

'Innovation is not merely the development of new products or technologies, but the whole process of introducing and maintaining a culture of creativity and original thought throughout all aspects of running a business.'

Management and Innovation



Cyngor Rheolaeth Cymru
Wales Management Council





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For details of current activities and other publications, please see our website.

Website: www.crc-wmc.org.uk

Address: Wales Management Council, P O Box 61, Cardiff CF24 5YE

Tel: 029 2045 0224

Fax: 029 2045 0231

email: help@crc-wmc.org.uk



Llywodraeth Cynulliad Cymru
Welsh Assembly Government



MANAGEMENT AND INNOVATION

'We are not just talking about high technology businesses keeping at the cutting edge – innovation is about far more than that. Indeed, many innovations are small ideas to do things differently, better, more simply, yet they can make a big difference to the profitability of business in all sectors.'

Andrew Davies AM, Minister for Economic Development

'Innovation comes from the talents of individuals – through their inventiveness, creativity, problem solving and learning, and an informed acceptance of risk.'

Wales for Innovation

'Innovation is a key driver of productivity. It generates competitive advantage, and promotes sustainable growth, with all that means in terms of more added value jobs and greater, more sustained prosperity.'

Wales for Innovation



FOREWORD

Wales for Innovation, the Welsh Assembly Government's Action Plan for Innovation consultation document, sets out the need for innovation as follows:

'Innovation as we define it in this action plan is the successful, commercial exploitation of new ideas. It is a key driver of productivity. It generates competitive advantage, and promotes sustainable growth, with all that means in terms of more added value jobs and greater, more sustained prosperity.'

Wales for Innovation goes on to state that:

'Lack of interest in management development and planning, often coupled with unwillingness to act on expert advice, and inadequate levels of qualification, all contribute to maintaining a productivity gap with the major economies around the globe. Innovation is a vital means to alleviate these problems and boost productivity.'

Welsh Managers need to raise their game, be prepared to challenge the status quo and adopt innovation best practice to secure the future of their business.

Early in 2002 the Wales Management Council (WMC) established a Business Innovation Working Group with the aim of identifying the 'secrets of innovation', to be disseminated widely as a means of helping businesses in Wales learn from each other.

The WMC Working Group began this process by organising a workshop for Welsh entrepreneurs, which was held at Cardiff Business School. The results of the brainstorming at this workshop are in Appendix 1.

The Working Group also defined a programme of further research involving in-depth interviews with Welsh companies, the majority of which were registered under the Welsh Development Agency's Commitment to Innovation scheme, to find their 'secrets of innovation'.

This report summarises the findings of that research and provides advice on the practice of innovation, as a major contribution to action under Area 3, Better Equipping People to Innovate, in ***Wales for Innovation***.

Wales Management Council

March 2003



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Maxim Technology
Melin Tregwynt
Spectrum Technologies
3M
Weir Engineering Services
Pentwyn Splicers
Gridxitex

Members of the Wales Management Council Innovation Working Group and participants in the brainstorming workshop are listed in Appendix 1.

The research work that contributed to this report would not have been possible without the help of:

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EXECUTIVE SUMMARY

Wales for Innovation, the Welsh Assembly Government's Action Plan for Innovation, commits the Wales Management Council to playing a leading a role in "Better Equipping People to Innovate."

During 2002, the Wales Management Council asked William Battle Associates to conduct a series of in-depth interviews with 12 companies in Wales to find their "secrets of innovation".

This report presents the findings of that research as a way of sharing best practice and encouraging others to both innovate and create an environment where innovation can flourish.

Innovation is not merely the development of new products and technologies, but the whole process of introducing and maintaining a culture of creativity and original thought throughout all aspects of running a business.

DTI and CBI research has established that the most competitive companies in the UK are led by visionary, enthusiastic champions of change, who know their customers and constantly introduce new, differentiated products and services.

Research in Wales has identified seven "secrets of innovation"

- **Leadership**
- **Strategy**
- **People**
- **Process**
- **Products/Services**
- **Customer Focus**
- **Profitability through Competitive Advantage**

Leadership for innovation is a combination of managing the status quo and external focus to understand the market and where it is going. Leaders set the pace and direction of the business. The skill set is different from management. Leaders must think outside the box, challenge what currently exists, have the dynamism to succeed, and above all value people.

Innovation must help to deliver company strategy and must be applied within a context of where the business wants to be. Management and workforce must then work as a team to innovate to achieve shared business goals.

The culture of a company is critical to promoting innovation and competitive advantage. The key question for Welsh managers is 'Are we getting the best from our people?' They must ensure that all employees find their work fulfilling and rewarding, and then maximise the opportunities for capturing ideas and thereby increasing profitability.

Innovative companies demonstrate the characteristics of High Performance Working with great emphasis on teamwork, autonomy of decision-making, full involvement in the whole business process, emphasis on skills development, and reward for success.

Innovative leaders and managers are open to critical information, are excellent communicators, have a sense of urgency, question the status-quo, know the customer intimately, practice 'hands on' management, know the power of a good idea, seek to learn, and share experience.



They must also ensure that they recruit the right people, deploy them in the most effective way possible, and recognise and reward the innovative contributions that each and every employee can make.

There must be a process for managing and stimulating innovation. This process must

- **capture ideas quickly from employees and customers**
- **highlight key issues to find solutions to problems or to develop new ideas**
- **measure the right things and put this data to innovative use**
- **network with those outside the company to gain a fresh business perspective.**

Companies across Wales vary in size, complexity and management style. Each must be flexible in managing innovation, and develop a process that is appropriate for their own objectives and circumstances.

Managers who aspire to lead innovation must be prepared to challenge what already exists and if necessary be unpopular so that the business can exploit new opportunities. The innovative manager must be a master of change. The key question is 'Have I as a manager scanned the horizon for opportunities and threats which affect my business?'

Managers must also learn to manage the innovators by being open, reflective, responsive to ideas, supportive and able to embrace change. The manager who has a vested interest in the status quo will stifle innovation.

