What CEOs mean when they say they want to innovate

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Contents

Executive Summary

This report will describe 12 patterns of behaviour and action associated with innovation that were described in the stories of the 25 CEOs we interviewed. The way in which the CEOs exhibited these patterns varied across 3 main forms of innovation:

- Incremental
- Evolutionary, and;
- Revolutionary

In this report, the three forms of innovation are indicative of different levels of uncertainty faced by the CEOs and their organisations with Incremental being the most certain, Evolutionary reflecting moderate uncertainty, and Revolutionary typically involving innovations that addressed high levels of organisational and market uncertainty.

As a result each form of innovation requires a different driving focus to deal with the uncertainty. For Incremental innovation, this was culture; for Evolutionary it was the personality of the leader and for Revolutionary innovation it was the effective management and engagement with partners.

What we observed is that every innovation has its own contextual factors that impact on the motivations, constraints and speed with which things happen. The research shows that an approach to innovation that will work in times of relative stability will not work in times of disruption. However, many of the CEOs in our sample exhibited a preferred approach to innovation that they employed regardless of the circumstance they were in. The consequence is that Boards should be matching the innovation style of their CEOs to the circumstances of the organisation, this is particularly acute for organisations whose business models are being disrupted as there is more to loose from getting it wrong.

It is also worth noting that in general CEOs don't have a desire for innovation in and of itself - they have a need to solve problems, for which innovation may be a solution, but it is only one of a number of tools the CEO may employ depending upon the situation. Understanding the relationship between the different types of innovation, the successful patterns of behaviour and the organisational circumstances in which they take place goes to the heart of what this report is about.

Background – Why read this document?

As an environment for innovation, Australia has many advantages over other countries; a highly educated population, well developed infrastructure, a culture that is recognised as creative and practical. Yet at the same time, it could be argued that Australia lags behind many nations in terms of its ability to support the commercialisation of new ideas. There are numerous stories of entrepreneurs who need to leave our shores in order to gain the support they need to commercialise their business opportunity. A recent World Bank study suggested an attitude of risk avoidance could be an impediment to investments in innovation. Similarly the recent Review of the National Innovation System , in its analysis of the challenges faced by Australian innovators highlighted a number of areas for improvement and ideas to address these challenges.

Much of this research focuses on the macro-economic effects of innovation and the implications for policy makers on the national scale. Of course a great deal of the innovation that occurs in Australia is not made up of great industry changing disruptions, but the more mundane everyday changes, adaptations and developments that take place in the thousands of businesses that contribute to the economy. This 'grass-roots' innovation is often ignored in both the public and academic commentary on the topic, yet in reality is what innovation means for most Australians.

Through this research, we sought to explore the challenges facing innovation in Australia from a slightly different perspective: When a CEO says they want to make their organisation more innovative, what do they really mean? An organisation capable of disruptive new products?; An organisation capable of continuous improvement?; A more agile organisation? An organisation that is more strategic? These views are all legitimate; however, require fundamentally different approaches if they are to be practically achieved. Furthermore, how do these different meanings align with practice on the ground and what is it that makes some approaches more successful than others?

This document provides a picture of the different ways in which CEOs think about innovation, why they innovate and what makes it work in practice. It does so by looking at the differences between the patterns of behaviour present during successful innovations and those present during failed attempts. If you feel your organisation needs more innovation, then this document will make you question what type and how you are approaching it.

[1.] World Bank (2007), Knowledge Assessment Methodology.
[2.] Venturous Australia - building strength in innovation

Results

What are the ingredients of innovation, as CEO's see them, and how do they interact? In reading the results of this research it is important to emphasise that our main focus was to understand the patterns of behaviour and thinking that CEOs perceive when they think about innovation – both successful and unsuccessful. We collected 54 stories of innovation from the CEOs in our sample – 27 of success and 27 of failure and what these stories overwhelmingly showed was that the way in which a CEO thought about innovation was driven by the context they found themselves in and the problems they needed to solve – not some higher meaning of innovation.

The CEOs came from a wide variety of industries and backgrounds and so using industry specific definitions of innovation to classify the different stories wasn't appropriate. To address this issue, we looked for the common contextual factors that played a role in their stories and influenced their motivations. To this end we identified two key dimensions:

• The Level of Certainty the CEO held about both their organisational situation and the environment it was operating in;

• The Level of Pro-activity inherent to the CEO's story. Was the CEO responding to a critical issue, or was the innovation initiated without a burning platform to get it started?

Each of the 54 innovation stories we collected were plotted against these dimensions (see Figure 1 below) so that they could be grouped, and compared. Using this approach and drawing loosely on a range of authors we divided the stories into three broad forms of innovation based primarily upon the level of certainty the CEOs had about their context. The 3 forms of innovation we identified were:

• Revolutionary Innovations: Here the innovation involves high levels of uncertainty for the CEO in terms of both the internal and external aspects of the organisation. Revolutions represent a significant departure from the previous business model of the organisation and may have a disruptive impact on the industry involved. For the customer they can represent a fundamentally different opportunity or experience;

• Evolutionary Innovations: Here the CEO may be dealing with moderately high levels of uncertainty in either the external environment or within the organisation but usually not both at the same time. The innovation itself will typically represent an expansion of, or significant change to the current business model, or the back end processes of the organisation;

• Incremental Innovations: Are characterised by high levels of certainty about both the internal and external business environment of the organisation. Improvements to the current business model, that don't involve changing it significantly. Often this involves fixing problems with current operations as opposed to creating new operations.

These distinctions have been chosen for simplicity, rather than completeness, and to allow for the useful identification of patterns amongst the data that has been gathered. In discussing Figure 1, the first observation to be made, is the near absence of stories from the lower right of the diagram. This corner is characterised by high uncertainty about the idea or problem and a reactive stance on the part of the CEO / organisation.

We would suggest that the reason for a lack of stories in this quadrant is that a CEO who finds themselves in this situation has to respond to an effectively unforeseen or significant disruption to their business. As such they may be unlikely to survive in the role, even if the organisation survives whatever the disruption is.

