Winning through Innovation

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Introduction

Innovation is the name of the game today. But managing innovations has become a fairly challenging task. Leadership teams must be able to manage streams of innovations. They must be able to handle existing products and services even as they create new ones. They should be able to manage both incremental and radical innovations.

Balancing the short term and the long term

Success in the past is often leads to complacence. But success need not be paralyzing. The most successful firms are able to capture the benefits of short-term advantage even as they build organizational capabilities for long-term strategic renewal. They transform themselves through proactive innovation and change management.

Competing in the short term, requires increasing the alignment among strategy, structure, people, culture, and processes. This essentially means increasing the efficiency by mastering the basics. Yet efficiency alone will not ensure long-term success. For sustainable success, managers must understand how and when to initiate revolutionary innovation and, in turn, revolutionary organizational change.

Because they focus on the product rather than the process, successful organizations are usually conservative. They actively try to preserve their core competencies. This conservatism can make it very difficult for any successful organization or system to reform itself.

Complacence and satisfactory under performance describe the state of affairs in many organizations. As long as there is no gap between expectations and performance, a successful system will remain stable. Managers of successful organizations learn what works and incorporate their learning into the firm's formal and informal structures and processes. Being effective requires uniformity and conformity. Yet, if the learning emphasizes today and yesterday, the organization runs the risk of becoming unresponsive to the changing environment.

While flexibility, speed, innovation, and responsiveness are crucial as product classes evolve, so, too, are characteristics such as consistency, reliability, and efficiency. Too much of the former, and organizations may fail to capture the value of their early innovations. Too much of the latter, and firms may develop toxic levels of resistance and inertia.

According to the authors, the need of the hour is ambidextrous organizations – organizations that are comfortable with stability and incremental change as well as experimentation and discontinuous change simultaneously.

Creating Ambidextrous Organizations

As firms grow, they develop structures, processes, and systems to handle the increased complexity of their work. These structures and systems are interlinked, making proposed changes difficult, costly, and time-consuming to implement. Structural inertia gradually sets in.

In nature organizations, part of the learning is embedded in the shared expectations about how things are to be done. These expectations are manifest in the informal norms, values, social networks, and in myths and heroes that have evolved over time. The more successful an organization has been, the more institutionalized or ingrained this learning becomes, further increasing cultural inertia and organizational complacency.

Organizational culture can provide competitive advantage, but it can also create obstacles to the innovation and change necessary to be successful. Great managers understand the need to manage effectively the short-term demands for increasing congruence and bolstering today's culture and the periodic need to transform their organization and re-create their unit's culture.

The key to long term success is creating performance gaps that tell people a lot remains to be done. Excellent managers are those whose units have no performance gaps today but are able to define future opportunities to energize the organization now. The ability to create opportunity gaps even when none apparently exist, is what distinguishes an excellent from an average organization. But defining opportunity gaps is not easy when an organization is resting on its past laurels.

Highly effective organizations may not have any pressing problems at a given point in time. In such cases, they must look outside the firm and ask what will or might happen in the product class in the future. Based on these predictions, managers can create an opportunity for the future to which the organization must respond today.

Aligning the organization with strategy

Alignment, or congruence, between strategy and four organizational building blocks – critical tasks and work flows, formal organizational arrangements, people, and culture – drives today's success. Incongruence, a lack of alignment, or inconsistencies among these elements is almost always at the root of today's performance gaps.

Unless managers and their teams clearly understand the roots of today's performance gaps or those barriers to achieving strategic opportunities, their attempts to solve these problems or realize the opportunities, are likely to be incomplete or may cause other unanticipated problems.

Once the critical tasks and work processes for implementing the strategy have been defined, the alignment or congruence of the three other major organizational building blocks (formal organization structure and systems, people, and the culture or informal organization) can be examined to ensure that these elements are supporting the attainment of the critical tasks. The key diagnostic questions for assessing congruence are: Given the critical tasks and work flows that must be accomplished, how aligned or congruent are the current formal organizational arrangements, culture and people? Do these organizational building blocks fit with task requirements? Do they fit with each other?

Once core inconsistencies are identified, managers can then take targeted action to bring the system back into alignment. The greater the number of inconsistencies among the organizational building blocks, the more substantial the interventions must be. For instance, a change in only one or two components, such as a new reward system or a shift in culture to reflect a new competitive demand, can usually be managed in incremental fashion. Systemwide lack of congruence, requiring changes in three or more of the organizational building blocks, demands discontinuous organizational change.