Innovative companies have an intimate knowledge of their customers who will provide the greatest stimulus for new products and services. But the innovation must also be proactive, anticipating customer needs many years in advance.

Companies in this research demonstrated that they also took the fullest possible advantage of good luck and business opportunities that came their way to develop new products and services that further differentiated them in their market.

A major barrier to innovation can be current success and the gradual continuous improvement of the current business. This can create complacency. Innovation is not continuous improvement, it is a step change where the customer offering delivers significant added value and satisfies sometimes an unarticulated customer need.

For innovative companies customer focus and the depth of customer knowledge are vital factors for success. Allowing staff at all levels to visit customers and learn from them, and creative analysis of customer complaints, are just two ways in which innovative companies put themselves in their customers' shoes.

Innovation provides a competitive edge; it is the means by which companies differentiate their goods and services from the competition.

This research suggests that the greater the level of empowerment for innovation, the higher the profitability of the company.

Innovative managers need continually to ask questions about their business and their market, and act on the answers to innovate and improve their business.

This report not only summarises the secrets of innovation from leading companies in Wales, but uses this as a stimulus for further questions every manager should ask about his or her own business, so that they can become more innovative, more successful, and more profitable.



INTRODUCTION

The *Regional Technology Plan for Wales* states:

'Innovation involves the profitable exploitation of new ideas and techniques. As such it is the key to success for the Welsh economy. The challenge of innovation for individuals and companies is to have the desire and capability to exploit new ideas, methods and technologies faster than others'.

Wales for Innovation states that

'Innovation can result from straightforward improvements to production processes. It can arise from better designed new products and services; new ways of marketing or managing people; new partnerships, or new sources of finance.'

Peter Drucker in his book *Innovation and Entrepreneurship* says:

'Every three years or so, the enterprise must put every single product, process, technology, market, distribution, channel, not to mention every single staff activity on the trial of its life.'

The purpose of innovation is sustained competitive advantage in business, based upon differentiation of products and services.

Innovation increases profitability. Doing something differently differentiates a company from the competition, and creates a financial advantage through greater profitability.

The joint publication from the DTI and CBI entitled 'Competitiveness – how the best UK companies are winning' states:

'Nine out of ten of the winning UK companies studied exhibited the following characteristics of innovative best practice;

They are led by visionary, enthusiastic champions of change, who

- *Unlock the potential of their people*
- *Create a culture in which employees are genuinely empowered and focused on the customer*
- *Invest in people through good communications, teaming and training*
- *Flatten and invert the organisational pyramid*

Know their customers and

- *Constantly learn from others*
- *Welcome the challenge of demanding customers to drive innovation and competitiveness*



Constantly introduce new, differentiated products and services, by

- *Deep knowledge of their competitors*
- *Encouraging innovation to successfully exploit new ideas*
- *Focusing on core business complemented by strategic alliance'*

The three dimensions of innovation under this model are:

- Management
- Customer knowledge
- Differentiated products and services

The Innovation Working Group established by the Wales Management Council believed that innovation had to be considered from two different perspectives:

- The Management of Innovation

because innovation does not occur without a process, a supportive culture and a context.

- Innovation in Management

because there must be a paradigm shift in management practice, from control and hierarchy, to leadership and empowerment, flatter management structure and improvement in the motivation of people.

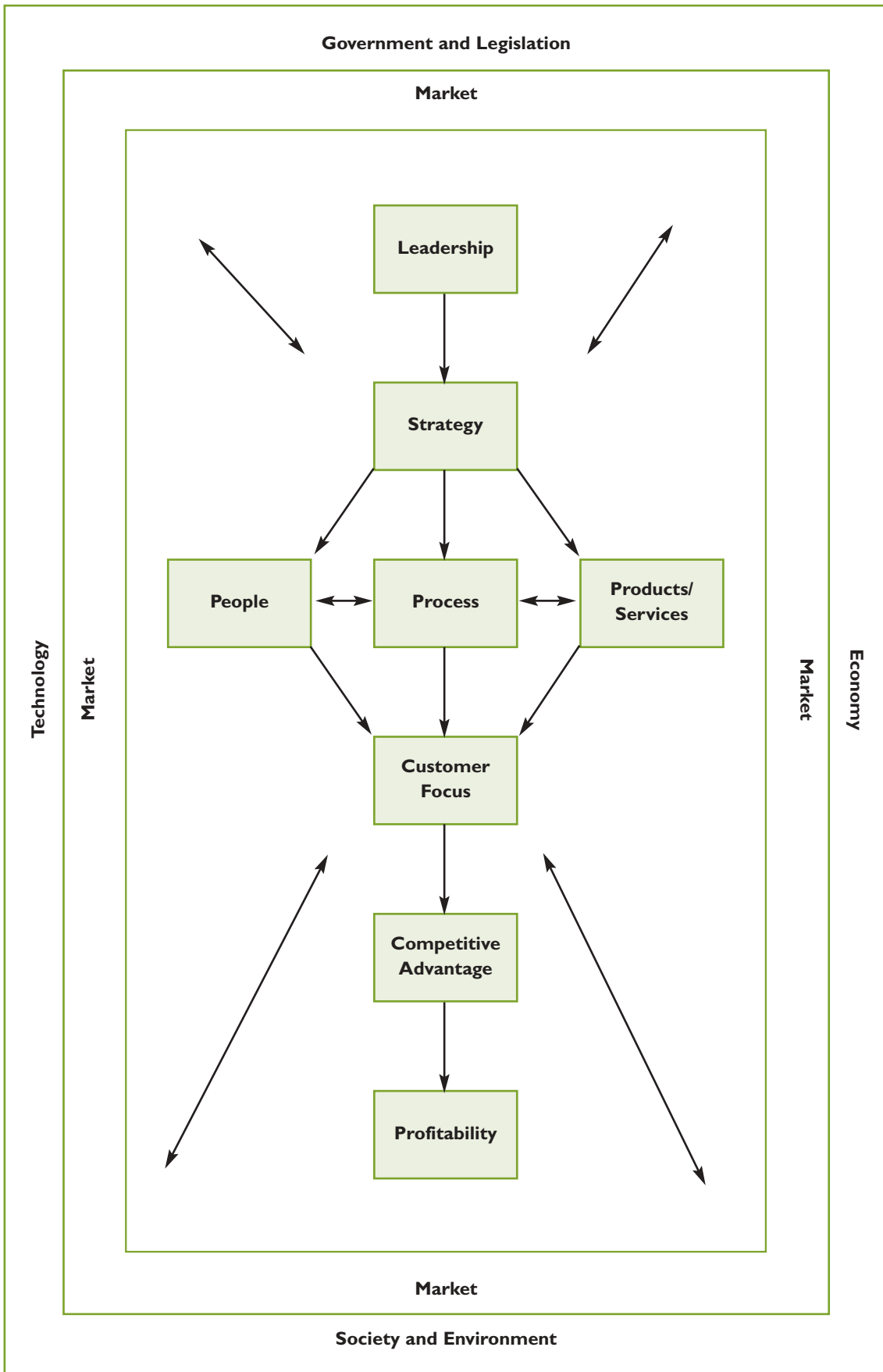
The subsequent research conducted as a background to this report identified seven dimensions of innovative organisations, as set out in the diagram below:

- Leadership
- Strategy
- People
- Process
- Products and services
- Customer focus

all leading, through competitive advantage, to increased

- Profitability





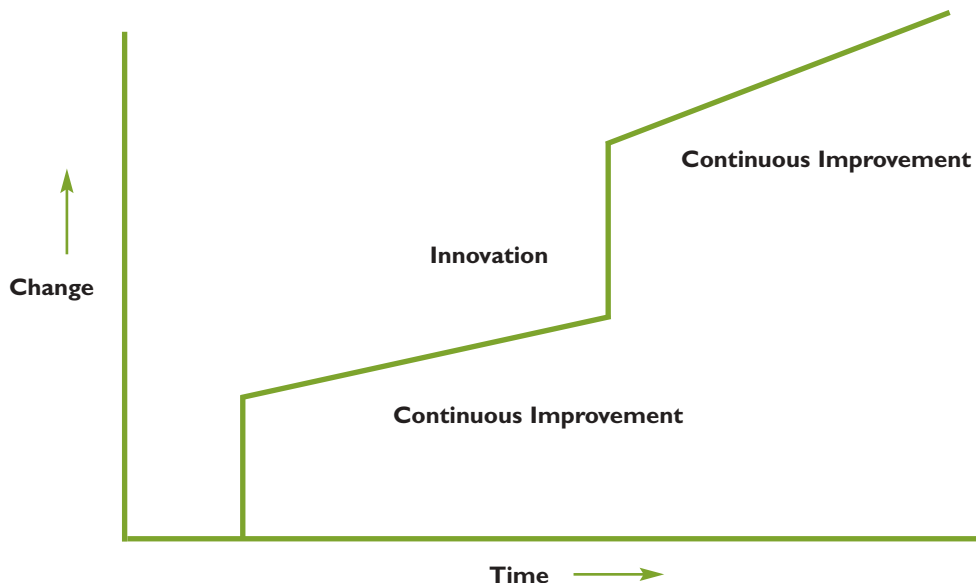


Customer and employee expectations combine with new technologies, the changing needs of society, new legislation, and other external influences, to create a business environment where only the businesses that are prepared to change and innovate will thrive.

Innovation is not continuous improvement or as termed by the Japanese, *kaizen*. In fact continuous improvement can be the enemy of innovation since it creates the impression that sufficient progress is being made whilst a competitor may be developing a completely new approach, which will render a company's product obsolete.

This was the case with the Swiss watch industry, which was severely damaged by the innovation of digital watches.

The diagram below shows that continuous improvement gradually improves the product or service but innovation is a step change which creates a completely new offering or approach to the customer, or a completely new way of working.



This report is not about continuous improvement, which is or should be an essential part of business life. *Kaizen* and innovation should co-exist, but managers must continually seek the step-change of true innovation.

Innovation requires both knowledge and ingenuity but most of all requires diligence, persistence and commitment.

Innovative organisations do not just happen, they are created by leaders who identify market need and deliver new products and services.

This report details some of the secrets of innovation from Welsh innovative business, and asks managers to challenge the status quo, embrace change, and actively consider new ideas and ways of working.



LEADERSHIP

Leadership is one of the critical factors in developing an innovative organisation.

Leaders are individuals, they have styles, practices and approaches but there are essential principles which every leader or leadership team must practice for a business to survive in a rapidly changing business environment, within a global economy.

Managers develop leadership skills when they think beyond doing the job today to considering the place of the company within its supply chain and where the market is heading.

Leadership is not a designation but an attitude.

Innovation in practice

The role of leadership within the best companies interviewed was dynamism and knowledge of the customer and market. When interviewed, these people knew the facts about their industry and were honest about their competitive position. It was also evident that the best example of innovative leadership was not found in a single person but a team.

Leadership for innovation is a combination of managing the status quo and external focus to understand the market and where it is going. Leaders set the pace and direction of the business.

The skill set is different from management. Leaders must think outside the box and challenge what currently exists. It is vital that this dynamism is, however, managed.

An organisation needs to conduct its day-to-day business effectively and continue to satisfy customers. If this is not accomplished then the business will not survive in the short term. The danger is that management may become complacent with the current business performance. The profitability of the business can therefore become eroded over time with changes in the market place.

Leadership for innovation and management of current performance are both essential elements for business success.

The leadership team's attitudes have a major impact upon organisational culture.

Leaders will show by example what is and what isn't acceptable behaviour. Leaders should exhibit all the key traits for the development of innovative organisations and be seen to 'walk the talk' by the whole workforce.



