

Leading Innovation: Insights on Organizational Structure

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Abstract

All organizations—private, public, profit, and non-profit rely on innovation to exist and thrive. However, the nature of innovation is insufficiently understood, beginning with the complement—yet difference—between creativity and innovation. Consequently, leadership principles for nurturing and managing innovation are chronically challenged. Just as with general leadership principles, innovative leadership wrestles with the axiom that there is no universal solution. Accordingly, effective leaders must correctly analyze their scenario in context for clues toward plausible innovative stewardship options. This article provides some basic pointers for the innovative leadership journey.

Innovators impress and inspire us. Even so, society may lack sufficient understanding of both the psychology and process of innovation. More importantly, leaders may lack the skills for luring, managing, inspiring, and retaining innovators to perpetuate firm success. However, these skills are essential to survival as well as sustaining a competitive edge. In *The Game-Changer: How You Can Drive Revenue and Profit Growth with Innovation*, A.G. Lafley and Ram Charan remind us that organic growth is less risky than acquisitive growth, and is more valued by investors than “bought” growth.¹

Realistically, companies have two choices: innovate or stagnate. Complicating matters is that innovation typically endures many iterative failures on the path to triumph—a reality that taxes leadership resolve. Indulging setbacks remains a Darwinian necessity to fuel innovative growth. This article aims to generally enlighten leaders with the nuances of innovation and move toward organizational design elements that correlate favorably with innovative principles.

What Is Innovation?

Knowledge and wisdom are complementary, but distinctly different. Knowledge entails facts. Facts may be differentiable via exclusivity. Once facts cross into the public domain, they quickly commoditize.

The ability to differentiate with facts resides in the combination of facts to form new knowledge. This fresh knowledge eventually repeats the cycle of the commoditized half-life. Wisdom is the recognition of this phenomenon for its axiomatic entropy. Moreover, wisdom inherently embraces Albert Einstein's truism that asking the right question trumps knowing the right answer.² Indeed, leaders may have the right answer to the wrong question. In *The Innovator's Solution: Creating and Sustaining Successful Growth*, Clayton D. Christensen, and Michael E. Raynor frame the right question in terms of what the product or service is hired to do by the customer.³ One way of discovering this is observing how customers behave in their environments.⁴ Christensen describes such surveillance as "agnostic marketing" in *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*.⁵

Wise leaders are disposed to capitalize on the malleability of knowledge for the front-end of its most useful half-life. Wisdom includes the leadership savvy to adjust organizational architecture to enable and facilitate differentiable execution in the market. Practically speaking, knowledge is fleeting, whereas wisdom is timeless.

Creativity and innovation also enjoy a symbiotic relationship analogous to that between knowledge and wisdom. In Scott M. Anthony's *The Little Black Book of Innovation*, he imparts that creativity is germane to innovation, yet distinct from innovation.⁶ In *The Light Prize*, Gary Oster explains that "creativity is the playing with and [the] 'reordering' of objects or concepts in such a way that no foregone result is achieved."⁷ Anthony defines innovation as "something different that has impact."⁸ In other words, innovation makes creativity marketable. For example, Leonardo da Vinci was among the most creative geniuses in recorded history. His ideas included sketches for flying machines. However, it was centuries hence before innovators like the Wright brothers accomplished fixed-wing, manned flight.

There is more to innovation. First, it comes in two general categories that sometimes conflate: process and product.⁹ For example, Henry Ford did not invent the automobile. However, he conceived assembly line production to make the automobile affordable for the masses. Igor Sikorsky did not invent the first functional helicopter. Rather, he made them viable. Steve Jobs neither invented the mouse nor the graphical user interface (GUI), objects integral to Apple's pioneering windows applications. Apple derived both ideas from Xerox.

In *The Innovator's Dilemma*, Christensen communicated that innovation may be described as sustaining or disruptive.¹⁰ Sustaining, or enabling, innovation makes something more efficient. Enabling innovation is represented by the increasing processing speed and decreasing unit cost of personal computers embodied in the Moore's Law phenomenon. In contrast, disruptive innovation antiquates existing technology. For example, the advent of transistors rendered vacuum tubes obsolete.

In *Innovation and Entrepreneurship*, Peter Drucker elaborated on the difference, but compatibility, between entrepreneurship and innovation.¹¹ Entrepreneurship may be applied in replication of an existing and proven business model. For example, one may personify entrepreneurship as a McDonald's franchisee. However, innovative entrepreneurs have a knack for seeing connections between things that elude mere mortals. They may encounter these seemingly disjointed elements by eclectic exposure to a myriad of stimuli—the exact opposite of myopia.

How Do Leaders Manage Innovation?

