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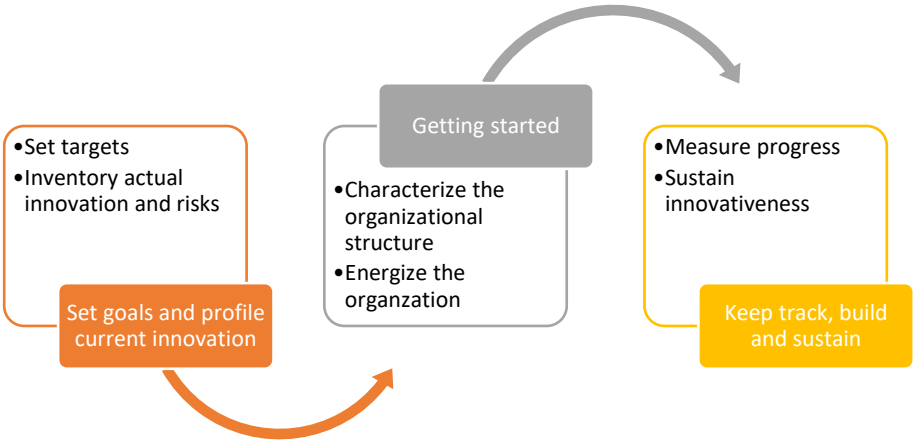
Six steps to better understanding a 'supportive culture'
An Op-Ed
December 8, 2016

Introduction

McKinsey[1] glosses over the most important innovation management issue; having 'a supportive culture'



Recently we have picked up a McKinsey survey which identifies, in McKinsey's opinion, eight essential attributes of innovation[2]. There are eight essential attributes and, would you believe, twenty-six supporting elements, only one of which is the need to have a 'supportive culture'. One is left with a question about what is a 'supporting culture' as it applies to corporate businesses and more importantly, why is culture placed so low in importance.

If culture, as some believe, ultimately trumps strategy execution, this lack of understanding or clarity of what is a 'supportive culture' can be very serious. Culture, if it is 'not supporting', can be a major impediment or even an impossible barrier, to improving or sustaining innovation.

Gerstner, while at IBM in the 1990s, put the culture of an organization on a much higher level. While at IBM, his initial preoccupation was with strategy, marketing and financial issues, but he quickly learned that 'culture isn't just one aspect of the game - it is the game'[3].

Corporate culture is not easy to articulate. Deep down one knows, in their own organization, what is meant by it. Often heard is that 'the culture here is really good or the culture is not so good'. We know it but we don't often get a chance to articulate what we mean. We know that when something happens which we don't like, the blame is put on 'the culture' – and that is the end of discussion.

Highlights

- *McKinsey glosses over the most important innovation issue; a supportive culture.*
- *Articulating a company's real innovation activities is the starting point! Innovation or incrementalism?*
- *Gerstner (ex McKinsey) knew the importance of 'a supportive culture'*
- *Six steps to better understand a 'supportive culture'.*

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[1] McKinsey Quarterly, April 2015, The eight essentials of innovation by Marc de Jong, Nathan Marston, and Erik Roth. Strategic and organizational factors are what separate successful big-company innovators from the rest of the world
[2] See Appendix A; McKinsey's arrangement of underlying elements.
[3] Louis V. Gerstner, Who Says Elephants Can't Dance. Gerstner was ex McKinsey.

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One can live with the vague understanding that their organization has a 'supportive culture' but the lack of clarity can sometimes lead to missteps as one tries to make changes. Often the levers one pushes or pulls turn out to be the wrong ones.

Corporate culture is analogous to an iceberg where, with eighty percent of the iceberg (with its inertia) below the surface, is invisible and not totally understood. The twenty percent which is visible purports to represent the culture but can be very misleading. Erosion at the top can often lead to upending the iceberg with the consequence of serious damage; the same for corporate culture.

Management practices and policies which make for a 'supportive culture' are a subtle combination of actions drawn from both above and below the surface.

Certainly, based on our own research, the belief in a culture is the ultimate reason why some corporations survive over decades. Culture does transcend management providing, of course, that unfortunate decisions and their potentially jarring impacts are minimized!

This paper takes the subject further by setting out six steps which help define the essence of 'a supportive culture'.

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Background research on innovation management - Arthur D Little

Arthur D Little (founded in 1886 and into bankruptcy in 2002) published a landmark report on innovation management in the 1980s. Findings are still relevant to this day!

Arthur D Little researched twenty-eight highly-successful seen-to-be-innovative companies[4] located in Europe, U.S., Canada, and Japan and identified the major policies and management practices which made for innovation and their success. The question posed was; why were these companies so successful?

[4] See http://www.corporateinnovationonline.com/ for the complete list of companies researched.

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The focus of ADL's research was on the policies and management practices which made these companies so successful. Most of their findings are as relevant today as they were at the time. Sometimes the words used were different; for example, the word 'collaboration', which is so often used today, was not used. Rather, the question posed had to do with the degree of involvement of stakeholders in decision making. 'Climate' was the word chosen to represent the 'culture for innovation'.

The irony is that the demise of ADL can, in part, be attributed to its own culture. ADL was often referred to as the 'university of the private sector'. For some this was a complimentary term, for others it was not, as it characterized the organization. There was much evidence of parochialism, self service, a focus on the individual and, overall, an inability to adopt to a changing market place for technical and management consulting which today so much emphasizes collaboration and team work. Short-term profit concerns dominated much of management's time.