Innovation in practice

Businesses involved in this research demonstrated that the leadership team will need to motivate others. They must be seen to lead by example. They must inspire others and be seen to have the focus and energy to build confidence in the future of the business, demonstrating that they are actively delivering their key role of protecting everyone's futures.

The leader must also be an initiator and manager of change. Innovation is a behaviour, which sees change as healthy and normal. Change creates new opportunities for innovation in a rapidly changing world.

Complacency is not an option.

A major barrier to innovation is often business success. This can increase complacency and a business as usual attitude. It is the leader's role to anticipate the future trends and to plan for the changes to come.

Leaders have a key role in being drivers for innovation and champions of change who manage risk and lead by example. By definition, innovation is something new and untried, there is always an element of risk, the aim is to manage that risk, through research, planning, strategic alliances and the tenacity to turn failure into success.

In an innovative company the leadership must

- hunt the best management team
- know their market thoroughly
- anticipate trends, however unpalatable they may be
- be open to new ideas and approaches
- seize opportunities from unexpected success



and most of all they must

- truly value their people.

The business leader and leadership team must possess a thorough knowledge of the marketplace, an understanding of stakeholder needs and the wider world, coupled with an insight using experience and expertise to challenge what currently exists to develop products and services, which will deliver unarticulated customer needs now and in the future.



Innovation in practice

The research shows that successful innovative companies are led by people who:

- think on a global scale
- see opportunities years in advance
- are proactive
- adopt a strategic approach to business development
- communicate the business goals and reward performance
- are masters of managing change
- 'walk the talk' and lead by example, setting the tone
- manage by the numbers, identify key performance metrics and use them regularly to navigate the business
- have high expectations and navigate the business accordingly
- have a flexible approach.



Questions managers need to ask:

- Q** *Have I scanned the horizon to consider the opportunities and threats, which will affect my business?*
- Q** *Is the leadership of my business a team that works together to solve business problems and exploit opportunities, or a committee that looks after its own interests?*
- Q** *When was the last time I made a radical change to our business, and why?*
- Q** *What is the most important impact I have had on my company?*
- Q** *Am I pleased with our current business performance?*
- Q** *Do I lead or manage my business?*
- Q** *What do managers in our company think are the key attributes of a leader?*
- Q** *Do we walk the talk, or just talk?*
- Q** *What are the key political, legislative, economic, sociological, environmental, and technological issues that are likely to affect my business in the next five years?*
- Q** *What am I going to do about the key external issues?*



STRATEGY

The crucial role of the leader and leadership team is to use experience and insight to consider their market three to five years ahead. Many leaders see their role as anticipating market trends years in advance and creating a sense of urgency within their business, but this alone would not achieve results. Without a realistic strategy and action plan it may merely create despondency and a fall in morale.

Prof. Dylan Jones Evans, in his Institute of Welsh Affairs report *Creating an Enterprise Culture in Wales*, identified that a key to the success of the fastest growing companies that were more than ten years old, operating in mature markets, was that they had the right strategy to take them forward. The businesses would not have grown unless they had asked the following questions:

- Where are we now?
- Where do we want to be?
- How are we going to get there?
- When will we achieve our goals?

The where, what and when elements of strategy provide the essential urgency which is necessary as a spur to innovation and to deliver results.

Companies taking part in the research demonstrated that, as the market for both goods and services is now global, the strategy must be global, not local. Even smaller companies must raise their game and consider both the threats and opportunities presented by the global market.

The development of a strategy creates the context for what the business will become, it is the navigating route for enterprise.

The leadership team must ensure that the strategy is deployed throughout the organisation, and that demanding but realistic business innovation targets are established.

Leadership for innovation must take place in a strong strategic context, supported by the right culture, with strong operational performance regimes linked to effective personal appraisal and reward systems.

The research shows that there is a need for innovative companies to have a clear vision of their future. The ideal is for all members of the management team and the workforce to understand where the company is going and how each person can help to achieve the shared goal.



Many companies only innovate when they are forced to change due to a crisis. This, for many businesses, is too late in the business cycle and they fail. The most successful companies in the study were not complacent, but developed a strategy based upon innovation, which would differentiate their products and services.

Innovation in practice

FIRSTPLUS demonstrate the benefits of effective policy deployment where people, both individually and in teams, know their roles and how their work impacts on the success of the business.

Innovation in practice

Giroflex have developed a strategy based upon market research for re-designing their product range to create a distinctive style that keeps them ahead of their competition.

Questions managers need to ask:

- Q** *Where is my business now?*
- Q** *Where do I want it to be?*
- Q** *How are we going to get there?*
- Q** *When will we get there?*
- Q** *Who is going to ensure that we achieve the results that we want?*
- Q** *What business networks or publications will inform me of the issues facing my business?*
- Q** *Does my business have a clear strategy for the future?*
- Q** *Does every manager know how s/he can contribute to our success?*
- Q** *Do all members of staff know and understand what our strategy is?*
- Q** *Is our strategy truly innovative?*



PEOPLE

Culture and values

Companies are not themselves innovative, it is the people working within a supportive company structure who as a team challenge the status quo and create their own futures. It is the people who create the culture of the company, its unique way of behaving and working.

Innovative organisations put their people first.

Richard Branson once said at a shareholders' meeting that he looks after his people first then his customers then his shareholders. The reasoning is that his people, if motivated and rewarded, will look after the customers. This in turn will generate profit and company value, which will please the shareholders.

Innovation in practice

The 3M company has a set of people principles to support their business goals which they have practised for over 90 years. These include:

- Respect the dignity and worth of individuals
- Encourage the initiative of each employee
- Challenge individual capabilities
- Provide equal opportunity

The research findings demonstrate that the culture and values of a company were seen to be key to their competitive advantage.

In traditional companies managers see their role as directing and controlling the work of others. Managers need to change their role in an innovative company to become co-ordinators, coaches and team leaders. They must see their role as facilitating front line workers and others to give their best. They should meticulously remove all barriers, which prevent their people from delivering their best to customers.

