



the INNOVATOR

MAKING INNOVATION REAL

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OUR PANEL OF INNOVATION EXPERTS

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How do you build and sustain a culture and climate for innovation and entrepreneurship?

I. How do you build and sustain a culture and climate for innovation and entrepreneurship?



**Dr. Makarand "Chips"
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Practice, practice, practice. Creating a culture of entrepreneurship is in fact quite a challenge, depending on the nature and maturity of the enterprise. The more mature and well established a business is, the further it is from the original entrepreneurship. Such organizations, are mostly populated by managers (albeit excellent professionals) and no longer with leaders. In this situation, the culture of entrepreneurship and risk taking can only be driven top down, by example, repetition and leadership. Also, the culture of rewards has to be modified to match the desired culture of entrepreneurship. Organizations, like their people, must learn to repeatedly reinvent themselves, and not be set in permanent molds or cast in stone.

The reality is that most early claims of encouraging innovation and innovativeness are met with a hefty dose of skepticism. The skepticism can be stated quite bluntly or couched in polite words of support, followed by inaction. I am not sure which is more frustrating to the goals and efforts of the innovation manager. Still, with patience, persistence and discipline, the innovation manager must lead by example, build trust, invoke the bully pulpit and ultimately create "a willing suspension of disbelief." This is a sensitive turning point. Succeed or fail, it is necessary to keep going at all times, providing a transparency of process that instills confidence. As in life, once trust is lost, it is hard to win back.

Finally, an ingredient that you may not expect is courage. The role of personal, and organizational courage can not be underestimated. It is the third vital leg of innovation. It is hard to think of successful, disruptive or breakthrough innovations without an individual, team or leader taking a strong personal risk. Particularly in risk-averse organizations or environments, this is critical – some foolhardy soul must take the first step, driven by the passion of his or her idea, and trust that even if the effort ultimately fails, it was worth it! Hopefully, the organization reciprocates by reward rather than retribution, and by so doing firmly implants the first vestiges of innovation culture.

– Dr. Makarand "Chips" Chipalkatti, Osram Sylvania



“Innovative companies move away from traditional boring, grey, over-structured workplaces and give their employees lots of visual incentives, walls to hang stuff, places to start and maintain new conversations, prototyping and testing labs, and open spaces to see trees and the sky.”

*- Victor Fernandes,
Natura*



Victor Fernandes
Product Development
Director, Natura

To build and sustain a culture and climate supportive of innovation, one must act in two fronts - creating the right incentives and removing the biggest blocks to innovation.

The right incentives can be summarized in three main elements:

1. Giving innovators the time and space required, giving them a chance to be creative and bold. Examples of good practices on giving time to innovators include these:

- Giving the employees a small but fixed amount of weekly time to work on alternative and pet projects, away from the routine activities required for the main business.
- Supporting alternative training programs on competencies and skills, away from the traditional technical and administrative training.
- Promoting lots of activities away from the office, close to final customers and consumers.

The right space to innovate is critical to innovation. Innovative companies move away from traditional boring, grey, over-structured workplaces and give their employees lots of visual incentives, walls to hang stuff, places to start and maintain new conversations, prototyping and testing labs, and open spaces to see trees and the sky.

2. Providing the right mix of diverse people on the innovation teams.

Bring women, young people, people from the periphery of the organization and other outsiders onto your innovation team, who will bring new and fresh insights, and will help you to build up an exciting innovation culture.

3. Fostering connections and relationships. A real support to conversation is an open exchange of ideas.

The biggest corporate blocks to innovation are:

- Silo mentality: Optimization of functional activities supersedes optimization of company performance.
- Risk aversion: The existing business model inhibits consideration and implementation of alternative models.
- Dysfunctional processes: Organization structures undermine the capacity to successfully manage cross-functional business processes.
- Conformity: The organization rewards those who contribute to the existing model, at the expense of those who do not fit the model.
- Fatalism: The business does not believe it can significantly affect its future.
- Stubbornness: The organization would rather suffer losses to competition than cannibalize itself.