Innovation is not for every corporation

Wanting to innovate takes a particular mind set

Not every company innovates nor do all companies seek to be a leader in their industry. Often, the choice is to be a 'follower' thus minimizing the risks – and the gains - associated with new initiatives.

The five companies which have been researched in-depth by CIO[5] clearly show that culture starts with the values of the founders but further, these companies have sustained their culture for decades through the actions of subsequent senior managers and employees. Innovation becomes a core value, built and sustained over decades, by choosing the right leaders and instituting appropriate policies and management practices. The founder's legacy continues.

Not that it is impossible to inculcate innovation into an organization which, for one reason or another, had no founders which were so inclined, but suffice to say that such attempts to change the culture latterly presents a much greater hurdle to overcome than if the culture is present at the outset and has been sustained.

The challenge facing those organizations which do not innovate or do not have a culture for innovation is how to start or reinvigorate the basics; the management of ideas – i.e. innovation. One does this by introducing new policies

Corporate culture refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions.

Often, **corporate culture** is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires.

Wikipedia

[5] Throughout this op-ed, we use as examples only those companies which have been the subject of profiles or papers published on this site. These include but are not limited to; GE, P&G, 3M, Nucor, RIM, Celtel, Starbucks, John Deere, Toyota, Reckitt Benckiser, orgne, IBM, Massey Ferguson and BP.

and management practices which send a clear message throughout the organization. Messages are aimed at strengthening a 'supporting culture' – the word that McKinsey indicates as one of their twenty-six 'supporting elements'. Some would argue that a 'supporting culture' should be one of the eight essential elements rather than being relegated to a supporting role.

A critical step in energizing innovation is to articulate those policies and practices which make for a culture which is supportive of innovation. But that is only important if you believe that innovation – in whatever form – is essential to growth and success over the long term.

Set out below are six steps which, if adopted, bring more clarity to the meaning of a 'supportive culture'.

Examples of corporate initiatives which degraded the innovativeness of an organization are:

- HP; during the Hurd period when R&D spending – a core HP belief/value - was reduced. Moral declined.
- 3M; McNerney was hired to spark better financial performance but bringing in 'Lean Six Sigma', in the opinion of many, almost destroyed the company. The technique did not square with the culture.

Setting the tone and targets for innovation

The first step is for management and the Board to establish goals for innovation; i.e. make an explicit announcement of intent. McKinsey makes this point!

Corporations can become a bit complacent over time and need a jolt. It is up to the senior management team to jar the organization with goals which relate to innovation. Some thought starters are;

- set out a new product percentage as related to the last five years (a traditional 3M measurement - NPVI),
- increase spending on research and development which translates into people understanding that new ideas matter,
- place risk targets throughout the organization (Lantmanned[6] example),
- set risk or failure targets at the individual and group level (e.g. P&G when under Lafley[7]),
- cascade the idea of innovation throughout the senior management group but not, as was evident in Agrium's[8] case; take innovation and risk off the table at senior levels by placing the responsibility for risk and innovation at lower levels in the organization.

Setting the tone for innovation was number two in the list of twenty-five Factors which, based on ADL's earlier research, established a climate for innovation. The question posed under Factor #2 was whether management explicitly or implicitly looks for innovation. The correct answer was the need for an explicit call from senior levels for innovation; most often making innovation one of a small number of 'core' values.

[6] McKinsey example
[7] CIO profile of P&G
[8] CIO paper on Board of Director's responsibilities

In the earlier ADL research, other questions bearing on innovation were also explored, e.g.; the tolerance for failure, tolerance for mavericks (a favorite of 3M's), the adequacy of research and development spending levels, a belief that resources would be available for new good ventures, and a tolerance for uncertainty in the planning process. These Factors impact the climate and culture for innovation.

While setting the tone at senior levels and throughout the organization is important, just as significant is the answer to the question posed by McKinsey; Do you really innovate? Only after establishing the scope of real innovation can senior managers understand the size of the 'elephant' in the room. Targets set by the Board and the CEO are drawn from a full understanding of the current level of innovation undertaken by the firm. The size of the gap helps determine the level of the target!

Profile the current state of actual innovation

Understanding the 'innovation spectrum' is a first step towards articulating the actual innovation which is happening. Does the company really innovate or is the organization mired in incrementalism which might pass for innovation?

The McKinsey report raises a major question under the heading 'Testing for innovation'; namely 'Do you really innovate'? This question is the starting point for most organizations seriously wishing to energize their innovation. This question and its response help to define the role and, more importantly, the scope of innovation in the organization.

Most organizations do not publicly articulate their 'innovation program'. One of the exceptions is 3M which has been studied extensively by students of management over the years. 3M, through various of their publications, provide background and information on the areas in which they are innovating and their priorities in terms of technology initiatives, and follow up with metrics to report on progress.

Articulating innovation includes two tasks.

- A cataloguing and associated description of the scope and choices for innovation which involves describing all important innovation initiatives. The 'Spectrum of innovation'[9] is one method of cataloguing innovation initiatives.

[9] See later in this Op-ed.

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- The policies and management practices which are either explicitly or implicitly adopted by management, and most often approved by the board, and expressed at the level of the CEO and senior management. These practices are the basis of CIO's on-line survey which is based on ADL's original research.

There seems little point in dealing with the subject of innovation without fully understanding the current and anticipated scope of innovation within an organization.

Most organizations, according to McKinsey, 'typically reallocates only a tiny fraction of its resources from year to year, thereby sentencing innovation to a stagnating march of incrementalism'. Profiling the actual innovation is a first step towards understanding whether this describes the organization's innovation and tolerance for risk.

