

Innovating for a digital future
The leadership challenge



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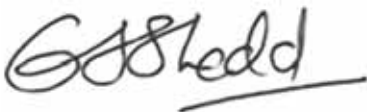
Foreword

This is the final paper in our digital leadership series, during which we have grappled with some of the key challenges facing managers in technology, media and telecommunications (TMT) organisations. In developing this series, Deloitte LLP and Spencer Stuart have combined their own expertise with the perspectives derived from interviews with leaders across the TMT sector. In this third paper, we focus on a critical challenge for TMT companies – how to innovate beyond products or deeply ingrained ways of working which have been successful to date but which are now holding back an organisation from its next stage of evolution.

We all know the fast pace of change means that the speed of innovation is critical to an organisation's success. Organisations need a rapid turnover of ideas in order to get to the 'next big thing'; in order to move beyond where they are now; before smaller, more agile competitors move in.

The key word here is "smaller". Why is it that in society a mass of people is more likely to result in a highly innovative environment, yet the opposite tends to be true of major corporations? As human agglomerations have increased in size, so the rate of innovation has accelerated, a truth that holds from the highly innovative Northern Italian city states of the Renaissance to modern day metropolises. Yet all business research suggests that large organisations do not gain a similar innovation dividend from their scale. We had to ask ourselves the question – why is this the case?

By interviewing some of the leading proponents of innovation, we have highlighted the areas that leaders need to focus on to create an innovative environment. This is not a simple task. If it was, the world would be full of innovative organisations. Yet it is one that leaders in the TMT world need to apply themselves to. We hope that this paper and the case studies that it contains prove to be useful to leaders who are looking to challenge their organisations to innovate further, faster.



Ed Shedd
Leader, Global Media Practice



Grant Duncan
Head of Media, Spencer Stuart

Introduction

Many existing major corporations are finding that orthodox management practices and organisational principles are not well suited to support them ...

Innovation: The Leadership Challenge

It would be fair to say that innovation is at the core of the human race's success as a species. Be it by trumping the claws of predators with slings and arrows, grinding otherwise inedible wheat into bread to secure our food supply or by developing vaccines to eliminate the scourge of smallpox, humanity has survived and thrived by innovating.

And the same natural selection that has been true of human beings is true of innovations. People passed them on from person to person, generation to generation. Those that were good survived and those that were not were forgotten. Communication was therefore vital to the process of development and refinement of innovations – as communications have advanced, so has the pace of innovation.

What is innovation?

The UK Department for Business, Innovation & Skills (BIS) refers to innovation as 'creating value through successful implementation of (new) ideas'. UK Retail Giant Tesco defines innovation as ideas that yield results that are; 'better for customers, simpler for staff or cheaper for Tesco.' The link between innovation and business outcome is tangible. For the purposes of this paper, our definition of innovation covers the successful relocation or adaptation of an innovative idea from elsewhere, as much as the invention of an entirely new project. An example of this is where the TV company Endemol successfully reduced their production cost base through the acquisition of a production company in Argentina; which enabled the realisation of superior production at a lower cost base and then the subsequent off-shoring of much of their format production. This is not the invention of a new concept. But, it is the innovative application of a new business model which has richly rewarded the organisation.

The emergence of the Internet has accelerated the decision-making process to the point where a product can be launched one day and pulled from sale only weeks later, the victim of the huge and immediate swell of information available to would-be consumers almost immediately after its launch. Success and failure have never been so polarised.

At the same time, acceleration is also reflected in consumers' willingness to embrace new technologies, which means that the process from inception to mass adoption can now take place over the span of only a couple of years. Even well entrenched incumbent market players can quickly lose their footing unless they adapt quickly to the new market conditions.

Because of these market pressures, companies that are built on creating and monetising intellectual property within the digital economy need to consider how they need to transform in order to remain relevant, competitive, and continually responsive to this pace of change. Many existing major corporations are finding that orthodox management practices and organisational principles are not well suited to support them on this journey.

Innovation emerges as key differentiator

Over the past 18 months we have been interviewing leaders of technology, media and telecommunications (TMT) firms to understand how the phenomenon of digital transformation is impacting on them and their businesses.

During this period, we have held in-depth interviews and working sessions with over 30 CxOs of leading TMT organisations. On the back of this research we have published two papers to date. In the first paper we looked at whether incumbent players were reshaping their businesses to take advantage of digital, or whether they were resizing to cut the cost out of legacy businesses. Our sense was that people were not being radical enough; for example, up to three years ago Channel 4 had a standalone New Media unit, instead of fully integrating new Media into its operations.

Facebook	At the time of writing, more than 500 million people subscribe to Facebook, a phenomenon that has revolutionised the way in which people interact with each other and with the internet. It is unsurprising that Facebook has become one of the most valuable commodities in the world, with an unofficial valuation of nearly \$80billion. ¹ All this from a company that began in Mark Zuckerberg's dorm room in February 2004.
BBC	The BBC iPlayer platform went live on Christmas Day 2007 and has since proved a runaway success, both in its ever-increasing usage figures and in the way it has brought TV on-demand into the mainstream. By February 2011, iPlayer was serving 5.3million programmes a day to UK audiences. ²
Endemol	Founded in 1994, Endemol Group is a creative powerhouse in the global media industry, responsible for global mega-formats such as <i>Big Brother</i> , <i>Wipeout</i> and <i>Deal or no Deal</i> , which has been sold to more than 100 countries. It has a growing library of over 2,300 formats across genres including entertainment, reality TV, game shows, animation, comedy and drama, and it produces local versions of these shows for leading broadcasters all over the world. Endemol is also an operational innovator, having pioneered format production factories that have, for example, enabled 23 country-specific versions of <i>Wipeout</i> to be produced at one facility in Argentina.
Google	How many more superlatives can be heaped on Google? Incorporated in 1998, it has become the most visited website on the Internet, the world's predominant search engine and one of its most important advertising platforms. With Gmail, Google Maps, Chrome, Android and Translate it has ceaselessly driven innovation in the ways in which consumers use and enjoy the Internet. And Google's innovations don't stop there: it is also at the forefront of development of cutting edge technologies such as self-driving cars and has recently entered the travel market.
Microsoft	Is there a company in existence that has had as much of an impact on the way we live as Microsoft? Amongst its many achievements are Windows, the operating system that took the PC from novelty to necessity and hence ultimately enabled the Internet revolution, the Office suite – used by 80% of enterprises, and the Xbox games console, which has sold more than 75 million units worldwide. In 2010 Microsoft's Kinetic motion controller became the fastest selling consumer electronics device of all time. ³

It came as no surprise that the need to innovate and to create an organisational environment which embraced, rather than rejected, innovation was top-of-mind for all of executives we interviewed. For this reason, at the end of 2010 we decided to do a deeper dive on innovation in order to understand how some organisations have achieved standout success in terms of innovation; within TMT, who is introducing the new management models that are supporting and empowering continuous innovation in the key aspects of company operation?



