

# Leadership and Innovation

BY MARLA M. CAPOZZI

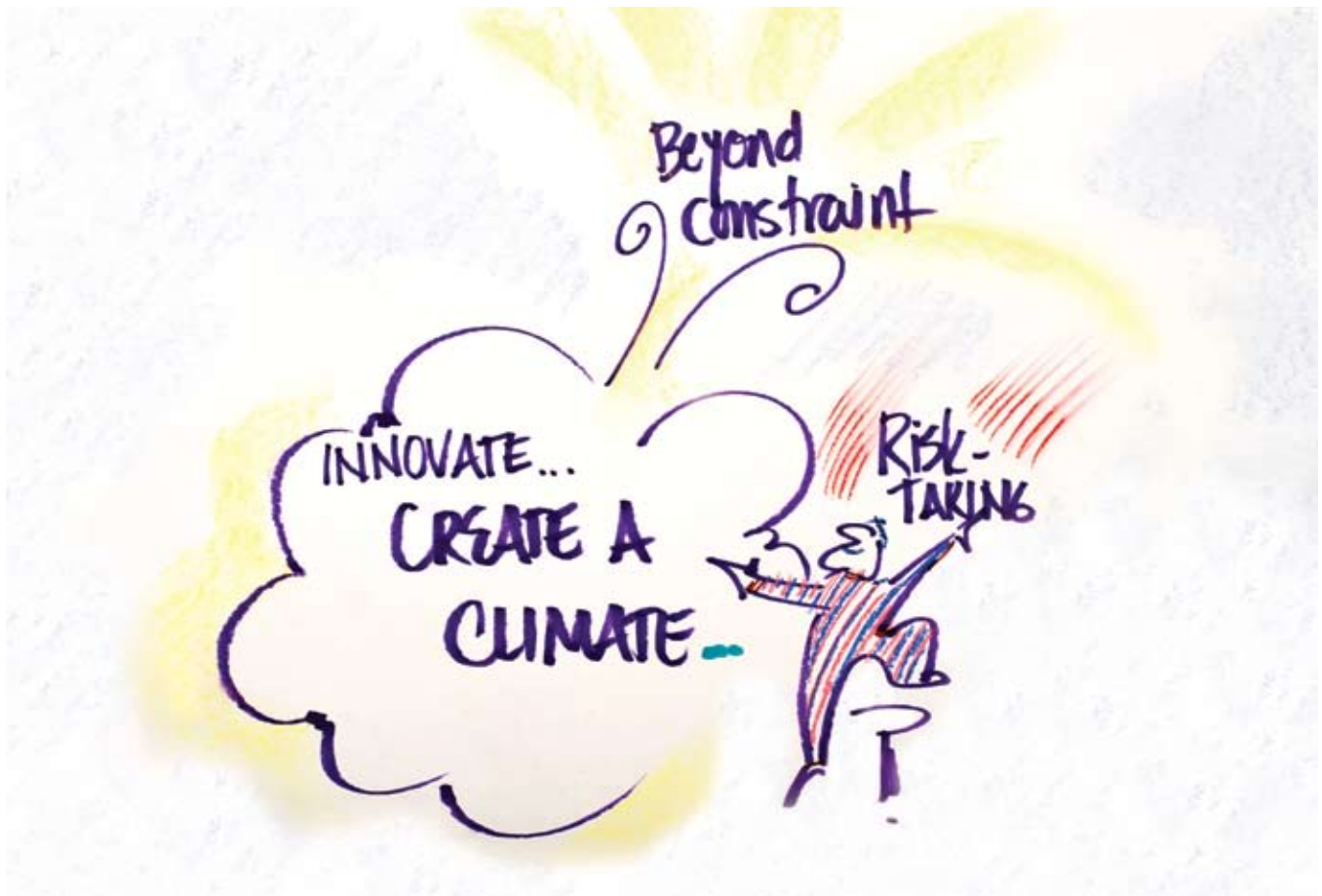
*Leaders say that people and culture are the most important drivers of innovation. This article shows how leaders can create conditions for greater innovation, within and beyond their organizations, to increase development impact.*

LIKE SHORT SKIRTS, innovation has traditionally swung into and out of fashion. Today, however, an organization's ability to innovate—to tap the fresh value-creating ideas of its employees and those of its partners, customers, and other parties beyond its own boundaries—is anything but faddish. In fact, innovation has become one of the most important drivers of growth and performance for not just the private sector but for the public and social sectors as well.