Culture as defined by CIO colleague Peter Farwell.

The culture of a corporation is how the employees (and management) collectively feel about their work. It is usually founded on a common set of beliefs or values; and is manifest in the behaviours of the employees.

In a good corporate culture, employees are passionate about their work, eager to please their customers, continually seeking to improve their delivery to their customers and good at collaboration.

In a bad corporate culture, employees are unmotivated and lackadaisical about their work, look for motivation to internal factors such as internal politics, processes and internal performance measurements, lacking in innovative leadership, and are poor at cooperating with other employees.

Looking beyond corporate statements about their innovation we present an approach to portraying the full 'spectrum of innovative' activities of a corporate entity or business segment. The hypothesis is that those companies which have a broad spectrum of innovation are more than likely to grow and prosper than those without a full deck.

As the authors of a recent report state; firms engaged in R&D[10] - this being only one aspect of innovation - 'and close to the frontier of relevant technology are better placed to adopt or adapt ideas that originate elsewhere'.

Many of the world's most innovative companies such as GE, 3M and others are an agglomeration of businesses brought about by acquisition or native starts-ups and while seemingly having a common view of their innovativeness, one would expect differences at the business unit level.

Other less-decentralized companies, or those without the disturbances brought about by mergers or acquisitions are more likely to have a more homogeneous culture. John Deere is an example.

Starbucks 'spectrum of innovation' is used as a simple example – see Appendix B - to illustrate profiling using a 'spectrum of innovation'.

Starbucks has a truly outstanding spectrum for a company in the retail industry and specializing in the making of a good 'brew' as well as its other product offerings and services. This is not what one expects in this sector. Starbucks range of innovation speaks volumes about how they achieved outstanding growth, faltered, and recovered upon Schultz's return to the helm. Without this depth and breadth of knowledge about coffee, the company's prospects for growth and profit would be questionable.

[10] Innovation Canada: A Call to Action, Published by the Publishing and Depository Services, Public Works and Government Services, 2011.

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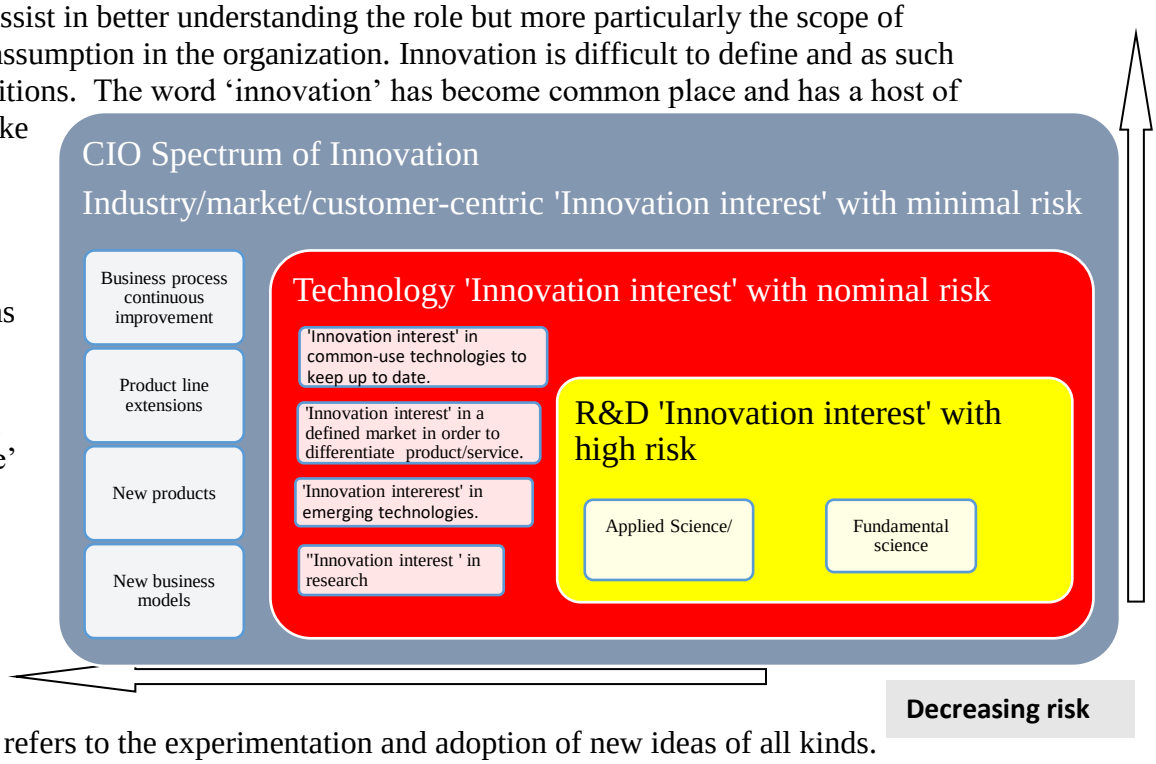
The following chart sets out the 'spectrum of innovation'. Profiling innovation, making use of the definitions, can assist in better understanding the role but more particularly the scope of innovation and risk assumption in the organization. Innovation is difficult to define and as such there are many definitions. The word 'innovation' has become common place and has a host of meanings. For the sake of discussion in this paper innovation embraces the exploration or adoption of new ideas from all sources whether this is the result of undertaking 'fundamental science' or making an improvement which would typically be referred to as a 'continuous improvement'[11].



