone else on simply doing the work. When a problem happened, it was escalated to the elite “thinkers,” who solved the problem and communicated the “right” decision throughout the organization.

In the knowledge economy, there is a need for all employees to use their intellectual potential because the nature of work is constantly changing and presenting complex challenges at every level of organizations. In this new economy, better solutions can only come from new ways of thinking—innovative thinking—not from conventional linear analytical thinking alone.

We need innovative thinking in our schools and businesses, in our health care and justice systems, and throughout our public institutions, in everything from politics to parenting. Even in manufacturing, the traditional hub of the industrial economy, all employees need to contribute to innovative thinking.

Unfortunately, in the context of today’s collapsed time and increasing work complexity, many complain that there is little time for innovating, and too few people are able to dedicate time to thinking, let alone innovative thinking.

Almost no organization has a culture that allocates thinking time for employees as Google reputedly does<sup>1</sup>—and “lack of time” is the most common obstacle cited by workers when asked why they are not more innovative. Employees who designate office time to think about problems and issues are often assumed to be wasting time—as one bank

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1. Boston Consulting Group, “Innovation 2007: A BCG Senior Management Survey,” August 2007. [http://www.bcg.ch/fileadmin/media/pdf/innovation\\_2007.pdf](http://www.bcg.ch/fileadmin/media/pdf/innovation_2007.pdf)

employee told us: “When I think, I feel guilty because I am not doing.” Some employees cannot think at work because they spend so much time in meetings, and they believe more in an “open door policy” (whereby anyone can disturb them at anytime), than in allocating time for dedicated “closed door” thinking.

In addition, the recent proliferation of smart phones has placed an even greater premium on instant reactions and instant solutions, to the detriment of well-thought-out decisions. As a result, some employees sneak away from their offices, just to have a few moments of undisturbed innovative thinking time.

We need to value thinking at work and create a climate where innovative thinking is legitimized and valued in meetings and during dialogue, and where we confront and understand complex issues that we encounter in the work setting.

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*Organizations need to value thinking at work and create a climate where innovative thinking is legitimized and valued.*

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## THE EVIDENCE IS IN—WE ARE UNDERACHIEVING

While innovation is often heralded as a key source of competitive advantage, many organizations are woefully underachieving when it comes to innovation. When they need it most, they have seldom been able to achieve the type of innovation that anticipates, adapts, and leads change rather than following it. This is particularly true when an organization compares its actual business achievements to the potential of its individual workers and teams. Few organizations leverage the full potential of their employees and teams.

Many articles and researchers<sup>2</sup> focus on innovative organizations such as Apple, Google, Toyota Motor Corp., General Electric, and Microsoft. There are also other, less visible, innovative organizations in the private sector, social enterprise (non-profit) sector, and public sector. However, for every organization that succeeds at innovation, there are many more that

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2. Boston Consulting Group, “Innovation 2007: A BCG Senior Management Survey,” August 2007.

are either not engaged in it or not doing enough. One executive director of a creative dance company said it best in his presentation to encourage his management team to be more innovative: “Have we had innovation? Of course. Incremental improvement? Yes. Big ideas? A few. Sustainable innovation? Seldom. Enough innovation? Not even close.” This observation is true for many organizations today.

What has emerged in organizations is a wide-ranging and potentially disastrous innovation gap. To validate the dynamic of the innovation gap, we reviewed a number of survey reports on innovation published over the past five years in North America and Europe. We also conducted our own research on innovation in the workplace to validate some of the findings that already existed, to test some of the underlying assumptions that appear to be the basis for much of the research, and to explore some additional questions.

## What the Research Shows

The first overriding result in almost every research report is that there is a significant gap between innovation expectations and performance.<sup>3</sup> The dynamic is as follows:

- ***Innovation Expectations:*** Most executives believe innovation is “very important” or “important” for the future success of their organizations, and it is among the top priorities for their businesses.
- ***Innovation Results:*** Most executives are not satisfied with the innovation results their organizations are achieving.

Research validates these findings. The first survey we led<sup>4</sup> targeted senior leaders in 500 large organizations. We found the same dramatic differences

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3. Accenture, “Overcoming Barriers To Innovation,” 2008, and Boston Consulting Group, “Innovation 2007: A BCG Senior Management Survey,” August 2007. Boston Consulting Group reported that innovation is a top strategic focus for 66% of 2468 executive respondents—most at C-Suite levels—ranking it one of the top three priorities, and 67% will increase spending on innovation; IBM researchers reported in the book *Rethinking Innovation* (Fast Thinking Books, 2008) that most believe innovation is a key priority; however, many are not satisfied with the results of their innovation efforts. The same result emerged in the report by the Delta Organization and Leadership (a Member of Oliver Wyman) in “The Global Leadership Imperative: Building and Innovation Engine,” 2007.

