

Enabling Innovation

A Roundtable Overview



Roundtable
on Digital Strategies

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Thought Leadership Roundtable on Digital Strategies

*An executive roundtable series of the
Center for Digital Strategies at the Tuck School of Business*

The Thought Leadership Roundtable on Digital Strategies, Americas Chapter, recently convened for a discussion on experiences, strategies, and best practices in innovation. How can companies collect enough, and good enough, new ideas? What are the most important areas for innovation? What processes and organizations can be developed to foster and nurture innovation? What does it take to become a leader in innovation? The session included academics and business leaders from Bechtel, Chevron, Coca-Cola Enterprises, Eaton Corporation, the Haas School of Business at UC Berkeley, IBM, Nike, Tenaris, Time Warner Cable, and the Tuck School of Business at Dartmouth.

Key Insights Discussed in this Article:

- **Innovation is about much more than ‘disruptive’ technology breakthroughs.....4, 7, 8**
Many significant, even transformational, innovations come in process or productivity, not product.
- **Traditional planning and strategy processes often miss good innovative ideas.....3-5**
Companies are deploying new ideation-focused technologies and new organizations and processes in order to collect and evaluate a vastly greater number of new ideas.
- **Social media—particularly Facebook—are creating vast opportunity and significant threat in how companies operate and innovate.....5-6**
Although the threat is well-recognized, ways to capitalize on the opportunities are still works-in-process.
- **Staying close to the customer is, if possible, even more important in innovation than in core businesses.....2, 4, 7, 9-10**
Well-planned and extremely logical innovations can be swiftly and totally wrecked by entirely unanticipated customer behavior.
- **Even many corporate cultures that are high-performing and successful are unintentionally structured to hinder innovation.....9, 11-13**
Nurturing and promoting innovative risk-taking behavior requires leading with a different mindset and implementing a different set of business rules.

Introduction

Innovation is the lifeblood of growth, providing the new products and business models that keep a company competitive and increase market share. However, one of the greatest challenges that companies face is capitalizing on innovative ideas while running their core operations ever more efficiently. Meanwhile, new technologies arrive constantly, both competitive and enabling; companies continue to globalize; workforces and customer bases are increasingly populated by the Facebook Generation— young, always-connected, and constantly on the move. These factors and more are increasing the pressure to innovate—in products, business models, productivity tools, processes and governance. But the pace of change has never been faster, and the generational and geographical gaps between executives and workforces have never been greater. New technologies permit crowdsourcing and instant collaboration, but also allow news and rumors to spread faster than a company’s ability to respond. There is more data about new markets and new technologies, and more ways to analyze them—but seemingly less time to do so.

The Roundtable convened to discuss how, in a world of accelerating change, companies can identify, nurture, and capitalize on innovations by, in the words of Roundtable participant John Parker, SVP, General Counsel and Strategic Initiatives of Coca-Cola Enterprises (CCE), “figuring out which ones truly move the needle in the most effective way, given your long-term objectives.”

Gabriel Carcagno, Director of Research and Development at Tenaris, started the conversation with a mission statement for innovation: “To find the way to make a different product with advantages for the customer, at the same time produced in a more effective way, and with the highest level of quality in order to differentiate from newcomers and standard competition.”

With this in mind, moderator Mark Lange posed a broad question: “How can we reliably motivate and manage innovation in a way that mitigates risk but leads to measurable, positive business results?” Over the course of the discussion, this umbrella question covered several more specific topics:

- What are successful ways to source and prioritize innovations?
- What counts as “innovation,” and must a new idea be disruptive to qualify?
- What are the best practices to manage good ideas through to meaningful innovations?
- How can culture and leadership best encourage innovation?

Good Ideas Don’t Happen Once a Year

Francoise LeGoues, VP of Innovation Initiatives at IBM, began the discussion by articulating the specific challenge faced by most companies: “How do we figure out who has the good ideas to mine? In a very large company, how do we listen to the employees?”

While R&D groups remain a core source of new ideas for products and technology, in today’s business environment they are far from the only source. Another standard birthplace for new ideas is the annual strategic planning process conducted by most companies, which frequently includes an agenda item for reviewing major new ideas.