Innovation stands out as the differentiator that has enabled these organisations to drive value by ceaselessly driving beyond their core products or by breaking through entrenched ways of working. We were keen to see if we could learn valuable lessons from their success.

At the heart of our research in to effective innovation we found three unexpected paradoxes:

1. **Innovation is a social sport.** It is not the preserve of 'lone geniuses' – yet it requires lone geniuses working effectively with others to make it work.
2. **Innovation is somewhat anarchic; 'organisation' can impede it.** Innovation rates substantially increase where there is a large population of people, yet large organisations do not appear to gain an innovation premium – the construct of organisation itself, is in many ways anti-innovation.
3. **'Good' failure is critical to the innovation process.** For innovation to flourish organisations need to embrace failure; yet not many CEOs would survive if they made failure a virtue.

1. The false notion of the lone genius

Much of the common myth of innovation starts with a lone genius in their Silicon Valley garage, or even in a bath, coming up with a moment of stunning insight which transforms the world. Whilst there remains some truth in this, most modern research points to a more social process where people build on each other's ideas and challenge each other to go further. Edison had a workshop of innovators all working together:

"Nearly every man who develops an idea works it up to the point where it looks impossible, and then he gets discouraged. That's not the place to become discouraged."

... Sir Isaac Newton observed; "If I have been able to see further, it was only because I stood on the shoulders of giants."

All major scientific breakthroughs have tended to be due to scientists building on of other's published (or not...) ideas. As Sir Isaac Newton observed; "If I have been able to see further, it was only because I stood on the shoulders of giants."

What is true is that innovation requires brilliant experts working together. The iPlayer required people from across the BBC collaborating in a counter-cultural way. Android was a virtual unit in Google, bringing together many different technical specialists. Innovation requires the development of a deep functional or technical specialism; which in turn requires organisational silos to be created, where these deep skills can be developed and honed. However, these functional silos impede the social interaction that is a critical component of the innovation process. Innovation often occurs when ideas are colliding with each other, often from different disciplines. The contradiction here is that leaders often have to create barriers that get in the way and then design processes to overcome these same barriers.

2. The 'organisation' dilemma

According to Johnson,⁴ innovation rates rise exponentially with increasing population density. Innovation rates are relatively low when humans live in dispersed communities. As soon as population density increases innovation rates accelerate. As Johnson's research shows, the city, like the internet, offers an unusually fertile environment for innovation. The environment is in place for the rapid creation and adoption of innovations as many people from different occupations and professions interact and share ideas. This explains why a city's innovation per capita grows exponentially as the city's population increases. This strong positive relationship means that if a city grows 10 times larger, it will become 17 times more innovative, while a city 50 times larger will be 130 times more innovative.

This is consistent with the concept that innovation is a social sport. It is the clashing together of different ideas, building on each other and morphing in to new concepts, driving innovation and progress. If this is true, then, intuitively, large organisations should benefit from an innovation dividend. We should see that the larger the organisation the greater the degree of innovation. Yet this does not appear to be the case, either in what we observe or in the organisational research which is available. Large organisations are often less innovative than their smaller counterparts. As Christenson⁵ demonstrates, large organisations often reject innovations. They do not fit their cultural norms and they are not brought through successfully. Xerox in the 70s and 80s is a classic organisational example of this.

There is something about the nature of organisation itself which would appear to discourage innovation. Whilst many senior executives cry out for greater degrees of innovation, the organisations that they lead act against their wishes. And maybe this is understandable. The concept of organisation is about quickly standardising operations – turning set ways of working in to easily replicable processes, minimising risk. The whole concept of ‘organisation’, and particularly ‘large organisation’, is deliberately anti-innovation.

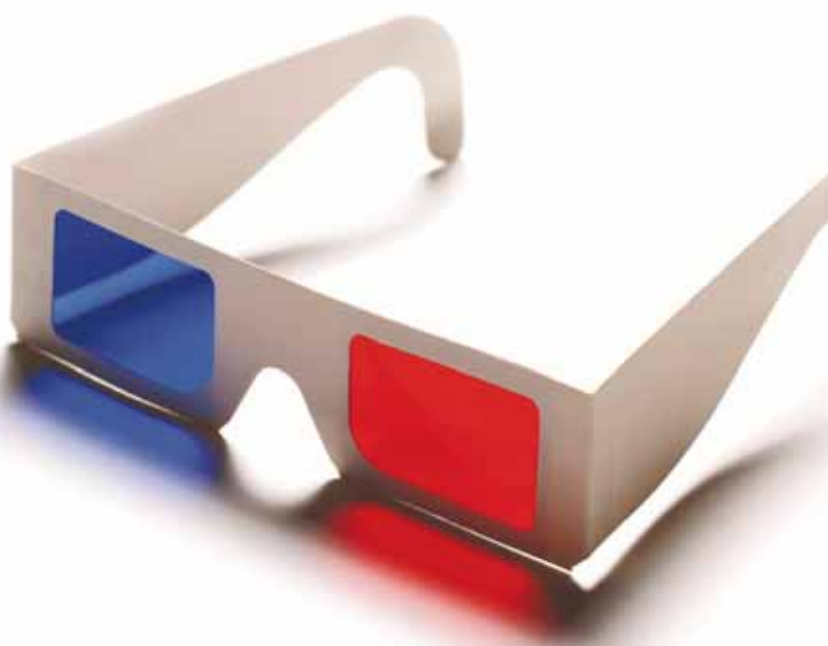
3. ‘Good’ failure

All of our research shows that failure and how organisations learn from it is critical to the innovation process. Yet organisations are not very good at admitting or dealing with failure. At an individual level it is rare that the career of someone who is associated with failure is accelerated. People are more inclined to hide mistakes, or to avoid taking risks, than they are to openly admit they have failed. Yet the creative process requires failure. It needs people to take risks, to get things wrong and to learn from their failure.

Organisations need to find a way to make failure acceptable and to help their people to learn from failures. Although, of course, they should not go too far with this. Not many institutional investors would laud a CEO who encouraged their people to fail. Few companies would be well thought of by their clients if their CEOs openly asked their people to ‘fail often’. There has to be balance. It is useful to think about two different types of failure;⁶ productive and unproductive failure. Productive failure is failure which is unforeseeable and is an important part of the process.

Unproductive failures are mistakes made during everyday tasks – and which need to be eradicated, for example mistakes made on production lines. Productive failure needs to be openly acknowledged and processes need to be put in place to learn lessons from the failure. Unproductive failure needs to be minimised through effective performance management.

