

October 2013

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Recommended Citation

Vardis, Harry and Selden, Gary L. (2013) "A Report Card on Innovation: How Companies and Business Schools are Dealing with It," *Journal of Executive Education*: Vol. 7 : Iss. 1 , Article 2.

Available at: <https://digitalcommons.kennesaw.edu/jee/vol7/iss1/2>

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A Report Card on Innovation: How Companies and Business Schools are Dealing with It

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Abstract

This study focused on the state of innovation in today's businesses. We found that Innovation-driven companies observe certain practices. These were CEO involvement, supportive cultures of innovation, rewards for innovation, communication, metrics, hiring practices that support innovation, budget allocations for innovation, and an innovative vision. In addition, it supported the notion that innovation-driven companies practiced systemic innovation as opposed to innovation-shy companies. Open communication appears to contribute to systemic innovation by reducing fear of risk taking.

It is critical to point out that, fear, the major obstacle in the pursuit of innovation, can be eliminated with the right communication among team members. Also, reward systems reinforce innovation and play significant role in motivating employees to participate in systemic innovation.

This study also looked at how well business schools prepare students to contribute to the innovation initiatives in organizations. The results were somewhat alarming in that the gap between the two parties is significant.

Background

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

The use of creativity and innovation for competitive advantage has evolved over the past 17 years. Peter Senge (1991) created the notion of a learning organization and claimed that the only competitive advantage a company could have was to think faster than its competition. However, it is no longer sufficient to be able to think faster than your competitors. You must have a different way of thinking and create new models and alternative ways of conducting business.

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

Study Objectives and Methodology

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

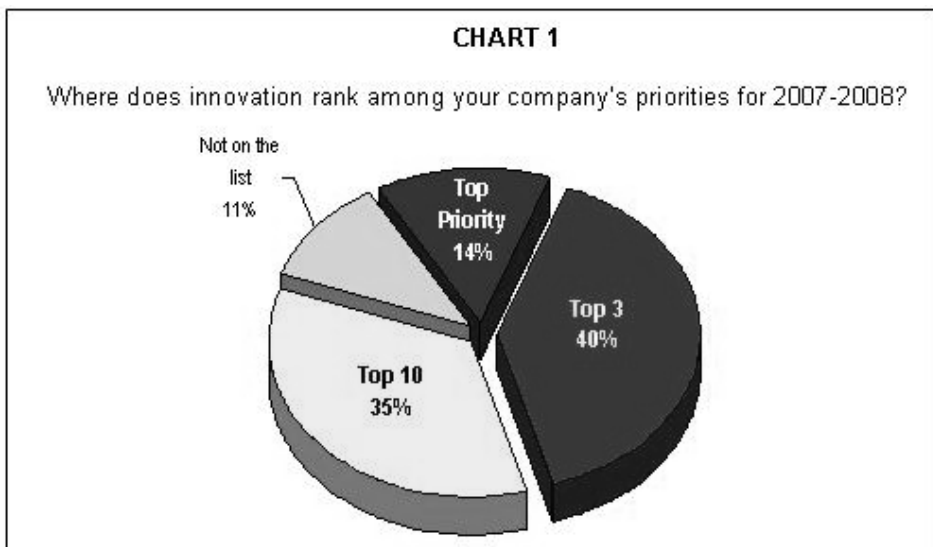
- To assess the state of innovation.
- To identify the most likely candidates in management to be the "torch bearers" for innovation in companies
- To quantify the extent to which companies will be investing in innovation
- To assess the barriers or obstacles to innovation
- To determine the role of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