Innovation therefore refers to the experimentation and adoption of new ideas of all kinds. Inherent in any idea is, however, always the notion of change; grand or small, and therefore an assumption of risk at some level. Without risk, there is no innovation!

The term 'innovation interest' is used to denote that not all innovation is represented using capital investment, nor spending, nor labour but can be emotional and may at times simply be thoughts – or interests - which do not result, for many reasons, in actions or outcomes in terms of new products or services. 'Interests' can still absorb time, thought and emotional energy.

The portrayal of innovation of all kinds in the organization forms the background information for addressing the question – do we really innovate.

Characterize the organization structure

The 'spectrum of innovation' varies by type of company and can migrate over time.

Innovation, at its roots, deals with the management of ideas. Recognizing the source of ideas and how they are managed differs amongst industries. Katzenbach proposed three different types of

[11] Programmed, and an almost unbroken, flow of improvements realized under a scheme such as Kaizan, lean production, or total quality management (TQM). A term credited to the Japanese, and brought into existence in the mid 1960s.

organizations and insight into how ideas and innovation may differ by industry. A fourth business model represents a 'hybrid' of the three.

Katzenbach[12] characterizes three types of companies'; Need seekers, Market Readers and Technology Drivers and provides comment on how innovation has a different emphasis for each characterization. Examples from CIO's research are provided.

- *Need seekers* keep their ears open for new ideas emanating from customers and suppliers and want to maintain an advanced position within its industry. John Deere is an example.
- *Market readers* focus on understanding their local market and are prepared to adjust their product and services across functions and geographies. Collaboration is key. P&G is an example.
- *Technology drivers* derive their success because of new ideas emanating from their own talent and knowledge. RIM, pre-Blackberry, is an example.

Many companies combine characteristics from more than one of these definitions and would be considered as a 'hybrid'.

Significantly, a company's emphasis on the type of innovation can migrate over time. Technology-Driven companies, for example, can move to become Market Readers or Need Seekers**.** It is helpful to know the current spot which best characterizes the organization and in which direction the company may be heading.

Companies in each of these categories have a different view of their culture for innovation and place more emphasis on one area of the spectrum of innovation versus other areas. While there are often overlaps of nomenclature, the distinctions among the three are clear.

What is also clear is that a company can transform itself, by design or by circumstance, over time moving from one category to another. Early on, for example, RIM was a technology-driven organization but due to its heavy reliance on new ideas deriving from its first-tier customers, i.e. carriers and distributors, its emphasis switched to incremental innovation. RIM had become more of a Need Seeker. Apple, at this point is clearly a technology-driven company relying on very fresh ideas born out of technology and creative minds most often without reference to market research such as focus groups.

Migration could also occur in reverse as RIM (now Blackberry), comes up with bright, successful new ideas such as using its QNX software for autonomous vehicles. Within larger more complex organizations, each business segment could have a different characterization.

[12] Jon Katzenbach is a senior partner with Booz & Co and heads the Katzenbach Centre which focuses on innovative ideas in leadership, organization, culture and human capital.

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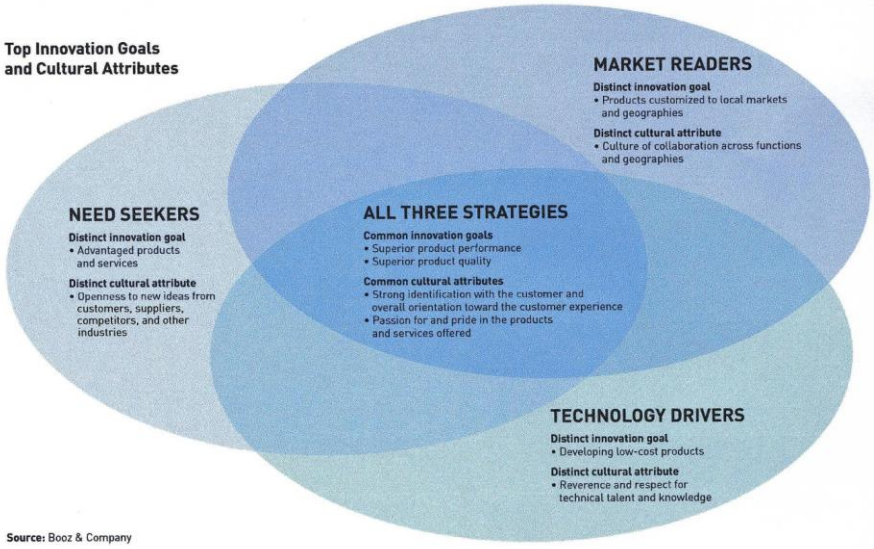
Need seekers look for innovation through keeping in very close contact with their end-user base of current and potential customers. Corporate decisions on the allocation of investment interest are heavily weighted in favor of input from their market place. The focus is on finding an unfulfilled need. Once defined the innovation effort is focused on tailoring the company's skill to coming up with new products and product-line extensions.



Reckitt Benckiser, without an R&D department[13] and no evident interest in R&D, is an example. P&G, a major competitor of Reckitt Benckiser, with its emphasis on open collaboration demonstrates a trait found within this category – i.e. an 'openness to ideas from external sources'.

Market readers are more circumspect about market developments than 'Need Seekers'. These companies watch closely not only the developments in their customer base but also developments amongst their competitors. Incremental innovation is the result and success is brought about by being quick to market the 'newness'. John Deere[14] and Celtel are examples.