It has struck us through our research into innovation that leaders have a difficult role to play to create an innovative environment within their organisations. They have to deal with several paradoxes. They need to develop deep technical expertise within their exceptional talent base. They then need to get this talent to work together across necessarily strong organisational boundaries. And furthermore they need to create organisations which minimise risk and create replicable processes which are baked-in to the culture of the organisation. They then need to challenge their organisations to break these deeply embedded ways of working. And finally, they need to make productive failure acceptable without inviting everyone in their organisation to take on unpalatable risk. We have all seen where that can lead.



“I see software engineers being as creative and as important and critical as the editorial creative talent.”

Erik Huggers, former Director Future Media and Technology, BBC

The challenges for leaders

All of our interviewees reflected that legacy organisations entering the digital era are operating in an arena alive with agile new market entrants who are rapidly introducing new products, new services and new business models; for many operators, the pace of change and intensity of competition can seem bewildering. Incumbent businesses need to adapt, and fast. Now more ever, innovation is not a 'nice to have'; it is a core element of a successful TMT organisation.

Culture

Creating an environment that generates successful innovation

Innovation is a key organisational capability; fundamental to building new structures, creating new products and services, identifying new business models, launching new offerings and ultimately to establishing a new market position. The theme of 'innovation' extends through digital product and service offerings to the customer experience; BSKyB face the cultural challenge of encouraging the 9.5 million homes who are used to dealing with BSKyB on the phone to move to an online help model:

"This is about retraining our customers to use the internet as their first port of call."

Mike Darcey, COO, BSKyB

Related to this, it is important to note that innovation is no longer the domain of an organisation's product teams or 'creatives', and is arguably now a core competency for the majority of roles in media organisations. For example, in a digital world underpinned by technology, IT specialists are key in turning good ideas into new digital revenue streams.

"I see software engineers being as creative and as important and critical as the editorial creative talent."

Erik Huggers, former Director Future Media and Technology, BBC

By its very nature, innovation involves a degree of trial and error and 'feeling the way'. This is a significant departure from the linear and planned production processes of old and marks a step-change to established methods of working within traditional media organisations.

The user-informed evolution of BBC iPlayer is one example where user consumption/activity has guided the process of product development, necessitating a fluid production process but achieving an end product which is arguably stronger and more popular as a result. As the Erik Huggers, former iPlayer Director, observed;

"The iPlayer isn't simply about wrapping some technology around the programme... it's about creating a new user experience."



Incumbent businesses need to adapt, and fast. Now more ever, innovation is not a ‘nice to have’; it is a core element of a successful TMT organisation.

Structure

Managing risk through organisation

Although in an ideal world, everyone in an organisation would be a radical innovator, accustomed to failure in the pursuit of great success, the reality of business is that the majority of staff exist to execute the operations of a business in a way that ensures the lights stay on and cash rolls in. The leadership challenge is therefore to create an environment where innovation is accepted and encouraged, but to strike an appropriate balance between innovation of new ideas, control of risk and ultimately of spend. It was an express concern for many that we spoke to, that the process of innovation is managed in such a way that it achieves return on investment.

Google has adopted a different approach to managing this challenge. They famously give a large number of employees one day a week to work on ‘personal’ projects, thereby encouraging entrepreneurialism and innovation. Efficiency of working is achieved through an ‘ideas market’ where individuals choose which projects they want to work on – everyone wants to work on the innovative, exciting ideas; bad ideas simply do not get off the ground and available skills are put to best use. The institution achieves control through the ‘wisdom of crowds’.

Leadership

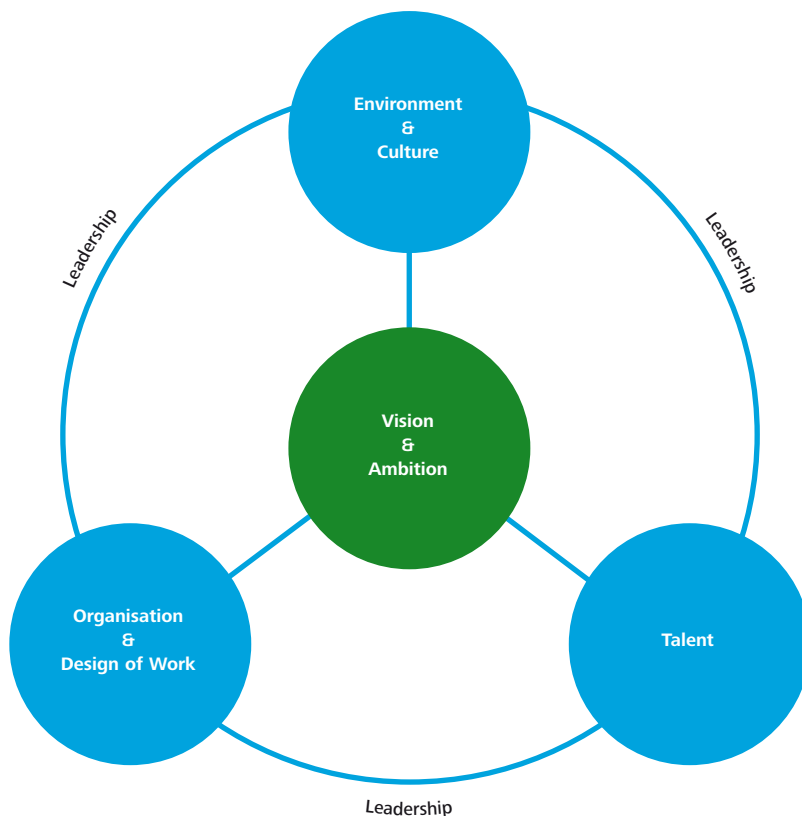
Finding leadership styles that promote innovation

Our research would suggest that the role of leader is essential. Not inspirational, ‘heroic’ leadership. But leadership more of the Mandela style of setting a tone rather than charging ahead; leadership which creates an environment where their people can thrive and which focuses relentlessly on designing an organisation which maximises creativity and interactions, whilst making the acquisition and retention of talent everyone’s primary task. Processes and appliances cannot innovate; only people can. If there is something that unites all of the organisations that we spoke to, it is their fundamental belief that the only long term differentiator they have is their people, and that their people – if provided with the right environment and supportive organisation – will successfully innovate beyond where they are now.

Our research has shown that leaders operate across four organisational dimensions to create an organisation which is able to successfully innovate. They are:

1. Strategy & vision
2. Environment & culture
3. Organisation & design of work
4. Leadership & talent

Crucial elements for successful innovation



1. Strategy & vision

Successful innovation has to be part of a clear strategy and its success will be determined by the tone set by the leadership of an organisation. As ours, and all leading, research would suggest; organisations are often unable to realise innovations. This is, in part, because they do not have an innovation strategy in play. Our research suggests that organisations which are successful at innovation often have either an explicit or an implicit innovation strategy. They manage their innovations as a portfolio across the enterprise.