Since any action is likely to be incomplete, it is improbable that all performance gaps will be reduced. The diagnosis and actions will typically reveal other problems. But managers and their teams can learn from these situations and reinitiate the process. The idea is to continually refine and readjust the internal congruence of the unit, not to determine the optimal solution for all problems.

Successful problem solving is a function of both what managers do and how they do. Effective managers do the right thing and do it well. Knowing what to do must be backed by effective implementation. Great ideas executed poorly are as bad as poor ideas executed flawlessly.

Using the Congruence Model

The reason an organization exists is to accomplish the tasks necessary to achieve its strategic goals and vision. Organizational diagnosis must begin by systematically describing the critical tasks, always posing the question: Do these tasks and task processes help achieve our strategic goals?

To ensure that people are aligned with critical tasks and work processes, managers must assess four aspects of the companies' human resources: competencies (What are they good or bad at?), motives (What rewards are most effective in motivating them?), demographics (How long have people worked together?), and country differences (What is the cultural mix?).

Then comes an examination of the congruence between critical tasks and the formal organization. The formal arrangements include the stated structures, roles, procedures, measures, and systems that managers use to direct, control, and motivate individuals and groups to perform the unit's critical tasks.

While organizational arrangements reflect decisions about formal structure, rewards, and roles, the informal organization reflects emergent structures, rewards, and roles. Informal patterns of interaction drive a firm's informal structure, power, and communication networks. Emergent norms and values define the organization's culture and act as a social control system. While culture can facilitate innovation, it can also get in the way. Unless managers are sensitive to the effects of social control and actively shape informal patterns of interaction, culture may hinder innovation and change.

An organization or group's culture is defined by its values and norms. Values reflect beliefs about what is really important. Norms are the widely shared and strongly held social expectations about appropriate attitudes and behavior such that compliance with the norm is seen as right and appropriate and noncompliance is punished. Norms and values are the foundations of organizational culture that can help or hinder the execution of a unit's strategy.

The formal and informal organization can be viewed graphically. The vertical axis, defined by critical tasks and work flows and the formal organization, represents the formal control system, the organization's hardware. The horizontal axis, consisting of people and culture, represents the social control system, the organization's software. Almost all managers learn to use the formal control axis effectively. Most managers are, however, far less comfortable and adept at using the social control system, perceiving issues of psychology and culture as less precise and harder to manage. Yet, it is the social control system that often holds the key to the effective management of innovation and change.

With work requirements becoming more complex, uncertain, and changing, control systems cannot be static and formal. Rather, control must come in the form of social control systems that allow directed autonomy and rely on the judgment of employees informed by clarity about the vision and objectives of the business.

Culture serves as a social control system. In order to diagnose and manage culture, we need to appreciate that norms vary in two important ways. First, they can vary in the extent of their consensus, or in how widely shared they are. Before a social control system can operate, there needs to be shared agreement that certain values, attitudes, and behaviors are important. Simple consensus, however, is not sufficient. With enough publicity, espoused values like quality or customer service may become widely known, but not necessarily practiced. Therefore, in order to have a strong culture, the norm must also be characterized by intensity. People who share the norm must feel so strongly enough about it that they are willing to tell others when the norm is violated.

From a managerial perspective, the relevant question is whether the organization's social control system supports or hinders managers in accomplishing their critical tasks.

Managing organizational culture

Because innovation involves unpredictability, risk taking, and nonstandard solutions – factors not easily managed by formal control systems, the effective management of culture lies at the heart of organizational innovation.

Innovation is reflected in norms that promote the two component processes of creativity and implementation. Groups that have comparatively strong norms for both are rated as the most innovative. Simply promoting creativity or focusing on speed to implement it does not guarantee innovation. Both are needed.

Two main ingredients stimulate creativity: support for risk taking and change and tolerance of mistakes.

Aligning culture sometimes involves modifying the formal reward system. More often, however, it requires that managers simple use foresight and imagination to provide small rewards and informal recognition for creative attempt. Another important means for encouraging support for creativity and risk taking is to promote a positive attitude toward change.

The second set of norms that are critical in enhancing innovation are those that are actionable. Once creative ideas and approaches are identified, will they be enacted? There are two important types of norms that ensure action: those that emphasize effective teamwork and group functioning, and those that emphasize speed and urgency.

There are three important levers managers can use to influence the social control system of their units: shaping culture through participation or systems of involvement that lead people to feel responsible, using management behavior to convey vivid messages about what attitudes and behaviors are important, and designing comprehensive systems of reward and recognition that are targeted at those attitudes and behaviors critical for success.

