

The Capacity to Innovate

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“An established company which, in an age demanding innovation, is not able to innovate, is doomed to decline and extinction.”

Peter F. Drucker

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Prior to the events that triggered the current recession, firms across most industries looked to *innovation* as a source of growth. Organic growth through innovation was the preferred route for many firms because it promised a more sustainable approach to long-term growth. Growth through acquisitions, even in the best of days, relies on flawless execution and timing. In today's environment of near-frozen credit, the financing for mergers and acquisitions is more difficult than ever. Debt is more expensive than it has been in a generation, and many companies are sitting on their hands and pursuing neither approach to growth. Rather, they are hunkering down, cutting costs, and hanging on.

However, as Tom Peters suggested years ago, it is not possible to shrink one's way to greatness. Cutting costs and staying the course are appropriate for survival, but not for growth and vitality.

As the recession eases, we are refocusing our efforts on growth strategies, and are advising our clients to do the same. Given what we have learned from the current recession, what can we say about innovation *now*?

A QUICK LOOK BACK

During the run-up to the recession (from 2003 to 2007), *innovation* was in. Firms that did not have an innovation strategy were considered laggards. Companies such as Jump Associates, IDEO, ZIBA, Design Continuum, Cheskin, Point Forward and Doblin became central players in the corporate innovation game. These relatively small design-oriented consultancies found themselves counseling some of the world's largest firms on their innovation strategies.

This was an important period in the evolution of corporate innovation. These firms helped companies understand that user-centered design principles, ethnographic insight, and continuous interface with customer experience are necessary first steps for any company serious about innovating consistently and reliably.

Fast-forward to 2009 and innovation had become something of a luxury, an activity for happier days. Today, though, as capital markets regain momentum, many companies are revisiting their growth strategies. As part of the larger growth agenda, the topic of *innovation* is returning to board room conversations.

“People creating value through the implementation of new ideas.”

**Tom Kelley
[IDEO] on
defining
innovation**

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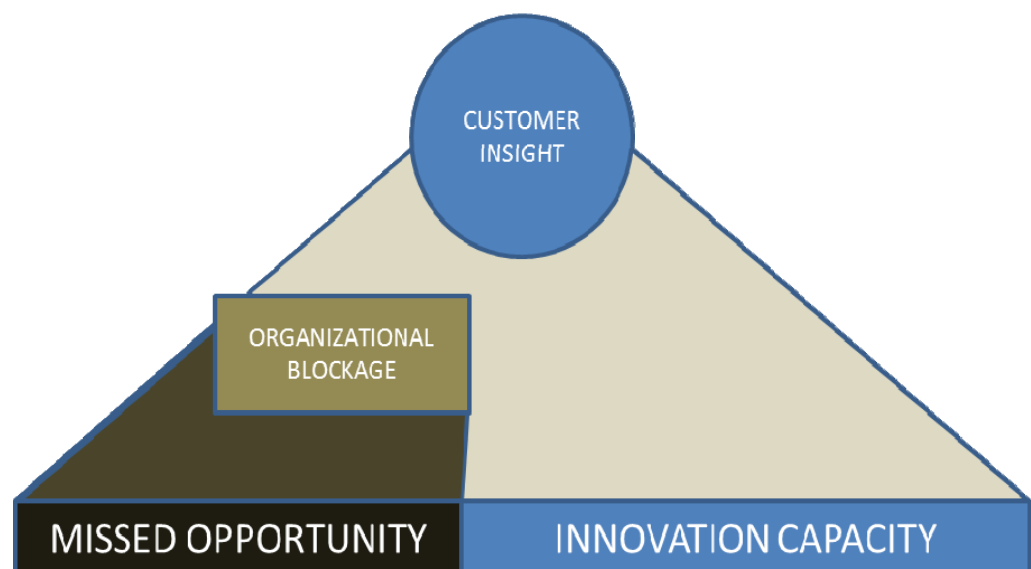
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INSIGHT VS. CAPACITY

One of the central lessons of the Innovation Boom of the early 2000s is that despite the volumes of insights - in the form of reports, films, interviews, pictures and myriad ethnographic artifacts - that were produced by innovation consultancies for their clients, enormous resistance to behavioral and cultural change still exists at the *organizational* level. Responding to fresh customer insights often requires fundamental changes within organizations. Priorities can quickly shift, meaning that some areas of the company take priority over others for a period of time, as the company responds to new customer needs or market opportunities.