Leaders need to:

- Adopt a clear strategy to nurture and launch innovations – adopting a portfolio approach and broadening their view on where innovation can be generated from.
- Apply a rigorous discipline to innovations at all stages in their lifecycle.
- Think big, take baby steps.

Adopting a clear innovation strategy

Organisations are often looking for the next blockbuster innovation. Where is the next iPad or iPlayer? FMCGs used to screen out any new product idea that could not return more than £150 million of revenue within a couple of years. This approach discourages quick roll outs and trials of small innovations. It hands the advantage to smaller, more agile competitors and new entrants to a marketplace. To be successful, organisations need to take more risks and accept failure as part of the process. Perfection is not the aim of the innovative organisation. An acceptance of failures and a relentless focus on how to learn from them is.

The rise of Total Innovation

During the middle decades of the last century, European football was dominated by a tactical system known as *Catenaccio*. Developed in Italy and based on layered defence and diligent positioning, it was refined into a seemingly unbeatable system by Helenio Herrera, coach of Italian super-club Internazionale, who won consecutive European Cups and three league championships in the 1960s. And yet in 1972 Ajax of Amsterdam defeated Inter 2-0 to win the European Cup and newspapers all over Europe proclaimed “the death of Catenaccio”. And Ajax didn’t stop there: the following year they crushed Inter’s city rivals Milan 6-0 to claim the European Super Cup.

How did little Ajax accomplish this feat? Simply put, they innovated. And not individually, Ajax’s 11 players innovated collectively. Faced by the Italian’s constricting organisation, the Dutch adopted a fluid style where any player could play the position of any other. Everyone was responsible for defending and attacking; passing, tackling and shooting. Ajax’s coach, Rinus Michels called this system “Total Football” and his team are still regarded as one of the finest ever to take the field.

Many would argue that innovating in a business environment is rather more complex than association football; however we believe that Michels’ philosophy rings true for organisations seeking to innovate. In our view, organisations need to see that innovation can arise in many different parts of their business. It is not the sole preserve of the product or creative function. By being too focused on one group of people in an organisation coming up with innovations the organisation can miss out on game-changing innovations.

We call this approach “**Total Innovation**” and we can find examples of it in all sorts of places. The motor industry, for example, was transformed in the 1990s by its finance function through the introduction of customer financing, which generated massive new revenue streams and also increased the ability of customers to buy new cars. Cemex, the Mexican concrete company, encourages all employees to participate in widespread brainstorming to come up with new ideas. Their innovative approach to distribution transformed the concrete industry in Mexico and established them as a global player.

Kanter⁷ talks about how organisations need to create an innovation strategy using an innovation pyramid; creating a portfolio of innovations across the organisation. The innovation pyramid consists of:

- a few big bets at the top – which receive substantial funding and organisational support (e.g. powerful cross functional teams such as Google Android);
- a portfolio of mid-range ideas which are promising and have the potential to become big bets for the organisation; and
- a broad base of early stage or incremental innovations.



The key here is to actively manage the different layers of the pyramid – relentless commercial focus on the big bets, careful nurturing of those in the mid tier and the firm wide encouragement of ideas to fill the bottom of the pyramid. Google and Facebook are continuously encouraging people across their organisations to develop new ideas. They rigorously test mid tier innovations with their customers, users and partners; and they apply a relentless focus on the big bets that they are taking forward.

Rigorous filtering is critical

To make the pyramid work, organisations have to adopt a rigorous approach to filtering as innovations pass to the mid and top tiers. They need to encourage as many innovations as possible to enter the bottom tier of the pyramid – there should be no screening at this point beyond basic common sense. Once an innovation moves into a mid tier position, the organisation needs to have reasonable faith that there is real opportunity. When innovations become big bets, there needs to be a solid business case looking at financial returns and, as importantly, the organisational capability to deliver the innovation. All leaders should be asking who on the executive will be accountable for the new innovation. And do you really have the capability to execute it?

It is important to stop unsuccessful innovations at a relatively early stage, to ensure that significant R&D money is not being splurged on the 2010s equivalent of the Hop Rod. For example, Google's initial innovation processes can appear to outsiders as somewhat anarchic, but once a promising idea is spotted (once the idea moves in to the mid tier of the innovation pyramid) the company quickly moves to a much more structured offering, and reverse engineers core elements such as due diligence, and applies its own rich data to ensure it is not about to invest heavily in a 'turkey'.

Small steps: big vision

Leaders of organisations pursuing successful innovation need to have unreasonable expectations of what they and their people can achieve – yet be able to start in a pragmatic and practical way. For example, a Google staffer came up with the idea of scanning every page of encyclopaedias to make them available online for everybody to read. Larry Page got hold of this concept and challenged the team to think bigger – he wanted them to scan the pages of *every book ever written*. The practical first step in this mammoth goal was to develop the scanning technology to a point where the task became feasible.



2. Environment & culture

The environment that leaders actively create in an organisation is critical. As already noted, 'organisation' can work against innovation. The culture that is created needs to work counter to structure. Critical to this is the tone that is set from the top. Leaders need to ensure that their people have room to manoeuvre – that the organisation's immune system does not close down innovations too quickly. They need to create an environment where ideas can flow across all organisational boundaries, where people from different disciplines and different levels can constructively challenge each other. One of the inhibitors of the innovation premium we should expect from large organisations is the lack of free flowing ideas and challenge. There is often a subconscious fear of failure. People are inhibited from openly sharing their views and building on other's concepts, and of taking appropriate risks.

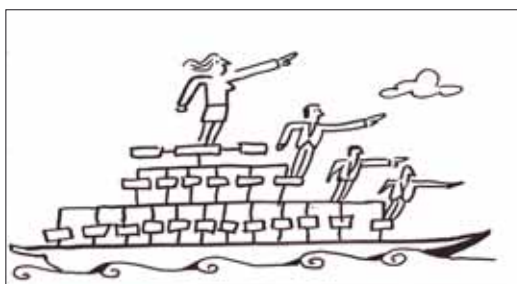
Leaders need to lead from the front – demonstrating their clear commitment to new innovations and the people who are willing to try new things. They need to:

- Create room to manoeuvre for their innovation teams.
- Lead by example.
- Experiment often and learn from their mistakes.

Lead by example

It is vital for leaders to remain accessible and to maintain contact with their organisation. Leaders need to be consistent role models of cross organisational working – openly working together and challenging each other. In some cases it may even be incumbent on Managers to actively create disruptions within their business – for example, by rotating "key" staff between roles to promote cross-pollination of ideas and talent. Some pharmaceutical companies excel at this, where it is an accepted policy that product managers move between sales, marketing and strategic roles and across brands.

In essence, the role of the leader is to encourage all to take part in innovation and development of new ideas and improvements. The famously flat structures of media companies do just that by promoting accessibility, eliminating friction and encouraging interaction. Everyone needs to be free to communicate with everyone. Leaders need to embody this principle by being visible and available and by encouraging upward feedback and challenge across all organisational boundaries.