- Victor Fernandes, Natura

The key is for managers to lead by example. If it is just lip service, the staff will quickly see through it and won't buy in to the supposed culture. Three funda-



“Staff needs to see that successful ideas and processes lead to rewards and ultimately career growth with promotions”
- Marc Chason, Motorola Labs

mental themes addressing implementation, rewards and measurement can be used build the desired culture.



Marc Chason
*Director of Advanced Technology,
Motorola Labs*

Managers need to be receptive to new ideas and processes. This is not carte blanche to accept any idea but to support the good ones, work to develop the questionable ones and explain why the others are not being pursued. Those ideas and processes that are reasonable need to be willingly embraced. Those that are questionable need to be constructively challenged; the manager needs to be an advocate for change and should coach the staff to better develop the idea. Explanations of why ideas and processes are wrong need to be delivered objectively.

Secondly, staff needs to see that successful ideas and processes lead to rewards and ultimately career growth and promotions. Rewards can be as simple as a recognition lunch or monetary bonuses (based on published guidelines with impact assessments).

Finally, build the culture by including innovation and entrepreneurship goals and objectives in performance reviews. This ensures that the employee is not put at odds with the organization’s mission. These can range from strategic (“develop one new program this year to address...”) to tactical (“increase sales by X% this year”).

– Marc Chason, Motorola Labs

Culture is the integrated pattern of knowledge, belief and behavior that depends upon the capacity for learning and transmitting knowledge to succeeding generations. This includes the customary beliefs, the set of shared attitudes, values, goals and practices that characterize an institution or organization (written and unwritten rules).

As defined, in order for culture to exist, there needs to be consistent transmittal of the culture to succeeding generations. The general difficulty with innovation as a culture is that innovation is inherently disruptive and changes the practices of the organization. Constant change in itself is contrary to the definition of culture.

Innovation seems to be readily adopted into the attitude, values and goals of an organization (“We are innovative, we reward new ideas, you are empowered”). The problem is typically the implementation of practices (not walking the talk). If a culture can truly embrace the attitude, values and goals of innovation, the disruptive practices born from innovation can be integrated with less angst.

How do you build the culture of innovation? It has to come from the leaders of the organization. Leaders allow culture, and culture is maintained due to a system of positive and negative reinforcements. If you are a leader, here are some negative reinforcements you can employ if you really want to kill innovation:



“Since it is typical for employees to perform to what they are measured on, innovation must be a goal. Leadership must express, model and reinforce that goal.”

- Jonathan Rowe, Gene Express, Inc.



Jonathan Rowe
Senior Vice President
of Clinical Innovation
Gene Express Inc.

- Make sure everyone knows that you know everything
- Organize your people into silos
- Call lots of meetings just because it's time to meet
- Always focus on how you succeeded in the past as a way to solve the future issues
- Make sure the near-term budget is the most important thing to talk about
- Take highly energetic people and make them work on mundane tasks
- Reward those who can put out fires, instead of those who prevent them
- Give too little resources to new ideas just to say you are trying them
- Punish failure instead of celebrating that the organization learned a new way that something won't work
- Don't build innovation into your goals
- Don't kill pet projects that are failing
- Stay in your office and only meet with your direct reports and peers, unless there is bad news to share or you want to wield the "hammer" to get things done
- Require a complete business rationale write up for new ideas

Much more can be added to this list.

Since it is typical for employees to perform to what they are measured on, innovation must be a goal. Leadership must express, model and reinforce that goal. One way to do this is to develop an innovation portfolio that is funded as a separate budget item. This portfolio can have a metric, such as net present value of new ideas. This number might be in dollars, or growth or whatever is best for your organization. Importantly, when the value of innovation is shown, the base argument for pursuing the ideas is evident.

What this also does is show the employees what the value of their ideas are in relation to other ideas in the innovation portfolio. This way they know why their idea has, or has not, been moved into the execution phase. This portfolio needs to be transparent and have an established minimum resource criteria for getting onto the portfolio. For each idea that falls below those criteria, allow the employees to implement the innovations on their own. As the innovation portfolio executes the concepts, celebrate failures and successes.