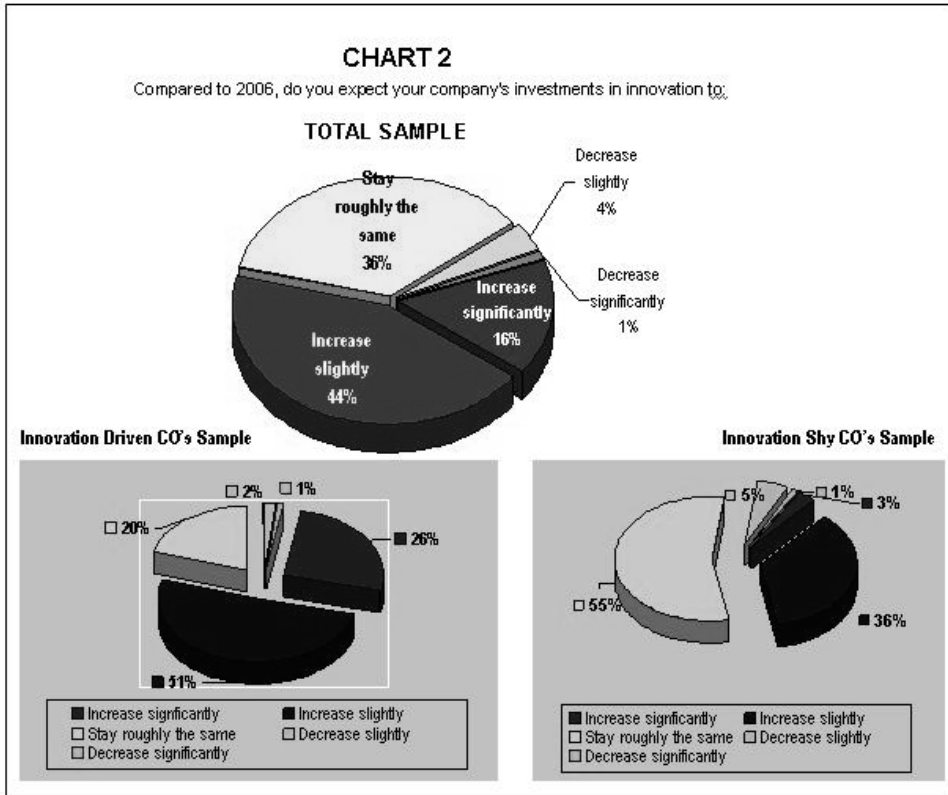
This study was conducted as a joint effort between BusinessWeek Research Services, a full-service custom research department within BusinessWeek Magazine and the Center for Business Innovation and Creativity at the Coles College of Business, Kennesaw State University. Data were collected on-line by Vision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

State of Innovation 2007-2008

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

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





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

Budgets for Innovation

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

The role of Top Executives

This study has found that CEOs and Presidents account for the major driving force (54%) of innovation in their companies. This is significantly higher for ID companies (47% vs. 24% for IS companies).

We see that over half of the companies sampled anticipate an innovative initiative in the next 6 to 18 months, with top management as the driver.

Definition of Innovation

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

Obstacles to Innovation

Results of the survey provide some insight as to why many companies are not innovative. The top three (3) **obstacles** to corporate innovation are: resistance to change (51%), lack of time (45%) and fear of risk-taking (39%).

Innovation Initiatives

While innovation should be able to flourish anywhere in an organization, certain departments are likely to be more fertile ground than others. Nearly half of senior executives that responded say that innovation initiatives tend to come from the marketing department (49%) followed by the IT (46%) and Sales (34%) departments. These tend to be client-centric departments and internal customer service departments. We could hypothesize that it is the interaction with external and internal clients plus changing market needs that cause this phenomenon. Additionally, more than one-third (37%) of these executives are satisfied with the end results of the initiatives.

CHART 4

What factors are the biggest obstacles to innovation in your organization?