Impact of leadership and importance of leadership at all levels

Room to manoeuvre

Leaders need to ensure that the teams that are working on mid or top tier innovations have room to manoeuvre – too often organisations kill off innovations before they have a chance to succeed. At a minimum, this means securing funding and commitment from other senior executives, and providing their team with room to manoeuvre in order that they can undertake innovative work and break down internal barriers, where necessary.

In well established organisations,⁸ new products or innovations are frequently killed off before they become successful. This is because they are counter-cultural. The organisation is set up around a particular type of product and is unable to create an environment where new products can flourish. Disruptive innovation by incumbents is often doomed to failure.

Major, successful organisations are founded on products which are high margin and high volume. Often – but not always – the organisation is unable to see the potential behind the innovative development and shuts it down before it has had an opportunity to succeed. It is still unlikely that the likes of Facebook or Twitter would have been created by an established Media/Technology organisation.

A famous instance of a major corporation closing down significant innovation, is that of 1970s-era Xerox; a classic example which shows us how companies frequently find it difficult to innovate beyond their core. Xerox is renowned for its early inventions – it arguably created the Personal Computer and the Mouse years before any other organisation – but never monetised or patented them, and the New York head office rejected its Californian research centre's innovations.

One of the core tasks for leaders looking to build innovation is to make sure that mid tier and top tier innovations are given space to develop – and only then should they be moved in to the core of the evolving business. Our research would suggest that many leaders are not spending enough time ensuring that they have the backing of their team, other execs, shareholders and other interested stakeholders. Several of our case studies demonstrate clearly the time that needs to be invested and the different structural approaches which can be adopted to give innovations the breathing space they need.

Microsoft (Xbox), Apple (iTunes, iPads et al) and the BBC have shown that it is possible to innovate beyond a core product set. For example, during his time at the BBC as their Future Media & Technology chief, Erik Huggers spent much of his time clearing space for the iPlayer team to be successful – ensuring that excessive bureaucracy did not provide insurmountable obstacles. Indeed, forming a coalition of the leaders of all the major business units to ensure that the initiative had cross organisational support, rather than disappearing down an organisational silo. Huggers created the BBC Online board with all key stakeholders sitting on it – so each party had joint accountability for the iPlayer.

To foster a truly innovative environment, it is vital for leaders to build the relationships that are required to ensure the organisation's immune system does not reject innovation and discard new ideas.

Experiment often and learn from your mistakes

The trick here is to fill the bottom part of the innovation pyramid with ideas that may become big bets over time. Often, today's innovators will employ an open, 'beta' model to achieve rapid development of their early ideas. The use of iterative, agile development – whereby early versions of products are rolled out and adapted based on user feedback – means a smaller, more incremental approach to innovation. Organisations such as Google or Facebook are embedding elements of crowd sourcing into their core innovation approach. For example, Facebook has been structured around and has evolved with its users, advertisers and developers – in that order. Internally, any member of staff can call a 'Hackathon' where all are welcome to get together and work on whatever they want to "create cool things".

External perspective is valued and clients are often invited to hackathons to contribute ideas.

Closely linked to this continuous experimentation has to be the creation of a culture which genuinely looks to learn from failure.

As any inventor, developer or entrepreneur knows, failure is part of the greater process. The trick is to learn from the situation, using it as part of the innovation process – to drive on to new discoveries, new ways of doing things. Organisations have to accept a certain element of failure and it needs to be safe for people across the organisation to offer their ideas.

Ironically, innovators that develop and run smaller and more frequent experiments often minimise the overall risk that the wider organisation faces. Putting all of an organisation's political, human and financial capital behind one or two 'big bets', has the potential to bring in significant dividends. However, this also raises the stakes on those bets to a level where they become political in nature and 'too big to fail'. Often they have to succeed – even if, objectively, the idea should have been killed off at an early stage.

That is why leaders have to make mistakes in breaking new ground permissible; they have to create an environment which is able to learn from failure. Too often, people will not try new things because they are concerned about the consequences of failure. They become afraid to innovate, unable to take risks.

Google, is an admittedly extreme example of a uniquely positioned organisation that not only accepts, but even embraces, failure. Google's Eric Schmidt confided in an interview with the Economist that he wanted his people to "fail very quickly – so that you can try again".⁹ Google founder Larry Page told Fortune magazine that he had praised an executive who made a multi-million mistake; "I'm so glad you made this mistake because I want to run a company where we are moving too quickly and doing too much, not being too cautious and doing too little. If we don't have any of these mistakes, we're just not taking enough risk." In the words of the old song: "Pick yourself up, dust yourself down; start all over again".

3. Organisation & design of work

There is a tension between structure/organisation and creative freedom. At the heart of this is the dichotomy of 'organisation' as a concept. On the one hand, organisation is about regularising and incorporating new developments into standard operating procedures as quickly as possible. On the other hand, organisations as entities usually thrive on dynamism and creative tension; otherwise they may fall into stasis or decline.

Even pre-eminent, game-changing organisations such as Google and Microsoft have struggled with managing these conflicts. Their answer to the challenge of both providing structure while enabling creative freedom is to create virtual business units. A high profile example of this is Google's Android operation. The role of the decision-maker who heads up the virtual business unit is to make decisions which cut across organisational silos – that individual has to be empowered to do so.

Our research highlights that leaders need to pay close attention to how they create effective organisations, which do standardise, professionalise and minimise risk, whilst also challenging the organisations to be more dynamic and to work together more effectively. They need to:

- Make innovation everyone's job.
- Develop deep technical and functional silos.
- Create structures to cut across the silos.
- Bake innovation into performance management and reward.
- Articulate simple rules to govern innovation.

Make innovation everyone's job

Job 1 for an innovative organisation is idea generation – filling the bottom of the innovation pyramid. Innovation needs encouragement and openness. It thrives in an environment where interaction is maximised, where ideas can flow across boundaries and where people can effectively challenge each other. Where everyone is tasked with innovation, it enables ideas to be serendipitously connected and recombined with other ideas, so hunches can stumble across other hunches. There are exceptions, but open environments are usually more conducive to innovation than closed shops.



The false notion of the 'lone genius'

Google famously allocates real time for innovation and blue sky projects for its people through its 80%/20% innovation Model, and through its Director of 'Other'. Google encourages its staffers to spend 80% of their time on core projects, and approximately 20% – or one work day per week – on innovation activities that match their own interests and passions. So far the 80/20 innovation split has yielded various market-leading innovations such as Gmail, Google News, and AdSense. Facebook holds hackathons where all can contribute ideas; Endemol actively encourages staff to create as many new concepts as possible. In Deloitte we regularly use the power of our people through hosting innovation weeks – week long idea generation sessions where we ask all in our firm to contribute ideas to a major challenge we or our clients are facing.