The person who is accountable for the innovation portfolio cannot be buried in the organization. He or she should be of senior rank, and must have his or her evaluation based on the performance of the portfolio.

- Jonathan Rowe, Gene Express Inc.

To paraphrase Forrest Gump, "Innovation is as innovation does." Companies that repeatedly turn out innovative offerings and transform the way they operate, manage and support people and so forth are by definition innovative companies. That sounds like a tautology, but creating an environment where people actually do meaningful, innovative things encourages others to do the same. But



“If the CEO’s team doesn’t exhibit innovativeness or at least a strong interest in entrepreneurial activities, then it’s not going to happen, at least not on a large scale and not in a repeatable manner.”

- Robert Wolcott, Kellogg School of Management



Robert C. Wolcott, Ph.D.
Adjunct Professor of Entrepreneurship & Innovation, Kellogg School of Management



David Silverstein
Founder, Breakthrough Management Group

here is the key: These innovators need to be seen by people throughout the company as succeeding at least partly as a result of this effort.

Perhaps the most important lever for creating and nurturing an innovative culture is the actions of the CEO and his or her team. The Chinese say, “The culture of the empire comes down from the home of the Emperor.” If the CEO’s team doesn’t exhibit innovativeness or at least a strong interest in entrepreneurial activities, then it’s not going to happen, at least not on a large scale and not in a repeatable manner. Lots of innovation can occur at the grassroots, but if it doesn’t eventually percolate up and receive the support it requires — or worse yet, if the opportunity is actively thwarted — people will pay attention and stop trying. The most persistent, passionate people will either give up or leave and start a new venture. In this context, the social change adage, “Be the change you envision” provides excellent advice for all leaders. People within organizations emulate and play to those who succeed. If you want innovative behavior, then start exhibiting it yourself. Ultimately, if you don’t see enough positive change, then consider moving to a new company. Life is too short to keep your head down if you truly care about creating the future.

– Rob Wolcott, Kellogg School of Management

First, companies need to rethink who they are focused on rewarding. In general, people want to share their ideas. It tends to be the management bureaucracy, or what one client called, “the nine layers of management, each with a line item veto” that prove to be the greatest obstacle to establishing the right climate. Consider rewarding middle managers for allowing a flow of ideas. Consider flattening the organization and making it easy for an idea to bypass the chain of command if it doesn’t have to do with day-to-day operations.

Also, while not all companies can afford to give people 10 percent of their time to explore new ideas, consider taking more of an event-driven approach. As an example, Breakthrough Management Group has a process by which a group of people come together in a sort of kaizen event — a structured, focused event designed around ideas — to generate new ideas. It’s something every manager and business unit should be doing at least once a year. It’s energizing. But it doesn’t require a wholesale change in the way the company works day-to-day. Managers that used to be tasked with figuring out how to do things better should now also be tasked with taking a look — at least once a year — at how they might do things differently.

– David Silverstein,, Breakthrough Management Group

Rewards lead behavior. You’ve been conditioned since you were a child to respond positively to rewards, and that doesn’t change once you grow up and participate in a work or team culture. If you want to create and lead a culture of innovation and entrepreneurship, then the compensation and rewards structure should be crafted in such a way to lead that behavior. If you want your organization to take risks, then make it pay off for doing so. If you reward conservatively (or not at all), then the harvest of innovation will be similarly proportionate.



Inspirational speeches, modeling creativity and innovative behavior, and having success with commercializing innovation will all generate and cultivate a culture of innovation, but if the monetary and emotional rewards don't follow suit, then the lasting innovation culture you seek will be fleeting at best.

– Troy Geesaman, Laga

At the Shingo Prize conference with 500 people in the audience, I asked, “Is your company implementing Lean manufacturing?” All of the hands went up. I then asked, “How many of your companies are Lean?” Not one hand went up. They are all trying but not one has been successful outside of Toyota and other Japanese companies. Why? To me the obvious is that we in America do not really value people as real assets of the company.