Technology drivers look more inward to their own capabilities in technology and research for not only incremental change but, if possible, for breakthroughs. Their initiatives are characterized using leading-edge technology resulting from their own 'lab' efforts often augmented by successful linkages with a community of academics and research institutions. 3M and GE, and perhaps IBM are good examples. Technology Drivers are always on the watch for breakthroughs – with the focus therefore on 'emerging technologies'.

A fourth group emerges at the intersection of the other three categories. The categorization is important if one is attempting to portray a spectrum of innovation. Nucor, early on, by its own admission of not having a R&D department, would be an example of this fourth group. Nucor, under Iverson, was hugely successful because of their successful introduction of the mini-mill – and were then a technology-driven company.

The potential for long-term growth – and associated risk – is clearly with the company which works at the interface between 'emerging technologies' and 'new products' rather than 'product line' extensions. On the other hand, companies which can rapidly leverage their advantage by multiplying an innovation offer the best opportunities for shorter-term growth. Starbucks, with

[13] See Profile at http: www.corporateinnovationonline.com
[14] See Profile at http://www.corporateinnovationonline.com

their roll out of store-after-store openings and what is referred to as 'controlled innovation'[15] is a classic example.

Need Seekers, per Katzenbach, are 'more than three times as likely to report that their innovation strategy is strongly aligned with their business strategy'. Need Seekers seek innovation which relate to "superior product performance" and "superior product quality", thus placing their innovation interest around 'industry/market/customer-centric' investment.

Put a different way, it is also highly likely that the focus of the company is better-known throughout the organization than in the other two categories. Information is more easily communicated and understood. Financial performance is, allegedly, better than the other two models.

Energize the organization

Only the CEO can energize a company

The McKinsey paper outlines an 'essential' – one of eight which is to 'Mobilize'[16] the organization. The underlying elements involve' 'people priorities', 'enabling structures', the already discussed 'supportive culture' and lastly having or wishing for a 'learning and adaptive organization'.

Under the question 'Do you really innovate' the question asked is 'Are your people motivated, rewarded, and organized to innovate repeatedly'.

McKinsey's research concludes with 'Our experience and research suggest that any company looking to make this journey will maximize its probability of success by closely studying and appropriately assimilating the leading practices of high-performing innovators'.

What is clear is that the approach taken by the CEO is essential to mobilizing the organization and that there is no one way for this level of change to come about without CEO buy-in on a personal basis. Each CEO is a different person and each organization has their own starting point and beliefs. Two examples illustrate the point; 3M and IBM under Gerstner.

3M. The clearest management practices which relate to a culture for innovation are drawn from our research into 3M's practices. 3M was one of the

[15] See CIO CIOMAX report on Starbucks to understand their approach to experimentation in new products and services.
[16] See Appendix C

subject companies for ADL's earlier research. The full report is available on the web site. The following Factors[17] stand out for 3M.

- Structurally 3M is decentralization with limited hierarchy
- 3M always focussed on and measuring the importance of new products/services; the favorite measure was 3M's NPVI
- R&D investment has been consistent over decades
- Monetary and non-monetary rewards and recognition of innovators was part of the mantra – you might even get to run your own business if an idea worked out
- A core belief is that 3M is an innovative company
- 3M is open and transparent about its innovation strategy, management and results

But what makes 3M stand out even further from those companies which we have researched is represented by;

- A tolerance for mavericks
- Emphasis on people and their interactions
- Intra-firm communication
- Use of independent work groups – a sign of decentralization and of trust in staff
- A sense that decision making is broadly based
- That the decision process is more short and informal than formal and extensive

George Buckley, CEO of 3M in 2012 made it even more clear

Perhaps the most important of these efforts is the rekindling of the innovative spirit at the company. If it were possible to show you literally, you would see a figurative forest fire of innovation taking place all across the company. We've not seen anything like this since the 1970s and it is utterly marvelous to see. While everyone in the company, whether in sales, marketing, manufacturing, procurement and administration has played a vital role in driving this, 3M's scientists, process engineers and innovators still remain the single most important competitive advantage we have, everywhere in the world. They are the engine room of our progress, and the collective imagination of our creative people is ultimately the birthplace of our success. This vital and core part of our culture is what we need to protect and foster into the future. So long as we drive this creativity and at the same time continue to run our manufacturing operations at world-class levels, we have relatively few things to fear.

Statements, such as these which set out the values of the organization, are a key part in energizing any organization. The personnel commitment and beliefs of the CEO are important.

IBM. In the mid-1990s, Gerstner energized IBM[18] into action, in part, by setting out eight guiding principles

- The market place is the driving force behind everything we do.

[17] Factors is the term used to identify management policies and practices as part of the on-line survey
[18] See report on 'Can IBM survive' published by CIO