Development organization leaders can draw upon the experiences of their private sector peers on successful prac-

tices that capture the full potential of innovation as well as how to battle common tensions and challenges, which aren't all that unique to the private sector. Leading strategic thinkers across sectors are moving beyond a narrow definition of innovation to pioneer innovations in not just products but also services, consumer experiences, operational processes, distribution, value chains, policies, business models, and even the functions of management and how people work.

Mohammed Yunus, founder of Grameen Bank and winner of the Nobel Peace Prize, is quoted as saying: "All people are entrepreneurs. Each of us has much more hidden inside us than we have had a chance to explore. Unless we create an environment that enables us to discover the limits of our potential, we will never know what we have inside of us." This is the role of leadership—not to be the innovator—but to create the conditions for innovation. Very rarely is the leader also the innovator as is the case with Mr. Yunus and high-profile exec-



utives such as Steve Jobs from Apple. To create the conditions and then subsequently sustain innovation to create real development impact at scale is even harder.

Senior leaders almost unanimously—94 percent—say that people and corporate culture are the most important drivers of innovation.<sup>1</sup> Our experience convinces us that a disciplined focus on three people-management fundamentals may produce the building blocks of an innovative organization.

A first step is to define innovation and make it part of the strategic agenda. In this way, innovation can be not only encouraged but also managed, tracked, and measured as a core element in an organization's aspirations. Second, executives can make better use of existing (and often untapped) talent for innovation, without implementing disruptive change programs, by creating the conditions that allow dynamic innovation networks across organizational silos, functions and ages to emerge and flourish—within and beyond the organization. We believe that all organizations have pockets of innovation that if tapped can unleash impact. Finally, taking explicit steps to foster an innovation culture based on trust among employees. In such a culture, people understand that their ideas are valued, trust that it is safe to express those ideas, and oversee risk collectively, together with their managers. Such an environment can be more effective than monetary incentives in sustaining innovation.

This list of steps is not exhaustive. Still, given the limited time and means of development organizations pursuing innovation with anything other than existing talent and resources often isn't an option. These three fundamentals are a practical starting point to improve an organization's chances of stimulating and sustaining innovation where it matters most—among an organization's people.

## Leading innovation

WHILE SENIOR LEADERS cite innovation as important, few explicitly lead and manage it. Those that do (27 percent), see results for doing so. These leaders feel more confident about their decisions and say that they have implemented ways to protect innovation and align the right talent.

In a survey of 600 global business managers, and professionals, the respondents pointed to leadership as the best predictor of innovation performance.<sup>2</sup> As with any top-down initiative, the way leaders behave sends strong signals to employees. Indeed, senior executives believe that paying lip service to innovation but doing nothing about it is the most common way they inhibit it. The failure of executives to model innovation—encouraging behavior, such as risk taking and openness to new ideas, places second. Rewarding nothing but short-term performance and maintaining a fear of failure also make it to the top of the respondents' list of inhibitors.

Holding leaders accountable for encouraging innovation makes a big difference. Thirty percent of the senior executives in the survey were accountable for it, through formal targets or metrics, in their performance reviews. They were more likely than the broader group of respondents to view innovation as one of the primary growth drivers, to manage it formally as



part of the leadership team or through an innovation council, and to learn from their failures to achieve it.

Leaders in development organizations can also take a number of other practical steps to advance innovation.

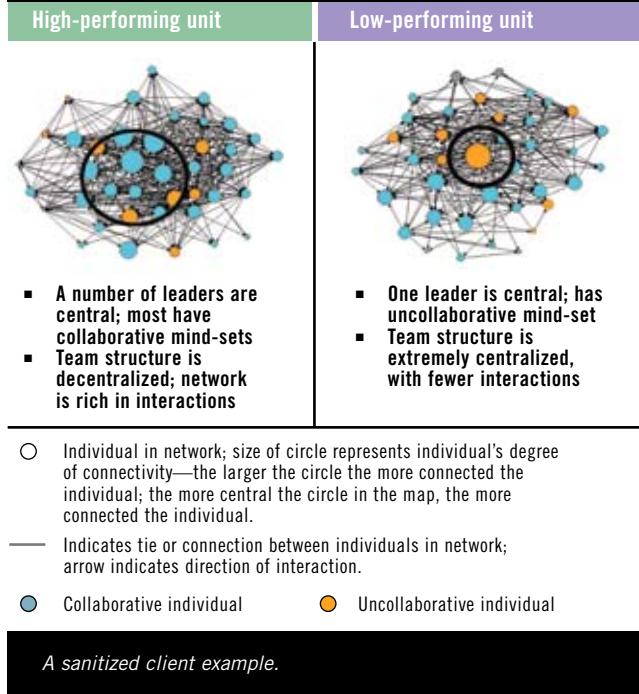
- Define the areas of innovation focus or platforms (e.g., climate change) that support strategic objectives as well as the type of innovation, new development or scaling existing initiatives. By doing so, employees understand the type of innovation needed. In the absence of such direction, employees will come back with incremental and often familiar ideas.
- Add innovation to the formal agenda at leadership meetings. We observe this approach among leading innovators. While sending an important signal to employees about the value management attaches to innovation, it also builds familiarity and over the long term reduces risk.
- Set performance metrics and targets for innovation. Leaders should think about what metrics, for example, would have the greatest effect on how people work. Leaders can also set metrics to change ingrained behavior, such as the “not invented here” syndrome, by requiring 25 percent of all ideas to come from external sources.