From a recent article in the New Yorker magazine:

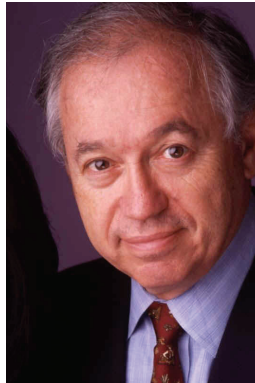
“The answer has a lot to do with another distinctive element of Toyota’s approach: defining innovation as an incremental process, in which the goal is not to make huge, sudden leaps but, rather, to make things better on a daily basis. (The principle is often known by its Japanese name, kaizen — continuous improvement.) Instead of trying to throw long touchdown passes, as it were, Toyota moves down the field by means of short and steady gains. And so it rejects the idea that innovation is the province of an elect few; instead, it’s taken to be an everyday task for which everyone is responsible... Toyota implements a million new ideas a year, and most of them come from ordinary workers. (Japanese companies get a hundred times as many suggestions from their workers as U.S. companies do.) Most of these ideas are small — making parts on a shelf easier to reach, say — and not all of them work. But cumulatively, every day, Toyota knows a little more, and does things a little better, than it did the day before.” (by James Surowiecki May 12, 2008, the New Yorker Magazine)

Toyota and other Japanese companies ask all of their employees to be innovative and empowers them to identify small problems around them and to be responsible for self-implementing those ideas on their own. It is not a burden on management. The foundation of this process is “Respect for People.” They trust their employees. Most of those ideas are very small but collectively they save millions of dollars and often great new discoveries are revealed.

Simply, you sustain the culture by treating people with respect and asking for their ideas, and letting them implement their own ideas. Management’s job then is to help people grow and not to control them and look for ways to get rid of them.

– Norman Bodek, PCS Inc.

I. Culture and climate are very difficult to change overnight but to the extent you are trying to, it is important to understand both the written and unwritten rules of the game that drive behavior. With that known:



Norman Bodek
President, PCS Inc.

“If you want your organization to take risks, then make it pay off for doing so. If you reward conservatively (or not at all), then the harvest of innovation will be similarly proportionate.”

- Troy Geesaman, Laga



“Longer term, it is critical to revise the recruiting, hiring and career development practices and to attract, develop and retain much more entrepreneurial and innovative individuals.”

- Ron Jonash, Monitor Group



Ron Jonash
Founder, Innovation Management Inc., Monitor Group Company

- The best way to make a significant change in the near term is deciding to partner with or acquire a firm with much more innovative and entrepreneurial culture for both the signaling value and the rubbing shoulders value.
- Another way that will have a significant impact is to establish both real and virtual idea labs and incubators across the extended enterprise. Not R&D labs and not just product development labs. Establish these in partnership with people or groups who bring a much more entrepreneurial and innovative culture to the table.
- Longer term, it is critical to revise the recruiting, hiring and career development practices and to attract, develop and retain much more entrepreneurial and innovative individuals.
- The other critical way is to look closely at your written and unwritten rules that support or don't support innovation and entrepreneurship and either modify them or more likely put in place countermeasures that establish a better balance and can be emphasized with those people or groups where you want more innovative and entrepreneurial behavior

- Ron Jonash, The Monitor Group



Hitendra Patel & Chuck Frey

Our Analysis

Our panelists had a wealth of suggestions about how to build an innovation culture. They provided these insights as to why companies are not innovative:

- Companies are expected to focus on core business strategies and required to put in place strict processes and structures to optimize operations
- Organizations are led by managers to optimize operations
- Performance metrics are designed to reward risk avoidance
- Entrepreneurial individuals and teams are no longer as valued

This is further exacerbated by the fact that the core culture weeds out any change agents, especially those that demand disruptive change (Rowe).

Our panel provided a range of frameworks to drive an innovation culture which can be summarized as

- Leading by example
- Allowing room for experimenting
- Having the right mix of people
- Reinforcing the right behavior
- Creating the stories

Rob Wolcott eloquently states that “The culture of the empire comes down from the home of the Emperor!” Senior management has to **lead by example**, whether by creating a burning platform and giving innovation a purpose in your company, or by not accepting incrementalism and setting stretch targets, or by suspending disbelief around ideas and seeing the possibilities, or by overcoming individual, team, functional and company differences and working across silos.