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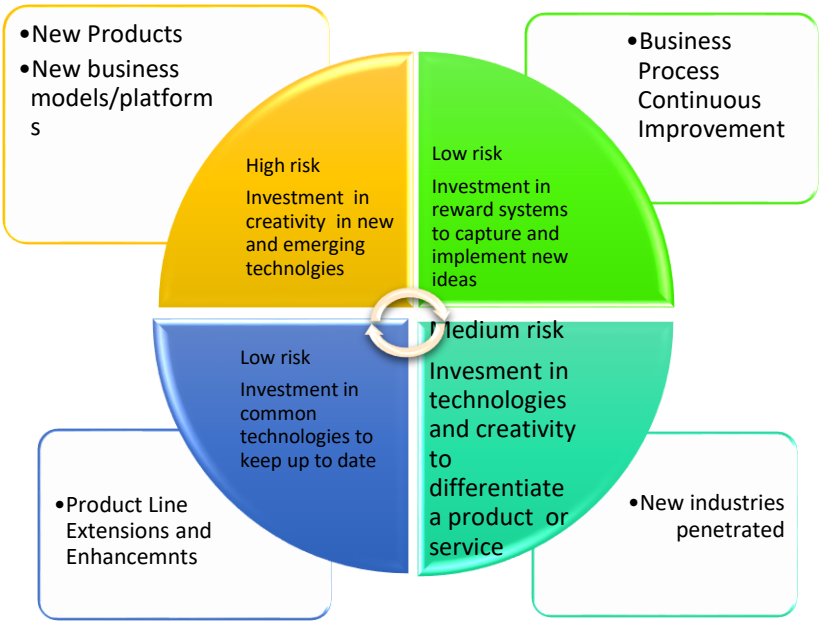
- We are a technology company with an overriding commitment to quality.
- Our primary measures of success are customer satisfaction and shareholder value.
- We operate as an entrepreneurial organization with a minimum of bureaucracy.
- We never lose sight of our strategic vision.
- We think and act with a sense of urgency.
- Outstanding, dedicated people make it all happen, particularly through teamwork
- We are sensitive to the needs of all employees and the communities in which we operate

The central message for energizing a company is one that 'energizing' comes from the CEO. No one else can do this. The second message is that there is no silver bullet, rather it is the combination of the appropriate management practices and policies which drive the new energy – and the combination is probably different for each organization. It depends!

Measure progress

If it's not measurable don't use it



No one would disagree with the idea that the corporation exists to maximize returns for its shareholders having due regard for all stakeholders. Not every corporation chooses to be innovative and that is an acceptable strategy although fraught with potential problems over the longer term. Copying, or being by design an imitator or follower, is an alternative to being innovative. Knowing one's own strategy is the key.

Most of the companies which are researched by CIO want to be the leader in their chosen field. Only one company which we researched, Massey-Ferguson, chose deliberately to be a follower of John Deere in particular and that was a successful for about 150 years until the company succumbed and its brand name bought out. Once Canada's premier manufacturing company with 68,000 employees' MF is now in name only.

Innovation, as it is used in this paper, includes the full range of ideas which percolate within a company and need to find a way to surface and be implemented. Ideas and change come with risk. The four quadrants – see image - suggest a range of low to high risk dependencies based upon the intended focus of the investment. Investment, while usually thought of in monetary terms includes not only the obvious resources: time, financial, allocation of human effort but also thought and even emotional energy which is referred to as simple 'interest' in the 'Spectrum of Innovation'.

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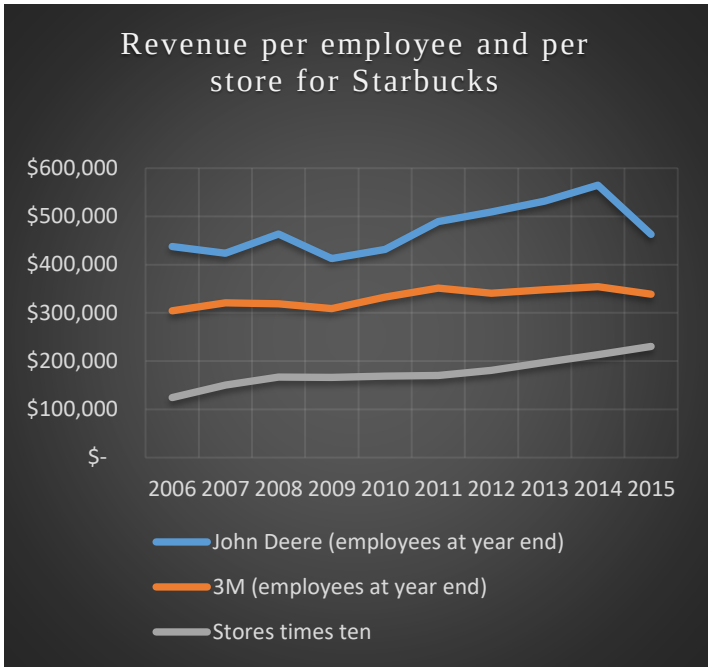
Why worry about metrics of innovation? Phil McKinney[19] perhaps summed up the situation when he stated:

If you set the right metrics, then you're going to have people doing the right actions. Consistency in producing and measuring the innovation metrics will eventually take hold. It eventually will become part of the corporate culture, but you can't give up. Because people work to metrics.



In other words, metrics play to and impact the culture in the organization. Decisions concerning metrics work to impact the culture for innovation but gaining the culture takes time and a discipline. Losing an innovative culture takes much less time.

Choosing the right metrics is key to measuring innovativeness. Anyone who has gone through an individual performance review, or business unit review, knows full well the importance of metrics. Metrics determine your perceived performance within the organization, the chances of being promoted and extends quickly to the determination of compensation. At the CEO level, especially in these days of short-term thinking, the focus is on share appreciation and growth but metrics matter at all levels.

Every measurement of innovative output will have its detractions, but if the business model remains the same from year to year, even the simplest of measurements can provide a degree of insight into the effectiveness of innovative initiatives. Take for example; revenue per employee or per asset unit.

By adding revenue to an existing asset such as, in these three cases [John Deere, Starbucks and 3M], there is an indication that innovation overall is contributing to growth and profitability. Apple with its model emphasizing outsourcing much of its supply chain has a whole different level of revenue per employee.

