The Lifeblood of Business

The most successful businesses win because they do something better than anybody else and it is meaningful enough that customers will pay a premium for it. Most of them also work hard to demonstrate their superiority, and they invest in breakthrough marketing to make people aware of their solution, get them to try it, and convince them to repeatedly buy it based on their experience. To remain demonstrably superior, they consistently raise the performance bar to stay ahead of their competition.

This, in essence, is how I think about innovation. It is the lifeblood of the most successful companies as measured by profitable growth and cultural strength. Of course, cash is king, and every successful entrepreneur will tell you that cash flow matters most. But without innovation, cash flow will eventually suffer.

Because innovation is not a physical thing, it's hard to define. In this way, it's similar to leadership. Merriam-Webster defines innovation as a new idea, device, or method. The only thing I would add to that definition is that it must be an advancement or improvement, not just "new." Other than that, I like this definition because it suggests that innovation is not just about new products or technology. Responsibility for it should not be confined to a particular team, function, or individual within a company. It can happen in the warehouse or even the accounting department (as long as it conforms to generally accepted accounting principles and it's legal!).

While success is fueled by innovation, success can also stifle innovation. As a business grows and accumulates resources, leaders often put in place safety processes and practices to avoid mistakes that might undermine the success they've achieved. These well-intended practices, meant to

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minimize risk, can become barriers to innovation because the punishment for mistakes overwhelms the rewards for innovation, and then institutional inertia sets in.

Leaders must carefully manage this delicate balance because in many companies the forces of inertia can be daunting even to the most courageous and tenacious difference-makers that the leaders depend on to raise the bar. So, leaders must do much more than implore their troops to innovate in speeches and newsletters. They need to drive, fuel, and champion innovation as a way of life across their entire organization by building and nurturing a culture that embraces and unleashes it.

Leadership Principle #5

Cultivate a performance-based culture of innovation that unleashes the innate desire in the people you lead to solve, create, and contribute to winning.

Every business needs new ideas to prosper long term. But new ideas are the natural-born enemies of the way things are.

The Leader's Challenge

Every business needs new ideas to prosper long term. But new ideas are the natural-born enemies of the way things are. I would go so far as to say that there are more barriers to innovation than enablers in every company in the world. In many cases, the barriers are necessary. They are an integral piece of the management puzzle for buttoned-up leaders who attempt to live up to their fiduciary responsibilities with excellence. Examples include the legal function, the budgeting process, the new product development process, monthly operating reviews, and audits. They all serve vital management roles when it comes to managing risk and efficiencies.

These important processes and practices help leaders avoid screw ups. They were created long ago to promote discipline and align resources, increase predictability, and control behavior. These are all worthy imperatives for a business firing efficiently on all cylinders.

But when these forces are out of balance, they can also thwart the behaviors companies need to continuously raise the bar and out-innovate the competition. Big ideas, curiosity, passion, flexibility, outside-the-box thinking, and agility become the enemy. The culture evolves toward management and control more than leadership and innovation.

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If you're wondering where your company is on this spectrum, consider these questions:

1. Is there a common definition of innovation at your company?

2. Is innovation measured consistently across departments and divisions?

3. Are innovation successes highlighted at communications meetings for all to see?

4. Do people in your company learn from mistakes (vs. burying them)?

5. Are people in your company comfortable challenging conventional wisdom?

6. Does your incentive and compensation plan reward innovation?

7. Are people in your company trained on innovation?

8. Does your entire workforce have regular access to consumer and customer insights and feedback about your products and services?

9. Does your company minimize the bureaucratic hoops that difference-makers have to jump through to get the sponsorship and resources they need to advance business building and process improvement ideas?

10. Are front line managers held accountable for sponsoring business building and process improvement initiatives?

11. Are people who overcome challenging obstacles that stand in the way of growth acknowledged publicly for their achievements?