Des King, President of Chevron Technology Ventures, described how innovation typically comes out of this process: “Planning follows strategy for us, and I assume it does for other companies, too. So

strategically, ‘Where are we going over the next 5, 10, 20-plus years?’ Our strategy then links to the three-year business plan, which ends up in the one-year business plan, which then filters down to what we do in the innovation space. If you come to the review and try to do something way outside of strategy, it won’t get funded.”

While acknowledging the value to big initiatives of the strategic planning cycle, Geir Ramleth, Bechtel’s CIO, pointed out the problems associated with formal, structured, periodic sessions of this type: “Good ideas don’t happen once a year, good ideas happen all the time. What you also find [in this kind of process] is that it’s normally the best marketer who wins, not the best idea.”

Ramleth went on to describe Bechtel’s solution to these issues: “We took 10 percent of our budget for the annual reviews, and now we evaluate ideas as they come up. We found more innovation coming out of that 10 percent than out of the 90 percent. There’s stuff that needs to go into the cyclical reviews, but by being a little bit agile and non-structured, we have found some of our absolute best innovations.”

Bill Blausey, CIO of Eaton Corporation, described a different solution to the same problems—the Innovation Summit. “The Summits are cross-functional, two-day meetings to understand markets and the developing needs of different segments in those markets. We bring in external speakers and customers to really dive into different opportunities.” Blausey’s colleague Steve Boccadoro, SVP of Sales and Marketing at Eaton, added that the Innovation Summits are “facilitated and structured, but structured in a way that allows for the right sort of brainstorming and free-flowing discussion.” Eaton holds 20 to 30 summits per year, based on need from the business units, and gets perhaps 15 percent of its new ideas from that source. “They tend to be bigger things,” said Boccadoro. “They are, because they’re more unique,” added Blausey.

A fourth structured approach to sourcing new ideas is the corporate venture capital model. King of Chevron Ventures described the group’s objectives: “The goal is to invest in start-up companies whose technology, if successful, can help our base business. Part of our role is to go on the outside and understand what’s there and how it could benefit Chevron, and then bring it in, if it makes sense to do so.”

Moon Launches and Burning Platforms

Another common catalyst for innovation was termed the ‘Grand Challenge’—innovation as a consequence of a top-down mandate from the CEO. These challenges come in both positive (moon launch) and negative (burning platform) pronouncements. Roland Paanakker, CIO of Nike, gave an example of the positive kind: “One of our biggest innovations came after we made an aggressive target public. We said, ‘In five years we will have zero toxic gas in our cushioning systems.’ We didn’t know how to do it, but the CEO said, ‘In that time, we’re going to do it.’ That’s how innovation starts to happen, because we have to [meet the objective].”

The converse is the ‘burning platform’: when a company has to react innovatively (and quickly) to issues or adverse business conditions. Parker of CCE and LeGoues of IBM each described critical situations at their respective companies where the top executive gave the company a Grand Challenge to reinvent itself. As Parker said, “If you’ve got a burning platform, it’s a lot easier—you don’t have to go persuade people to change. They’re the ones saying, ‘Get on with it!’” Most participants in the Roundtable had had

a similar experience, but also recommended caution in the use of such motivations. As LeGoues, having lived through a few, observed, “The Grand Challenge is a great mechanism, but you can’t have too many. You get people exhausted.”

“Can You Hear Me Now?”

A common theme in the discussion was the increasing involvement of customers. Bruce Greiner, VP for Enterprise Services in IBM’s Office of the CIO, emphasized this point: “One of the things about innovation is it can’t always just be done internally, and it can’t just be done in centers of development. Most executives would say the greatest source of innovation is from your employees, and, second, from your clients: ‘Are you listening?’”

John Parker of CCE emphasized just how important it is to listen closely to the customer. He noted that any company can point to failures of initiatives that all logic and existing knowledge said should have been successful, but added “I can’t think of a single project we’ve done that we’ve co-designed with a customer that didn’t work.”