4. *Globe and Mail* and the Schulich School of Business survey conducted in 2007.

between innovation expectations and innovation results. The results of the following two questions illustrate the point:

- “Innovation<sup>5</sup> is important for our future success” = 88 percent of respondents
- “Our organization is effective at innovation” = 33 percent of respondents

Another question we asked was, “Who was responsible for innovation?” The findings (Table I.1) showed that 78 percent believed the executive team was responsible for innovation (and not specifically the CEO).

**Table 1.1: Who is Responsible for Innovation?<sup>6</sup>**

<b>Executive Team</b>	78%
<b>CEO</b>	47%
<b>R&amp;D Executive</b>	16%
<b>HR Executive</b>	12%
<b>Others</b>	12%
<b>No One Specifically</b>	11%
<b>Chief Innovation Officer</b>	8%

Of course, there are high-profile examples of innovative CEOs who have almost single-handedly led their organizations to new industry innovations—however, these types of executives are few and far between. These unique innovative leaders are often found in owner-operated companies where the CEO may have launched the company after discovering a breakthrough concept, service, or product and retains that position of being the primary, and sometimes exclusive, generator of innovative ideas.

We also conducted a survey<sup>7</sup> of 550 HR professionals (including 130 HR executives) focusing on the Human Resource professionals’ perception of the innovation gap. This research compared the results

5. The survey defined innovation as: Implemented ideas that create value in everything you do and how you do it (to the exclusion of R&D).

6. Respondents were permitted to select more than one response category.

7. Based on the research by Ideaction and the Human Resources Professionals’ Association (HRPA) in Ontario, Canada, 2008.

of the respondents who said their organization was innovative (referred to as “innovative organization”) to the ones who said their organization was not innovative (referred to as “non-innovative organization”). These results clearly showed that the HR respondents believed leadership was the single most discriminating factor for innovation success (see Table I.2).

**Table 1.2: The Role of Leadership in Innovative and Non-Innovative Organizations**

	All Respondents	Executives Only	Innovative Organizations	Non-Innovative Organizations
Innovation is important for the future success of our organization	87%	93%	95%	79%
All our executives believe that innovation is crucial	53%	59%	86%	24%
Our executive team is an excellent example of teamwork	33%	44%	67%	12%
Our executives understand the process of innovation	29%	34%	68%	6%
Our executives role-model innovation practices in their own actions	28%	39%	68%	2%

In our research, innovative organizations differed from non-innovative organizations in some key ways:

- Typically, in innovative organizations *all* the executives believed innovation was crucial to their future success. It was not enough to have only the CEO formally promote innovation. To succeed, the organization needed to align all the top leaders.
- Most innovative organizations viewed executive teams as good examples of teamwork and as role models of innovation.
- Most innovative organizations understood the process of innovation and had a well-defined innovation strategy.
- All leaders were directly accountable and responsible for the success or lack of success of innovation in their organizations.

Another key finding in our research was that middle managers were very concerned about innovation in their organizations. Middle managers indicated the following:<sup>8</sup>

- There are greater barriers to innovation in their companies than C-Suite<sup>9</sup> executives realize.
- They have a much less optimistic view of the executives as supporters of innovation than the executives have of themselves.
- Not enough is being done by executives to help middle managers become innovative leaders.
- Accountability for innovation needs to be distributed throughout the leadership ranks.

Our research findings support the assertion that there is a need for organization-wide innovative thinking that becomes part of the way of working for all leaders and employees, at every level of the organization.

Our findings indicate the following about the role of a CEO in innovation:

- The CEO is not to be the chief innovator, but rather the champion of a culture and structure that incessantly encourages, celebrates, and grows innovation.
- The CEO must eliminate obstacles, including individual leaders who block innovation.
- The CEO needs to be a driver of innovation in the organization and should not be the person with exclusive accountability to discover innovations—that accountability extends far beyond the CEO.
- The direct responsibility of the CEO is to ensure that the executives and the entire organization actively support the innovation agenda.

