A Report Card on Innovation

How companies and business schools are dealing with it

Gary Selden and Harry Vardis

BACKGROUND

Creativity and innovation are becoming the new core competencies of corporations (Nussbaum, 2005, Alsop, 2003), and a company’s greatest asset may be its creative capital. (Nussbaum, 2005) Innovation in organizations starts with tapping into the creative potential of all employees and their knowledge about customers, competitors and processes. (Leavy, 2005)

The use of Creativity and Innovation for competitive advantage has evolved over the past 17 years. Peter Senge (1991) created the notion of a learning organization and claimed that the only competitive advantage a company could have was to think faster than its competition. However, it is no longer sufficient to be able to think faster than your competitors; many would now argue that you must think differently than your competitors - to create new models and new ways of conducting your business.

Popular literature supports this notion. Business publications like BusinessWeek, Forbes, Wall Street Journal, and others are publishing articles that cite leaders like IBM’s CEO Samuel Palmisano touting the value of innovation as a competitive advantage. Although the popular literature supports the notion that innovation is a critical factor for success, little has been written in the scholarly literature. A recent issue of BusinessWeek (May 2007) lists the most innovative companies and provides examples like 3M, which is struggling between efficiency and creativity (BusinessWeek, June 2007).
STUDY OBJECTIVES AND METHODOLOGY

This study was undertaken to get a better understanding of the role that innovation plays in companies. The purpose of the research was to address the following objectives:

- To assess the state of innovation in companies
- To identify the most likely candidates in management to be the “torch bearers” for innovation in companies
- To quantify the extent to which companies will be investing in the field of innovation
- To assess the barriers or obstacles to innovation
- To determine the role of culture in innovation
- To understand the metrics used for measuring innovation
- To understand the expectations industry might have for training MBA students in the field of innovation

This study was conducted as a joint effort between BusinessWeek Research Services, a full-service custom research department within BusinessWeek Magazine and the Center for Business Innovation and Creativity at the Coles College of Business, Kennesaw State University. Data was collected on-line by Vision Critical, a third-party research firm utilizing BusinessWeek’s Alliance/Market Advisory Board, a proprietary panel that taps into 400,000 influential BusinessWeek readers or senior executives who work for companies with 1,000 or more employees. A total of 513 respondents completed the survey.

STATE OF INNOVATION 2007-2008

As globalization continues and the world economy becomes flatter, innovation is the hot topic among most top level executives. Management gurus are trying to come up with different versions of what innovation is and how it should be applied. One even suggested the question: How do you innovate innovation?

While there remains disagreement among respondents as to what innovation is, many executives feel that it should be a top priority. In fact, more than half of the senior executives in
this study (54%) say innovation is definitely among their top three priorities for 2007-2008. For this study we refer to these companies as Innovation-Driven (ID). The rest of the respondents (46%) are referred to as Innovation-Shy (IS) companies because innovation is not one of their top three priorities.

Not only is innovation a top priority among ID companies but they are ready to increase their investment in innovation activities in their companies. Three out of five (60%) say their investment in innovation will definitely increase compared to 2006’s investment levels.

**BUDGETS FOR INNOVATION**

As one would expect, the perception of how important innovation initiatives are in an organization appears to determine the budget earmarked for new initiatives. In ID companies the likelihood of budget increase is 77%. In IS companies the likelihood for increased innovation investment drops to 39%
THE ROLE TOP EXECUTIVES PLAY

Results of this study find that CEOs and Presidents account for the major driving force (54%) behind innovation in their companies. This is significantly higher for ID companies (47% vs. 24% for IS companies). Support for innovation thrives when top-management supports it.

We see that over half of the companies sampled anticipate an innovation initiative in the next 6 to 18 months, with top management as the driver.
DEFINITIONS OF AND OBSTACLES TO INNOVATION

It appears that innovation is a cultural attitude. It involves a willingness to take risks by exploring new ideas which will fit the company’s business model and are accepted by top management. Said another way, innovation takes place when management is willing to change the company’s business model to capitalize on new ideas because management believes these ideas are ready to be implemented.

Results of the survey provide some insight as to why many companies are not innovative. The top three (3) obstacles to corporate innovation are: Resistance to change (51%), lack of time (45%) and fear of risk-taking (39%).
While innovation should be able to flourish anywhere in an organization, certain departments are likely to be more fertile ground than others. Nearly half of senior executives responding say that innovation initiatives tend to come from the Marketing department (49%) followed by the IT (46%) and Sales (34%) departments. These tend to be client-centric.
departments and internal customer service departments. We could hypothesize that it is the interaction with external and internal clients plus changing market needs that cause this phenomenon. Additionally, more than one-third (37%) of these executives are satisfied with the end results of the initiatives.