Sara Beckman, Co-Director of the Management of Technology Program at the Haas Business School, asked the executive group, given the increased focus on customers, to what extent Six Sigma processes are contributing to innovation, or whether “Six Sigma has gotten carried away with being overly analytical and not generative enough. If you go back [to its roots,] it was customer-focused.” Boccadoro of Eaton gave the perspective that Six Sigma has become about “reducing variability,” and not necessarily about new thinking. Ramleth of Bechtel agreed: “Where’s the demarcation between innovation and improvements? Six Sigma is often all about improvements. It’s not associated with innovation. It’s associated with the opposite in many ways. If you’re Six Sigma-religious, you can sometimes get stuck in the mud, but if you use Six Sigma as a principle and as a methodology, you can get much better results.”

Companies are also trying to stay closer to employees, not just customers. As LeGoues asked in the second part of her initial challenge: “How do we know if somebody in our Bangor lab has a good idea that might be applicable in New York? How do we, in a structure that is still quite hierarchical, and where the decision makers are older people, how do we listen to the 50 percent of our employees that have fewer than five years at IBM?”

As a response to this challenge, IBM has made a radical change to that old ideation standby, the employee suggestion box. Greiner explained:

“When I joined IBM, we had a very formal suggestion program. There were forms, and when you filled out the form, you made sure no one was looking over your shoulder, ‘Because it was my idea,’ and then you put it in a sealed envelope in a black box. And someone in isolation with no skin in the game would evaluate that idea. So even though it was the idea program, most ideas never went anywhere.

“We then decided to put the idea program out in public. We called it *The Think Place*. The idea was put out there, and the more people that worked on the idea, the greater the value and interest in that idea. It was done very publicly with tools that made it a highly collaborative

process. And then the best ideas were those that had the most collaborators and continued to build and evolve.”

Since then, IBM has used new web-based technologies to hold idea-creation events, termed Innovation Jams. The Jams are multi-day online events, incorporating employees, customers, and partners, and they’ve been tremendously successful for IBM. “The jam is to get ideas and get people talking,” said LeGoues. “But it’s really to tease out the big ideas that need to be brought to the market. That’s how we got into green technologies, for example; speech and translation came out of there.”

Esat Sezer, CIO of Coca-Cola Enterprises emphasized the need for these multiple broad-based processes to collect ideas: “To get 15 working, effective innovations, you need to generate 1,000 ideas. So you have to have an idea-generation process in place, and somehow you have to catch those ideas and filter them to them turn into a differentiated shareholder-value.”

Frank Boncimino, CIO of Time Warner Cable, suggested an approach to solving the puzzle posed by Sezer, summarizing the different sources of innovation that had been described: “There is the formal, big-idea, summit business cycle, governance-type channel. There’s the Grand Challenge, growth-goal channel. And the middle channels are the ideation forum and voting channel, and the separate-ventures channel. If you’re going to be an innovative company, the management team has to manage all these channels, and actually think about funnel management for ideas.”

LeGoues of IBM identified advantages to this channel approach to ideation: “First, you probably have more [good ideas] than you think. Secondly, they overlap, and that’s a good thing, but, third, it may be a very good way to identify gaps.”

Innovation and the Facebook Generation

Facebook and similar social media have experienced one of the fastest adoption curves in the history of technology, and, just as these technologies are transforming many other activities, they’re having an impact on innovation. What’s not clear, however, is what the impact is or will be. Does Facebook have an appropriate role inside the walls of an enterprise? What business models can be built? Is the incredible reach of the social network an opportunity, a threat, or both?

Facebook now has 100,000 identified IBMers, said LeGoues. “The question you have to ask is, why are they declared as IBMers on Facebook? Why am I on Facebook? The downside is, I can’t write anything I want. The upside is, I absolutely never see the majority of the people I work with. When we used to be in the same office we had human interactions. We’ve lost that, and Facebook brings it back. That’s good, and that’s why we do it.”

Pappier from Tenaris had a surprising and contradictory finding: “We surveyed all the new people that we hired from colleges and asked them, ‘If you were a CIO, would you open Facebook to the new employees?’ Believe it or not, those young people that we hired, without any exceptions, said no.” The issues included privacy concerns, appropriateness of content, and the negative impact on productivity.