When they are treated with respect and are given the right tools for the job, time, training, mentoring, performance targets and rewards, the workforce will use their creativity to address the needs of the customers and the business to the advantage of all. This will also enhance job fulfilment and staff retention.



Managers must, however, beware of empowering people without the supporting structures of training, guidelines, performance metrics and reporting procedures.

Culture is set by the leadership team as 'the way we work around here'. Eventually that culture will be self-perpetuating, and the appropriate behaviours will result throughout the organisation.

Innovation in practice

FIRSTPLUS, a financial services company based in Wales, dedicate much of their resources to ensure that people within the organisation are suitably equipped to fulfil their tasks by understanding their role in achieving the strategic goals of the company. Emphasis is placed upon the development and support of the individual to make them happy and effective in their work.

FIRSTPLUS has the following company values providing principles for the way in which employees are expected to behave:

What we do:

- We praise people privately and publicly
- We are positive about the future and own it
- We are ambitious and urgent
- We act and speak as one team
- We give and welcome honest feedback
- We have fun

What we don't do:

- We don't betray trust - we build it
- We don't criticise – we change it
- We don't commentate – we are players
- We don't gossip – we say it to their face
- We don't tolerate poor performance – we deal with it
- We don't bad mouth the company or the customer

A key characteristic of innovative companies is an open culture, often requiring a flatter management structure. This is seen as a vital way of getting the best from everyone employed.



An innovative organisation is also truthful with itself, its customers, its employees and its shareholders. A lack of truthfulness creates an unreal environment where key issues are 'brushed under the carpet' and do not become the necessary spur to innovation.

Innovation in practice

The elements of corporate culture, identified through the research include:

- A shared and real understanding of what the company stands for often embodied in slogans
- A concern for the individual over rules, procedures, norms and policies. People matter more than rules, and flexibility in interpretation is required
- In larger organisations, tolerance, even encouragement, of different cultures for different teams and divisions of the company who have their own customer base
- A belief in culture and environment – 'how we do things around here'
- A well understood and widely accepted sense of informal rules regarding behaviour and expectations so that everyone knows what is expected of them
- A strong belief that what everyone does, whether at management or workforce level, makes a difference and is valuable
- Performance was strictly and regularly measured and feedback was regular
- Accountability and visibility of performance were key
- Teams were given whole units of work to complete.
- Strong corporate cultures, not just words and actions, make a real difference to business performance in innovative companies.





To create an innovative culture there are several do's and don'ts, most of which have been practised by 3M over the last fifty years.

Do...

Create a set of values so that everyone, irrespective of their job description, knows what is expected of them

- Create a widely held real understanding of where the company stands in its market place
- Show a real concern for individuals over rules, policies and procedures
- Give genuine recognition of individuals for a job well done
- Believe in enrichment and empowerment, which creates a different culture
- Know that what every member of the team does is important
- Share information and ideas.

Don't...

- Have separate rules for management and workforce. This includes car parking spaces, canteens, etc
- Have an unfair remuneration system
- Ignore the ideas of front line workers who interface with customer on a daily basis
- Inform people of important developments on a 'need to know' basis.

Values, if they are truly shared by everyone, create the culture for the business. People are not machines; they are sensitive, thoughtful, and innovative. The key question for Welsh management is: are we really getting the best from our people? **If not, why not?**

The answers may be hard for many business leaders and managers but the success and survival of the enterprise may depend upon creating a culture where every person in the company is involved and responsible for its success.



Teamwork

The research showed that the most successful innovative organisations:

- created empowered teams, which
- focused upon customer need, and
- had ownership of results they achieved, with
- personal and professional development used to
- maximise the potential of each individual through multi-skilling.

Innovative companies, which practise team working, have the following characteristics:

- Openness to critical information
- True two-way communication
- A sense of urgency
- Measured the right things and reported performance regularly
- Facilitated opportunities for people to gather together to discuss key issues.

Innovation in practice

Henry Engelhardt, the CEO of Admiral Group, carries a piece of jigsaw in his wallet to show that he is part of a team, which together creates the bigger picture.

The most successful innovative businesses utilise the benefits of teams, within a culture which encourages speaking one's mind and open communication.

The principles and practice of teamwork through job enrichment will promote innovation.

Innovation in practice

Jim Loft of 3M, Gorseinon states the difference between 3M and many British companies is their values and teamwork. William McNight, CEO of 3M stated in the 1940s that 'we will treat people the same irrespective of status'. In the 3M company there is only us, never them (management) and us (workforce).

Innovation in practice

Maxim Technology creates a strong team culture where everyone working on a project is encouraged to think of their work as a baton being passed on to the next team member in a relay race.

Innovation in practice

Giroflex, Spectrum Technologies, and Admiral Insurance have a tribal team culture. They work together towards a common goal and for a reason that they understand. They feel part of something that matters and take responsibility and ownership for the business development and survival.

Recruitment

People are the key asset for any enterprise, but the way they work together makes the real innovative difference.

It is vital therefore, that businesses which aspire to be innovative attract and recruit the best people. Once they have been recruited they need to be placed in a supportive yet demanding environment, which rewards initiative and excellence.

An innovative business also identifies and rewards the behaviours which are essential to deliver excellent customer service, business performance and innovation.

In most of the companies studied the best person for a specific task was identified not due to rank but rather because of skills and experience and she or he brought to that task.

Innovation in practice

Admiral Insurance, like many innovative companies, hire for attitude and train for service. The attitude and personality of the person is key to innovation and customer service. In many circumstances, training can provide the necessary skills to facilitate competence and innovation.

Innovation in practice

Iain Maxted, Maxim Technology's M.D., believes that business success is based upon the need to 'surround yourself with clever people'.



Effective communication

Effective communication is one of the key aspects of innovation policy within the companies surveyed. The use of channels of communication such as e-mail, newsletters, e-notice boards, team briefings, managing by walking around and notice boards were evident in most of the innovative companies surveyed.