Its relatively easy to measure the innovativeness of some companies but as companies grow and become more complex, the task is made much more difficult. Other measures are used, at least at the overall corporate level. No doubt simpler measures can be used in distinct divisions, business units or for individuals, but such information is seldom reported publically. Examples of other measures are set out in Appendix D.

Sustaining innovation

Culture is what sustains innovation through decades. Hard won, easy to lose.

[19] Phil McKinney.com

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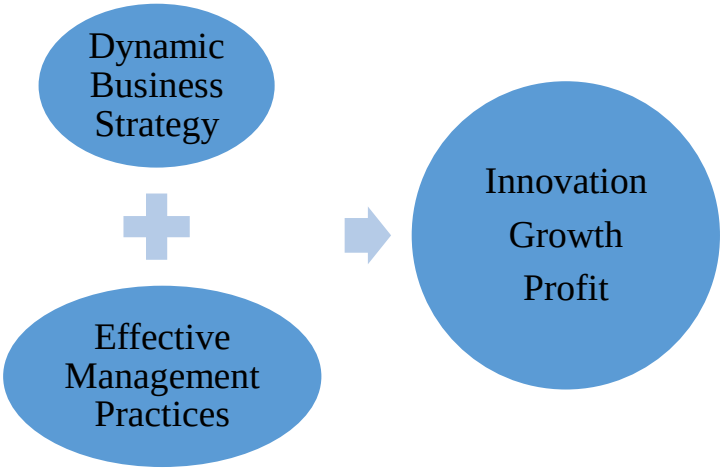
Palensky[20] of 3M makes a strong point. "That's the thing about cultures – they're built up a brick at a time, a point at a time, over decades. You need consistency; you need persistence, and need gentle, behind-the-scenes encouragement in addition to top-down support. And you can lose it very quickly".

The authors of this very germane report go on to state; 'The tighter the connections between strategy, culture and innovation, the more leverage your company will bring to bear in converting spending into marketplace results and superior long-term financial performance. Make sure that the innovative strategy is clearly articulated and communicated throughout the organization from the top all the way down to the lab bench'.



Effective management practices[21] act to encourage innovation or, if you are unlucky enough, act as barriers to real innovation. Communication can be improved upon by making use of the 'Spectrum of Innovation'. It is a tool for easy communication within and outside the corporation.

All the organizations which have been profiled by CIO note the importance of their culture and have taken steps to explicitly support the culture over the long term. The Booz & Co. report is particularly relevant as it points out that 'culture is key' and that an alignment between strategy and culture is essential.

Summary

In summary, culture, or as is referred to in the McKinsey paper, 'a supportive culture', needs a lot more thought and a ranking higher than one of twenty-eight 'underlying elements'.

[20] Strategy+business magazine published by Booz & Company Inc. 2011. Why Culture is Key. The most crucial factors are strategic alignment and a culture that supports innovation.
[21] See 25-Factor analysis at http://www.corporateinnovationonline.com for a means of assessing your own company's management practices and how they support or detract from a culture of innovation

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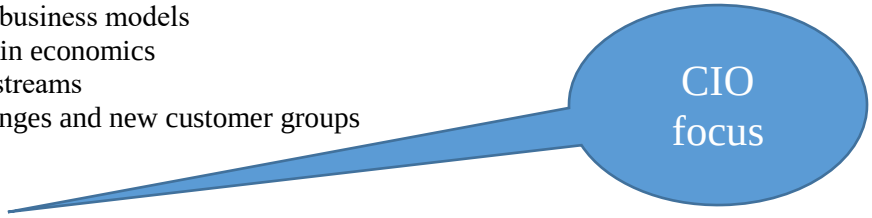
Appendix A
McKinsey's arrangement of underlying elements.
Testing for innovation[22]

• Innovation vision and model
• Required growth contribution from innovation
• Cascaded targets and accountabilities
• Clarity of innovation themes
• Portfolio balancing time and risk
• Resources sufficient for initiatives to win
• Portfolio governance
• Planning and execution rigor
• Cross-functional project culture
• Customer- and market-based learning
• Strategic external networks
• Collaboration skills
• Partner of choice
• Go-to-market planning
• Launch management
• Operations ramp-up
• Customer orientation
• Multiple-lens insight generation
• Differentiated value proposition
• Exploration of new business models
• Changing value-chain economics
• Diversifying profit streams
• Delivery-model changes and new customer groups
• People priorities
• Enabling structure
• Supportive culture
• Learning and adaptive organization



Do you really innovate?
Do you regard innovation-led growth as critical, and do you have cascaded targets that reflect is?
Do you invest in a coherent, time and risk-balanced portfolio of initiatives with sufficient resources to win?
Do you beat the competition by developing and launching innovations quickly and effectively?
Do you launch innovations at the right scale in the relevant markets and segments?
Do you have differentiated business, market, and technology insights that translate into winning value propositions?
Do you create new business models that provide defensible and scalable profit sources?
Are your people motivated, rewarded, and organized to innovate repeatedly?
Do you win by creating and capitalizing on external networks?

[22] McKinsey Quarterly, April 2015, The eight essentials of innovation by Marc de Jong, Nathan Marston, and Erik Roth. Strategic and organizational factors are what separate successful big-company innovators from the rest of the world McKinsey paper, Exhibit 2 – modified.