No one in the group believed that Facebook made sense as a business collaboration tool, but two intriguing cases for business use were discussed. One involved potential use as an expert identification and contact tool within the enterprise and the other for customer connectivity and branding. Esat Sezer described the Facebook-related puzzle faced by CCE:

“Our executive team debated and debated whether we should open Facebook to the employees or not. It wasn’t an easy decision for us, but we weren’t culturally ready. On the external side of the things, if you go to the Coke Facebook account you see 11,700,000 registered consumers. 11,700,000 consumers would like to attach themselves to the brand and would like to connect with that brand. Now what do you do with that? Our board sees this as a huge opportunity and they challenged us to come up with a digital strategy that takes advantage of this social networking and the consumer connectivity and turns it into new revenue and profit generation. But, on the other hand, the viral messages that are shared by consumers about the brands, about the products, are so powerful, and those consumers trust the feedback of the other consumers more than the marketing campaigns or messaging that you are giving them: How do you protect your brand, protect your company, given that you don’t control the conversation?”

Like many new things, Facebook and its ilk create simultaneous opportunity and threat. “Totally new business thinking needs to come into place with some understanding of the underlying technology implications,” Sezer concluded.

Different Ways to “Think Different”

Apple, with its folk-hero CEO Steve Jobs, and its iconic iPod and iPad product lines stood out for the group as an example of a company that has made its innovation process repeatable, with regular introductions of new products that are monetized, differentiated, and disruptive. The question was raised whether something had to be customer-facing and disruptive to be innovative; the resounding answer from the group was “Not at all!” Boccadoro of Eaton explained why:

“We look at innovation outside of or in addition to new products or new services that you sell to your customers—the broader definition of innovation, what things could we change. Innovation doesn’t always have to involve either a new product or even in some cases a new technology or R&D spending.

“Ultimately what do customers want more than anything else, no matter who they are? They want to be more successful. Especially if you’re in a B2B business, you want to make your customer more successful at what they’re doing and look better to their customers. Innovative thinking that isn’t just about the next widget, it’s about the way that we’re going to create the customer experience.”

He then gave an example of Eaton’s innovation around channel programs, that didn’t change products at all, but created an Eaton Certified Contractors Network. By completing new training and joining the Network, Eaton’s partners gained enhanced stature in *their* markets—which led to increased sell-through for Eaton. “Contractors are paying substantial amounts of money to get into the club. The impact has been incredible. So, that’s a nice innovation, but we didn’t create a new product, we didn’t modify a product, we didn’t create a new market, but we did something with the market that we were in that made us more attractive, because it made [our partners] more attractive.”

Different members of the Roundtable contributed examples of transformational innovations at their companies that did not involve the introduction of new products or services to the market:

Strategy Innovation: CCE’s Parker described a significant strategy innovation some years ago when they realized Coke was competing for “share of throat,” and not for share in the cola market: “It was innovative to get people to reset their thinking about who our target audience is and who our competitors are. In France, for example, we’re not competing against other colas, we’re competing against water and wine. It’s a real struggle not to simply focus on the logical competitor, but if you do, you’ll never meet the growth goals.”

Operations Innovation: Randy Krotowski, CIO of Chevron Global Upstream, pointed out that in a nearly pure commodity market such as gasoline, consumers simply don’t value product innovation. So Chevron innovates operationally. In a Digital Oil Field initiative, the company used GPS technology to change how it chartered boats on a project in the Gulf of Mexico. This “simple thing knocked \$40 million per year out of the cost of that project alone, which is a substantial innovation.”

Internal Innovation: LeGoues told the story of a new technology that changed the game for IBM: “Fifteen years ago some kid told his manager, ‘With my friends, we IM each other all the time. I think we should do it internally.’ The manager said, ‘That’s a stupid idea, because IM is a toy that you use with your friends; Go away.’”

“So the precursor to our Technology Adoption Program said, ‘We’ll just put it out there. If people want to use it, at least it will be inside of firewall, and if they don’t use it, fine.’ It’s now SameTime, which is a big product for IBM. More importantly, there is not one technology that has transformed IBM more than SameTime.”