Three characteristics of the participation process lead people toward increasing commitment: choice, or the opportunity to participate; visibility, or making choices that are public and can be witnessed by others who matter; and irrevocability, or a sense that some line has been crossed.

Managers design processes that label some decisions as important, get people involved in making choices about how to proceed, and encourage these choices to be made visible to others who matter. The combined effect of these systems of participation is to promote a sense of ownership, responsibility, and positive feelings toward the result of the choices.

How a company deals with a decision can be far more important than the decision itself. In organizations, what is important is that managers of change help their subordinates come to a common interpretation of the meaning of managerial actions. Without a consensus on meaning, implementation will be difficult. In this sense, a primary leadership role of managers is to help people interpret decisions and events in the ways that maximize the probability of success.

Managers' actions signal what values and what attitudes and behavior are appropriate. Whether or not managers are conscious of the signals they are sending, their behaviors are always being observed and define for others what is valued and important. To ensure that actions are not misinterpreted, managers must be unrelentingly consistent in words and actions so that over time they clearly signal which norms are crucial.

Consistency reduces uncertainty. In the face of inconsistent behavior, people tend to attribute outcomes to luck or some other external cause. The moment they notice inconsistency, they begin to wonder if the person is serious. Mixed messages are an excuse to do nothing while waiting to understand what managers really mean.

Organizations with a strong culture begin with a rigorous employee selection system, one that involves multiple steps, an emphasis on core values, and clear expectations of appropriate attitudes and behaviors. Strong culture firms typically begin by identifying candidates who are likely to value the organization's norms or whose recent experience is likely to make them amenable to a new approach.

Once a new employee has joined the firm, a period of intensive socialization begins, during which he or she is exposed to the core values, beliefs, behaviors, and attitudes of the organization.

The third mechanism common across strong culture firms is the use of comprehensive reward and recognition systems that provide rapid feedback for compliance or noncompliance with organizational norms.

Managing Innovation Streams

Great firms compete over time by actively shaping innovation streams. These streams include incremental innovation, architectural innovation and discontinuous innovation. By actively managing streams of innovation, firms take advantage of fundamentally new markets for existing technology and proactively introduce substitute products, which, even as they cannibalize existing products, create new markets and competitive rules.

Sustained competitive advantage involves producing streams of innovation. This means redirecting managerial attention away from a particular innovation or innovation orientation and toward a series of contrasting innovations that must be produced within a firm over time. Innovation streams highlight the importance of maintaining control over core product subsystems as well as shaping dominant designs and architectural innovation and initiating product substitutes. By proactively shaping dominant designs, undertaking architectural innovations, and initiating product substitutes, managers can capitalize on windows of opportunity to shape technological evolution and, in turn, change the rules of the game.

During periods of incremental change, organizations require units with relatively formalized roles and responsibilities, centralized procedures, functional structures, efficiency-oriented cultures, highly engineered work processes, strong manufacturing and sales capabilities, and relatively homogeneous, older, and experienced human resources. These units are highly inertial, and often have glorious histories. Their cultures emphasize efficiency, teamwork, and continuous improvement.

In contrast, the discontinuous innovation during periods of ferment demands entrepreneurial, skunk-works types of organizations. These units are relatively small, have loose, decentralized product structures, experimental cultures, loose work processes, strong entrepreneurial and technical competencies, and relatively young and heterogeneous employees. Entrepreneurial units build new experience bases and knowledge systems. They generate the experiments, the failures, the variation from which the senior team can make bets on possible dominant designs and/or technological discontinuities. In contrast to the larger, more mature units, these small entrepreneurial units are inefficient, rarely profitable, and do not have established histories. They often deliberately violate the norms valued in older parts of the organization.

If the diverse capabilities of ambidextrous organizations can be harnessed, they permit the organization to lead streams of innovation. Without integration, however, the potential of ambidextrous organizations is lost. The challenge for managers and their teams, then, is to create co-existing highly differentiated and highly integrated organizations.

Managerial Roles in Leading Innovation and Change

The Manager As:	***Role:***
Architect	• Building fit, consistency and congruence of structures, human resources, and cultures to execute critical tasks in service of strategy, objectives and vision.
Network Builder	• Managing strategic change by shaping networks and coalitions down, across, up, and outside the manager's unit.
Juggler	• Hosting contradictory strategies, structures, competencies, and cultures in service of incremental, architectural, and discontinuous innovation, as well as integrating these

contradictions with a clear vision.