CIO – corporate innovation online
Innovation management best practices

Appendix B
Starbucks; a simple example of the 'spectrum of innovation'

Type of Innovation	Evidence of Innovation by Type	*Comment*
Science		
Fundamental Science	None	*Not expected in this industry*
Applied Science	VIA development based on the chemistry of 'freeze-dried' technology/ Roast curve relationship	*Unusual depth for this industry*
Technology		
Research	R&D spending as a % of sales/ Intent to be the 'coffee authority': maintaining a watchful eye on developments/ 'Know how'	*Coffee is in Starbucks DNA*
Emerging technologies	?	*Unclear*
Differentiating technologies	Quality of product/ R&D to develop less expensive soluble powders [e.g. VIA]/ Sandwiches without a cheese smell/ Ethically-sourced coffee/ Merging coffee with a 'place'	*Combination of 'technologies' provides the differentiation*
Common-use technologies	Loyalty program/ Clover equipment/ Mastrena equipment to improve quality, speed, and view	*Keeping up to date with technology*
New business models	Store design/ Integrating coffee roasting with sales and with both bean and drink	*Fundamental shifts in the industry*
New products	Store design [seating, wi-fi, comfort/'Street-named' stores/ Coffee quality and price/ Pike Place Roast/ Frappucino/ Coffee – 'bold'/ Sandwiches/ Branding realization [e.g. Digital Ventures]/ VIA/ Renaming coffee to designate taste rather than bean	*Probably the strongest Starbucks type of innovation*
Product extensions	Store openings/ Coffee variations/ Sandwich selections/ Coffee but in out-of-store locations/ Limited release reserve coffees	*This type of innovation has propelled growth*
Business/continuous improvement	IT/ In-store information systems/ Mastrena = speed	*Came as an afterthought after Starbucks decline*

Parsing Starbucks innovation initiatives indicates clearly the full spectrum of their innovation, from continuous improvement through to applied science.,

Appendix C
One of the eight essentials of innovation - Mobilize[23]

Strategic and organizational factors are what separate successful big-company innovators from the rest of the world.

How do leading companies stimulate, encourage, support, and reward innovative behavior and thinking among the right groups of people? The best companies find ways to embed innovation into the fibers of their culture, from the core to the periphery.

They start back where we began: with aspirations that forge tight connections among innovation, strategy, and performance. When a company sets financial targets for innovation and defines market spaces, minds become far more focused. As those aspirations come to life through individual projects across the company, innovation leaders clarify responsibilities using the appropriate incentives and rewards.

The Discovery Group, for example, is upending the medical and life-insurance industries in its native South Africa and has operations in the United Kingdom, the United States, and China, among other locations. Innovation is a standard measure in the company's semi-annual divisional scorecards—a process that helps mobilize the organization and affects roughly 1,000 of the company's business leaders. "They are all required to innovate every year," Discovery founder and CEO Adrian Gore says of the company's business leaders. "They have no choice."

Organizational changes may be necessary, not because structural silver bullets exist—we've looked hard for them and don't think they do—but rather to promote collaboration, learning, and experimentation. Companies must help people to share ideas and knowledge freely, perhaps by locating teams working on different types of innovation in the same place, reviewing the structure of project teams to make sure they always have new blood, ensuring that lessons learned from success and failure are captured and assimilated, and recognizing innovation efforts even when they fall short of success.

Internal collaboration and experimentation can take years to establish, particularly in large, mature companies with strong cultures and ways of working that, in other respects, may have served them well. Some companies set up "innovation garages" where small groups can work on important projects unconstrained by the normal working environment while building new ways of working that can be scaled up and absorbed into the larger organization. NASA, for example, has ten field centers. But the space agency relies on the Ames Research Center, in Silicon Valley, to maintain what its former director, Dr. Pete Worden, calls "the character of rebels" to function as "a laboratory that's part of a much larger organization."

Big companies do not easily reinvent themselves as leading innovators. Too many fixed routines and cultural factors can get in the way. For those that do make the attempt, innovation excellence is often built in a multiyear effort that touches most, if not all, parts of the organization. Our experience and research suggest that any company looking to make this journey will maximize its probability of success by closely studying and appropriately assimilating the leading practices of high-performing innovators. Taken together, these form an essential operating system for innovation within a company's organizational structure and culture.

[23] Lessons from McKinsey Quarterly, April 2015, by Marc de Jong, Nathan Marston, and Erik Roth.

Appendix D
Measuring innovation's progress
Other measures – requiring surveys or extensive analysis

There are a variety of ways of measuring innovativeness at least as seen by stakeholders, customers and even employees. Here are a few; some better than others.

- Surveys that provide customers opinion of your company's innovativeness and its brand image – as compared to the competition.
- Financial analyst rankings and feedback from investor relations broadcasts to the media.
- Stakeholders' (in this case suppliers, investors, etc.) opinions on the 'innovativeness' of your company compared with their opinion of the competition.
- New sales to new customers - marks the rate of new customer acquisition reflecting the efforts to enhance the brand.
- Measurements of incidence, or rate of increase, of attractive, internally generated investment opportunities (the size of the pipe line) which come under review by senior management and the Board.
- Increase in the value of intellectual property generated from internally-sourced ideas; augmented by acquisitions of IP from other organizations. The information could be broken out by IP for existing versus new product initiatives.
- Share price premium attributed to the company's reputation for innovativeness.
- Conducting an analysis focused on employee retention and ease of attraction.
- Collaborations and partnerships reflecting the company's reputation for its innovativeness.
- The percentage-of- time key executives/Board members spend on innovation as a specific topic of a meeting, seminar or workshop.