Some CEOs may be brought into organisations for the purpose of turning the organisation around from this type of event, but in this case the activity is more proactive – they know what they are getting into and why they are there. As a consequence CEOs who related stories of this kind tended to be towards the left of the diagram as (for them) there was less uncertainty about the situation and what needed to be done.
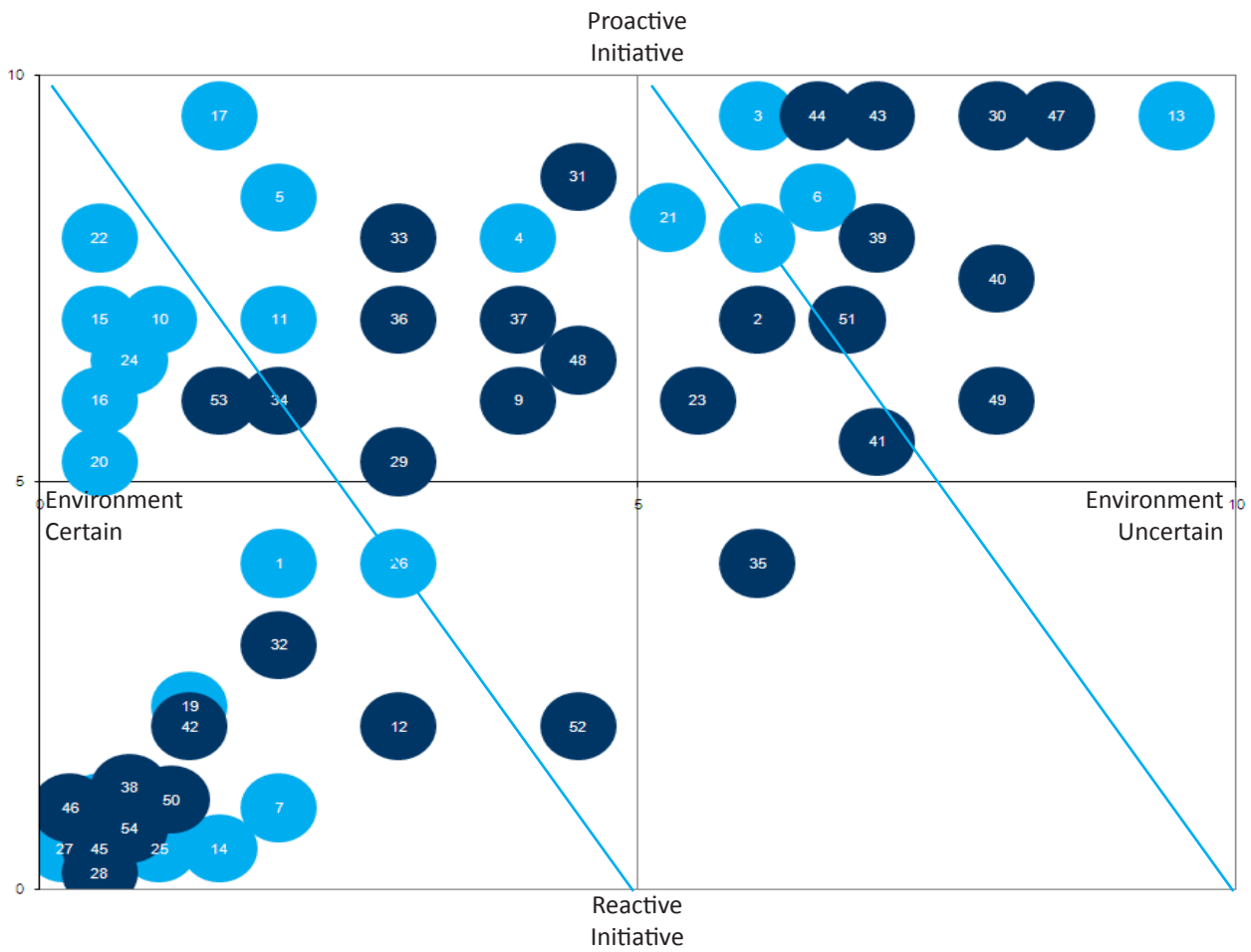
Proactive
Initiative

Environment Certain

Environment Uncertain

Reactive
Initiative

Figure 1: Classification of innovation stories (LIGHT BLUE dots indicate successful innovations, DARK BLUE dots indicate failed innovation

[3.] A detailed description of the methodology used can be found in Appendix B of this document, along with descriptions of the sample.
[4.] Tushman, M. & O'Reilly, C. 2002. Winning Through Innovation: A Practical Guide to Leading Change & Renewal. Harvard Business School Press; Christensen, C. & Raynor, M. 2003. The Innovator's Solution: Creating and Sustaining Growth. Harvard Business School Press.

The CEOs were given complete freedom to choose the story they told, and so naturally they told the stories that for them best represented innovation in their experience. Being blind-sided by their environment clearly does not rate highly. The breakdown of stories across the 3 forms of innovation was as follows:

While the sample for this study is too small to suggest that this split of innovations is representative of innovation in Australia, it is broadly consistent with what we would

At the core of our findings are twelve patterns or typologies of innovation that were observed across the more than 50 stories of innovation. The patterns are made up of a combination of data points including: described behaviours, opinions, observations and personal constructs. These 12 patterns do not exist exclusive of each other, but taken together present profiles for success and failure in each of the innovation forms described above. The combinations of patterns required for success in each form of innovation are different and telling in

	Success Stories	Failure Stories
Incremental (24)	14	10
Evolutionary (16)	7	9
Revolutionary (14)	6	8

Table 1: Breakdown of Innovation Stories collected

expect to find. The higher number of Incremental innovations is to be expected, as for the most part CEOs should be innovating more in areas where there is more certainty of success. We would also expect there to be more failures amongst the Revolutionary Innovations, as arguably success here is more difficult to achieve. That the numbers of successes and failures are fairly balanced for each of the innovation types is less expected.

It is also worth noting that some of the CEOs interviewed would no doubt disagree with the positioning of their stories in Figure 1. Indeed a number of CEOs described their achievements as 'radical', yet when considered against a more sober assessment of the degree of certainty and pro-activity described in their stories, they could only be classified as Incremental. This is not to denigrate their achievements, as many of the outcomes required considerable resolve and sophistication to bring to fruition – they did not however represent revolutions for their organisations or industries.

terms of what CEOs believe and what they need to do to enable the right form of innovation for their organisation at the right time.

The resulting patterns or typologies are described in Table 2. Understanding the relative importance of these patterns for different circumstances and what is needed to make them work will be described in the coming pages.

Typology	Description
Improving Current Practice	This refers to the application of ideas to improving a current or existing practice. The key motivator is increasing efficiency, though in some cases it was simply doing things a bit better than before.
Personality Driven	This pattern is characterised by the force of personality of the leader to drive through the change and keep the innovation going in spite of the various hurdles it may face. It extends to the ability to influence others in the organisation both politically and behaviourally to get behind the change.
Culture Sourced	This pattern is based on the assumption that "innovation is everyone's responsibility". The source of innovation is the organisation's culture, and the extent to which the CEO can nurture it.
Process Based	This typology refers to the process or method adopted by the organisation for its innovation. This includes stage-gated commercialisation pipelines, ideation methods, due diligence, partnering agreements etc.
Partner Enabled	The engagement with and use of partners to assist in the development, commercialisation and adoption of the new idea as opposed to attempting to do it all within the organisation.
Probability Based	Innovation is approached as as bets within a portfolio. It is expected that few innovations will succeed and most will fail. There is a high acceptance of failure and an associated need to spread risk as well as killing an idea that was not working out as expected.
Discovery Driven	This pattern is characterised by the application of high domain skills to overcoming a current technical barrier. The absence of an expected application for the innovation is often not a concern with the commercialisation process occurring later on after the discovery has been made.
Use Inspired	Refers to the pursuit of ideas that are inspired through the use of existing products or practices.
Unseen Need Inspired	Refers to the ideas that were not inspired through use, but through the vision of an inventor or entrepreneur. In most cases the customer had been unable to conceptualise the need until the product was commercialised.
Capability Based	A belief that through the recruitment of a selection of 'smart' people, innovation will occur. Under this approach it is assumed that by putting 'smart people' (i.e. highly developed domain skills, intelligent) together and freeing them of day-to-day distraction the organisation will become innovative.
Ideas Based	Here the innovation is based upon a powerful idea or vision. The power or love of the idea then becomes the driving force behind investment and the political will to push the idea through.
Structure Based	Here the CEO begins their approach to innovation by attempting to work around the organisational structure, which could involve breaking down silos, or setting up a unique structure to deal with the idea.