Furthermore, when top management initiates a significant change process, some people's roles and status can be undermined. Understandably they act in ways that preserve the status quo, even if it stands in the way of the organization's change-goals. Too often, this behavior impedes the implementation of new business opportunities. The blockage to turning insight into innovation action is *organizational* and *cultural*, and is not the result of a poor understanding of market opportunities.

To address this cultural and behavioral resistance, many firms bring in outside consultants to help increase creativity and lateral thinking. Creativity consultants and trainers run brainstorming workshops and other activities aimed at stimulating the company's creative juices. However, if structural or organizational changes do not accompany 'creativity training,' there are still no outlets or mechanisms whereby that creativity can be channeled to create new products, services, business models, or work processes. Organizations simply get in the way of themselves. The tools and methods of innovation prove useless if the organization lacks the capacity to put them into action.



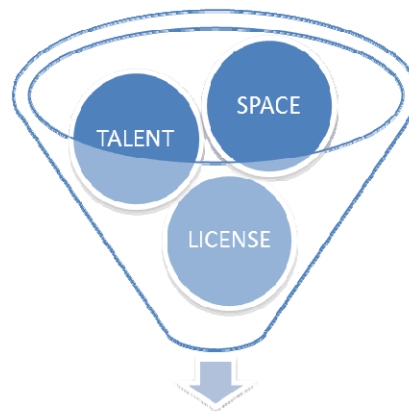
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MAXIMIZING CAPACITY

Fortunately, the levers for changing organizational architecture are *not* a mystery. Though challenging in their simplicity, they are tangible and changeable. For creativity to turn into innovation and value creation, you need the *right people*, working in the *right spaces*, with the license to work *unencumbered*.

The three levers for building innovative capacity are: workspace design (space), talent balancing (talent), and policies that foster autonomy and discretionary effort (license).



SPACE

INNOVATION CAPACITY

Notwithstanding the importance of focused, solo work, innovative work is collaborative work. While the lone designer does occasionally have a light bulb moment when a new idea is pulled out of the ether, group work and the collaborative process more consistently produce actionable innovation. Having spaces where people can work together through the duration of a project is essential to enabling collaboration on an ongoing basis.

No matter the number of creativity workshops you sponsor, if your employees report each morning to a 8'x8' cubicle where they have *limited contact with team members and colleagues*, you simply should not expect durable and reliable collaboration. In a traditional, cubicle-defined workplace, collaboration and group work are the exception, not the rule. Expecting creative, innovative output from work that takes place in uninspired, compartmentalized space is unrealistic. In order for collaborative work to flourish, spaces where project teams can set up and work together for the life of the project need to be a part of the fabric of the organizational architecture and culture.

High performance workplaces accommodate the different modes of work. The key to getting the space part of the equation right is *balance* and aligning workspace with strategic objectives.

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TALENT

In their recent *Harvard Business Review* article, “Innovation in Turbulent Times,” Darrell Rigby, James Allen, and Kara Gruver propose that for companies to innovate effectively and consistently they need to achieve a right-brain/left-brain balance in the organization and particularly in the leadership. Pairing a creative leader with one who is masterful at execution can be a powerful formula.

At the *organizational* level, companies that seek higher levels of innovation output would do well to seek a right-brain/left-brain balance in their rank and file employees. Many organizations rely almost exclusively on left-brain, analytical hires to fill key posts, relegating creatives either to advertising, design, or marketing. However, as design firms such as IDEO are now demonstrating, creatives can and do make for effective general managers and leaders.