12. Do leaders in your organization ask; "what if?" as much as they ask "why?"

13. Does your organization fail fast on bad ideas?

If you answered "yes" to more than half of these questions, congratulations — your culture embraces innovation. If not, your culture might need renovation.

Leaders must do much more than implore their troops to innovate. They need to champion innovation as a way of life across their entire organization by building and nurturing a culture that embraces and unleashes it.

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We have discussed the downside of too much control. Now let's consider the downside of too much freedom. Focusing for a moment on the new products and services aspect of innovation, let's examine what happens when a company defines innovation by the sheer number of new products and services they launch. The more, the better.
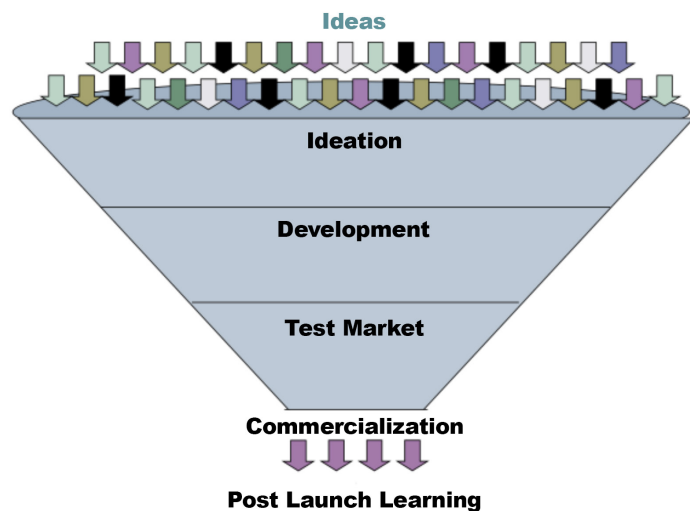
In these companies, business-building ideas proliferate. They are not only sponsored by management, they are also embellished and multiplied. If a yellow widget is recommended, then management might suggest a blue widget, too. As development careens toward commercialization, teams add additional variants.

The process looks like the megaphone chart to the right. The success or failure of these ideas is usually determined in the marketplace. And while these companies launch many new products, few achieve desired goals and survive long-term.
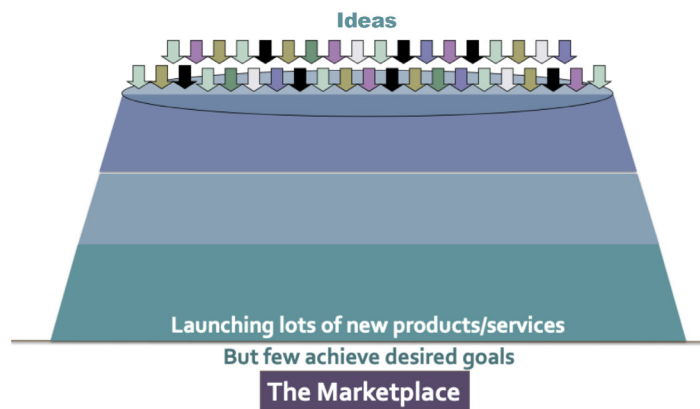
Now let's examine how it works at more disciplined, market-driven companies. New ideas are screened as fast as possible using consumer-centric criteria with the intent of failing fast on bad ideas and launching fewer, bigger, and more market meaningful ideas.

A stage gate process ensures broad alignment on success criteria for each gate, and precious resources are allocated to winning ideas. The new product innovation process looks more like this funnel than the megaphone above.

Ideas

Launching lots of new products/services
But few achieve desired goals
The Marketplace

Ideas

Ideation

Development

Test Market

Commercialization

Post Launch Learning

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At each stage gate, cross-functional teams answer vital questions designed to predict success or failure as early as possible.

For example, at the ideation gate, questions to be answered might include:

- Does the concept appeal to our target consumer or end user?

- Does the idea help us achieve our vision, and is it consistent with our strategy?