Table 2: Typologies of innovation

What CEOs think about Revolutionary Innovation?

Key outcomes:

- Revolutionary Innovation is driven by partnerships – not personalities

- It has nothing to do with the culture of the organisation.

- To be successful CEOs need to adopt a more collaborative style than in other forms of innovation

- The ability to apply the innovation to improving current practices is often key to success.

There are 4 features that characterised the profile for Revolutionary Innovation presented in the Figures above. The first relates to the role of partners, the second to the personality of the CEO, the third to the organisational culture and the fourth to the nature of the idea itself. Other elements of the profile also play a role, but these four elements were the most significant for the CEOs in our sample.

The Role of Partners

A key element of many of the Revolutionary Innovation stories was the identification and effective management of partners. This was done for a range of reasons including IP, capability, brand and capacity. The recognition of the need for change often meant that although the idea or innovation being pursued may have been internally sourced, the ability to execute required the involvement of external parties.

This type of profile tends to go against the broader perspectives in the popular press for Revolutionary, or radical, innovations where often the role of a charismatic entrepreneur is seen as central to the success of the innovation. Much of this literature is based upon research conducted in the US, and as such doesn't reflect the Australian context.

This is consistent with the quote from one of the CEOs regarding the lack of archetypal 'iPod' type innovations in Australia.

> *What I want to clarify here is that innovation to me in the popular business literature is very limited in the Australian context. I think Australia is quite innovative but we don't come out with iPads or Google or things like that, that you can touch and feel and say that's very innovative...I think Australian businesses are much more innovative than researchers give them credit for, and I think Australian businesses are getting on with life because if they don't they won't survive.*
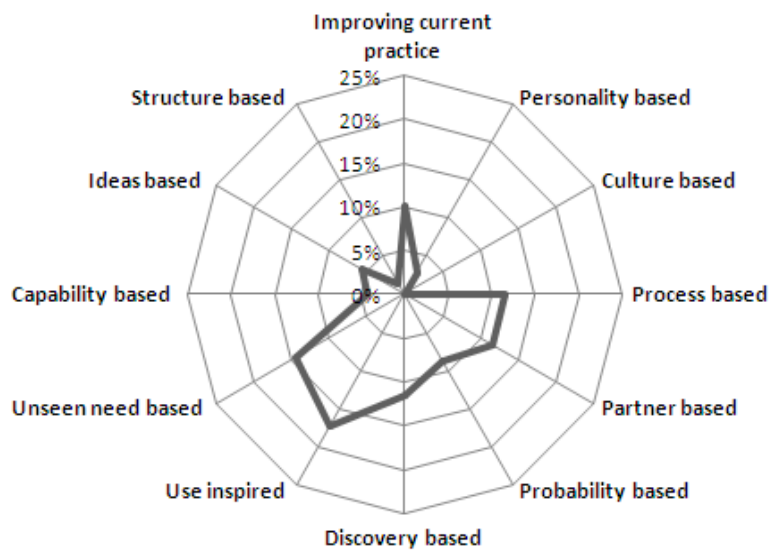
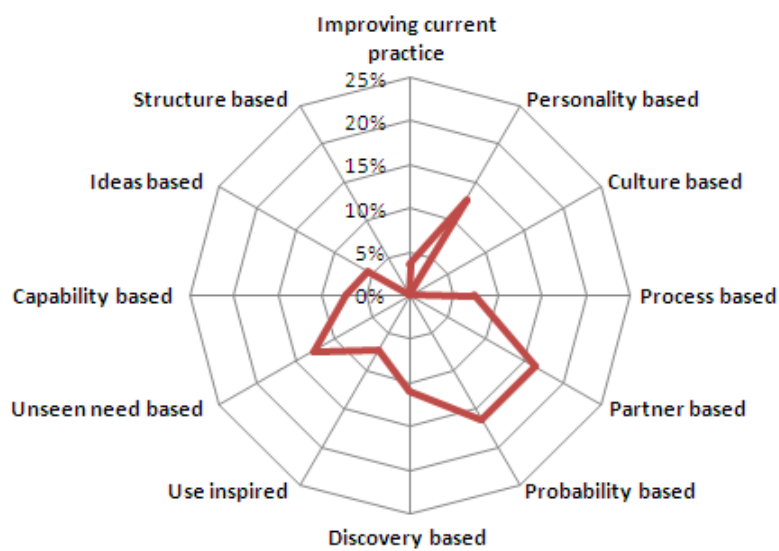**Figure 2A: Profile of Successful Revolutionary Innovation**

Figure 2B: Profile of Unsuccessful Revolutionary Innovation

When Revolutionary innovations occur, they are less likely to occur as the output of a single organisation, but through collaboration between multiple organisations. Arguably all innovations, regardless of type, need a driving force behind them. However, in the case of our sample, the impact of a dominant personality, or the 'Personality-driven' pattern was more often associated with a failed attempt than a successful one. Part of the reason for this is a preference for a 'Partner-based' approach. This preference can be seen in both the successful and unsuccessful profiles. The need for collaboration overrides personality, or put another way personality gets in the way of collaboration, often leading to a failure. A Revolutionary idea cannot be the CEO's vision of the future, but one that is shared by a wide range of stakeholders – many of whom aren't a part of the organisation.

The Danger of Personality

The approach to influencing stakeholders that is adopted by the CEO therefore needs to be quite different to that used for Evolutionary Innovation as will be seen in the next section. Success requires more than one party to want and need the outcome, particularly, if it is to have an industry changing effect. The quote below from one CEO of a failed innovation with industry changing implications illustrates the point, in relation to his attempts to gain buy-in for his innovation:

> *I built the models; I've actually built the [examples] downstairs. I found some suppliers here and overseas that would be able to [produce] a kind of a physical model of the environment. And in fact held a cocktail party down here in early 2007, I think it was, invited all the [stakeholders] in one evening and explained to them what that vision was. 'As I said, [to them] you don't get this at the moment but I want to describe what we're doing here... yada, yada, yada'. And there were managing directors of [stakeholder organisations] here in Australia gobsmacked by the idea.*

Here the situation was characterised by the CEO's vision of the future, that none of his key external stakeholders would buy-in to. The story appeared to present the 'right' idea or direction for the industry, however, the approach compared to the examples of success would appear to be more appropriate for Evolutionary – not Revolutionary innovation. The CEO himself recognised this:

> *If you Google my name and go and have a look you'll see thousands of articles about my frustration with the lack of innovation in the XYZ industry globally, let alone here in Australia. And my biggest frustration is the fact I haven't been able to successfully sell to anybody else, or certainly the people that count...*

Compare this with a different approach taken in one of the successful stories:

> *Yes, well we simultaneously worked with the standards bodies, and understood where standards were heading and what the general views were. So there'd been a huge amount of work going on in the standards arena, which I actually went to, I went to all the standards meetings. In fact I became secretary of the ABCD Committee for a term. And what that meant was that we understood first of all when you start doing those standards work there's a market requirement specification done there with all the industry partners getting involved. And that's a fairly generic thing.*

What these results highlight is that the role of individual personalities is more subtle than the mainstream literature would suggest, but that doesn't mean it's not necessary. Even those who tended to undertake a collaborative, 'Partner-based' approach recognised that this was sometimes not enough, and at times strength of perseverance and personality was necessary. Take for example one CEO's observations in relation to a failed Revolutionary innovation.