Silos matter

Often when we work with organisations we hear executives bemoaning the existence of silos. They are seen as getting in the way of effective working. Whilst we have some sympathy with this perspective, we believe that silos are fundamental to successful organisations and to successful innovation. Silos – and the deep well springs of expertise and technical knowledge that they contain – are *fundamental* to a company's capability, without which, meaningful innovation is impossible. Silos facilitate the development of deep technical or functional expertise. It is this expertise that allows for idea generation.

Create structures to cut across the silos

Of course what is critical is finding ways to make cross-silo working happen effectively – you want the crashing together of ideas from different disciplines; the challenge that comes from people from different disciplines interacting. Cross-silo working has to be built in to innovation initiatives from the very start. Creativity thrives through the process of cross-pollination and co-operation, the coming together of distinct disciplines and traditions to create something new. For example, the BBC has set up a new board for the management of the BBC online activity. The new board operates at the same level as every other divisional board of the BBC and practically runs BBC Online as a cross-silo virtual corporation within the BBC. This eliminated cross-divisional tensions and allowed the whole organisation to “own a stake” in the new part of the business. It also meant that the team could focus on creating a culturally new and integrated iPlayer product, instead of simply building online extensions – and potential future substitutes – of individual channels.

Innovation and ideation need to be ‘baked in’ to performance management & reward

Performance management processes and techniques can and should be included and co-opted in the quest to foster a creative organisation. For example, 3M embed innovation into their business model; the company has as a fundamental target whereby at least one-third of its annual revenue must accrue from new products. Most organisations we talk to say that innovation is critical to their long term survival. However, when we ask if they cement innovation targets such as 3M’s in to their executive’s performance management and compensation processes, the majority of them do not.

If you are not linking personal and organisational performance to innovation, how will innovative behaviours flourish within your organisation?

Endemol measures the conversion rate of ideas through to formats that become global successes – and incentivises their people to increase the conversion rate. Innovation should have real monetary value attached to it. How many executives in organisations receive bonuses based on innovation metrics?

We see this as one of the most challenging aspects of creating an innovative culture. Over the last decades many businesses have sought fairness in career progression by institutionalising metrics-based performance management. An unfortunate side-effect of these systems is that they are open to (often unconscious) gaming – it is in the self interest of employees not to take too much risk as failure would score them significantly behind more risk-averse colleagues. Therefore a bright individual is better served by outperforming lesser colleagues against the conservative ‘safe’ metrics than by taking the radical steps that drive business forward. It is in the interest of businesses to innovate, but in the interest of their employees to play it safe. Google’s institutional 20% “radical time” somewhat mitigates this effect, however even this is somewhat dependent on employees risking that 20% on ideas at the cutting edge.

Simple rules (help keep everything interesting)

Of course stimulating mass idea generation could create a degree of organisational chaos. Whilst some chaos may be good it needs to result in successful outcomes. Complexity science suggests that complex organisms are best governed by simple rules. These simple rules are the guidelines that you want your innovators to work within – the key is to dictate a few simple parameters, in order to maximise people’s choices, but also to ensure a defined structure/a creative brief exists in order to prevent a complete free-for-all.

For example, in the case of the BBC iPlayer development, the laying down of a few simple rules facilitated speedy incubation and deployment; so that a truly pioneering and landmark application which, under normal terms of business, might have taken the Corporation a number of years to implement, instead took only months to bring to market. Likewise with The FT, which has a simple set of rules for any innovation: it must leverage or be relevant to, its business database; it must be global; and it must be true to the FT brand.



Innovation should have real monetary value attached to it. How many executives in organisations receive bonuses based on innovation metrics?

4. Leadership & talent

Leadership skills¹⁰ and talent are at the core of innovation. Innovation is brought about where there are highly talented people interacting, exchanging ideas and challenging each other's assumptions. These groups of people need to be led effectively – people management skills are as important as the technical skills/knowledge which originates ideas. That is why highly innovative organisations have a relentless focus on talent and the leadership of people, and why a quality, world class talent strategy is not simply a 'nice to have'.

All the organisations we spoke to have identified the culture they build and the people within it as critical to their approach to innovation. Organisations that want to be at the forefront of innovation have to be on the frontline of the war for talent. As mentioned in the previous section, your talented people need to be incentivised and their performance 'baked-in' to performance management measures. But these are far from the only considerations in managing your talent. Leaders need to:

- Recruit for your organisation's future.
- Focus on retaining top talent.
- Expand their talent pool beyond traditional organisational boundaries.

Get it right – recruit for your organisation's future

It may sound obvious, but one important principle is to recruit not only the best but those that will work in your organisational context. This means being open minded, and searching in both conventional and non-traditional places to flush out people with unique capabilities, but then putting those candidates through a rigorous process including several formal and informal interviews and meetings with varied stakeholders.

For example, at Facebook and Google, candidates meet numerous people as they 'jump through the hoops', but they only join if they are unanimously accepted; it's a question of cultural fit. There are two caveats to this approach; it is time consuming and therefore relatively costly, and there is a danger of exceptional candidates being overlooked due to an attitude of 'their face didn't fit'. We find the latter an interesting contrast to corporate strategy – many organisations manage their initiatives as a portfolio, with varying risks, yet when they recruit talent, they seek people that fit a mould. Perhaps it is time that organisations took a pyramid approach to talent recruitment in the hope of landing tomorrow's 'rainmaker' today?

Organisations need to challenge themselves to bring in the next generation of talent which will take them forward. They also need to be clear on how they will help that talent to succeed within their environment. All major organisations have a high rate of failure in terms of attrition rates of experienced hires in the first year. This is often due to applying a rigorous (and costly) approach to selection and then essentially throwing the successful candidate in to the organisation to see if they sink or swim. Once you have brought in the right talent it is the role of an organisation's leadership to make sure that they succeed. You need to create an environment which can capitalise on their experience.



Create an organisation which people want to be part of

Leaders who wish to create innovative environments need to create organisations which people want to be a part of. This may sound obvious, yet ask yourself the question – how many leaders that you know genuinely treat their people as if they were voluntarily contributing their time? Yet if talent is the lifeblood of innovation, creating an environment which people are committed to, to which they willingly give their discretionary effort, has to be a core task of leadership. Even following the effects of the global economic crisis, retention in the relatively mobile TMT sector remains a conundrum for many companies. In our view, there are a number ways to meet this challenge head on.