## Designing innovation networks

CHANCES ARE YOUR ORGANIZATION has some people who are passionate about innovation and others who feel uncomfortable about any topic related to change. Recent academic research finds that differences in individual creativity often matter far less for innovation than connections and networks.<sup>3</sup>

Since new ideas seem to spur more new ideas, networks generate a cycle of innovation. Furthermore, effective networks allow people of different ages, with different kinds of knowledge and ways of tackling problems to cross-fertilize ideas. By focusing on getting the most from innovation networks, organizations can capture more value from existing resources.

## EXHIBIT 1: NETWORK MAPS, DISGUISED EXAMPLE OF SIMILAR UNITS IN DIFFERENT GEOGRAPHIES



In one global nonprofit company, we found three groups with distinct perspectives on innovation. One believed that the company was innovative, but the other two, with 57 percent of its employees, thought that it wasn't. When we com-

bined the analysis of personal perspectives on innovation with a network map, we found opportunities for improvement. Paradoxically, the analysis revealed that those employees, largely middle managers, with the most negative attitude toward innovation were also the most highly sought after for advice about it due to the hierarchical culture. In effect, they served as bottlenecks to the flow of new ideas and the open sharing of knowledge. A further analysis of the people in this group highlighted their inability to balance new ideas with current priorities and to behave as leaders rather than supervisors. We have observed that middle managers pose similar challenges in many organizations.

Shaping innovation networks is both an art and a science. Making networks more decentralized is another way to improve collaboration and performance (Exhibit 1). Consider the case of two geographically separate units that undertake the same activities. A larger leadership group with an open and positive mind-set is a distinguishing feature of the higher-performing unit. Its information network is also more decentralized, with a larger number of connections. Hierarchy is still evident in the higher-performing unit, but its information and knowledge network is more distributed, and more of the members participate actively. The lower-performing unit has just one leader, who controls most of the interactions and has a negative mind-set about openness and collaboration, and there are far fewer connections. The network design is more centralized.

The four critical steps in designing, implementing, and managing an innovation network are presented in Exhibit 2.

Innovation networks, like cross-functional teams, require different skills and attitudes. In our experience, they include

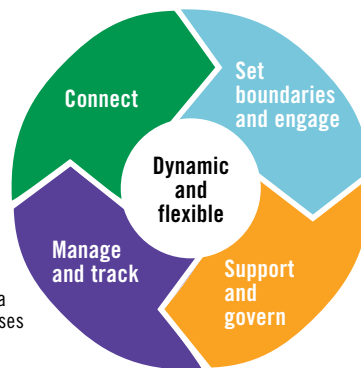
## EXHIBIT 2: MANAGING AN INNOVATION NETWORK

### 1 Connect

- Find pockets of people with right mind-sets for innovation
- Combine people with different approaches to innovation (i.e., idea generators, researchers, experts, producers)
- Ensure a mix of people with different levels of seniority and skills as well as performance
- Define as one network or include sub-networks devoted to specific tasks, objectives

### 4 Manage and track

- Define how members will be recognized for contributions
- Establish performance-management criteria based on both individual and group successes
- Establish tracking criteria
- Define timing for assessment, review, and modification of network, and determine who will have these responsibilities
- Decide how new members enter network and current members leave
- Plan process to facilitate network and its impact