I thought I kind of understood this innovation thing at that stage, I thought we'd done all the right work to convince the company that what we were doing was the right thing and that we were doing the right thing. We'd jointly worked together, we'd gone through all the arguments and debates about what the product should do, we'd made a lot of effort to have it integrated with all their existing stuff and so on, and so it was a real disappointment when it didn't go anywhere, yes. And then to see the company go under, well not go under, but you know kind of wither and disappear was really very unfortunate.

Q-So what would you do differently?

A-...you know I've thought a lot about that, and I think that what was needed was us, me and probably one other person who was still at XYZ, to really continue to champion the product, we probably had to join the company to make that work.

This highlights another key difference between the successful and unsuccessful profiles for Revolutionary innovation – the maintenance of a rigorous process around the partnering itself. Often failure resulted from inadequate assessment and management of partner needs and expectations in relation to the idea.

The Role of Process

The role of process was seen as a double-edged sword by the CEOs, sometimes seen as a positive but mostly discussed when it was absent or ineffective. It appears therefore to be a hygiene factor –although necessary it was rarely discussed as the reason for success but was often seen as a source of failure if absent.

So we spent all this time doing processes and rules and things, and I think it got out of control because we spent so much time on the process that we forgot to deliver the goods.

In the context of Revolutionary Innovation, the 'Process Based' pattern was important where it related to partnering, and ensuring that the partnership worked.

Well the major thing that I leant there... was the way I did partnerships with companies. So I'd already tried this a number of times and developed the whole partnership thing, but it's a matter of really being clear with your partner about assessing you mutual interest, the mutual benefit of working together, and the mutual benefit in terms of what's the benefit here? The benefit is that you achieve the outcome. And what's the outcome? You've got to be very open about what the outcome is, right. The outcome is that you produce a product, we'll do the technology and then we'll work together to help you produce a product.

These quotes also suggest that the notion of process itself is quite different between the different forms of innovation. For Revolutionary innovations, the process is something you do with others, that you engage other organisations and individuals in. As will be seen in the next section, for Evolutionary innovation, the process to some extent is something that is delegated.

The Role of Culture

One of the most startling elements of the Revolutionary profile is the total lack of culture in the responses of the CEOs. It wasn't that culture was rejected, it just simply didn't form a part of the process. Cultures tend to maintain the existing patterns of activity, supporting the operations of the organisation, and helping the organisation withstand external pressures. Where a need for significant change is identified, these strengths can naturally become a problem.

Of course many of the innovations that occur in the Revolutionary space, take place through start-up organisations, in which case there is no culture to speak of, it's something that develops as the business matures. So, culture as a source of Revolutionary innovation is an irrelevant concept.

Normally at this point we would include a quote to further illustrate the CEO's point of view, but there isn't one to give, culture was simply not mentioned in the context of Revolutionary innovation.

The Pitfalls of the Probability based approach

The use of a Probability-based approach could occur in two ways – consciously and unconsciously. Some CEOs entered into an innovation on the basis that the idea would be one of many, and they were therefore accepting of failure on the basis that one of the ideas would be successful. In short the risk and uncertainty associated with the innovation was managed to a greater extent via spreading the risk across a number of ideas, as opposed to the gradual reduction of uncertainty discussed above. Sometimes the CEOs ended up adopting a Probability-based approach by virtue of the fact that the ideas were managed more or less as bets, driven by their knowledge of the industry or market. This is the worst case scenario as a portfolio style approach can be reasonable way to manage the risk, however, without a consciously designed portfolio, and no systematic reduction of the uncertainty inherent to the ideas, the main pathway to success is luck, and that didn't seem to happen very often.

The cost of failed Revolutionary innovations increases further where the organisation has a leader that makes bets on innovations, then won't let them go when the signals suggest they should. Consistently in these stories the effect of the project sponsor holding onto an idea for too long and not undertaking the appropriate due diligence was seen as the cause.

> *So you see in time, if you look back and clearly see errors, you know we saw the errors at the time, we just couldn't stop the errors and we just went along. In the end we got literally fricasseed and burnt.*

And

> *It was driven initially by a relationship that the organisation had with somebody who was a thinker, you know one of those professional thinkers who's out there developing new thought processes that will lead you into the future, etc, etc. And at that stage, given that that's probably 10 years ago, there were lots of people who were dipping their toe in a fairly significant digital investment without really understanding what the ramifications were. Because we just didn't know what we didn't know.*

It is interesting to observe that many CEOs whilst potentially guilty of this failing themselves were quite conscious of it in other people. One possible explanation for this was the degree of emotional engagement the CEO had with the idea. Whilst adding to the risk, emotional engagement was simultaneously seen as a necessary element in the mix.

> *You look at yourself and you are the judge or the senior judge in making the decision and you go ahead and you invest. You have an idea, you are a builder, you want to have your dream come true.*

> *If you start to be rational about these things then there would be a very small fraction of people who would be justified to actually move forward, not just simply dreaming and walking past the thought. This innovation, in my opinion, is risky. Now without courageous people progress wouldn't happen.*

Maintaining a focus on the Unmet Need

The most important overall factor in successful Revolutionary innovations related to the unmet need of customers. To this end the CEO's stories described a combination of patterns related to 'Use-inspired', 'Unseen Need' Inspired and 'Improving Current Practice' that are important to understand. As can be seen on Figure 2, the degree to which the 'Unseen Need' inspired pattern was present, was more or less the same for both successful and unsuccessful stories. Having a vision of the future, or being able to identify the idea is therefore a necessary ingredient but not the thing that differentiated success. Crucially it is the way in which the idea is applied to current customer needs that appears to make the difference.

> *...the biggest thing I learnt was this whole business of how to work with customers and distil a whole set of you know quite conflicting and disparate requirements that the customers give you. I understood that customers actually don't know what they want, mostly.*

The ability to bring the idea back to current use was described in different ways, however, the most common was in terms of timing. For example:

> My sensation at the time, because I was dealing more with the grassroots of the organisation and its stakeholders at that grassroots level, that the audience was not ready for what was being proposed, and that the processes to bring the audience to be in ready mode, that fertilisation of the field, had not occurred.

A number of CEOs provided examples of ideas that showed considerable potential but with hindsight couldn't succeed because they remained too distant from current practice. The following example of bringing a Revolutionary technology to market is a case in point, and illustrates the gradual process of moving the idea from the 'Unseen Need', perceived by the innovator, to a product that is closer to the customer's current experience and needs.

> [I said to the team] 'well I need to talk more about the customers and the business and what they actually wanted.' So I ended up doing pretty well all of the interfacing with the customers. We eventually hired a sales and marketing guy who went out with me, but the two of us worked together to understand what the specifications of the product needed to be. So we went all over the world, customer to customer – we'd go and see them all every two or three or four months. We'd talked to them, we'd say this is what we're looking like, this is what the product is going to look like, what do you think of that? And they'd say, hmmm… well you know something completely different to what they told us four months earlier. And we'd say but previously you said this, etc...We were seeing customers for about eighteen months, homing in on that unmet need. And you know you get lots of it in the first few months, but then it's really the detail, you know the last few little details, about whether this product is going to be adopted or not that make a big difference. So there was a lot of work in that. And I think all of the things I've just talked about were essential – it was about

being good at the technology, understanding that, knowing when the time was right to exploit the technology.