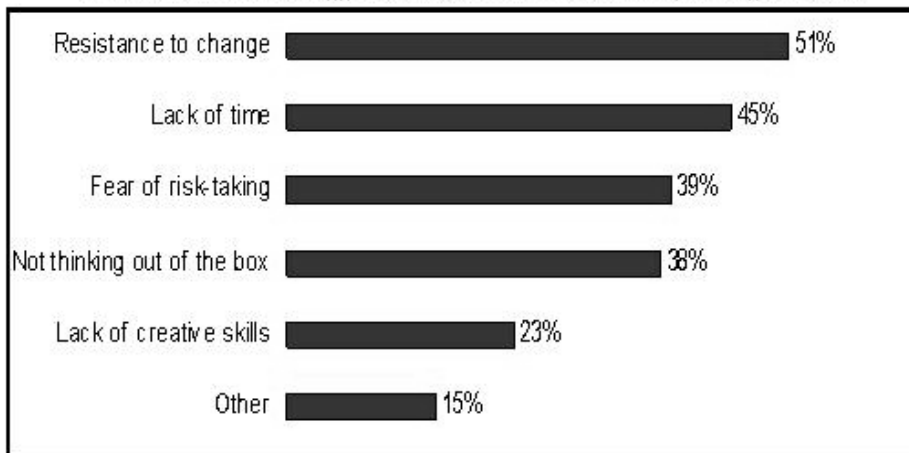
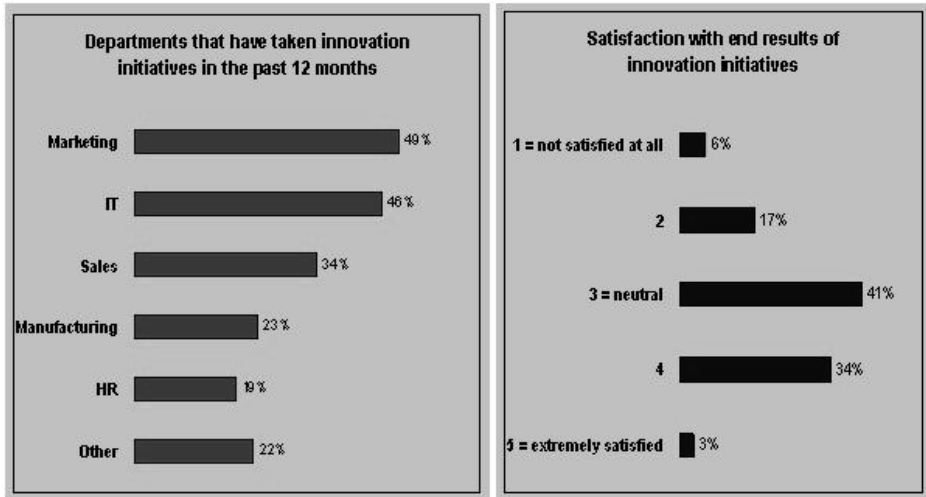


CHART 5

INNOVATION INITIATIVES



Question: What departments within your organization have taken innovation initiatives in the past 12 months?

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

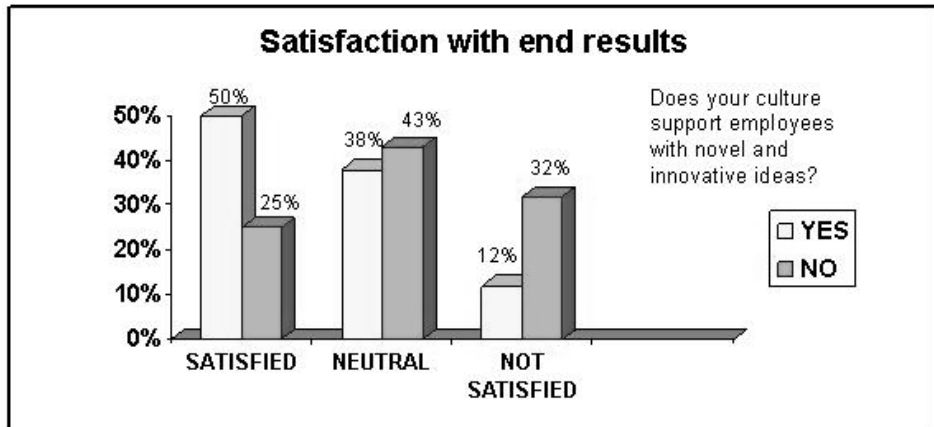
Base: BusinessWeek senior executives

Source: BusinessWeek Research Services

The Role of Culture in Innovation

Corporate culture is important for successful innovation. When the culture supports novel ideas, 50% of these senior executives say they are satisfied with the results. When the culture does not support novel ideas only 25% are satisfied. Perhaps this is due to the fact that innovation involves risk taking, transparent communication, challenging the established methods, and overcoming the fear of the unknown.