- **Promote an open environment.** Leaders in the digital age need to be available; they must be viewed as being accessible and also show a willingness to be appropriately challenged.
- **Make sure you have people leaders in leadership roles.** Too often we promote for technical excellence – particularly in creative and technological organisations. Yet it is not a truism that technically excellent people are able to become good people leaders. Innovation teams need highly adept people leaders in charge, as the management of creative tensions requires people who can get the best out of technically diverse people. You need people who create environments where it is possible to have constructive conflict. Not an easy task.
- **Improve the physical workspace.** It may sound like hyperbole, but this is not a ‘nice to have’. A well designed, contemporary, ergonomic workspace has numerous roles to fulfil. In relation to innovation, it must be shaped in order to maximise interaction and provide top creative minds with an inspiring place to produce their best work.
- **Show respect.** Regardless of their own particular silo, people in different disciplines have to treat each other as peers, and respect each other’s expertise. Leaders need to be role models of this attitude. All members of the executive team need to demonstrate how they can effectively challenge each other and work together. This may sound basic, yet it is something we rarely see done well. Remember everyone in the organisation is constantly reading the dynamic that exists between members of the executive team.
- **Mix things up.** Consider the possible benefits of combining rare skills that wouldn’t normally work together – but which will develop value for the organisation. Great innovation teams are made up of technical experts from different disciplines. The trick is getting them working together effectively.

Expand your resource pool outside traditional organisation boundaries

As mentioned above, it can do no harm to widen the resource pool when seeking out genuinely innovative and creative staff. And remember, Talent is not just found within one’s own organisation or even one’s own sector. For example, Pixar maintains very close links to the academic community¹¹, which keeps them at the cutting edge of animation technology, and the likes of Google and Facebook actively develop their products with direct input from their customers – seeing them as an invaluable part of the talent ecosystem.

Organisations need to challenge themselves to bring in the next generation of talent which will take them forward.

Case studies

BBC iPlayer

Summary of the iPlayer story, as told by Erik Huggers, former Director of Future Media & Technology, BBC.

Background

In successfully delivering iPlayer, the BBC set new standards in online content delivery. The challenge is to exploit this opportunity to further progress the BBC's online presence across an increasing variety of platforms.

Strategy & vision

A clear vision. The iPlayer was a major project with incredibly ambitious scope. The decision to amalgamate all existing programming on the BBC onto one easy-to-use platform was a serious challenge, but it also provided the team with a **simple, yet inspiring vision**. Instead of replicating the linear programming experience, the organisation decided to market through a single integrated brand that users could associate with.

Small steps towards a big vision. The BBC has moved away from the *"traditional waterfall method of engineering to an agile engineering process"*, pursuing a **strategy of continuous improvement and innovation for the iPlayer**; "...probably on an average week we ship two-to-three new things on iPlayer – we continuously iterate." Within this delivery model **the iPlayer continues to evolve**, spreading across multiple platforms, including the iPad and smartphones running Google's Android software.

The innovation pyramid and taking radical innovation outside the core. The iPlayer was delivered by **segregating the project team from the rest of the organisation**. This approach was profoundly different for the BBC, but gave the iPlayer team the freedom to explore a new, game-changing delivery model. Simultaneously, it protected the core broadcasting services of the BBC from potential disruption.

Environment & culture

Room to manoeuvre. The tight timeframes for delivery of the iPlayer catalysed the conceptualisation of a dedicated Executive Board for the online service, running as a cross-silo virtual corporation within the BBC. This immediately eliminated cross-divisional competition for resources and established an environment where the whole organisation *"owns a stake"* in the new part of the business.

Organisation & design of work

Simple rules. Recognising that simplicity in decision making has been critical to the swift progress in delivering the iPlayer, BBC Online now operates a 'phase gate' product development model of working. On completion of each phase, there is a clear decision point where key stakeholders come together with the nominated sponsor to make a simple yes/no decision. The BBC intends that this will simplify the way in which innovative ideas are moved from conception through to delivery.

Silos are important; Cross-functional partnerships are essential. Prior to the iPlayer project, the established design of work throughout the editorial teams commissioning work from the online teams. The iPlayer initiated a radical shift in thinking, as it was realised that the only way to create a truly innovative product was by **fostering a collaborative partnership between the teams**.

Talent

The right mix of people. iPlayer necessitated the **recruitment of new individuals with specialist skills, particularly across the critical areas** of software design and engineering. Although as a fixed-income organisation, the BBC can't match the remuneration available elsewhere, the project was a cutting-edge investment, which helped attract top talent. Individuals were handpicked to undertake new roles of varying durations; the result was a **blend of established BBC people and technically specialist new hires with the right skill mix** to create a much more complex architecture and functionality than any previous BBC online project.

Retaining talent. Having attracted the right specialists, the BBC actively **invests in their further development**. The intention is to establish the organisation as a **development ground for top media talent**, accepting that some medium-term churn of talent is likely to follow. *"We should actually be proud of that, if we can achieve that sort of a role... A sign of early success is that headhunters are actually starting to target the BBC now and we've had people depart to Google, Facebook."*

Endemol

Summary of the Endemol story as told by Ynon Kreiz, Chairman & Chief Executive Officer.

Background

Endemol leads the field in maintaining deep silos of expertise to develop creative ideas, which are rapidly scaled up to appeal to multinational audiences. In itself, Endemol's business model presents a unique approach to delivering high concept and competitive productions, on a global scale.

Strategy & vision

A clear innovation strategy. Endemol recognises that innovating cutting edge production ideas means taking risks. Since new ideas typically evolve at a national level, Endemol uses an innovation pyramid, where Head Office will selectively underwrite the costs of programme ideas which carry a high risk but which might also become the next international hit. *"If there's a big idea we want to drive – but which might jeopardise the bottom line... we say we will neutralise the cost because it's worth taking [the risk] in the interests of the whole group".*

Environment & culture

Room to manoeuvre. To create space to innovate, Endemol fosters a **stimulating environment where new and exciting ideas are given the opportunity to be voiced and then explored.** There have to be rules in place, but a large degree of freedom is crucial. *"I think it's important not to quash ideas. It's easy to say 'we tried it before, it never worked', but you can't baton it down too much, you can't prescribe specific systems and processes. It's got to be anarchistic..."*

Organisation & design of work

Simple rules. In nurturing free-thinking, Endemol mixes the simple rules of **"Think global, act local"** and **"Think local, act global"**. The conceptualisation and development of programmes at a local (country) level ensures that ideas generation is focused on the needs of specific, local clients and thereby delivers to a defined brief. At the same time the company is looking to drive global hits that translate across cultures. *"There is a careful balance... if you centralise too much, you neutralise the effect of being local. If you give everything to the local operating companies, you don't gain any of the efficiencies of being part of a global system..."*

Silos are important but cross functional working is essential. Endemol tries to balance the focus on country-specific silos of working with the need for collaborative working by leveraging its international platform to deliver "the world's biggest brainstorm" – a series of **global exchanges** across the calendar year, such as the Creative Exchange, Reality Exchange, Big Brother Exchange, and Production Exchange. *"Recently we had over 60 people from all over the world for two days to discuss ideas... It's exciting how everyone gets empowered and boosted with ideas." Such collaboration has led to huge successes such as world renowned Deal or No Deal.*

Talent

Recruitment & the right mix of talent. Endemol recognises there is no short-cut to creativity, and that quality of ideas is directly associated with the quality of the individuals within the organisation. *"There are no machines... you have to make people create and invent every year, then they have to do it again and again".* Endemol specifically sources outstanding creative people who have an innovative track record, who are open minded, unafraid of breaking rules and who share "an instinctive sense for what the audience will like". It is apparent that **top talent is increasingly being recruited from a range of disciplines**, not just broadcasting. *"There is no longer a specific formula or type cast... For example, we have some people with strong online, digital experience; we have others who are more advertising driven."*

Endemol has previously used **acquisition as a method of bringing creative talent** into the business. One example is Tiger Aspect, acquired in 2009 as a method of breaking in to the scripted market in the UK where the company had virtually no presence. It is clear that there can be no single person who has the variety of skills required to deliver creative output required – it takes **the right mix of people** with a variety of backgrounds, who are all needed to link together the innovation process.