Implementing Strategic Change

There are three generic change problems that all managers face in managing discontinuous change: dealing with the problem of power and politics, dealing with individual anxiety and resistance, and maintaining control during the transition period.

Large-scale change often gets derailed because of inconsistencies in words and actions. The CEO says one thing is important, but the actions of other executives suggest something else. More speeches are given, but the same actions are rewarded.

Stories about larger-than-life figures are a quick, vivid way of conveying a sense of what's important. During transition periods, executives need to consider creating new heroes and stories to illustrate the change in standards and direction.

A final action for encouraging appropriate behavior is building in stability, even as the change occurs. To mitigate the destructive aspects of political behavior, managers can begin by preparing key people for the change, providing information and detail on the change in advance, being honest and candid, and constantly sending consistent messages to lessen uncertainty. Part of this signaling is to be clear about what is not changing. If some aspects will not change, these anchors to the past need to be communicated and reinforced early on. Clarity about what will not change helps moderate fears about the future.

The first and most important step in motivating constructive behavior is to ensure that people understand emotionally, not just intellectually, why they have to change.

How do successful change managers generate the emotional energy to change? They create a credible crisis, whether the organization is failing and the crisis is immediately visible or the organization is doing well and the crisis lies up ahead.

Managers of change must convey both a credible reason for the change and offer a constructive channel for the release of the anxiety. Extremely anxious individuals have trouble focusing and listening. So the rationale for the change needs to be simple, realistic, and over communicated. Until this has been done, people will wait hopefully for the crisis to pass.

The authors suggest that four things must be done to maintain control during the transition period: communicate a clear image of the future state, use multiple levers to promote change, design transition management structures, and use feedback data to measure progress.

According to the authors, transition periods are most effectively managed when the transition manger is the most senior person in the organization. Even though it is difficult to simultaneously manage the current state, build the future state, and manage the transition period, the symbolic importance of hands-on senior management responsibility for the transition cannot be overestimated. The transition manager must have the formal and informal power and the resources to make the transition happen.

Concluding Notes

The authors have summarized the important lessons for managers.

- Vision, strategy, and objectives are the bedrock for managing innovation and change.
- Without a performance gap, innovation is unlikely.
- Innovation is about execution, about getting it done.
- Congruence is the key to diagnosis
- Inertia kills. Managing culture is the most neglected, and highest leverage, tool for promoting innovation and change.
- Successful innovation requires skilled management of organizational politics.
- Technology cycles drive innovation streams.
- Ambidextrous organizations help compete for today and tomorrow.
- Managing innovation streams means managing discontinuous change.
- Innovation is a team sport.

Innovation requires both creativity and discipline. Strategic clarity alone is not sufficient. Many competitors have similar visions and strategies. Success comes not from the articulation of vision, strategy, and objectives, but from their execution. To succeed, managers need to build organizations that are capable of accomplishing their strategic objectives more rapidly than their competitors. This requires that they build organizations to get today's work done more effectively and no anticipate tomorrow's discontinuities.

A crucial part of any manager's job is setting and clarifying today's most important organizational problems. Without engaging problems, organizations become complacent and resistant to innovation and change. Managers can define problems as real or potential gaps between strategic requirements and actual organizational performance. While it is easy to define problems when an organization is facing a crisis, it is more difficult to proactively create crises while an organization is successful.

Long-term innovation involves linking innovation steams, market requirements, and organizational capabilities. This requires building functional competencies, such as technology, marketing, or distribution, and linking them to develop products or services that meet customer requirements. Since managing innovation involves linking diverse competencies across multiple boundaries, executive teams must manage organizational processes down within their units, across with their peers, up with more senior mangers, and outside the firm with important suppliers, vendors, alliance partners, and customers. These external linkages often require managers to work without formal power or control. So, culture becomes an important factor.

Understanding the fundamental dynamics of integrated change management is a crucial determinant of successful innovation. This means shaping the politics of change, dealing with individual anxiety and resistance, and maintaining control during transition periods.

The difficulties of managing innovation are formidable. Leadership and organizational capabilities are more important than technological prowess. Effective innovation is achieved by managers who can build, embrace, and take advantage of the contradictions inherent in ambidextrous organizations. These managers are able to take advantage of and yet are not yet trapped by today's culture and the firm's historical success. They are able to implement change in proactive fashion in often complacent or inertial organizations.