CHART 6

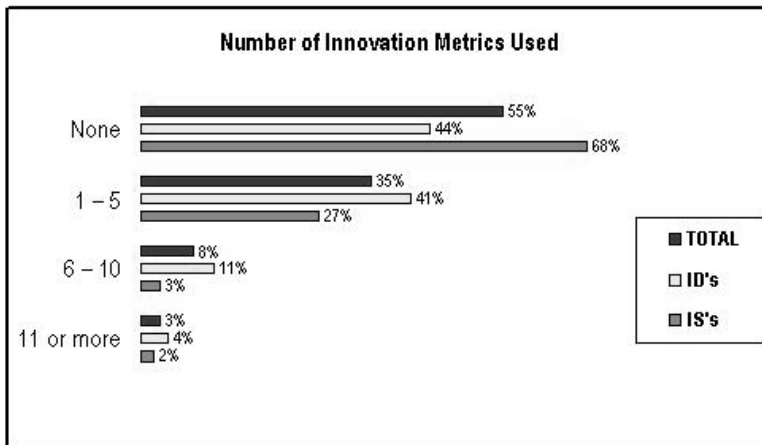


This is a very significant finding when we consider cross-cultural integration and efforts to have employees from different cultures work in harmony. It would appear that some modicum of common goal setting and understanding of common vision accompanied by team work would facilitate the satisfaction gained from the support for these innovation initiatives.

Innovation Metrics

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

CHART 7



Question: How many innovation metrics does your company regularly collect and use?
 Question: Overall, using a scale of 1 to 5 where 1 is not satisfied at all and 5 is extremely satisfied, how satisfied are you with the end results of these efforts?
 Base: BusinessWeek and Coles College

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

Most Frequently Used Metrics to Evaluate Innovation

The most frequently mentioned metrics clustered around three areas: New product related metrics, customer feedback and new ideas that make it through the adoption process.

New product related activities dealt with new product introductions, percent increase in sales attributed to new product introductions and percent of revenue produced because of the new product introductions.

New product related metrics

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

Customer input metrics

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

Idea metrics

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

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

Taking Risks

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

CHART 8

		Culture Support Innovation		Innovation as Priority for 2007-2008	
BASE		Yes 237	No 248	Top 3 265	Top 10 225
RISK AVERSION		%	%	%	%
1	Risk Averse } 2	22	60	33	51
3	Neutral	37	25	32	29
4	} Risk Encouraged	41	15	35	20
5					

The Role of Fear and How to Overcome Fear

Perhaps one of the most important findings of this study is the unexpected discovery that the way to eliminate, or at least lower, the fear of risk and the fear of failure is “Communicating”. The significance of this finding is that the opposite of fear is not bravery. Instead, it is the sharing of risk and knowledge among team members. This becomes more obvious when one thinks of team sports - from football to sailing. The team’s success depends to a large degree on the communication between team members during an event and the debriefing session after the event. *Feedback* and *feed forward* allows for improved performance and ownership of results. It seems that good

communication alleviates fear and improves the willingness to take risks. Add to that an environment in which failures are looked upon as opportunities for learning and you have the perfect formula that suggests it is acceptable to fail and to learn from failures.

Rewarding Innovation

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

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

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

Stifling Innovation

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

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

Companies that are not committed to innovation seem to exhibit rather conservative behavior and are in status quo regarding innovation initiatives. They tend to use existing procedures, have no intention to start any novel initiatives, and their management is not making any significant announcements regarding new initiatives.