No doubt firm livelihood benefits from innovation, but how does the leader manage innovation? The answer begins with recognizing a chronic challenge. Christensen points out in *Dilemma* that innovation is limited by resources, processes, and values.¹² Let's start with values. These values are not necessarily

the ones posted on the website, but rather indicative of the observable behaviors in daily affairs. Christensen later collaborated with Jeff Dyer and Hal Gregersen in *The Innovator's DNA: Mastering the Five Skills of Disruptive Innovators*. *DNA* clarifies “values” as “philosophy.”¹³

Jason H. Evans and William Greenleaf impart a valuable innovative management principle in *The Bright Sales Book on Closing*: the leader must train his managers first before thinking that subordinates will be permitted to do anything different.¹⁴ Stated another way, leaders must sell their managers on the need to embrace the necessity of innovation. Managers in typical organizations are more likely to enhance their careers through efficiencies while perpetuating status quo. Ironically, this tends to continue even if status quo threatens the long term viability of the company. As evidence, reflect on the efficiency of buggy whip manufacturing concurrent with the advent of automobile mass production. Moreover, managerial incentives are typically tied to something correlated with profits, i.e., agency theory. Whereas this may accommodate sustaining innovation, this may jeopardize disruptive innovation because the manager's ability to make the budget is threatened. Indeed, manifestations of the prevailing practical values may kill innovation. In *Solution*, Christensen and Raynor impart that the corporate culture generally reacts to disruptive innovation much like antibodies attack viruses in the human form.¹⁵ Upon understanding this phenomenon, one may easily grasp how corporate values protect existing process efficiencies and core competencies to the detriment of innovative catalysts. Consequently, budgets can be stingy with their support of the “new stuff.” These foundational points frame the leader's challenge in nurturing innovation.

The first thing a leader needs to do is provide overt support for innovation. She may begin by altering the organizational structure. Lafley and Charan argue in *Game-Changer* that enabling organizational architecture and its supporting systems are two primary framework elements for customer-focused innovation.¹⁶ Lafley and Charan continue that prevailing circumstances dictate the specifics of organizational design. In other words, just as with leadership styles, what works in one scenario may not necessarily work in another. In *Dilemma*, Christensen proposed that innovative units should be isolated in skunk works-type configurations analogous to that of Lockheed Martin that resulted in aerodynamic marvels like the SR-71 supersonic Blackbird.¹⁷ Isolation also means protection from the typical budgetary machinations. For example, why burden the skunk works with an unnecessary corporate overhead allocation? In *Solution*, Christensen and Raynor posit that the initial and primary objective of disruptive innovation is growth over profits; yet, leaders should temper this tactic with impatience for profits to promote focus on commercialized applications.¹⁸ Once an innovation gets traction by addressing unmet or latent customer needs, execution processes may be built around the product's delivery. Whether innovation cannibalizes existing markets or creates new ones, sales success lays the foundation for economies of scale in the value creation cycle. Such efficiencies may become a barrier to entry to would be, imitative competitors. Until then, why build a bridge before anything is capable of crossing the bridge?

Comprehension of the skunk works illuminates the folly of the traditional incentive program. Clearly, the rationale has to be more subjective than objective. Two reasons prevail. First, many failures may precede commercially viable success. Thomas Edison is the poster child of this phenomenon. Edison's admirers often overlook his stumbles en route to his epiphanies. Edison failed literally thousands of times en route to the pinnacle of accomplishment. Second, the company should approach innovation with a “several limited bets” philosophy. This means that all such endeavors could fail without jeopardizing the core business. However, a single endeavor may succeed and win the capitalist sweepstakes! Perhaps a more reasonable performance management option includes process step deadlines in a stage-gate product development rigor.

The composition of the skunk works looms large, i.e., the surfeit of skunks. Are they stinkers or thinkers? Diversity is an overriding consideration—not the politically correct kind, but rather the diversity of perspectives and experiences kind.¹⁹ Consider that the highly successful Ford Taurus design was a byproduct of a cross-functional team. One of the functional participants was the manufacturing floor that provided feedback about assembly ramifications. Another element is the skunks who reject conflict in favor of dynamic tension. This principle accommodates passionate difference of opinion in pursuit of good answers—instead of passionate dislike of people who disagree with each other. A spin on both previous points is rotating members representing the functional perspectives. Additionally, the skunk works might have extra-firm members, e.g., vendors, suppliers, or subject matter experts, to protect the skunks and process from groupthink.

Amid luring, managing, inspiring, and retaining innovators, the leader should reflect on a point raised by Nobel Laureate Daniel Kahneman in *Thinking Fast and Slow*. People fear the pain of loss more than the cost of an endeavor, and fear both more than the thrill of gain.²⁰ In fact, past failures impose psychological anchoring or framing markers on the perception of new challenges. The risk of creating disruptive innovation may be analogous to pain. Leaders must promote as a cultural value the calculated losses en route to wins, as opposed to the ticket to criticism, ridicule, and ostracism.