**Chart 5**
**INNOVATION INITIATIVES**

<table>
<thead>
<tr>
<th>Departments that have taken innovation initiatives in the past 12 months</th>
<th>Satisfaction with and results of innovation initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>49%</td>
</tr>
<tr>
<td>IT</td>
<td>46%</td>
</tr>
<tr>
<td>Sales</td>
<td>34%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23%</td>
</tr>
<tr>
<td>HR</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>22%</td>
</tr>
</tbody>
</table>

| Satisfied | 6% |
| 1 = not satisfied at all | 2 | 17% |
| 3 = neutral | 41% |
| 4 | 34% |
| 5 | 3% |

**THE ROLE OF CULTURE IN INNOVATION**

Corporate culture plays a significant role in the amount of satisfaction derived from results of innovative efforts. When the culture supports novel ideas, 50% of these senior executives say they are satisfied with the results. When the culture does not support novel ideas only 25% are satisfied. Perhaps this is due to the fact that innovation involves risk taking, transparent communications, challenging the established methods, and facing a fear of the unknown.
This is a very significant finding when we consider cross-cultural integration and efforts to have employees of different cultures work in harmony; especially in today’s environment of mergers & acquisitions. It would appear that some modicum of common goal setting and understanding of common vision accompanied by team work would facilitate the satisfaction gained from the support for these innovation initiatives.

### TABLE B

Eight strategies to create and maintain a culture of innovation:
1. Inclusiveness of all employees
2. Group thinking
3. Celebration of successes
4. Support of all members of the team
5. Recognition of successes and failures
6. Learning from failures
7. Recording of all ideas
8. A positive attitude toward success

### INNOVATION METRICS

Measuring innovation is a challenge for many company executives. Part of the challenge is the question “How do you measure something that has no clear definition?” Because there is no precise definition of innovation, the metrics vary significantly. Overall, more than half (55%) of
these senior executives admit that their companies have no metrics in place to measure results of innovation initiatives.

**CHART 7**

![Number of Innovation Metrics Used](chart)

**Question:** How many innovation metrics does your company regularly collect and use?

**Question:** Overall, using a scale of 1 to 5 where 1 is not satisfied at all and 5 is extremely satisfied, how satisfied are you with the end results of these efforts?

**Base:** BusinessWeek Research and Coles College

It appears that ID companies are more metrics-conscious in order to be able to measure the results of their efforts. Respondents from Innovation-Driven companies are more likely (46%) to have at least one metric in place than those from Innovation-Shy companies (32%).

**MOST FREQUENTLY USED METRICS TO EVALUATE INNOVATION**

The most frequently mentioned metrics clustered around three areas: New product related metrics, customer feedback and new ideas that make it through the adoption process.
New product related activities dealt with new product introductions, percent increase in sales attributed to new product introductions and percent of revenue produced because of the new product introductions.

**New product related metrics**

1. Look at number of new product introductions in past year
2. Initial Product Launch Sales, 30-60-90 day sales, GM%, Promotional activity, Physical case volume, Product penetration
3. Percent of revenue generated by product introduction in the past 1-5 years
4. Vitality Index (% of Sales from products < 3 years old)/ # New Products Introduced/ # Projects Started

**Customer input metrics**

5. Customer surveys/ Competitive analysis - i.e. do we gain competitive advantage
6. Patents, Awards, Customer Feedback (e.g., Things-Gone-Right, Surprise & Delight Mentions)

**Idea metrics**

7. Number of new product/service ideas passing each stage of funding.

A “softer” measurement was client surveys indicative of product and service satisfaction as well as number of patents secured by the organization. Finally, the number of new ideas passing through the filtering system of the organization to be introduced to market was also a metric mentioned by several respondents.

These are ways that these corporate managers measure innovation activities in their companies and lead us to the question: “Are there any soft skill activities which can also contribute to innovation that have not been identified or measured yet? How do we measure creativity? How do we measure cultural changes that contribute to innovation? What are all the
ways we can measure long term effects of today’s activities and risk taking?” Is there room for subjective measurements as well?

**TAKING RISKS**

Innovation involves risk taking. Chart 8 shows that 41% of the companies whose culture supports innovation encourage risk taking, while only 15% of those whose culture does not support innovation encourage risk. Similarly, risk aversion is higher (51%) among companies who do not consider innovation a top priority vs. companies who do (33%).

![Chart 8](chart8.png)

**THE ROLE OF FEAR AND HOW TO OVERCOME FEAR**

Perhaps one of the most important findings of this study is the unexpected discovery that the way to eliminate, or at least lower, the fear of risk and the fear of failure is “communications”. The significance of this finding is that the opposite of fear is not bravery. Instead, it is the sharing of risk and knowledge among team members. This becomes more obvious when one thinks of team sports - from football to sailing. The team’s success depends to a large degree on the communication between team members during an event and the debriefing session after the event. Feedback and feed forward allows for improved performance and ownership of results. It seems
that good communication alleviates fear and improves the willingness to take risks. Add to that an
environment in which failures are looked upon as opportunities for learning and you have the
perfect formula that suggests it is OK to fail and to learn from failures.