### 2 Set boundaries and engage

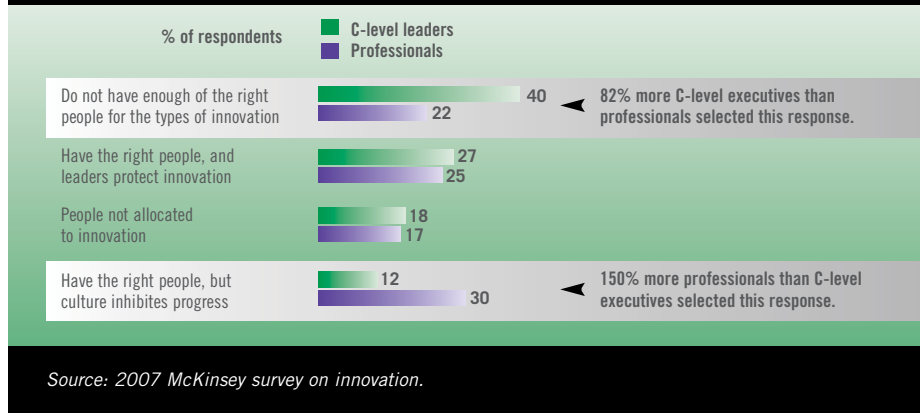
- Define role of network in meeting organization's strategic goals
- Establish network goals and objectives, as well as targets for success
- Define clear expectations
- Establish time frame and time commitment required
- Plan how to establish trust among network members and engage them quickly

### 3 Support and govern

- Define network's sponsorship and leadership
- Determine technology support required for network members
- Determine role of face-to-face meetings
- Define additional support as necessary (e.g., facilitators, administrative help)
- Define key knowledge and information inputs—both internal and external to network

Source: McKinsey.

### EXHIBIT 3: HOW PROFESSIONAL AND EXECUTIVE OPINIONS DIFFER



combinations of several archetypes: idea generators prefer to come up with ideas, researchers mine data to find patterns, which they use as a source of new ideas, experts value proficiency in a single domain and relish opportunities to get things done, and producers orchestrate the activities of the network. Others come to them for new ideas or to get things done. Producers are also the most likely members of the network to be making connections across teams and groups. High performing organizations not surprisingly have a higher percentage of producers.

## Cultures of trust

LEADERS SAY THAT making top talent available for projects to meet innovation goals is their single biggest challenge in this area. Some 40 percent of them also believe that they do not have enough of the right kinds of talent for the innovation projects they pursue. A different view emerges from below, however. Employees are more likely to believe that their organizations have the right talent but that the corporate culture inhibits them from innovating (Exhibit 3). We, for our part, believe that defining and creating the right kind of culture, however elusive, greatly increases the prospects for successful and sustained innovation. In this culture, trust and engagement are the most important values where employees know that their ideas are valued, believe it is safe to express ideas and learn from experimentation.

Managers and employees broadly agree about the attitudes, values, and behavior that promote innovation. Topping the list, in our research, were openness to new ideas and a willingness to experiment and take risks. In an innovative culture, employees know that their ideas are valued and believe that it is safe to express and act on those ideas and to learn from trying. Leaders reinforce this state of mind by involving employees in decisions that matter to them.

There is also widespread agreement about the cultural attributes that inhibit innovation: a bureaucratic, hierarchical, and fearful environment. Such cultures often starve innovation of resources and use incentives intended to promote short-

term performance and an intolerance of failure. Only 28 percent of the senior executives in the survey said that they are more likely to focus on the risks of innovation than on the opportunities, but only 38 percent said that they actively learn from innovation failures and encourage the organization to do so as well.

Our experience helping organization to innovate suggests that they can make progress by starting with their existing pockets of innovation and positive deviants—people who seem to work more effectively than others with the same resources and in the same environ-

ment. Much can be learned by beginning from this positive point of departure versus trying to reduce barriers, a worthy aspiration with many challenges. For example, rather than trying to reward failure, focus on increasing experimentation and testing. Rather than trying to reduce hierarchy, try inviting youth to meetings they would not otherwise attend and listen to their perspectives.

Innovation is a balance of bottom-up and top-down activities. It requires leaders set an agenda and create the conditions for innovation that subsequently engage the organization at all levels in all geographies. And it is the responsibility of employees to rise to this challenge. But it is wise to approach innovation in small steps, implementing just one or a few of the ideas we propose and building from there toward a successful journey.

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Adapted from "Leadership and Innovation," *McKinsey Quarterly*, (January 2008). © Copyright 1992-2010 McKinsey & Company.

#### Notes

<sup>1</sup> The *McKinsey Quarterly* conducted a survey of executives on leadership and innovation in September 2007, receiving responses from 722 executives at the senior vice president level and above and from 736 lower-level executives around the world. The respondents represented a broad range of industries. See "How companies approach innovation: A McKinsey Global Survey," [mckinseyquarterly.com](http://mckinseyquarterly.com), October 2007.

<sup>2</sup> In August 2007, McKinsey surveyed 600 global business leaders—including senior executives, middle managers, and professionals in many industries—about innovative business cultures.

<sup>3</sup> Lee Fleming and Matt Marx, "Managing Creativity in Small Worlds," *California Management Review*, 2006, Volume 48, Number 4, pp. 6–27.