In addition to communal activities of the innovative team, individuals need time to ponder creative solutions in solitude. World-class companies like Google and 3M encourage this and sponsor allocated time for pursuit of personal passions. Multi-tasking efficiency is a myth. Moreover, duress does not jibe with creativity. Sometimes isolation and reflection—even a good night’s sleep—provide individuals sufficient spark for an epiphany. Whether Sir Isaac Newton’s respite under the apple tree is folklore or fact, the story makes the point: take time to allow the mind to marinate thoughts. By fostering the time to think, leaders make possible the value-creating attributes of the “flow” dynamic, or chi, described by Mihaly Csikszentmihalyi.²¹

Thanks to globalization, a shrinking planet adds an additional cultural wrinkle to the leader’s responsibilities in fostering innovation. Dyer, Gregersen, and Christensen’s *DNA* points out that one reason western countries tend to comparatively excel in innovative endeavors over collectivist societies is the cultural criterion of individualism.²² Consequently, a “melting pot” team needs to be sensitized to Edward T. Hall’s polychromic versus monochromic, and low-context versus high-context, styles.²³ The innovative process cannot afford communications miscues that are potentially exacerbated by the limitations of communication tools for synchronized team meetings across 24 time zones.

A final thing the leader might consider is the interaction between leaders, managers, and followers. Innovation is, in itself, a type of leadership. However, great innovators may not be great leaders, per se, or great managers for that matter. Again, Thomas Edison provides a familiar example. Edison’s business acumen paled in comparison to his innovative exploits. Edison required an alter ego to steer the general direction of the firm clear of chaos. Practical innovation management might be accomplished through a project manager on the team.²⁴ Even so, the leaders should make a point of regular interaction for unfiltered feedback on the team’s progress. This serves as an opportunity for rewards and recognition, as well as course correction.

Conclusion

Firms rely on innovation as much as bodies rely on nourishment. Ironically, the corporate reaction to innovation may be surprisingly hostile. Therefore, the leader has special responsibilities for nurturing an environment that fosters innovation. Along the way, firms may encounter Drucker’s unexpected

successes as well as unexpected failures.²⁵ Both are learning opportunities. Both may lead to successes. The point is to keep trying because businesses must innovate to survive.

Leaders do well to reflect on two guiding sources for managing the odyssey of innovation. The first is Steven R. Covey's *7 Habits of Highly Effective People*.²⁶ (i) proactively engage innovation for its value-creating potential; (ii) begin with the end in mind, i.e., the problem the firm is trying to solve for present and potential customers; (iii) sieve hubris to prioritize the "important" over the "urgent;" (iv) think in terms of mutual wins between the company and its customers—not exclusively in terms of wealth creation; (v) ask the right customer-focused questions to understand potential product utility before attempting to sell the alleged benefits; (vi) encourage the conflation of seemingly disparate parts to find solutions and synergies; and (vii) embrace knowledge through Peter Senge's double-loop learning principles, i.e., learn from mistakes.²⁷ Second, the *Habits* path abides by Tom Morris' mastery of the "seven Cs of success in business" described in *The Art of Achievement*.²⁸ (i) *conceiving* something valuable to customers; (ii) exuding *confidence* in deciphering innovation's commercial viability; (iii) *concentrating*, or focusing, on innovation's delivery to the exclusion of distractions; (iv) executing *consistently* in pursuit of both sustaining and disruptive innovation; (v) indefatigably *committing* to displace the old with the new; (vi) exercising *character* in doing the right things in the right way; and (vii) the modeling the *capacity* to abide by the advice in Rudyard Kipling's *If*—"meet with triumph and disaster, and treat those two imposters just the same."²⁹

In summary, Lafley and Charan remind us in *Game-Changer* that while invention may be necessary to innovation, the two are quite different.³⁰ The United State Patent and Trademark Office archives numerous patents that have resulted in no commercial success. Lafley and Charan add, "An innovation is the conversion of a new idea into revenues and products. An idea that looks great in the lab and fails in the market is not an innovation; it is, at best, a curiosity."³¹ Leaders must nurture creativity and channel its resulting innovation toward commercial viability. Setbacks along the journey are inevitable, but perseverance is the prerequisite for perpetuating the organization.

About the Author

John A. Lanier is founder and CEO of Middle Market Methods™ (www.middlemarketmethods.com), a consulting firm serving portfolio companies of middle market private equity firms. Middle Market Methods™ mentors clients with a "value creation™ road map," including strategic planning, acquisition integration, process improvement, and leadership solutions for "operationalizing" the investment thesis. Lanier earned Six Sigma Master Black Belt certification at GE. He holds a BBA in finance from the University of Georgia and an MBA from St. Leo University. Lanier is currently a third year strategic leadership doctoral candidate in Regent University's School of Business & Leadership. Lanier is a member of the Association for Corporate Growth and The Society for Human Resource Management.

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