The responsiveness of businesses was also seen to be rapid with flatter management structures where communication channels were shorter.

The most innovative companies ensure effective communication from management to front-line workers and vice versa. Some companies also arrange customer focus groups and meetings to review quality and mine new ideas.

For communication to be really effective, managers in innovative companies are always

- Specific and quantify performance using numbers
- Clear about prioritisation of actions
- Give clear examples
- Communicate at a time when the receiver is most receptive
- Focus on issues, which are under the control of the people receiving the information
- Use language that is appropriate to the audience

Innovation in practice

FIRSTPLUS encourage ideas on any company related improvement from all their people. These ideas can be in the areas of time and cost saving, service improvement or new product or service ideas. An individual submits her/his idea to a management board comprising staff from all levels within the organisation. Ideas are scored and awarded incentive points, which are redeemed at the end of the year.

Recognition and rewards

Internal recognition is vital in promoting the concept of innovation as everyone's responsibility.

In the companies surveyed for this research it was evident that recognition for a job well done was essential motivation for future innovations. Various procedures were adopted from a note in a payslip to a personal meeting or telephone conversation with their manager and recognition on an achievers listing. The best performing companies emphasised the benefits of teamwork. Recognition was therefore given to a team rather than to an individual. Achievement was measured in terms of business benefits.





Innovation in practice

In FIRSTPLUS a reward for the best innovative idea was the use of a company BMW car with all expenses paid for one week. Other companies used a points system for a person to take her/himself and a partner out for a meal.

Job enrichment

The most innovative companies surveyed developed job enrichment regimes, which resulted in effective empowerment through flatter organisational pyramids.

The elements of this approach included:

- Workers are organised in teams
- People rotate their roles in the team
- Teams are allowed to plan their own work
- Task difficulty and responsibility were increased
- Training was given to help individuals become experts in certain tasks

Managers in these companies recognize that they are not the sole repository for knowledge and experience. As a result, business processes are shaped around 'whole tasks' with metrics of performance. Training is given to staff and they are required to innovate themselves to create improvements.

The research demonstrated that innovative companies recognised that people at whatever level require challenges and recognition, and their job enrichment is key.

High Performance Working

In *Wales for Innovation* a key action to 'better equip people to innovate' is the promotion of High Performance Working.

The principles of High Performance Working are that employees, rather than receiving orders and directions from above, are part of a broad inclusive team whose objective is to improve the performance of the organisation as a whole.



The key characteristics of High Performance Working are:

- Employee autonomy and involvement
- Information and consultation
- Skills development and continuous learning
- Rewarding performance.

It is the combination of these key characteristics that contribute to innovation, productivity and company success.

The Wales Management Council and ELWa – National Council are actively involved in promoting the concept of High Performance Working throughout Wales.

Questions managers need to ask:

- Q Does my company demonstrate the characteristics of High Performance Working?**
- Q How do I know if I am getting the best from my workforce?**
- Q Is there a ‘them and us’ culture within the company with different sets of rules and privileges for management and workforce?**
- Q Is the level of absenteeism increasing or decreasing?**
- Q Do people have an annual performance appraisal and development plan?**
- Q Is giving more responsibility to teams a risk or an opportunity?**
- Q Do we reward innovate ideas?**
- Q How do I know if communication within the company is good or bad?**
- Q Do our managers direct and control, or facilitate and co-ordinate?**
- Q How would I describe the culture of my company?**



PROCESS

Management of innovation

The processes which exist within a business can either promote or obstruct innovation.

The goal of the business manager must be to create processes, which enable, for instance, front line people who have direct contact with the customer, to present ideas for service improvement.

The process for the management of innovation is crucial. The principle for capturing ideas from the workforce has been highlighted previously and can be an excellent spur to innovation.

A measure of a truly innovative organisation is how quickly ideas and customer complaints travel to the management of a business. Many provide a means for daily reporting of issues directly from front line people so that key issues can be highlighted and addressed.

Managing by numbers

Numbers are just as important as words. Statistics, sales and financial data, market analyses all provide data which informs management of the need for change. Key data for a given period will include:

- products made
- defects
- sales visits made
- orders taken
- products sold
- customer complaints
- sales against previous period
- profitability by product
- overall sales and profitability

but none of these can be taken in isolation. The leader has to look at the whole picture and use this as a stimulus for his/her own creative and innovative thinking.

The most innovative companies are clear about their key measurements of business success, and they review them daily and set targets for improvement.



Innovation in practice

Henry Engelhardt CEO of Admiral Insurance has a daily report of key business performance, e.g. how many calls were received and how many policies sold.

Networks and alliances

Small and medium sized companies often lack the resources of big companies such as 3M, but innovation can however be leveraged through networking.

No person or indeed business is an island. The leadership team will recognise the value of networking both inside and outside the organisation.

Working with others outside the company offers a fresh perspective but managers must invite comments and criticism, especially from customers, and be open to the need to change and improve.

Innovation in practice

Giroflex have created a network of businesses within their area to address shared issues through joint problem solving.

Innovation in practice

Spectrum Technologies Limited have created an alliance with Hull University by sponsoring a postgraduate student whose thesis will be used to benefit the business.

Leaders, managers and innovators

Managers and leaders must 'think outside the box' and continually question their business process.

Managers and leaders have different, but complementary characteristics, which must be carefully balanced for innovation to flower within a company.





Careful thought must be given to who manages innovation and who manages the innovators.

Opportunities for innovation are everywhere, but the innovator creates change, upsets the status quo and disorganises. An innovative leader must not act as a manager who has a different mindset and will control the status quo, but must facilitate and encourage winning behaviours that actually challenge successful products and services to produce those that are more successful.

Innovators should not be made responsible to a manager who is responsible for a function of the existing business, unless that manager has the following, proven, characteristics:

- open
- reflective
- responsive to ideas
- supportive
- able to embrace change

and has the skills both to facilitate innovation and take innovative ideas forward.

