



innovation actually looks like as a highly distributed, “all the time, everywhere” capability.

TOWARD A SYSTEMIC UNDERSTANDING

For an analogy, think back to the quality movement of the 1970s. When the first Western executives went over to look at Japanese companies a few decades ago, they initially failed to recognize that quality was a deep, systemic capability in those organizations. Most of them came back with a very superficial understanding.

“Quality is not very difficult” was the typical response; “it’s about quality circles. These people meet on Friday afternoons; they sit around for a few hours talking about how to improve quality and . . . presto! Quality goes up. So let’s have quality circles.” Many Western companies did just that. And they found that it made no difference to their quality whatsoever.

At that stage of the game, many organizations said, “Okay. We tried that . . . it didn’t work,” and they quietly closed down their quality initiatives. It took several years before they had the courage to make another attempt.

Eventually, when those companies went back and studied what the Japanese were really doing, they realized that quality was a much deeper discipline than they had originally imagined. This time their response was “Gosh, they’re training people. They’re training *thousands* of people. They’re giving them tools to use. They’re completely changing the metrics. They’re empowering ordinary workers. They’re giving shop-floor employees the authority to stop a million-dollar production line.” That was when Western companies began to grasp that quality could be an intrinsic and ubiquitous capability rather than a specialized function—that it could actually be embedded and institutionalized in an organization’s core DNA.

In other words, the initial failure with many quality initiatives did not reflect any lack of conviction or seriousness on the part of top management. What it reflected was a lack of knowledge about the processes,

see suggestion box
example.

the tools, and the mechanisms that were critical for making quality happen. Those executives simply didn't understand how to make quality *systemic*.

The bleeding edge for companies is no longer quality; it's innovation. But right now, innovation is still more or less where quality was in the late 1960s. The problem today, as it was back then, is not top management complacency or hypocrisy. It is the fact that making innovation work inside a large organization is a much more complex and multifaceted challenge than most people imagine. It simply cannot be solved with some Band-Aid or silver bullet.

We might compare it to a Russian *matryoshka* doll. From the outside, the doll appears simple and straightforward. But, as we all know, there's much more to it than first meets the eye. When we open it up, we discover that it's actually made up of many nested layers, one inside the other, and that it takes every one of those layers to make the doll complete. So, too, when we move beyond a superficial understanding of innovation—when we begin to dig down—we find that it is a deep, systemic challenge that involves considerable effort across a whole range of interdependent dimensions. As with quality, innovation requires new training, new tools, new IT systems, new metrics, new values, new management processes, and so on, and all of these mechanisms must be tightly integrated—or “nested” together—for the system to function effectively.

Many senior executives may never have even considered innovation in these terms. They might think of innovation as breakthrough technology, or cool product design, or individual creativity. Or they may know it as a specialized unit called “R&D,” or “new product development,” or “corporate venturing.” But they have probably never contemplated the idea of recalibrating all their core management systems and processes to make innovation an everyday “part of the system”—something that becomes reflexive and natural to everyone.

Up to now, the management literature on innovation has not been a big help in this regard. Much of it has focused on playing creative thinking games, or improving brainstorming techniques. Other books and articles have made a more serious contribution to helping companies understand innovation as an organizational process, but so far, none

of them seem to have had a deep enough impact on management thinking. According to innovation strategist Larry Keeley, “The field has advanced to about the same state as medicine when leeches, liniments and mystery potions were the sophisticated treatments of the day.”¹⁰

No wonder innovation has gone through a crisis of credibility in many organizations, just as the quality movement did in its early years. In the absence of any reliable guide, companies have often wasted considerable time and money on innovation initiatives that were doomed from the outset. In most cases, these efforts have delivered little in the way of new wealth-creating products, services, strategies, and business models. A global study in 2007, for example, involving almost twenty-five hundred senior executives in fifty-eight countries, revealed that more than half of all executives surveyed were still dissatisfied with the financial returns on their company’s innovation investments.¹¹

That’s why, for decades, innovation has been something of a side-show in many firms—nice to have, and nice to talk about, but not doing very much to contribute to growing the business. Like those long-departed auto executives who underestimated the complexity of the quality challenge, many companies have simply concluded, “We tried innovation. It didn’t work.”

The central tenet of this book, however, is that innovation—when systemically applied—*does* work. We argue that it is entirely possible to boost your company’s innovation performance in a dramatic and enduring way, but it can only be done if you are prepared to make innovation a systemic enterprise capability. Nobody can hope to achieve anything by throwing a light switch and saying, “Okay, from Monday morning we’re all going to be a lot more innovative.” Anyone who seriously wants to influence the values and dynamics of a large-scale, distributed human system is going to have to roll up their sleeves and get ready for some really hard work.

Despite the gargantuan nature of the challenge, building a deep, systemic capability for innovation is now the inescapable imperative for every company—as important to an organization’s success and survival as the quality movement was in its day. Granted, in the short run, there may be some substitutes for innovation—some quick ways to prop up a company’s share price and earnings over the next few quarters. But in

the medium to long term, there are absolutely *none*. In today's innovation-based economy, where organic growth and strategic renewal are the new business mantras, either companies learn to drive innovation to the core or they risk becoming footnotes in the history books.

INNOVATION TO THE CORE

Making such a profound cultural change requires time, money, and commitment. In our experience, it can take an organization three to five years to build the kinds of skills, tools, management processes, metrics, values, and IT systems that are required to support ongoing, across-the-board innovation. But as James Andrew and Harold Sirkin, senior partners at The Boston Consulting Group, argue in their book, *Payback*, managing and mastering innovation as a disciplined business activity can help an organization reap dramatic financial rewards.¹²

Of course, it can't be done piecemeal—an innovation reward program here, a corporate venture fund there, or a few days of brainstorming somewhere else isn't enough. But the message is that *it can be done*. If companies like GE, P&G, Whirlpool, and CEMEX have taken on this challenge—and are already achieving extraordinary results—your company can do the same.

Again, the quality movement sets an encouraging precedent. Look how adept today's organizations have become at systematically manufacturing world-class products. Who would have thought that what once seemed so daunting could become almost run-of-the-mill business practice? In the years to come, we see no reason why corporate *innovation* systems shouldn't become just as efficient—and just as commonplace—as corporate quality systems.

Already, the “innovation movement” is gathering momentum. The challenge of building a systemic innovation capability has become the focus of increasing attention in both business and academic circles around the world. Companies everywhere are asking themselves exactly what they need to do to drive innovation to the core—to make innovation an “all the time, everywhere” reality inside their organizations.