Moderator Lange observed that the examples given were consistent with the roots of the word ‘innovate.’ “Innovation comes from the Latin *innovare*. It’s not about something out of nowhere, it’s about renewal. Innovation is process that renews what you’re doing.”

Ramleth of Bechtel agreed: “We need speed to be able to react to [customer] demands. We said speed equals innovation times simplicity, (which, by the way, doesn’t equate, so please don’t let your math people figure it out!) and what we found was that we really have to do something either totally new, which is the innovation side, or improve on what we already do, which is the simplicity side. And we found out that the greatest gains actually came from simplicity. How do you just do stuff a lot simpler than what you did before?”

With these significant counter-examples to disruptive product innovation on the table, Parker of CCE referred to the results of a survey of manufacturing and service firms (see Table), which had asked companies to list their top reasons for innovation: “If you look at those top 10 reasons, only two of them are about either creating new markets or extending product lines. In the top 10 things here, where it says ‘really, really important,’ there’s not a lot of top-line growth topics at all.” Blausey of Eaton concurred: “We have numerous continuous-improvement initiatives, generally based on our measurement

TOP REASONS TO INNOVATE Survey of Manufacturing & Service Firms
1. Improved Quality
2. Create New Markets
3. Extend Product Line
4. Reduce Labor Costs
5. Improve Production Processes
6. Reduce Materials Usage
7. Reduce Environmental Damage
8. Replace Products/Services
9. Reduce Energy Consumption
10. Conform to Regulations

systems and scorecards. A lot of innovation comes out of that that you don't characterize as innovation, but if you look at this list, most of it is around process improvement or taking out cycle time. Really good stuff comes out of those teams, and it's probably one of the core ways we innovate." Parker added: "I can't remember ever sitting in one of our meetings and saying, 'We're gonna talk about innovation,' a single time. At the same time I think we've done a massive amount of innovation."

This prompted Roland Paanakker, CIO of Nike, to ask the question of whether and how to differentiate between an innovation and an improvement, since all the 'innovations' met the criteria of monetizable and differentiating, even if they weren't new products.

Jeff Hirsch, Regional President of Residential Services for Time Warner Cable, suggested that it's all based on point of view: "The IT organization could do the most really innovative thing in the world, that to me might look like an improvement. I may change a pricing structure in the marketplace that changes the way consumers buy through, and to me that's just an improvement, but to IT it might be totally innovative."

Parker summarized, taking the discussion back to the end goal: "Whether it's improvement or innovation doesn't matter, if they both end up driving bottom-line ultimate performance."

You Don't Know What You Don't Know

Amazon.com-style rankings of ideas on an innovation website certainly convey the wisdom—or at least, the judgment—of the crowd, but at some point, an executive team has to authorize and fund every innovation initiative. How do—or should—these decisions get made?

Parker made a clear statement of what drives CCE's priorities: "If it's customer-connected, it's going to move to the top of the priority list. If it's an enabler, it's going to go to the bottom and if it's internal messaging, it's going right to the basement, unless somebody can say 'That's how salespeople sell more Coke,' in which case it goes right to the top."

This raised the question of business cases, and whether or not they should be done for new ideas. Ramleth suggested that forcing a new, evolving concept into a business case may not be the best first step: "The best innovation is when you can do it without too much structure around it, and some of the best things we've done we never had to create the business case. If you have to create a business case, you start taking all the juices out of the meat—you get beef jerky rather than a juicy meal."

Parker agreed that business cases are not always needed up front, but with a somewhat different rationale: "It may be a question of when you do the business case. For most of us, there's enough tacit knowledge around the table to know if something is worth spending money on." LeGoues of IBM disagreed: "With the example of instant messaging, tacit knowledge came up with the wrong answer. Especially since the people in the room are generally senior executives, they are older. They're not used to the new way of doing it, so they will come up with the wrong answer."

Every company was able to give an example of "an absolute sure-fire home run" product innovation, at least according to tacit knowledge, tied to customers, that failed—at least at first.