Hitendra Patel
&
Chuck Frey

Key Take Away

- *Lead by example*
- *Allow room for experimenting*
- *Have the right mix of people*
- *Reinforce the right behavior*
- *Create stories*

Makarand Chipalkatti cannot emphasize enough the importance of “practice, practice, practice” to **allow room for experimentation**. He and others emphasized the importance of having the time, space, discipline and repetition to develop the innovation culture. David Silverstein points out that this does not have to be the 10 percent free time as made famous by 3M, but could also be a workshop 2 to 3 times a year. As with all experimentation, Marc Chason emphasizes the importance of being receptive to new ideas, objectively and transparently evaluating them and being patient and persistent in moving them forward, which is critical to create a culture of innovation.

Dr. Makarand Chipalkatti emphasizes the importance of individuals, teams or leaders with the courage to take on personal risk to drive innovation forward or the collaboration skills to work across silos. Unfortunately, many of these people have either gone underground or left the company. Victor Fernandes mentions that the **right mix of diverse people** is key including those in the periphery. To get these people, you may have to hire them before finding ways for them to work as teams across the enterprise. Ron Jonash suggests that you may even have to partner or acquire a company with an entrepreneurial culture to bring in the right DNA and contaminants. Getting these people is difficult, but once you get them then you have to have “respect for these people!”

Troy Geesaman reminds us that, “You have been conditioned since you were a child to respond positively to rewards and that does not change once you grow up ...” Marc Chason supports this statement and recommends putting innovation/entrepreneurial goals on the performance reviews of individuals and teams. **Reinforce the right behavior** by showing that individuals contributing to innovation do have excellent career growth and promotion opportunities. David Silverstein reminds us that these performance metrics are not only around the generation and implementation of ideas, but also the facilitation of ideas by middle management between the ideas generators and the benefactors of the ideas.

Ultimately, the success of any and all ideas must be documented, heralded and celebrated. They **create the stories** and carry the lessons for future innovators to overcome organizational hurdles. They create the case that you are on the right path but also the history and myths that are critical for creating a culture of innovation.

2. How do you encourage "smart risk taking" and drive out fear of failure?

Having addressed the core idea already, I will just focus on the “smart” aspect. Indeed, the goal is not to drive every “crazy idea” forward, but to nurture the creation of ideas. However, we all know that ideas by themselves are easy to create. How often, have we seen a product out there, and recalled the time years ago when we came up with the idea ourselves? What then was the difference – why did the entrepreneur get it out there, and you did not? Knowledge is



“The goal of due diligence, research and analysis is not to eliminate all risk (for then you will eliminate all profit), but to understand the risk and manage it. If this is a clear, disciplined process then failure is a known possibility and is faced squarely as one of many outcomes. It only prepares you for a better result the next time.”

- Dr. Makarand “Chips” Chipalkatti, Osram Sylvania



Dr. Makarand “Chips” Chipalkatti
Corporate Innovation Manager
Osram Sylvania

one answer, in my opinion. Diligent investigation of the idea, the business concept, the market and so forth cleared the idea for the next steps. Companies, too, must follow that discipline, quickly discarding weak ideas and focusing on the stronger ones, as determined by collective due diligence. The egos and belief systems that typically hinder an honest appraisal will not be as much of a force, if there is a realization that this is an ongoing, sustained process and there will be many other chances forthcoming. The goal of due diligence, research and analysis is not to eliminate all risk (for then you will eliminate all profit), but to understand the risk and manage it. If this is a clear, disciplined process then failure is a known possibility and is faced squarely as one of many outcomes. It only prepares you for a better result the next time.

– Dr. Makarand “Chips” Chipalkatti, Osram Sylvania

Innovation risk taking has to be driven by a strong portfolio management process, fully operational in all areas of the company. This will align all stakeholders to the risk taking culture.