In the case of both the 'Partner-Based' pattern and the 'Use-inspired' pattern, what appears to be occurring is a gradual management of the uncertainty associated with the idea, whether consciously or by a function of circumstances.

Where the innovation was successful, uncertainty and risk were gradually and systematically reduced. By working with the partners and customers extensively over time, the successful CEOs were able to gradually evolve their innovation into something that critical stakeholders understood and could adopt. In the unsuccessful stories, certainty about the appropriateness of the innovation was assumed early on, and the CEOs attempted to use the force of their personality to gain the adoption. In this situation the innovation effectively becomes a bet on the part of the CEO about what the market wants. This showed a belief in the 'Probability-Based' nature of innovation – invest in ten ideas on the basis that one is successful.

What CEOs think about Evolutionary Innovation

Key Outcomes:

- The 'Personality-Driven' approach is crucial to the success of Evolutionary innovation – 'it has to come from the top'

- The CEO had to believe in the idea for it to succeed. Their belief was core to the organisation's belief.

- Most CEOs considered the culture of the organisation as a key enabler for Evolutionary innovation

- The organisational structure is often the starting point for Evolutionary innovation.

By comparison with the Revolutionary stories, the stories of Evolution present a very different picture. In direct contrast to the Revolutionary profile it is the presence of the 'Personality-based' approach that defines success when the organisation needs to Evolve. The critical difference here appears to be that because the change is internal, and the CEO has a mandate to lead the organisation, the CEOs vision is seen as more legitimate. As one CEO observed:

> We'd get together, we'd talk about the issues, we'd work out why are we getting beaten in this business, where the market is going, how it's changing, what our perception of [XYZ] is in the marketplace. And then we'd sit there and we'd brainstorm solutions. But at the end of the day someone has got to drive, you get five or six different things up on the board and you go that's the one we're going to do.

This doesn't mean that the organisation will automatically fall in line with their vision but they can wield a far greater deal of control over what goes on than appears possible when dealing with a Revolutionary change. There is a power relationship that exists here, that doesn't exist in the Revolutionary context.

Many CEOs acknowledged that the 'Personality-Driven' style was not limited to them, and often innovation required multiple champions in order to be successful. Indeed large organisations naturally include many leaders, though at the end of the day, the buck stopped with the CEO.

> ...I've tended to be somebody who... I've got a vision for something in the future and I'm very dogmatic about it and don't get distracted on a path to getting to that. Sure I've got to go over there and go over there and go over there, I've got to move around a bit to get to the final position, but certainly if I believe in something firmly enough, regardless of how abstract it may be or lateral it may be, it's about finding the people and spending the time with the influencers, people who can really make it happen rather than people who can't.
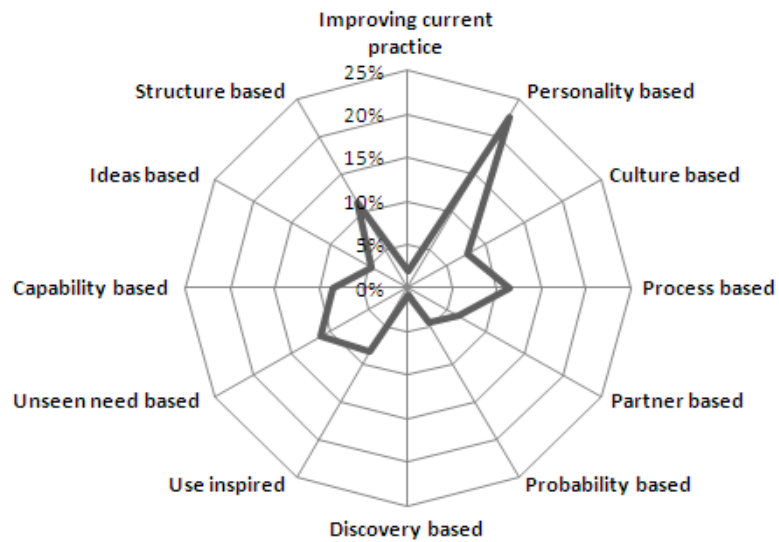
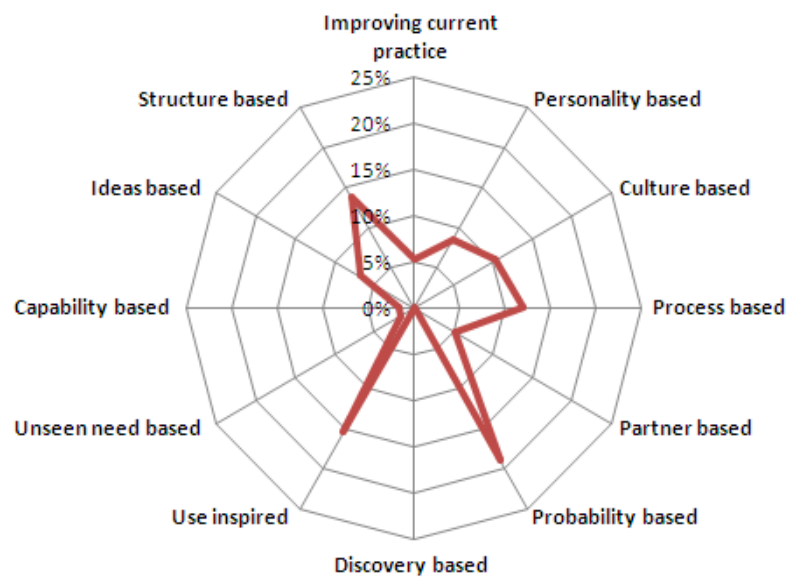**Figure 3A: Profile of Successful Evolutionary Innovation**

Figure 3B: Profile of Unsuccessful Evolutionary Innovation

Of course everything needs to be in balance, and whilst being 'Personality-Driven' can be the difference between success and failure with Evolutionary innovations, it can also amplify the failure if not kept in check. One CEO described the challenge of reeling in those seduced by the 'Personality driven' style:

> *...and then when the people are very committed to ..., it is very hard to get them to stop. And even if you take away their money and resources they seem to keep doing it anyway. So ....especially when you do it in a more formalized way, you've got to actually have people come up and say, it's over, you know, stop. Stop doing what you're doing...*

It is at this point that the irrational dimension of innovation begins to come through. On multiple occasions the CEOs used the word 'belief' to describe the critical differentiator between success and failure. Fundamentally the CEO needed to believe in the idea in order that the 'Personality-Driven' could be effectively enacted. If the CEO didn't believe in it, then it was unlikely the organisation would.

> *...the system doesn't do the deal, you know the gates and everything, it doesn't do it, it doesn't make innovation flow through to the belief stage where you get momentum and cultural belief in an organisation.*

The perspective presented in the above quote, recurred in various ways in the CEOs' stories, sometimes emphasising the structural aspects of the organisation and at other times the cultural dimensions as the key enablers for effective Evolution.