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

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

Systemic Innovation

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

CHART 9

BASE		Culture Supports Innovation		Innovation as Priority for 2007-2008	
		Yes 245	No 255	Top 3 272	Top 10 231
		%	%	%	%
Encourage Systematic Innovation	1 Not at all likely	25	63	37	54
	2 } Neutral	35	27	30	32
	3				
	4				
	5 Very likely	40	10	33	14

Overall, 55% of these senior executives seem to encourage Systemic Innovation. However the profile shows that systemic innovation is encouraged by 40% of those where culture supports innovation vs. 10% among those where culture does not support innovation. So, a commitment to large scale innovation is related not only to attitude and reward systems but also to the culture support.

In companies where innovation is among the top three management priorities, there is also a significantly higher likelihood for management to support Systemic Innovation (33% vs. 14%) compared to companies where innovation falls below the top three priorities.

The Gap Between Business Schools and the Business World

There are many recent articles written about innovation. Business Week magazine, Harvard business Review, The Wall Street Journal and other business publications have written many articles on the companies that are thought to be innovation leaders. One question that has not been addressed is “What ways might business schools become even more creative thinkers?” In a facilitated session with MBA program directors and deans of business schools, participants indicated that business schools are not ready to address this issue for many reasons. Among the most frequent reasons were that the MBA curriculum is too full already, there are few faculty that are creative and innovative, there are no metrics to measure how well the students are doing and there are no funds to provide such programs.

In a separate study the center for business innovation and creativity at The Coles College of Business in 2006 determined that less than 30% of the MBA programs

responding had even a basic 2 hour module in the field of innovation, and less than 10% had any type of course.

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

In the overall sample more than half (54%) of the senior executives interviewed believe that recent MBA graduates do not have the skills of innovation. However, senior executives who work for companies that look for and hire graduates who have knowledge of creative thinking are much more likely to think that business schools are responding to the plea to train more innovatively thinking managers, than those who do not look for them (84% vs. 18%)

CHART 10

MBA graduates have knowledge of creative thinking?

BASE		→		<u>Yes</u>	<u>No</u>
		<u>222</u>	<u>262</u>	<u>%</u>	<u>%</u>
Business	Extremely well	7	-		
Schools'	Fairly well	77	18		
response	Not so well	16	73		
	Poorly	-	9		

This type of selective screening as arduous as it might be, demonstrates the commitment these companies make to hiring from select schools and cherry-pick those candidates who meet their criteria.

Suggestions for Business Schools

Businesses have suggestions for business schools in regards to innovation and creativity. It seems that there are four areas of learning (subject/courses) that can teach business students to be more innovative:

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

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

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

Finally the fourth is to teach them the principles of innovative leadership.

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

1. ENCOURAGE CREATIVE THINKING

- Add creative thinking process courses
- Encourage creative thinking before MBA courses

2. LEARN HOW TO FAIL FAST AND SUCCEED FAST

- Allow students to fail and help them understand that failure is part of the innovation process
- Get them more oriented towards risk taking
- Innovation is culture-dependent. Teach them how to take risks and change the culture

3. CASE STUDIES FROM REAL LIFE

- Include case studies that place the learner in situations that create or enhance creative thinking
- Give them more “real life” business situations and models and less textbook approach
- Do “action learning” with real companies and real problems

4. TEACH THEM THE PRACTICE AND PRINCIPLES OF INNOVATION

- Teach innovation in a business environment and less in Blue Sky techniques
- Include courses in innovation
- Have collaborative partnerships between B-schools and businesses to address real time challenges
- The business schools cannot teach what corporate cultures endorse—Inertia
- Teach them to think beyond the textbooks and out of the box
- Encourage team innovation

Conclusions and Recommendations

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

The study also points out the many nuances that innovative companies have discovered which allow them to be true innovators. This information should be of interest to those who are thinking of indulging in the field.

Also, it is critical to point out that the major component of hesitation toward innovation, is fear. It can be eliminated with the right communication among team members.

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

What does this suggest for further research? It seems that a deeper understanding of the human component of innovation needs to be examined. Also, we need to explore how clients can influence a company's innovative initiatives. How are "external and internal" motivating forces affecting innovation efforts? How is the CEO affecting innovation efforts? What is his role? These are just a few of the many questions arising from this study.

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