Carlos Pappier, CIO of Tenaris, told of the company's first effort to cut supply-chain cycle times: "We launched a tracking initiative to provide exact visibility and transparency to customers where their orders were, across all [stages] from production to logistics. We thought it was going to go very well. But we found out that didn't work at all. We didn't understand beforehand what the customer really needed in this space. We did a very sophisticated [job] introducing the new product, but that didn't translate to the tools and the methodology in the service component." As with a number of the other examples, in this case a well-intended process innovation led to unexpected consequences from unanticipated customer behavior: Customers would see that Tenaris had moved a manufacturing date, and think that therefore the shipment was going to be late—when in fact, Tenaris was just optimizing the production algorithm, and was absolutely going to deliver on time. Fortunately, educating the customers was an easy fix, and now Tenaris customers are quite happy to be able "to see and take actions to where there's going to be any kind of risk of disruption in the supply chain.

Parker described a similar misstep in the launch of a new half-calorie cola by Coke: "[The team] did consumer research. They persuaded themselves that [the research] told them it was going to work. There was a lot of pressure to act. It failed miserably. You can make consumer studies say whatever you want them to say," he stated. "There are lies, damn lies, and consumer studies." As with the Tenaris example, in the end there was a happy outcome: the lessons from this effort led to the development and launch of Coke Zero, one of the most successful products in the history of the company.

Innovation is No PIC-NIC

The group took three lessons on how to mitigate the risk of tacit knowledge making the wrong decision:

1. Don't overestimate the power of the company's connection to the customer. As Paanakker of Nike concluded, "Every now and then, you feel powerful over what you think the brand can do. 'If we put the swoosh on it, everything will work out.' That's absolutely not true."
2. Make sure you truly are capturing the voice of the customer. Per Boncimino from Time Warner Cable: "When we were thinking about the product, we had a team of people on it, so we thought we were being inclusive. We just didn't include the right people."
3. Des King of Chevron captured another lesson in a few short sentences: "Always do trials. Never run. Never say, 'We're going to change the whole system for this new product.' Do trials at a few selected sites. See how it goes. Look at the demographics. Then go to another demographic site, and see if it works there. It's a very 'slow to go fast' approach."

Ramleth described Bechtel's approach to pilots and trials: "The best thing you can have is a positive, immediate and certain outcome. So, it's called a PIC. A NIC is negative, immediate and certain, and can be celebrated just as much as a positive." Here he introduced a critical concept to companies that want to create a culture of innovation—the celebration of failure: "That attitude that says, 'Well, if you fail and we learn something, that's still very good.'"

Boncimino offered another lesson-learned turned best-practice from of Time Warner Cable: "We have such tough targets to achieve in our operations that we don't want to burden the lines of business with trying to achieve their business goals and also testing out these new products. So we put them on the side

and try something in a separate organization. Once it works, then we figure out how to mainstream them.”

Eric Johnson, Professor at the Tuck School of Business agreed, based on research across a variety of companies: “When you’ve got risk-averse cultures, or cultures that would naturally kill off ideas, then you need pretty separate groups, many times, to be able to really carry the ball. Otherwise, the immune system just kills them off.”

In a different approach, Chevron Technology Ventures uses its corporate structure not simply to keep smaller ventures separate and safe from being “dominated” by the sheer scale of Chevron, but also explicitly to create creative tension between the outside and inside researchers, said King. “It’s very easy just to look inside and not look outside. By having us as the outside lens and bringing some of these technologies in, it creates tension to keep us all on our toes and spur innovation.”

Once something is successful, however, then it’s possible to bring it back inside the parent corporation and scale it. After initial successes by the business units with the Digital Oil Field, Krotowski described how Chevron “brought it back in, brought a lot of the people that had been involved into our R&D organization, set up a new organization that is scaling it globally, and leaving the business units free to drive new innovations.”

Why Does Anyone Plant Olive Trees?

As the discussion turned to creating cultures that promote innovation, moderator Mark Lange brought up the example of 3M, who “famously sets aside 15 percent of its resources in people for innovation. Google has it at 20 percent; a day a week. That would have everybody do a little bit of innovation all the time. Then there’s a different model that says ‘No, actually we want to have relatively few focused people.’”