The Role of Process

For Evolutionary innovations, like Revolutionary ones, process was seen as a hygiene factor. Practically none of the CEOs advocated the need for more process in the successful stories, yet it was advocated almost to the same levels as Personality-Driven and Culture-Based in the unsuccessful ones. Again it was seen as something

you should have, but fundamentally not the source of success in innovation. For example:

> *it doesn't change innovation; it's got nothing to do with it. It might save you some time or resources from working on things that can't get through a gateway, but that's not innovation.*

While the above quote is consistent with many of the views put forward, it brings into perspective the difference between the CEO's view and the views of those to whom the responsibility for process has been delegated. Some of the innovation stories the CEOs told were from stages in their career when they weren't operating in a CEO role. In these instances process was seen as an important tool for, among other things, gaining buy-in:

> *...the way to get buy-in from other people outside your group is you get to a prototype stage. So we probably did three or four months worth of just internal in the group doing some prototyping, proving out some context and then getting to the point of a demo, right. And then I was able to show my management at the time, OK, here's a demo of what is possible. And then you start to get buy-in from outside the group, saying, well, OK, keep working on it, right, because there is some merit to what you're doing.*

Although the use of prototyping, as recounted by this CEO, was for gaining buy-in, the other effect was reducing the level of uncertainty in the mind of the buyer (his management). Similar to the Revolutionary stories, the other element that can be taken from the above story of success was that process provided the mechanism for the reduction of uncertainty and risk. The differentiating feature of a good process versus a bad one was the CEO's ability to use the process to improve decision making about the idea. As noted above, because the 'Process-based' approach was often only seen as a hygiene factor, it could be divorced from the decision making process, forgotten in a 'Personality-Driven' push to get to an outcome. The quote below provides an example where the process got lost:

Well what we did there was we just threw more money at it. It was one of those classic cases of, 'we've got to make this work, let's up the marketing, let's take it to TV'. So you know your $2 million loss became a $4 million loss pretty bloody quickly. So another lesson learnt there is you've got to have your checks and balances in along the way especially if you're trying to do something that's innovative and a bit out of the box and a bit expensive. Yes, you've got to continue to check it and you've got to continue to monitor it I think.

So there is a tension that exists for CEOs when it comes to Process. They acknowledge its importance, but don't like being constrained by it. In the realm of Evolutionary innovation, Process is not the thing that makes a difference, but their ability to drive the change through does. Inspiring the organisation behind the innovation is more likely to lead to success than a nice shiny stage-gate (but you still need a stage-gate just in case).

The Folly of Ideas

The power of the innovative idea received mixed reviews from the CEOs. Whilst having a flow of good ideas in the organisation was seen as important, this was usually seen as part of the 'Culture-based' approach which will be discussed more in relation to Incremental Innovation. Far more important to the CEOs was the challenge of executing on the delivery of those ideas.

For example:

One of the problems with innovation is people think that the problem is there's not enough ideas, sometimes that's an issue, but ideas really are a commodity and I always cringe when I hear 'we're now innovative therefore there's a suggestion box over there'. That's not innovation, that's just ideas generation, that's an important part of the process but it doesn't take a lot to get people to give you their ideas , what does take a lot is to get them to execute the right ideas.

The challenge of execution came back to a combination of Personality-Driven, Culture-Sourced and Process-Based styles, and how well these can be coordinated. Like many things this appears to be a challenge of achieving balance. As noted above, the need for belief in the idea is crucial and powerful, but also needs to be kept in check.

And that's one of the things that I think hurts a lot of organisations is the beliefs and the egos of the leaders, where they have a value system that means the good ideas and change can't be seen upon objectively.

The Structure-based Pattern

A distinctive element of the Evolutionary profile was the role of the Structure-based pattern. Structure, in the form of organisational hierarchy or organisational silos, was seen as something that had to be overcome before innovation could begin. The creation of an environment for innovation therefore, was not simply cultural as may be expected but clearly highlighted the need for structures that enabled ideas and innovations to develop.

So hierarchy kills good innovation. So my thought was make communication flat, and I think to do collaboration well you really only need a shared interest and a way to communicate, but to do it well you need good contribution and good feedback. The open source environment is the best demonstration of effective collaboration and innovation.

Structure therefore was a precursor to innovation rather than the source of success. For many CEOs it was the first step that needed to be completed before the real work of innovation could begin.

What CEOs think about Incremental Innovation

Key Outcomes:

- Incremental innovation is about doing what we do today better, but for CEOs this often means solving problems rather than creating something new.

- It is driven from inside the organisation, extending the use of existing systems

- It is something that comes from the bottom of the organisation rather than the top, and works more effectively when the leadership gets out of the way

- It carries few political implications and so is not dependent on a forceful personality to see the idea through to implementation.

Although the Incremental Innovation stories collected for this research may involve the more traditional 'suggestion box' style of staff sourced idea generation, the way we have conceptualised the difference between Incremental and the other forms of innovation (as shown in Figure 1) suggests a broader focus than is often associated with this form of innovation. Although some Incremental Innovations may have been represented by small, almost insignificant initiatives, they could range up to multi-million dollar projects. Many of the Incremental Innovation stories, were characterised as having high levels of certainty, but more often than not were a reaction to some sort of problem that needed to be solved. The parameters of the problem (relative to the Revolutionary and Evolutionary stories) were largely understood, and the organisation simply needed to fix it and move on.

The most pronounced feature of the way in which this was achieved, was through leveraging the culture of the organisation. The best person to solve the problem was not the CEO but the people at the coal face – indeed it had to be the staff.

> ...And so it's how do you plug into the talent that we have; how do you plug into the ideas that could happen when someone is sitting with a client to say, hey, why don't we do this? ...you know three days later you've got an idea and you've had 20 or 30 people build on it...