- Is it feasible (i.e. are we confident the idea does not violate the laws of physics)?

- How can we maximize early learning while minimizing the cost of experimentation?

- Can we test rapid prototypes to accelerate learning?

- Could the price-value relationship yield attractive profit margins?

- Can we do it uniquely better than anybody else, or at least faster?

- Can we supply it with service levels that meet customer expectations?

- What is the business case and size of the prize? Will it meet key financial expectations such as ROI, payback, return on capital employed, return on sales, etc.?

At the development gate, important criteria such as the following are addressed:

- Does testing of the prototype indicate we will be able to deliver the end user promise?

- Does our marketing adequately communicate the promise and reasons to believe it?

- Can our supply chain meet quality and cost parameters?

- Have all functions met success criteria, and are they aligned?

- Does the business case clear our financial hurdles?

New ideas are screened as fast as possible using consumer-centric criteria with the intent of failing fast on bad ideas and launching fewer, bigger, and more market meaningful ideas.

Before the product is launched broadly to the marketplace, criteria such as the following are checked:

- Does RD&E stand by the quality and integrity of the product?

- Does the final product meet end user expectations?

- Is marketing support adequate to achieve awareness and trial goals?

- Is the supply chain prepared to meet customer expectations?

- Does the sales force have the capabilities and tools they need to achieve goals?

- Do projected financials justify further investment?

Using these questions, teams can weed out bad ideas as quickly as possible and enjoy a high degree of confidence at the commercialization stage that survivors will achieve goals. The team continues to pursue learning after launch for course-correction purposes and conducts a post-mortem analysis for insight and lessons learned that can be applied to future innovation initiatives. Importantly, success is not measured simply by launching new products or services, but by whether they attained the financial returns promised in the business case 1-3 years post launch.

While this process might appear bureaucratic on the surface, in practice it can be the opposite. Each team is empowered by the freedom to avoid constant updates with management in between gates. Their contract is the success criteria at each gate (each gate has agreed upon success criteria that must be achieved to advance to the next stage of development), and they have the resources and support they need to progress to the next gate. The team seeks help from their designated sponsor/advocate whenever they need it to clear obstacles. While stage gate milestone meetings are intense and rigorous, teams operate with freedom, flexibility, and empowerment between gates.

You might look at these two different processes and ask why failing faster on bad ideas and minimizing the cost of experimentation matters so much. Let's juxtapose the two methods to highlight the benefits of the latter approach. Laying the funnel over the megaphone reveals a tremendous amount of waste in the first process.

Success is not measured simply by launching new products or services, but by whether they attained the financial returns promised in the business case 1-3 years post launch.

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When companies rely on the broader marketplace to determine success or failure, they suffer the financial ramifications of returns, gross-to-net sales deductions from revenue, and inventory waste. They also lose brand credibility and equity as customers and consumers lose faith in their brand. And finally, all of those resources that were invested to develop and commercialize the failures could have been used to accelerate the progress of winning ideas.
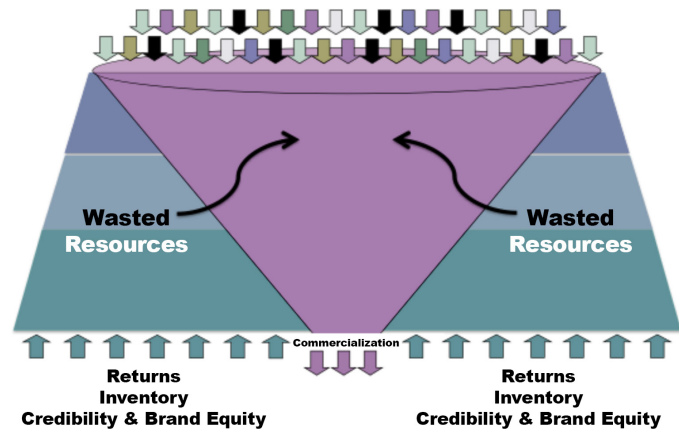
I have shared two ends of the spectrum. Wherever your company lies on that spectrum, it's up to you and your leadership team to balance the forces needed to out-innovate your competition. As a leader, you have a magnifying glass in your hand with the power to focus your company's resources on the highest ROI ideas, just as you did as a child when you harnessed the power of the sun's rays to create fire.