**TABLE C**

<table>
<thead>
<tr>
<th>Three ways to overcome fear of risk and failure</th>
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<tbody>
<tr>
<td>1. Open communications regarding vision and goals</td>
</tr>
<tr>
<td>2. The entire team is focused on the vision</td>
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<tr>
<td>3. Frequent meetings on progress made (Daily/ weekly)</td>
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</table>

**REWARDING INNOVATION**

Half of senior executives (51%) participating in this study say that their companies don’t
provide much support or reward for innovative ideas. One of the most challenging aspects of
incorporating innovation as a way of doing business is the development of an appropriate reward
system. Companies which have been intimately involved in the process have identified which
systems work best for them.

This study indicates that there are at least 7 methods for rewarding novel ideas that will
satisfy employees. The foremost method is a payment system that rewards the employee with a
percentage of the company’s profits on the product or improvement. Rewards are paid for the first
1-3 years that the innovation is in practice. This system seems to be the most popular since the
employee becomes a “partner” with the company and can see the tangible benefit of his/her good
idea.

An alternative reward system that some companies use is a bonus or incentive plan for new
and profitable ideas. In addition to money, rewards may include: travel, sports tickets or other
local entertainment options, prizes, promotions, or stock bonuses. Presidential recognition is an
appreciated reward, as well.
TABLE D

Seven ways that innovation driven companies reward their employees for novel and innovative ideas:

1. Pay percentage of first year’s profits or as much as three years’ profits
2. They have awards and bonus plans in place
3. Have financial and travel incentives
4. Cash bonuses or special events—night in town
5. Monetary awards, prizes, quarterly presidential financial awards
6. Pay increases, other perks—promotions, share of profits
7. Stock bonuses, cash options

STIFLING INNOVATION

Earlier in this paper we discussed ways that a company’s culture or management may prevent it from being innovative. Lack of reward systems may also be stopping the company from becoming more innovative. If there is no formal rewards system in place to reward employees who make an innovative contribution, management is not very likely to come up with last minute rewards.

The company’s culture, developed over many years, often overlooks innovative contributions from employees. This often is the case because the company’s management may not value anything new coming from rank and file employees.

TABLE E

Five ways to stifle innovation through lack of incentives:

1. Employees are uncertain if they would receive a reward.
2. There are no formal reward programs due to cultural constraints
3. The company does not foster an innovative culture
4. Employees may lose their job over new ideas so they take their idea elsewhere
5. The management stifles new idea efforts.
Companies who are not committed to the field of innovation seem to exhibit rather conservative behavior and are in status quo regarding innovation initiatives. They tend to use existing procedures, have no intention to start any innovation initiatives, and their management is not making any significant announcements regarding new initiatives.

Innovation initiatives planned for 2007-2008 by companies who do not promote innovation

- Take advantage of existing infrastructure
- No new initiatives towards innovation
- No announcements from management regarding new products or services
- Most initiatives are around small product improvements or package improvements
- Paper work reduction

**SYSTEMIC INNOVATION**

Systemic innovation permeates the organization at all levels. It is not housed in a department or function but it serves everyone in the organization. Although our sample was almost split down the middle in regards to acceptance of systemic innovation, the practice appears to be more relevant to those companies who seem to have greater commitment to innovation either through increased budgets for innovation, or by listing innovation as one of their top three priorities.

Overall, 55% of these senior executives seem to encourage *Systemic Innovation.* However the profile shows that systemic innovation is encouraged by 40% of those where culture supports innovation vs. 10% among those where culture does not support innovation. So, a commitment to large scale innovation is related not only to attitude and systems for rewards in place but also to the culture support.
In companies where innovation is among the top three management priorities, there is also a significantly higher likelihood for management to support *Systemic Innovation* (33% vs. 14%) compared to companies where innovation falls below the top three priorities.

**THE GAP BETWEEN BUSINESS SCHOOLS AND THE BUSINESS WORLD**

Recent business literature has dedicated plenty of space and articles to the area of innovation. Business Week magazine, Harvard business Review, The Wall Street Journal and other business publications have devoted space on the companies that are thought to be innovation leaders and one question that has not been addressed is “In what ways might business schools become even more creative thinkers?” In a facilitated session with MBA program directors and Deans of business schools, participants indicated that business schools are not ready to address this issue for many reasons. Among the most frequent reasons were that the MBA curriculum is too full already, there are few faculty that are knowledgeable in the field of creativity and innovation, there are no metrics to measure how well the students are doing and there are no funds to provide such programs.
In a separate study the center for business innovation and creativity at The Coles College of business in 2006 determined that less than 30% of the MBA programs responding had even a basic 2 hour module in the field of innovation, and less than 10% had any type of full course.