A command-and-control environment is usually poisonous to any kind of risk taking, and my opinion is the worst enemy of innovation. In addition, avoiding the following behaviors can help you to create an exciting and more innovative culture:

- Regard any new idea from below with suspicion
- Insist that other levels' approval is needed before yours is given
- Ask departments and individuals to challenge and criticize each others proposals
- Express criticisms freely and withhold your praise
- Treat identification of problems as a sign of failure
- Control everything carefully and count everything that can be counted
- Make changes or change policies secretly or unexpectedly
- Ensure information requests are justified and do not hand out information freely
- Never forget you already know everything there is to know about the business.

– Victor Fernandes, Natura



Victor Fernandes
Product Development Director, Natura

A “fear of failure” culture will suck the lifeblood out of an organization. It rewards average performance that produces average results, and ultimately results in the organization’s death. Smart risk taking is a tool that can help the organization to avoid this fate.

An innovation and entrepreneurship culture needs to forge a sense of “street-smarts.” In smart risk taking, the culture should encourage asking questions like, “How will this action make money, save money or yield a positive impact?” If the answer is not positive, the ideas or processes should be reassessed. Even if the answer is positive, smart risk taking should include a “Plan B” scenario, so that



opportunities for failure can be recognized early and actions taken to avert them.

– Marc Chason, Motorola Labs

It's important to share with the organization a definition of smart risk taking. It isn't gambling, it is not a risk for thrill, nor is it a foolish chance. Smart risk taking is when you have most (if not all) of the pieces of the innovative concept developed either on paper or fabricated, and the only way to determine if the idea will work is to put it into practice. It is important to develop the best and worst case scenarios for this risk, and to have in place a way of assessing the upside and downside potential. This then becomes a company's risk factor in the innovation portfolio. When managing this portfolio, a mandate for executing a number of high risk/high reward concepts has to be in place. Once high risk/high reward has been established, some of these will fail. That is simply the definition of high risk. Once there is an expectation that some of the high-risk portfolio will fail, failure is not something to be afraid of, but rather a learning experience for the organization.

– Jonathan Rowe, Gene Express Inc.



Jonathan Rowe
Senior Vice President
of Clinical Innovation
Gene Express Inc.

Ultimately, we'll never eliminate fear of failure. Fear can be a positive adaptation when it helps us avoid stupid decisions... and that is the point. If we make intelligent decisions toward well considered objectives based on all information available at the time and we turn out to be wrong, that's smart risk taking. If you review why things went awry, that's even better. Learning from missteps is central to innovation success.

I'll share three strategies for addressing this challenge:

1. Learn from successes and failures.
2. Celebrate failures in the context of success.
3. Don't manage the rate of failure, manage the cost of failure.

The first point sounds obvious, but very few companies do it repeatedly and deliberately. What is the first reaction when something doesn't go well? Hide it and hope no one notices! If that doesn't work, the second response is to start pointing fingers and tossing excuses. Neither, of course, is helpful. In this arena, we can learn from the U.S. military. They practice what they call the After Action Review (AAR), something others refer to as a "post mortem"... although you can see the wisdom in not using that terminology if you're in the military. In an AAR, teams reconvene and discuss why they accomplished or failed to accomplish their mission. What worked? What went wrong? What can we learn that others in the forces should know? If an AAR turns up insights that could help save lives, the military can broadcast that across the forces within a matter of weeks. How many of your companies can say the same?

Regarding point two, we all know about celebrating success. But what about celebrating smart failure? One insightful, powerful practice I've seen smart executives use is sharing the mistakes and failures in the context of success.

"Your company's innovation "style" has a lot to do with the style of its leader, along with your history and your industry. Determining the right approach for your company should be among your first steps."

*- Robert Wolcott,
Kellogg School of
Management*



Robert C. Wolcott, Ph.D.
Adjunct Professor of
Entrepreneurship &
Innovation, Kellogg School
of Management

“Don’t manage the rate of failure, manage the cost of failure. In early-stage innovation, you must expect to pursue many blind alleys and encounter a few land mines. Your company must have a way to deal with that and ensure that happens at the early stage.”