Furthermore the imposition of incremental improvements by the CEO was viewed by many CEOs as simply the wrong way t Furthermore the imposition of incremental improvements by the CEO was viewed by many CEOs as simply the wrong way to go. Figure 4B clearly shows that a 'Personality-driven' approach is more strongly associated with the failure stories than the successes. Part of the reason for this is that the CEO doesn't have the necessary knowledge to solve the problem and so gets in the way of those that do.
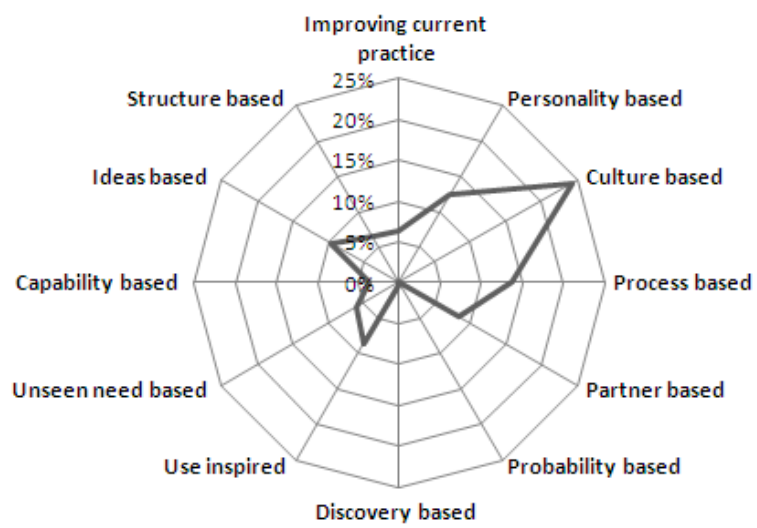
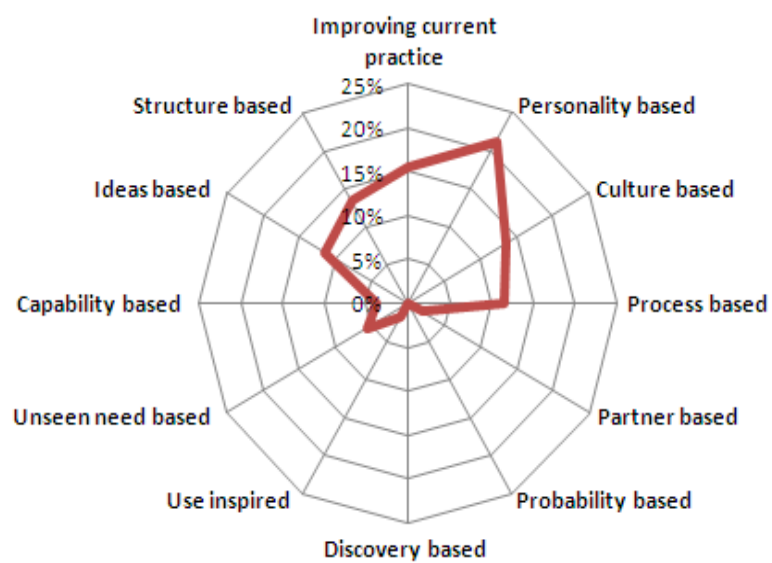**Figure 4A: Profile of Successful Incremental Innovation**

Figure 4B: Profile of Unsuccessful Incremental Innovation

Figure 4B clearly shows that a 'Personality-driven' approach is more strongly associated with the failure stories than the successes. Part of the reason for this is that the CEO doesn't have the necessary knowledge to solve the problem and so gets in the way of those that do. Interestingly the CEOs who portrayed this style of Incremental Innovation, also felt that what they were doing was Revolutionary, despite the fact that most of the parameters around the innovation they were attempting had high levels of certainty attached to them. It may be that what they were attempting was a 'first' for their industry but in reality there was little uncertainty to be managed in the implementation of the idea: no new partners, no new product, not even a new process.

The Role of Organisational Culture

For the CEOs, who saw Incremental Innovations as being Culture-Sourced rather than Personality driven, it was the achievement of 'unintended upside' for the organisation that underpinned their approach. By 'unintended', we are referring to self-directed innovation on the part of staff.

> So what we realised was for us to be good collectively we had to change the individual functional view of success from a context of 'me' to the context of 'we'. And once we did that and we created an understanding that it's the bigger picture, it's the overall goals of the network, it's supporting each other that matters, the process of designing and innovating on the [project] started to drop down into the organisation to almost any level. So anyone anywhere could come up with a great idea, and they'd come up with the right ideas.

Indeed at a detail level, the creation of an innovative culture could overcome a perceived 'lack of focus', and even 'failure to address an unmet need'. Primarily this was a function of values and purpose. To access the benefits of an innovative culture many of the CEOs saw the need for themselves to model the values that supported innovation. For them, culture starts at the top.

> Well it starts with me, so I've got to be those behaviours. And I've always, you know for whatever reason I get that, and so on the occasions when I have behaved contrary to the values I'll actually say to my guys you know just give me a moment where I cannot role model, OK, because I'm going to say something that I shouldn't. So I'm very conscious of it.

And:

> ... we had absolute support from the very top of the [organisation] all the way through to the [people] on the ground because they were financially motivated to drive this and their CEO believed it. So he honestly believed it and therefore he made room inside of their score cards to accommodate that, including the cultural change.

There is an important distinction to make here, between the Personality-driven style and the Culture-sourced approach: where the CEO adopted a Personality-driven style, the story centred around their vision of the innovation, with the organisation being dragged along behind. In Culture-sourced stories, the CEO still provided a vision and support, but that vision was directed towards the environment that people worked in and protecting that environment, rather than the way in which they directly influenced members of their organisation.

The importance CEOs gave to Culture was more or less unwavering regardless of circumstances. For example whether the idea was 'focused' or 'unfocused'; whether there was or wasn't a 'well conceived business plan'; culture was perceived as a critical source of success.

The ideas that form the basis of Incremental innovation come from the critical insight of everyday staff performing everyday tasks.

The potential for, and value of, cross-fertilisation explains the emphasis placed on structure in this approach as internal structural barriers to collaboration may impede both idea generation and effective implementation.

Ideas then come from staff doing what they ordinarily do:

… what was different about it is that it didn't involve somebody who's job was to do new things, it involved somebody that was just doing an ordinary job thinking about I've got a problem with this particular technique in the process and how can I fix it. It didn't involve somebody who was a card carrying rocket scientist who's job was to think new things.

As the above quote shows however, employees having ideas is only the first stage. They need to feel that they are sufficiently empowered to raise them, and to care enough to want to use that freedom for the benefit of the organisation. For this approach to innovation to succeed the respondents implied a strong need for a supportive set of attitudes and values to exist within the culture.

… it's taking people further along the journey to say let's not just have a whinge, you've actually got to come up with what would you like to do differently

That culture cannot necessarily be assumed and where it does not exist, it may imply the need for an Evolutionary Innovation to get it there and this usually implies a significant role for a 'Personality-Driven' approach.

The Role of Process

If there is a will to contribute to Incremental innovation among staff, there also needs to be a way. The respondents reflected the need for a balance between the 'Cultural-Based' and 'Process-Based' approaches. The desired process for supporting this form of innovation was seen to be very simple and incorporated into normal business practice. For example:

We embarked upon a relatively simple idea around a [mechanism], … if anyone who was involved in a process that didn't make sense or they were asked to do something that was nonsense that they would [trigger this mechanism], because they were being asked to do something silly, and essentially write down the details of what it was and send it into a core centralized [system]… and we would analyse and take those on and act on those. And over about three years we had something like 2,500 entries, most of which were very constructive, and out of that a number of process innovations came about. And so that was a very simple but successful way to engage our people in a very different way. They liked the idea, it was a novelty, it had a fun name, and they enjoyed using it and it was easy to use, and it enabled us to get a read on what were the things that were frustrating people so that we could start to prioritise the projects.

This theme of engagement was central to the success of this approach and needed to be considered in the design of the process itself, in other words, the design of the process needed to support the maintenance of a culture of meaningful engagement and contribution.

… we had to be focused on closing the feedback loop, not necessarily on an individual basis but to say…what we ended up doing was showing a pie chart - a year later we went back and said here's an analysis of the issues and you can see what the result was.

These ideas are less likely to be controversial when compared to the game changing ideas which drive Revolutionary Innovation or the leader advocated initiatives underpinning Evolutionary Innovation. Accordingly there is less need for significant champions, although structure may be an issue where an idea from one operational area implies the need to change in another. For example:

… a lot of successful innovations I think come from something that's always been done one way and just thinking about doing it from another way. Because I think a lot of important innovations actually come from cross-discipline things. It's that sort of cross-fertilising thing.

