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ORGANIZATIONAL PERFORMANCE

Struggling to innovate? Examine your structure, systems, and culture

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Abstract When it comes to driving organizational performance, innovation is widely touted as a critical capability. Whether the focus is internal and on finding ways to improve efficiency or external and on understanding what the market desires next, leaders seeking to enhance performance will rely on their company's ability to successfully bring new ideas to the fore. Unfortunately, leaders who sense their company is experiencing an innovation deficit are too often misdiagnosing its cause. Most interventions designed to increase innovation capability focus on unleashing potential among employees; however, most of the barriers to the realization of that capability are created by organizational characteristics. In this installation of Organizational Performance, we report on the successes of a number of companies in which leaders have identified the critical barriers to innovation: structure, systems, and culture. Leaders are encouraged to understand how to invest less in employee innovation capability and more in organizational readiness to support what tends to be an already quite capable workforce.

1. Prescribing the wrong medicine for innovation ills

These days, it is increasingly unusual to speak with a leadership team whose members don't express concern over their company's ability to innovate (Anthony, Duncan, & Pontus, 2014; Wall, 2014). After all, innovation is a key in enhanced organizational performance (e.g., Jimenez-Jimenez & Sanz-Valle, 2011). As the global recession has begun to ease, innovation has become the salve for all that ails a balance sheet. Innovation is the answer, whether the question concerns finding ways to improve margins via increased operational effectiveness, growing the top line by introducing new products touting incrementally improved features, or exploding a business model and creating a whole new industry segment with a disruptive game-changer. Companies invest a tremendous amount chasing ways to increase innovation capability: Apple expected to invest $10 billion in 2013 (Dilger, 2013). On the other hand,

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research has found that the amount spent is not predictive of the value of the results. A Booz and Company study found that seven of the ten most innovative companies were not among the top spenders (Jaruzelski & Mainardi, 2011).

Sensing the growing demand for answers to the question, "How do I make my company more innovative?" consultants and pundits have produced myriad best practices. Universities and other vendors are rolling out training programs at an impressive rate. Type 'innovation training' into an Internet search engine and you will quickly have access to enrollment in programs purporting to "maximize your creative flow," help you become "a creative thinker," teach you to be "an innovation leader," or allow you to earn a "certified professional innovator certificate"—all in a matter of a few days.

Taken together, vendors of all varieties have created an innovation solutions marketplace that is crowded, noisy, and confusing. As a result, the marketplace for answers to questions around increasing innovation is not particularly efficient. Most importantly, deeper inspection of the actual challenge reveals the goods for sale are not particularly well matched with what buyers need. Specifically, there is a predominance of offerings disproportionately focused on a promise to unleash underlying innovation potential in people. Focusing on the talent part of the innovation equation concerns us because our own research suggests that when it comes to producing a strong return on innovation, *people* are generally *not* the problem. We base this conclusion on extensive interviews with executives who had major responsibilities for executing the innovation strategy at companies including Clorox, Disney, Lockheed Martin, PepsiCo, Philips, Hallmark, and others.

Our purpose was to discern what innovation professionals have learned from their efforts to earn a full return on investments in building innovation capabilities. In short, when sharing their challenges in achieving this goal, none of these executives mentioned a dearth of innovative people as a barrier to innovation. Instead, leaders opined that an oft-referenced line from the Pogo cartoon strip provides the best insight: "We have met the enemy, and it is us." That is, the true barriers to a positive return on efforts to innovate are company structure, systems, and culture. As PepsiCo's Margaret Dohnalek explained, "We don't look at staffing as the problem. Obviously, we take great pains to bring in the right people, but we focus on creating the structure that drives the right relationships and facilitates innovation." We think Dohnalek's message is an important one. As another executive told us, "employees leave to do start-ups not just to retain ownership of an idea, but because who better than our own employees understand how our company's structure, culture, and systems are inconsistent with getting a new idea into the marketplace."

To be clear, neither our respondents nor we contend that people are not important to innovation. Of course they are. But companies have known this for some time; people who show initiative or problem solve have long been sought after. Companies have plenty of innovation potential to unleash; in fact, our wager is many are at a point of diminishing returns on investment in creating innovation potential. Instead, what's required is investment in creating and maintaining organizational capability to capture a return on the innovation potential latent in the people already on board. It makes no sense to send an employee off to become a certified professional innovator if after the training they are returned to a 'sick system' that simply serves as the wet blanket guaranteed to smother whatever ember was sparked through attending a program on innovation.

Herein, we share what we learned from these executives and their teams as they undertook efforts designed to get the company out of the way of people who were prepared to generate the innovation necessary to lift their employers' prospects as the global recession eased. Each of the elements we review—structure, systems, and culture—are quickly revealed as either friend or foe to leaders endeavoring to create a more innovative company. And in Tables 1 and 2, we provide a more in-depth look at the way two notable innovators, Clorox and Lockheed-Martin, are achieving results. At Clorox, we spoke with Chief Innovation Officer Wayne Delker. His comments are summarized in Table 1. At Lockheed Martin, we interviewed Dr. Charles Johnson-Bey, the Open Innovation Program Manager for Corporate Engineering and Technology. His observations are presented in Table 2.

2. Creating and maintaining a supportive structure

We found three ways in which structure impacts innovation capabilities: balancing centralization and decentralization, using restructuring as a signal, and the structuring of time. We briefly discuss each next.

One common concern around innovation is whether or not the effort is best managed in a centralized manner or by allowing and supporting innovation wherever it naturally occurs. On one hand, centralization allows individuals to play off one another to create synergy, and it makes it easier to protect new ideas from a crushing bureaucracy. On the other, decentralization allows innovators to be closer to the business unit that ultimately will be