**- Rob Wolcott,
Kellogg School of
Management**

What I mean is, when you have the opportunity to recognize a successful project—something that succeeded beyond doubt — ask the team members to identify a few things that didn’t go well during the innovation process. What assumptions turned out to be wrong? What market tests failed? Where there other concepts the team tested prior to finding the formula that worked? Tell these stories of minor failures along the way to success so other people it is OK to fail when you do so in a smart way. The success naturally protects people’s ability to sharing their stories.

Finally, I refer you to a brilliant insight crafted by Ian MacMillan of Wharton and Rita Gunter McGrath of Columbia: “Don’t manage the rate of failure, manage the cost of failure.” In early-stage innovation, you must expect to pursue many blind alleys and encounter a few land mines. Your company must have a way to deal with that and ensure that happens at the early stage. Your hit rate should be much higher as you near the marketplace, as your investment increases as you move to market. That’s the point: Spend small amounts of resources early in the process to drive uncertainty out of your project and increase funding only as you become more knowledgeable and sure of the project’s success. If you try lots of things early and fail 90 percent of the time in the early, ideation and concept refinement stage (e.g., fail early, fail often), you’re OK if each try only costs you a small amount. If you invest too much in the early stages and turn out to be wrong, then you’re in trouble.

Some people propose that innovation success rates should and can be much higher than they are. I totally agree; however, some commentators have gone so far as to assert that this notion invalidates the wisdom of “fail early, fail often.” This couldn’t be further from the truth. Au contraire, it is the act of trying lots of little, inexpensive tests early on that increases the likelihood of getting to robust opportunities later in the development process, that have a much higher likelihood of success.

Consider this an axiom: if there is no uncertainty, you are not innovating. As a result, we have no choice but to dive forward into the deep end of the pool — but also make sure there is water in it.

– Rob Wolcott, Kellogg School of Management

I prefer to strike the word “failure” from the corporate lexicon altogether. In my company, there is no such thing as failure. There are only outcomes that drive learning. Sometimes we’ll even learn that a certain person isn’t up to the job of the future. That’s a learning for us — and for them. They might even have to go find a new job. But it’s not a failure.

Be very careful with reward systems. While many companies say they reward risk takers, a closer look will demonstrate that they tend to reward successful risk takers — those that took a risk and had it pay off. When is the last time they genuinely rewarded failure? So eliminate the notion of failure and have a periodic “learning party.” Ask people what they’ve learned in the past year.



“I prefer to strike the word, ‘failure’ from the corporate lexicon altogether. In my company, there is no such thing as failure. There are only outcomes that drive learning.”

- David Silverstein

“Create a pact with your team of employees or colleagues that assures safety or ‘grace’ as long as you are all working towards the decided, right mission... Then failures and success along the way will not only be forgiven but celebrated so that they are used for future advancement in reaching the goal.”

- Troy Geesaman



David Silverstein
Founder, Breakthrough Management Group

What did they try that didn't work? Give a reward for the silliest idea, the dumbest idea, and so forth. Otherwise we're just paying lip service to an otherwise seemingly good company policy. Even the notion of "smart" risk taking is interesting. Clearly the downside risk has to be managed. But beyond that, there can't be "smart ideas" and dumb ideas because the what seems like the dumbest, silliest idea of all is often the big one. Just ask Thomas Edison's wife what she thought of some of his ideas at the time. So manage the downside financial risk, but that's about it.

- David Silverstein,, Breakthrough Management Group

In certain faiths, there is a concept of grace that says you will be rewarded in the after life despite your good or bad behavior. The notion is that how you approach the divine determines your "salvation." Oddly enough, the way to encourage smart risk taking and elimination of the fear of failure is accomplished much the same way. Create a pact with your team of employees or colleagues that assures safety or "grace" as long as you are all working towards the decided, right mission. If that pact is held and abided by the leadership, then failures and success along the way will not only be forgiven but celebrated so that they are used for future advancement in reaching the goal. It doesn't have to be complicated, but it will rely heavily on trust within the team.