What Matters Most

I believe people take jobs and join companies with an innate desire to creatively solve problems, to make a difference, and to win. How they are greeted and treated by your culture will determine just how much of their ingenuity is accessed and leveraged as part of your workforce. The most important thing leaders can do to drive innovation is cultivate a culture that embraces and nurtures this yearning to create, solve, and contribute to winning. That might sound simple, but in most companies, it requires significantly retooling management processes and practices that are often designed to do exactly the opposite.

So, what does it take to create and nurture a performance-based culture of innovation and cultivate a workplace that doesn't just manage — but inspires — passion, ingenuity, imagination, and initiative in everyone who touches their business, inside and outside their company walls?

How to Out-Innovate the Competition

Here's my ten-step process to renovate your culture and maximize your chances of out-innovating the competition, based on my experience working with some of the most innovative leaders and companies in America:

1. Define and champion innovation beyond new products and services. Reveal the important role innovation plays in your company's future.

2. Train it. As a best practice, innovation is a process that is learnable. Study and steal ideas for inspiring innovation at your company from success models. Instill curiosity among your people and encourage them to look across other industries for market-meaningful innovations that could be applied to your business to fuel profitable growth.

3. Challenge everything about your business model and encourage everyone inside and outside your company to do the same.

4. Spread insights that unleash the creativity and ingenuity of your people in every part of your company. Breed curiosity throughout your organization by sharing knowledge such as customer and consumer attitudes and pain points, marketplace trends, technology advancements, and so forth.

5. Encourage constructive contention and diversity of thought because differences challenge assumptions, and assumptions often conceal blind spots.

6. Measure innovation consistently, everywhere. If you're not measuring it, your people quickly get the message that it's not really that important.

7. Reward innovation. Make it an integral component of incentive compensation and awards programs.

8. Think like an engineer, feel like an artist. Go beyond metrics and the hard stuff. Feed your culture the softer nutrients that exercise the left side of their brains. Mindsets form culture and servant leaders understand that it's up to them to provide the context their people need to have performance enhancing rather than performance limiting mindsets.

> It's up to you and your leadership team to balance the forces needed to out-innovate your competition.

9   Minimize unnecessary bureaucracy that stifles innovation. Challenge every single process and practice throughout your company, searching for the unintended consequences of policies, rules, and control that might be out of balance regarding risk taking.

10   Shift the focus of your company from managing and controlling to leading and unleashing the innate desire in all of your people to innovate.

Most winning companies thrive on innovation, and innovation springs from culture. Leaders have to work hard to build and nurture a culture that shuns unnecessary bureaucracy, fails fast on bad ideas, lowers the cost of experimentation, and focuses precious resources on the highest ROI initiatives. Successful startups create this kind of culture naturally and often without intention but maintaining it over the long haul can be just as difficult as renovating an older culture at a mature company.

Whatever the state of your company, it takes a lot of heavy lifting to build and sustain a performance-based culture of innovation that stands the test of time.

> Most winning companies thrive on innovation, and innovation springs from culture.

About the Author

Jude Rake is the founding principal of JDR Growth Partners, a consulting firm that helps family-owned businesses, boards, chief executives, and their leadership teams achieve improved results and sustainable growth. Before founding JDR, Jude served in multiple C-level roles including CEO for fifteen years. Jude is also the author of *The Bridge to Growth: How Servant Leaders Achieve Better Results and Why It Matters Now More Than Ever.* Find out more at jdrgrowthpartners.com and The Bridge to Growth.

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