What is required is leaders, from CEOs to frontline managers, who understand and accept the need to generate innovations. The executives need to

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8. Schulich School of Business and the Human Resources Professionals' Association (HRPA)—research conducted by Ideation.

9. C-Suite refers to the executive team of a company. The “C” refers to the popular designation of “Chief,” as in Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Marketing Officer (CMO), Chief Technology Officer (CTO), etc.

value small and large innovations, and they need to emphasize that everyone has a role in innovative thinking and in implementing innovative ideas.

The CEOs must be accountable for making sure all other leaders implement innovation, but they can't be the only leaders doing it. They must be taught how to use a systematic process of innovative thinking, how to role-model innovation, and how to create a climate of innovation for all leaders, employees, and teams.

Overall, the studies we conducted indicate that the key to overcoming the innovation gap is a strong leadership emphasis on innovation throughout the organization. Our research and our experience also support the following:

- *Many executives have an overall lack of understanding of how innovation happens and how to create an innovative organization.* They believe they are personally innovative, but they lack an understanding of how to create a culture that encourages innovation. They also do not know how to create effective organizational processes that support innovation, nor do they know how to foster skills development among leaders, employees, and teams so that they become able to be innovative.
- *Leaders at all levels (not just executives) need to be committed to innovation.* The leaders need to be taught how to apply innovative thinking, how to encourage others to use it, and how to create a climate of innovation for their employees and teams.
- *Organizations need systematic innovation plans.* Organizations are becoming more and more complex, and they need organization-wide innovation plans to govern the innovation agenda and to create a culture of innovation that enables and encourages individuals and teams to think innovatively.

## TRY IT ANOTHER WAY

The business approach that has worked for many leaders in the past is often an obstacle to innovation in the current knowledge economy. It is time to try another way.

Some leaders believe they can fix any problem if they return to their former successful ways of operating. For example, some executives assume that new product and service innovations are their primary source of innovation, based on their past experiences. However, the new frontier for

innovation extends well beyond product and service innovations. Some organizations are generating great value from other areas, including process innovations, customer innovations, business model innovations, marketing and sales innovations, and HR and IT innovations. There are many new areas of focus for innovation that require attention. Relying on product and service innovation alone will not be sufficient.

Some of these leaders may be suffering from “tunnel vision”<sup>10</sup>—a pattern of human thought that proceeds as follows: When a specific kind of performance leads to success and that success leads to meaningful rewards, then it is very likely that the person will repeat the original performance again. If this pattern occurs numerous times, the person may become complacent and be deceived into believing that repeating the same performance, even when the context is radically different, will produce the same success and rewards. Some leaders believe their past methods are the only way to achieve successful outcomes, even when conditions around them change. When leaders exhibit tunnel vision, it often results in missed opportunities and, in some cases, disastrous results.

Leaders need to have the humility to never believe they have found the absolute performance formula for success. They need to retain the flexibility to do the right thing based on what they face currently and not on how they responded in the past, regardless of how successful their past performance may have been. All leaders, including executives, need to be open to the current context and to be willing to try it another way to ensure continual organizational vitality. This expectation of executive leadership is consistent with Jim Collins' concept<sup>11</sup> of “level 5 leadership,” which emphasizes that the most effective leaders are humble and persistent. It is not about the leader; it is about organizational success. Personal humility lets leaders be open to new contexts and eventualities. It helps them look forward and discover new innovations rather than looking backward and incorrectly applying what worked in the past to the current context.

Organizations need innovation to be the responsibility of all leaders. Executives need to listen to middle managers to uncover the barriers to innovation and discover innovative approaches to resolving them.

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10. David S. Weiss, *High Performance HR: Leveraging Human Resources For Competitive Advantage* (John Wiley and Sons, 2000).

11. Jim Collins, *From Good to Great: Why Some Companies Make The Leap . . . And Others Don't* (HarperCollins Publishers, 2001).

## CONCLUSION

It should be clear by this point that the innovation gap is a major problem for organizations and that there is an urgent need for an effective approach to innovation in the work place. Most leaders know that innovation is essential for their success; however, they do not know how to generate it.

Chapter 2 explains the changing expectations of leadership in responding to the challenge. Chapters 3 and 4 explore why accessing innovative intelligence is a key success factor in this leadership transformation and why leaders trying to meet the new expectations may encounter many obstacles. The remainder of the book provides the strategy, frameworks, and practical techniques for leaders to develop their innovative intelligence and to drive innovation throughout their organizations. So read on and enjoy!

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