- Troy Geesaman, Laga



Troy Geesaman
Director of Innovation & Strategy, Laga

People learn from their mistakes and yet we say, "Don't make mistakes!" It is crazy! Most people are afraid to make mistakes; afraid they will be fired from their mistakes, so they cover them up. And yet, almost every new innovative idea has come from making "tons" of mistakes and allowing the great ones to come through. You drive out fear by encouraging people to learn from their mistakes. At Hino Motors in Japan, I noticed a large board with around 20 sheets of paper. On each sheet was a person's picture. This was a mistake board. Every time a worker makes a mistake they go to their picture to write up the mistake to share with others. Of course, we want people to learn from their mistakes and not to repeat them but imagine the creative environment you would have if you followed Hino. You should all read Dr. Shingo's new book, *Kaizen and the Art of Creative Thinking*.

- Norman Bodek, PCS Inc.

Establish a venture and/or investor board and fund that uses very different criteria than stage gate or on time on budget processes in order to explicitly encourage smart risk taking. Also, do the last experiment and often the riskier ones first and de-risk them so that you learn the most but risk the least.

- Ron Jonash, The Monitor Group



**Hitendra Patel
&
Chuck Frey**

Our Analysis

The comments from our panel suggest that there is not a tight definition for smart risk taking and companies could benefit by first agreeing on its meaning. The definition that we have distilled is that risk should be embraced in innovation, because the amount of risk defines the amount of potential return. Furthermore, risk should not be viewed as gambling or fun but what needs to be overcome for a business concept to be successful. Smart risk taking is defined as understanding the risk and defining the lowest cost, highest speed steps or path that should be taken to improve success.

When individuals and company discourage risk taking then it rewards average performance and produces average results. Risk avoidance is not an acceptable behavior if an innovation culture and innovation results are required.

Our panelists suggest that a company should mandate the risk it should be taking, whether through a well defined innovation portfolio, venture or investment board or a specific project. When the selection criteria for a high-risk project is well defined or if a high-risk project has been selected by the leadership, then employees will work on those project knowing that there is inherent higher risk in being successful.

The fear of failure also decreases if there is a powerful approach to identifying robust ideas. Robust ideas are better defined and often presented as physical prototypes or proto-concepts. This enables the team to put more careful thought into the idea, whether it can make money and contingencies that may have to be anticipated for during implementation. In essence, there is a deeper knowledge that provides confidence going forward.

During the early stages of implementation, there is a clear notion of failing fast, often and cheaply. Following this approach, companies learn the most and spend and risk the least. Failed activities within successful or failed projects are often treated as failures, but our panelist point out that they are opportunities for learning. They should be viewed as learning outcomes and not failures. Making people feel comfortable with this concept can decrease the fear-of-failure characteristic that is fundamental to all human beings.



Feedback?

Please share your comments on InnovationTools.com, where we hope to create a lively discussion about the ideas and strategies outlined in this “virtual roundtable” interview.

Or send an e-mail to chuck@innovationtools.com
hitendra.patel@ixl-center.com.

In the next issue:

How do you find and build the people, capabilities and competencies required to be successful in Innovation?

About Us



Chuck Frey is the President and founder of InnovationTools, the world’s leading innovation portal website. Chuck has built this portal over the last six years into the gathering place on the web for entrepreneurs and innovation practitioners.

Chuck is a creative thinker with 20+ years of experience in PR, marketing, business strategy and information services.



Hitendra Patel is Director of the Center for Innovation, Excellence and Leadership and Professor of Innovation and Strategy at Hult International Business School in Cambridge, MA.

He was a senior leader of Monitor Group’s Innovation Practice and a senior manager at Arthur D Little. Hitendra has helped all types of companies identify growth engines and build their innovation capacity.

Hitendra is the author of *101 Innovation Breakthroughs* and *The State of Innovation at the Firm Level in Singapore* and in the process of writing his third book on *Thinking and Acting Differently to Make Innovation Real*. Dr. Hitendra Patel has a MBA from Kellogg School of Management, a Ph.D. in Materials Science and Engineering from Iowa State University.

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