This is why, increasingly, companies such as Intel, McDonalds, Nike, GE, and P&G are stepping up their recruiting activities at design schools. A new breed of design schools, such as Stanford’s Hasso Plattner School of Design and the Art Center College of Design in Pasadena, are creating hybrid, interdisciplinary programs that teach both design and business within integrated programs in *Innovation Management*. How might graduates from these types of programs be groomed into senior management roles?

Coming from a design and art education background, these graduates have hands-on experience building prototypes and models that are conceived and executed by groups and teams. For designers, building new things through the iterative process is an everyday activity. As design and innovation consultancies such as IDEO now advise their Fortune 500 clients, this type of iterative, prototyping experience and skill is central to the new toolkit for effective innovation.

Few firms take this skill set seriously or build it into their recruiting practices. The lesson here is straightforward: you need both *creatives* and *analyticals*. Sameness and predictability make an organization vulnerable to competition. Differentiation starts with people. By increasing the influence of creative talent in your company, you differentiate your organization from competitors who continue to recruit only from the MBA gene pool.



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LICENSE

Google is consistently ranked as one of the most innovative companies in the world. Along with Apple, Southwest Airlines, Microsoft, IBM, and Toyota, Google is consistently in the top 5 on most lists of top innovators.

In part, Google's elixir is the talent it is capable of attracting. No doubt, some of the brightest people on the planet work for Google. It is also worth mentioning that workspace design is taken very seriously at the company's Mountain View headquarters. DEGW's office design for Google has rightfully become one of the most referenced and influential workplaces in the world.

Equally important at Google, though, is the *license* that employees have. Google's policy of **20%-time**, where it grants one day a week for employees to work on creative projects of their own choosing, *builds* experimentation into the fabric of the company. Their now famous Google Labs is 20% time in action, and the many ubiquitous Google applications such as Google Earth, Google Maps, Gmail, Docs, Calendar, News, etc., resulted from some employee thinking up a new idea, creating a team to explore it, and prototyping and iterating until it was ready for prime time.

Without 20%-time, however, this experimentation would not be possible. While not all companies can afford the time and money to give its employees a whole day a week to experiment, this is not really the point. With respect to corporate policies around innovation, the key at Google is that they *trust* their employees. This license powers Google's innovation.

Inspired and productive knowledge workers are independent-minded and have high levels of individual agency. Google, by creating a community of possibility, is able to tap into this agency. In the interest of predictability, many companies constrain their employees' agency. The end result is a diminished capacity to innovate.



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CONCLUSION

Many corporate leaders assume that innovation is elusive, costly, and unsustainable. This bias is heightened during a recession. Traditional innovation initiatives often fail to take into account the organization's *capacity* to execute. By focusing more on the tangible building blocks of organizational change - space, talent, license - the innovation process becomes demystified, turning strategy into action.

- ◇ In order for a diversity of ideas and outputs to flourish, there needs to be a variety of types of knowledge workers that can bring fresh perspective and skills to the table.
- ◇ While there will always be a need for individual work areas, innovation is driven by group work grounded in collaboration. Rather than being the exception, group work needs to become the rule.
- ◇ Talented knowledge workers want choice—where they work, when they work, how they work, and what they are working on. Giving them this flexibility and autonomy increases engagement, energy, and productivity.

Innovation does not happen through memos or offsite seminars. Rather, it happens when company leadership commits to reassembling its basic building blocks in such a way that *new value can be created through its people*.

ABOUT SHIFT

SHIFT is a boutique management consultancy that helps companies align organizational architecture with innovation strategy. We provide research and advisory services to help companies create inspiring workspaces where world-class talent thrives.

SHIFT has over ten years of experience in researching and consulting with companies around culture, design, and innovation. We have published two books, numerous articles, and we develop organizational assessments around engagement, effectiveness, and innovation.

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