This study looked at the problem from a different perspective, the ‘Perspective of The Marketplace’. That is, the companies who are hiring the new graduates. The question was “How well do the Business Schools prepare the new graduates in the area of innovation and creativity?” The authors wanted to know how big is the gap between what the market wants and what the Business Schools provide?

The gap is huge! In the overall sample more than half (54%) of the senior executives interviewed believe that recent MBA graduates are lacking in their ability to be innovative. However, senior executives who work for companies who look for and hire graduates who have knowledge of creative thinking and innovation are much more likely to think that B-schools are responding to the plea to train more innovatively thinking managers, than those who do not look for them (84% vs. 18%)

<table>
<thead>
<tr>
<th>CHART 10</th>
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<tbody>
<tr>
<td>MBA graduates have knowledge of creative thinking?</td>
</tr>
<tr>
<td>BASE</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Business Schools response</td>
</tr>
<tr>
<td>Extremely well</td>
</tr>
<tr>
<td>Fairly well</td>
</tr>
<tr>
<td>Not so well</td>
</tr>
<tr>
<td>Poorly</td>
</tr>
</tbody>
</table>
This type of selective screening as arduous as it might be, demonstrates the commitment these companies make to hiring from select schools and cherry-pick those candidates who meet their criteria. In turn, they recognize those Business Schools as meeting their needs.

**SUGGESTIONS FOR BUSINESS SCHOOLS**

Businesses have suggestions for B-schools in regards to innovation and creativity. It seems that there are four area of learning that can inspire innovation to students of business schools in the minds of c-level officers:

First, is the encouragement of creative thinking amongst students, which promotes the notion of understanding the problem thoroughly and brainstorming around the right problem to arrive at the right solutions.

Second, is the learning of how to take risks and how to be willing to learn from failure in order to move faster toward a solution of the problem.

The third area is to use real life case studies so that the students can be exposed not only to the solutions but also to the entire creative problem solving process and be efficient in the applications of these tools.

Finally the fourth is to teach them the principles of leadership innovation so that when they become managers they can put the principles of innovation in place in the organizations where they are employed.

Following are four key areas from respondents that indicate how business schools can better prepare new graduates to be more creative and innovative:

1. **ENCOURAGE CREATIVE THINKING**
   - Add creative thinking process courses
   - Encourage creative thinking before MBA courses
2. LEARN HOW TO FAIL FAST AND SUCCEED FAST
   ■ Allow students to fail and help them understand that failure is part of the innovation process
   ■ Get them more oriented towards risk taking
   ■ Innovation is culture-dependent. Teach them how to take risks and change the culture
3. CASE STUDIES FROM REAL LIFE
   ■ Include case studies that place the learner in situations that create or enhance creative side
   ■ Give them more “real life” business situations and models and less textbook approach
   ■ Do “Action Learning” with real companies and real problems
4. TEACH THEM THE PRACTICE AND PRINCIPLES OF INNOVATION
   ■ Teach innovation in a business environment and less in Blue Sky techniques
   ■ Include courses in innovation
   ■ Have collaborative partnerships between B-schools and businesses to address real time challenges
   ■ The business schools cannot teach what corporate cultures endorse—Inertia
   ■ Teach them to think beyond the textbooks and out of the box
   ■ Encourage team innovation

CONCLUSIONS AND RECOMMENDATIONS

This is a pilot study to determine the gap that exists between what businesses want and what they receive in terms of product, graduates, from business schools. The results are somewhat alarming in that the gap between the two parties is large and significant. Although ID companies adjust by hiring selectively those graduates who meet their needs, this does not alleviate the need for Business Schools to improve their product.

The study also points the many nuances that innovation companies have discovered which allow them to be true innovators. This information should be of interest to those who are thinking of indulging in the field.
Also, it is critical to point out that the major component of hesitancy toward innovation, that is fear, can be eliminated with the right communications among team members.

Lastly, reward systems reinforce innovation and play significant role regarding employee motivation to participate in systemic innovation.

So where do we go from here? It seems that a deeper understanding of the human component of innovation needs to be examined.

- What is the influence clients have to a company’s innovation initiatives?
- How are external vs. internal motivating forces affecting innovation efforts?
- How is the CEO affecting innovation efforts? What is his true role?

Additionally, the process component in terms of team understanding and corporate goals should be explored.

And finally the environmental component also needs to be explored. How does corporate culture affect innovation and vice versa?
Resources


Austin, A. *The Concise Adair on Creativity and Innovation.* Leadership & Organization Development Journal. Bradford: Vol. 27, Iss. 1/2; p. 159 (2 pages)