Conclusion

There are a number of conclusions to be drawn from this research that hold implications for CEOs themselves, those who are charged with selecting them and those who work for them. Unsurprisingly there is no single expression for 'What CEOs mean when they say they want to innovate', but it is clear that different contexts give rise to different needs and in those different circumstances there are some meanings that more often lead to success than others. The observation that CEOs don't appear to change what they mean by innovation to match the organisational circumstance raises significant implications for the strategic future of many organisations – does their CEO have the right style of innovation for the challenges that the organisation faces? A mismatch between style and circumstance could be both costly and permanently damaging to an organisation. Can CEOs change their spots, once armed with the appropriate tools? This implies challenges for Boards, for staff and for the CEOs themselves – do they know if their approach is appropriate and can they change it if they want to?

Our key conclusions will be summarised below:

1. An organisation experiencing disruption and possibly in need of a Revolutionary change needs a CEO who is willing to partner with others and manage the uncertainty of their circumstances in a systematic way. The archetypal charismatic CEO is more likely to not be the person for the job as the Personality-driven approach seems more likely to fail in this context.

2. A CEO with a charismatic Personality-driven style is better suited to the delivery of Evolutionary change in an organisation. Indeed they are necessary when expansion into new markets, or significant changes to operations is required. A CEO who is not focused on driving the change from the top is significantly more likely to fail.

3. Successful innovation should not be a gamble. The ego based bet on an idea was often seen as an effective way to fail. Where CEOs begin to display this type of approach, it is crucial that effective processes be put in place around them to manage the risk. Process won't produce successful innovation, but it might reduce the chance and magnitude of failure.

4. Belief and emotion are an important factor in the CEO's ability to engage with an innovation. This is more significant for those who work for the CEO. CEO buy-in is not rational, and as a consequence the process of gaining their belief or uncovering what it is, is crucial to the success of both Evolutionary and Incremental innovation.

5. The level of resource that should be dedicated to innovation is variable from industry to industry, and whilst some CEOs had very firm views around what the proportion should be, it was clear that some had never thought about it. Only two of the CEOs linked the proportion of resource to the strategic circumstance of the organisation, with most thinking about it in terms of industry benchmarks.

There are also a number of areas for further research that could not be addressed in this study. Differences in approach between industries for example are something that would require a significantly larger sample in order to draw any conclusions.

The near absence of any stories from the Uncertain/Reactive quadrant of Figure 1 raises a number of questions. Are these stories that simply don't occur, or are they stories that CEOs don't want to recall? What does innovation look like in that quadrant and therefore is there another profile of innovation that we are yet to identify? How do the profiles identified in this study relate to the public sector? How do the different needs and pressures of this sector impact on the nature of innovation and what it means for its leaders?

What CEOs mean when they say they want to innovate, has received little attention in the past, but arguably is one of the most important drivers of an organisation's innovative capacity.

Appendices

Appendix A: Description of the sample group interviewed for the study

Appendix B: Research Methodology

Appendix A: Description of the sample group interviewed for the study

Industry	No.
Telecommunications	2
Transport	2
Utilities	1
Financial Services	7
FMCG	1
Retail	2
Public Sector	2
Resources	1
Health	1
IT	6
Media	1
Total	27

Table 3: Breakdown of sample by industry

Female, 20%

Male, 80%
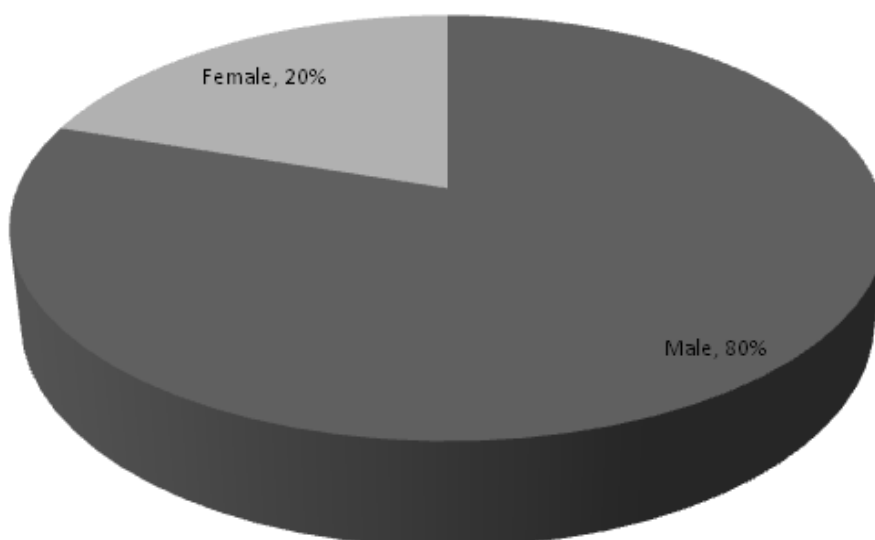
Graph 2: Percentage Breakdown of sample by gender

Appendix B: Research methodology

For this research, qualitative interviews with 27 CEOs from across the top 300 ASX listed corporates. The sample of CEOs was composed by a combination of those with overseas experience at senior levels, and those with senior management experience that is largely limited to Australia.

Interview process

The interviews involved the collection of three forms of data:

1. **Demographic background**; including industry backgrounds, range of experience, risk appetite and views on resource allocation for innovation

2. **Narratives**; two stories of innovation from the CEOs professional experience – one of a successful innovation, one of an unsuccessful one. The selection of which stories to tell was left to the CEO to decide, however, they must have been personally involved in the story, and the story should involve multiple people. Where CEOs were uncertain about which story to tell, they were encouraged to choose experiences that had led them to question their thinking in relation to innovation. The narratives accounted for approximately 50% of the interview.

3. **Repertory Grids:** This is a form of psychometric interviewing requiring the interviewee to distinguish the difference between two 'elements', in this case people identified in the CEOs stories. The points of difference that are identified represent the dimensions against which the interviewee construes the topic of interview – in this case innovation. The use of Repertory grid, as an effective interviewing method for the elicitation of meanings has been established by a large body of research conducted over the past 50 years. It has been successfully applied to a wide variety of contexts where an understanding of individuals' specific patterns of construal is necessary.

Interviews normally took approximately 1 hour to complete, though in some cases went considerably longer. Stories were recorded to encrypted drives for subsequent coding and analysis.

Analysis

The first stage involved rating the CEOs stories in terms of the level of certainty that was held about the situation and the degree to which the CEO was responding to an externally driven need - a burning platform, or had generated the innovation without a stimulus. The stories were then plotted on the matrix created by these dimensions.

To identify the different forms of innovation a line was drawn that distinguished three distinct levels of uncertainty amongst the stories. This was based upon sum of the Pro-activity score for the story and the uncertainty score for the story. The uncertainty scores were doubled to provide a greater weighting on uncertainty for the purposes of distinguishing between forms of innovation.

Analysis to derive the typologies was conducted using a combination of qualitative data analysis tools. With the identification of the typologies achieved, through the application of the constructs identified via the repertory grid process, to the coding of the narratives. Pattern analysis across the various code counts gave rise to distinct sets of patterns, which were labelled to produce the typologies discussed in the report.

This approach is fundamentally different to other survey based approaches that have been used to explore innovation, in that the vast majority of the data generated was produced by the CEOs themselves without any specific questioning to lead their responses.