Nike’s Paanakker pointed out a cultural problem with the second model: “There is a downside of saying that is the innovation team, which means the rest of the organization does not innovate.” Greiner of IBM reinforced his point: “You don’t want to say, ‘This is the only team that’s doing innovation.’ You want to foster innovation as part of your culture wherever it is. IBM has done this well. We have three basic values, and the first value is ‘Innovation that matters for the company and the world.’ It goes to the heart and core of what it means to be an IBMer, and what we expect our employees to do in their jobs.”

On the other hand, innovation is seen as risky. Beckman relayed the objection of her executive management students at Haas: “You’re teaching us all these innovation tools. We can’t use them, because: a) We don’t have enough time, we are so stretched with all the stuff we’re doing; and b) We’re afraid to go tell our managers about them.”

Greiner completely agreed: “The struggle [all companies] have is an organization that’s set up for the quarter and the year. Line operations managers look at new things and say, ‘Well unless someone gives me a note that says it’s ok if I lose a million bucks, then I’m going to pass.’”

Paanakker of Nike agreed: “Forget about all the [existing] process stuff, because if people in the organization don’t expect or demand, or aren’t incented, to bring innovation forward, then all the other stuff doesn’t work. In many organizations we’ve killed innovation because we’ve put processing efficiencies and budgets and all that kind of stuff, which are all the reasons not to take risks.”

Parker suggested that innovating in many companies is similar to planting olive trees, which take 50 years to mature: the gardener undertakes all the work and absorbs all the risk, and someone else gathers the harvest down the line. How can companies promote innovative behavior, when innovation is known to be a risky activity? Hirsch of Time Warner Cable pointed out that this applies even to CEOs: “The average CEO tenure is three to seven years. Innovation is seven to 12 to 15 years out, so it’s very rare to get a great CEO that understands and wants to leave a legacy at the company.”

In order to encourage innovation across a company, “we found out the biggest thing was to remove disincentives rather than put in incentives,” said Ramleth. “The people who dare to stick out their neck need to know that somebody has their back, that they don’t get left alone, that the risk is mitigated by other people actually covering [for them].”

Parker continued the point: “You have to pay it off on the back end. You say, ‘Here’s the upside. Here’s what’s in it for you.’ Then, by God, that better happen, because if it doesn’t, you can sit there and talk all you want, but people are looking for actions. Did you, in fact, value people? Did you, in fact, give them career opportunities? Did you have their back? Did you remove the disincentives? Did you promote people who led projects well that didn’t necessarily succeed? Did you send people out to wherever, but then bring them back and give them positions of responsibility? The whole organization’s going to watch that and you better build it on the back end, or no one’s going to participate.”

Hans Brechbühl, Executive Director of the Center for Digital Strategies at Tuck cited a recent academic study on the characteristics of companies that innovate successfully: “Three things seem to be indicators. One, is there a future market orientation? How much are they willing to look into the future? Two, their willingness to cannibalize themselves. And, last, but not least, their tolerance for risk. Those three things are really the keys in terms of the culture, and they were particularly strongly correlated with the ability to produce radical innovations. Even something as concrete as R&D spending seemed to have less impact than did those three pieces of culture.”

The ability to follow through on these cultural tenets is key. “Day-to-day culture is a result of all the other things you are *doing*,” said Ramleth. IBM’s Greiner agreed: “One of the dangers would be to say, ‘We’re going to foster innovation and then there’s nothing else behind it.’ I guarantee, it will land like a thud and, one year later, [the rest of the company] is going to be saying, ‘What the hell was that?’”

The action-oriented, risk-tolerant culture “ultimately comes down to personal leadership,” observed Greiner. “It has to be empowered by a strong and visible proponent from the top first. You can’t do innovation from the bottom up. You really have to create the conditions where innovation can thrive. You have to demonstrate how you’re going to respond to innovative ideas that come up from within your teams. Are we resistant to change? Are we afraid of failure if we get behind an innovative idea and it doesn’t pan out?”

Paanakker put the point in a different way: “As a leader in the past, ‘Hey, I have the answer.’ I’m committed to the answer, rather than I’m committed to the question. Now that’s hard, because I need to empower the organization and they’re going to do something different than what I envision should be done. Most likely, it’s better, but it’s different.” The ability to behave that way, and lead that way, is where an innovative culture “has to start.”