Managers who do not show these characteristics will tend to have a vested interest in the status quo and may stifle the innovator and his/her suggestions. In such circumstances innovators should be protected from such pressure and report directly to the CEO, or other senior director.

To avoid these difficulties some companies nominate an innovation champion who has the respect of his/her colleagues and has a reputation for delivering results. This champion can then inspire and facilitate innovation throughout the company, and take forward innovative ideas.

Questions managers need to ask:

- Q What are the key measurements in use in our business?**
- Q Do these measurements tell us what we need to know?**
- Q How do we capture ideas from the workforce?**
- Q How many suggestions for service or product improvements do we receive each month?**
- Q How many suggestions for service or product improvements do we act on each month?**
- Q Are we really open to innovative ideas from outside the company, or do these sound like criticism?**
- Q With whom do we network, and why?**
- Q What are our strongest alliances, and why?**
- Q Do we stifle or encourage innovation?**
- Q Who champions innovation in our company?**



PRODUCT AND SERVICE

Very few companies can aspire to 3M's index of innovation, 40% of turnover from new products every 4 years. 3M is a global company with headquarters in Minneapolis/St Paul in the US, and plants throughout the world, including Swansea.

From the very beginning the Minnesota Mining and Manufacturing Company had the habit of trying new ideas and turning failure into success. In an early attempt to create industrial diamonds they only succeeded in producing material the size of grains of sand. The result, wet and dry paper, which was ideal for the car body finishing market and many other uses.

Although there is no official list of values that derive from 3M's history, the events recounted above certainly embody a consistent group of themes. Scratch the surface of any 3M legend, and you will probably find a subset of the following values, all of which have shaped the company's approach to innovation:

- Stubborn persistence
- Creative use of failure
- Curiosity
- Patience
- Hands-on management
- Individual initiative
- Talking to users and customers
- Small working groups
- The power of a good idea

The 3M company talks of 'commercialising creativity' as a mission statement for provoking new ideas that create products.

It puts this into practice by permitting people to use up to 15% of their time to develop new product ideas. These are then evaluated by management, and if approved, resources are given to take the idea further.

Few SMEs will have the resources to release people on the 3M model in order that they may innovate, but the principle is sound, being 'too lean' can be a barrier to innovation.

Innovation in practice

Tower Colliery has clearly demonstrated that stubborn persistence, hands-on management and individual initiative can create a thriving and diversified business.



Innovation in practice

New product development in manufacturing is well illustrated by Giroflex who regularly analyse their market place and customer needs both in terms of new products and the need for cost down, working where possible, with customers to create the platform for new product ideas.

The stimuli to innovation are mostly external to the company. Pressures from demanding customers force cost reductions or quality improvement or both. This is reactive innovation.

The most successful companies have a strong external focus and anticipate customer needs sometimes years in advance. This is proactive innovation, but this is much harder to manage because there is no degree of urgency with the business.

One of the more unusual statements from successful business leaders interviewed was that they were lucky. Luck gave them an opportunity, but their innovation was to find ways of taking immediate advantage of this.

Product development has an intrinsic element of risk. This does not mean that the market, customer need, materials performance etc are not thoroughly researched, but that with innovation comes the unexpected.

Companies must be prepared to exploit the unexpected success. If a product or service is successful then this opportunity must be used to grow the business.

Innovators value change and uncertainty and when things do not work as expected they:

- Consider how the product can be put to different uses
- Explore all possible avenues
- Are open to opportunities
- Know their limits

The creativity and dynamism of people, well led and committed to their collective futures, will have a dramatic effect on business survival.



Questions managers need to ask:

- Q** *How often does the company meet with customers to discuss new product development?*
- Q** *Who is responsible for product and service development and innovation?*
- Q** *How much time is set aside for innovation in products and services?*
- Q** *Do we have a formal process for product or service development with SMART (specific, measurable, attainable, resourced and time-bound) targets for action?*
- Q** *What percentage of my turnover and net profit has come from new products or services, which my business has developed over the last three years?*
- Q** *How many people were rewarded for developing new ideas to improve the business last year?*
- Q** *How long does it take for a new idea to reach management, be evaluated and implemented?*
- Q** *How would I react if an extraordinary market opportunity came our way?*
- Q** *How do I react if something does not work or go according to plan?*
- Q** *What was the last innovative thing that we did in this company, and when did that happen?*



CUSTOMER FOCUS

For innovative companies customer focus and the depth of customer knowledge are vital factors for success.

Within innovative organisations quality is always from the customers' perspective, and they continually innovate to delight customers by anticipating their needs and making the business relationship a pleasurable experience. Managers put themselves in the customers' shoes and are passionate about service.

Closeness to customers is their key differentiating factor. It was evident from the research that these organisations maintained a process, which continually measured customers' perceptions of products and service. A free channel of communication was utilised to identify customer issues and complaints. There was also an active anticipation of customer need by identifying the next product or service which needs to be developed.

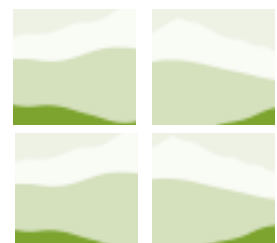
Customer complaints are a gold mine of information on how to innovate to improve products or services. Sadly most companies record few complaints because the customer is seldom given the opportunity to register an opinion. The result is that business is lost as customers take their business elsewhere.

Innovation in Practice

Baguette du Jour consistently improve their offering to customers by changing menus and speed of service.

Innovation in practice

Admiral Insurance has segmented its market and produced five different brands each to satisfy a market segment.