Companies get the credit for innovations, but it is individuals who actually make them. With risk mitigated and a culture that truly rewards successes and, at the least, doesn't punish failures, innovative individuals can begin to thrive. At Bechtel now, said Ramleth, "If people hunt it, then they get to eat it too. If you innovate something and you believe strongly in what you're doing, then you drive it forward. It doesn't get handed off to some other highfalutins that suddenly kill it."

LeGoues of IBM described how, with the right culture in place, small changes can make a big difference: "I have very little money to seed for internal innovation. So, there are not a huge number of projects that get funded, but it has given everyone at the organization this notion that, 'It's okay for me to have ideas and to innovate in my job, and if it's a good enough idea, Francoise's team will fund it.'" This has changed the way people think about innovation in much greater proportion than the small amount of money I put behind it, because they have the permission to be innovative. And if the project works, that's great. If it doesn't work, they still have had fun trying."

Leadership in the Age of Innovation

Brechbühl wrapped all the different threads of the day's conversations together by asking, "What's different now about evaluating the performance of an innovation leader today?" Pappier of Tenaris didn't think that anything had changed: "It continues to be the capability to attract the best talent to innovate, then develop them, retain them. The tools are different, but the way to measure a leader is exactly the same."

Krotowski of Chevron agreed: "I wouldn't measure them any differently. There are a lot of different tools that you need to be using today, but the innovation leaders are the guys that make good ideas happen. It requires skills in critical thinking, future perspective, the ability to listen to multiple viewpoints and synthesize them, the ability to make an argument, and frame the opportunity. It's the execution of that idea that ultimately takes it forward."

Boncimino of Time Warner Cable agreed with the skills assessment, and suggested how new innovation leaders will ultimately be judged: "Their success will be evident when they're able to mobilize the masses of people within the organization. They'll be able to establish a framework and discuss and motivate and provide passion to make things actually happen well beyond their span of control."

Boccardo of Eaton summed up the future facing the Roundtable participants and other innovation leaders: "We all come from different worlds, but we're faced with essentially the same challenges. I, for one, will return to my role with a bigger focus on encouraging risk-taking. At the root of innovation there's overcoming the fear of failure. We want to encourage risk-taking, we want to celebrate those who get us more 'at-bats.' We're not always going to hit a home run. We may even strike out once in a while, but if you get us more at-bats, you're doing something good for the business, and that should be recognized and rewarded and celebrated."

Participant List
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Sara L. Beckman	Co-Director, Management of Technology Program Haas School of Business University of California, Berkeley
Bill Blausey	Senior VP and CIO Eaton Corporation
Steve Boccadoro	Senior VP, Sales and Marketing Eaton Corporation
Frank Boncimino	Senior VP and CIO Time Warner Cable
Hans Brechbühl	Executive Director Center for Digital Strategies Tuck School of Business, Dartmouth College
Gabriel Carcagno	Director, Research and Development Center Tenaris
Dan Cherian	GM, Sustainable Business & Innovation Lab Nike Inc.
Bruce Greiner	VP and Portfolio Executive for Enterprise Services, Office of CIO IBM Corporation
Jeffrey Hirsch	Regional President, Residential Services Time Warner Cable
M. Eric Johnson	Benjamin Ames Kimball Professor of the Science of Administration Director, Center for Digital Strategies Tuck School of Business, Dartmouth College
Desmond King	President Chevron Technology Ventures

Randy Krotowski	CIO Chevron Global Upstream
Mark Lange (moderator)	CEO TipMarks, Inc.
Françoise LeGoues	VP Innovation Initiatives, Office of the CIO IBM
Roland Paanakker	CIO and VP, Lean Business Solutions Nike Inc.
Carlos Pappier	CIO Tenaris
John R. Parker, Jr.	Senior VP, General Counsel and Strategic Initiatives Coca-Cola Enterprises
Geir Ramleth	CIO Bechtel
Esat Sezer	Senior VP and CIO Coca-Cola Enterprises