Questions managers need to ask:

- Q** *Does the company view customer complaints as a threat or an opportunity to improve the business?*
- Q** *How often do people other than sales visit the customer to understand their needs?*
- Q** *When was the last time a customer said that s/he was delighted with the products or services of the company?*
- Q** *How many customers is the business losing and gaining each year, and why?*
- Q** *How many customers is the business gaining each year, and why?*
- Q** *Do we really know what our customers want from us?*
- Q** *What will our customers want from us in five years time?*
- Q** *Does the quality of our service match the quality of our products?*
- Q** *What is our most common customer complaint?*
- Q** *What are we doing about our most common customer complaint?*



PROFITABILITY

The research suggests that the greater the degree of empowerment for innovation then the greater the profitability of the company.

Business is about profitability. Profit is essential, the more the better. Profit creates the resources which business needs to develop new offerings to customers. For maintained business success the leadership team must consider two dimensions of their business, new, high profit products or services, and cost savings and business efficiency.

Innovation in practice

Admiral, FIRSTPLUS and 3M create new products and services that the customer will recognise as beneficial and unique to maintain a high profit margin.

Innovation in practice

Giroflex, 3M and Pentwyn Splicers review existing business process, procedures, materials etc to reduce on costs.

Innovation requires the re-investment of profits to provide a capacity within the organisation to think about the future and to develop goods and services that the market will need and value.

Competitive advantage comes from doing something differently.

Innovation provides the edge, which makes your company different in the eyes of the customer.

Innovation means higher profits through competitive advantage.



APPENDIX 1

Innovation Working Group

Working Group Members

Carl Hadley (Chair)	Wales Management Council
Laurence James	Wales Management Council
Roger Mansfield	Wales Management Council
Allan Martin	Wales Management Council
Peter Jenner	William Battle Associates
Stephen Jones	WDA
Virginia Chambers	WDA
David Rosser	CBI
Gwenda Williams	Telos

Participants in brainstorming session

Josh Llewellyn	Genset
Frank Marsh	GX Design
Peter Hurley	Giroflex
Simon Gibson	Ubiquity Software
Mike Edwards	British Airways Interiors
Lawrence Hallett	Wales Quality Centre
Adrian Llewellyn-Jones	V & A Marketing Ltd
Sophie Chalmers	Better Business
Dr Olwen Williams	Wrexham Maelor Hospital
Neville Allport	FIRSTPLUS
Rachel Jones	Arts & Business

Brainstorming Summary

The Workshop groups identified six clusters of factors required in innovative companies, which were then ranked in order of importance as follows:

- Culture and attitude
- Leadership
- Reward and recognition
- Recruitment and retention
- Training and personal development
- Initiatives.

The main points under each heading are summarized below:

Culture and Attitude

- Everyone is capable of thinking in a new way
- The freedom to express ideas
- No “put downs”
- Inter-organisational networking
- No “parking spaces”
- Mutual respect for all stakeholders
- Openness – no secrets
- Build trust
- Practices, policies, procedures
- No Yes-men or -women
- Attitude to life is sunnier
- Encourage conscious desire to do things differently
- Open door policy
- Collaboration – “you don’t have to do it on your own”
- No rules or regulations
- Communication
- Shared knowledge base
- Learn from your mistakes

Leadership

- Need pressure to drive innovation
- Create time and space for forward thinking and new ideas
- Diverse top team
- The leader sets the tone/acts as coach
- Focus on the future both externally and internally
- Stay ahead in business thinking
- Issue of lack of self-confidence
- Don’t be afraid to admit that you are wrong

Reward and recognition

- Everybody knows where they stand
- Everyone has a stake in the company
- Keep innovators sweet (give them time and space to develop their ideas)
- Recognition for a job well done
- Distribution of wealth

Recruitment and retention

- Select people for their passion
- Ditch people who will not change
- Look for someone who is better than me

Training and personal development

- Mentoring schemes for leaders and employees
- IIP encourages personal development plans
- Encourage pride and self-confidence
- Train people in “big picture” thinking
- Encourage and train “outside the box” thinking
- Personal and business goals

Initiatives

- Do your homework – research and development
- Special project teams – own solution as well as problem
- IIP
- Make time
- Challenge the status quo
- Get people to drive themselves
- Communication system for information flow and sharing of ideas
- Focus on the vital few.

APPENDIX 2

Research Objectives and Methodology

Objectives

The objectives of the research were:

- To research world-wide best practice in the areas of innovation in management and the management of innovation.
- To identify a cross section of innovative companies in Wales who would be prepared to participate in the research.
- To conduct detailed face to face interviews with senior people within the best practice companies using a combination of open and closed questions, to gain an insight into their success through innovation.
- To identify best practice, barriers to innovation, and good management practice, which will create a culture where innovation will flourish.
- To distil the lessons from the interviews to compile a report to detail the 'secrets of innovation'.

Background research

The background research for the project included:

- Desk Research
- Publications from Universities and Professional Bodies
- Secondary Research – Search Engines, Education Websites
- Liaising with Heads of Business Schools

Identify appropriate companies

The consultants utilized a combination of personal recommendations from the Wales Management Council steering team, the WDA Commitment to Innovation scheme, and companies known to Wales Management Council and to William Battle Associates Ltd through the development of their change programmes for companies on behalf of the DTI together with their management of the Wales Student Innovation Awards scheme over the last twelve years.

Conduct of the research

The research questionnaire was constructed to ascertain insights into the business, its organisation and management, products and services and how it motivated its people.

The dimensions of the research included:

- Business information
- Employee details
- Business goals
- Culture, attitude
- Leadership and management style
- People issues
- Product and process development
- Customers
- ICT
- Alliances and networks

During the interviews care was however taken not to lead the interviewee and time was allowed to delve into areas where the person or company had particular insights into specific issues relating to innovation.

The businesses interviewed ranged between small companies employing 5 people, to publicly quoted companies employing 1200 people.

The people interviewed were mainly at Managing Director level or H.R. Director level.

APPENDIX 3

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Cyngor Rheolaeth Cymru
Wales Management Council



PO Box 61, Cardiff, CF24 5YE
Tel: 029 2045 0224 Fax: 029 2045 0231
Email: help@crc-wmc.org.uk website: www.crc-wmc.org.uk