Facebook

Summary of the Facebook story as told by Blake Chandlee, Vice President of Sales, Asia Pacific, Latin America & Emerging Market.

Background

Like Google, Facebook is more than a name, it is a verb. It is a paradigm-shifting phenomenon, setting new standards in how people interact socially, professionally and globally. The challenge for Facebook to hit its extraordinary ambitions, keep its audience captivated, maintain its high intensity and drive, whilst avoiding the fate of its former rival MySpace.

Strategy & vision

Small steps; big vision. Facebook's **culture of hard work and delivery is founded on the aspiration to foster ground-breaking social change.** The company thinks about the world differently and expects people within the organisation to operate on a different level, delivering exceptional results. "We're trying to do something no company in history has done... this intensity and passion allows us to expect more of our people..."

Openness to failure. Given a culture where people move fast at the cutting edge of digital delivery, **Facebook recognises and accepts failure as an integral part of its rapid success.** It is acknowledged that some risks will not pay-off, which leads people to be open and honest about mistakes, enabling their swift resolution.

Rapid development of 'big bet' ideas. Where specific ideas have the potential to be the 'next big thing' Facebook uses '**block down and lock down**' periods of time to take them to the next level; the individuals involved are removed from business as usual (BAU), creating an intensive 'sprint' to deliver a specific outcome. This approach minimises time-to-market for new ideas and helps to maintain a rapid pace of innovation.

Environment & culture

Experiment often. Facebook's culture of agile development builds on its entrepreneurial foundations; there is an ongoing focus on redefinition to meet changing consumer needs "Mark Zuckerberg literally gets up every day and says, if we were to recreate this company today what would it look like and if it's different to how it looks today, should we change it?" This promotes a culture of constant ideation and experimentation.

Accessible leadership. Facebook's dynamic culture is founded on a relatively flat company structure which is fundamentally different to the traditional hierarchies from which many of Facebook's senior leaders have arrived. As such, many individuals have had to change their approach – from command and control to **leadership through accessibility; inspiring and motivating others.**

Room to manoeuvre. From day one, senior leaders are empowered to operate autonomously, using their personal skills and experience to drive progress. "You hire the right people and empower them by setting a clear strategy... sometimes the more involved you get with the day-to-day, the more damage that you do".

Organisation & design of work

Simple rules. The company's mission statement to "Give people the power to share and make the world more open and connected", is used as a '**simple rule**' to guide individual decision making and speed the pace of progress. "We're so tightly wrapped around our mission statement... you actually achieve tremendous liberty because you know when the answer is going to be 'no'. It helps make our world more open and connected".

Innovation as the responsibility of everyone. Facebook uses 'hackathons' to generate ideas which resolve specific problems. These originated with Facebook's engineers coming together to create 'cool things' and have now spread across all of Facebook's functional groups. **Hackathons galvanise an active contribution from all.** "It's a modern day version of a brainstorming session, but you get something tangible at the end of it".

Talent

Recruitment. There is **congruence between Facebook's culture and the talent it seeks to attract,** which helps to achieve a high retention rate. Facebook recruits through multiple channels and uses an extensive recruitment process to ensure that new hires not only have the right technical skills, but also the 'right fit'.

Retention. Capability development is a high priority for Facebook, with the objective of continually building and retaining the talent base. Individuals are encouraged to rotate through teams in order to build experience; those in leadership positions typically receive individual, personalised coaching.

Summary of the Financial Times story as told by Rob Grimshaw, Managing Director, FT.com.

Background

FT.com anticipates a multi-channel future, delivering both print and online content. Even within the digital space there will be a plethora of different channels serving different types of mobile devices. "The challenge is to run a profitable business distributing content across channels in a way which is flexible but manageable".

Strategy & vision

Small steps; big vision. Early in 2007 John Ridding became CEO of the Financial Times, and made it clear that digital would be critical to the company's success. This **direct senior sponsorship** sparked a shift in the company's strategy and fostered a relentless drive to achieving a clear and ambitious vision. "John very much saw digital as the future and realised we had to move fast on it".

Environment & culture

Agile development to foster fast growth. In driving to achieve the digital vision, FT.com has continuously refined specific data analysis techniques to profile different user segments and deliver targeted email promotions according to specific interests. As a result, FT.com has successfully driven up the rate of acquisition for subscribers, reduced costs, and improved customer perception due to reduced spamming.

Learning environment. Per the refinement of the data analysis techniques, the FT's leadership team accepts that risk and occasional failure is an inevitable side-effect to breaking new ground both technically and culturally. "We let the teams own ideas, run with them and fall over. If they make a mistake that's fine, if in the process they are learning how to do digital – that's what it's all about". The principle of working is that failure must be accompanied by learning, and further experimentation which builds on this learning.

Organisation & design of work

Organisational structure versus freedom of creativity. Since The Financial Times began to seriously invest in digital, The Financial Times has used a variety of business models, but currently runs cross-functional teams comprising digital and traditional print media skills. Support tools structure output and facilitate successful working. "We've deployed editorial tools which enable journalists to drag/ drop content and edit directly on the page... Flexible workflows allow editors to engage with digital content much more easily".

Innovation as the responsibility of everyone. In establishing cross-functional teams, FT.com has tackled a critical cultural challenge in integrating the 'digital natives' with individuals who have worked within established media organisations all their lives. Given this context, FT.com is intent on establishing the same environment exhibited by successful online start-ups; "where everyone pitches in, it's open and collaborative".

Silos are important, but effective cross-functional working is essential. Despite the focus on cross-functional working, FT.com recognises that organisational silos enable deep technical skills to be established and maintained. The organisation continues to make provision for this, whilst noting that online projects typically require the capabilities of a variety of departments, making collaboration equally crucial. An example is the iPhone app, which involved ten different functions including sales, operations, editorial, marketing, and IT.

Simple rules. The Financial Times uses the **simple rule** of 'quality not quantity' to drive the business model. This approach underpins the metered pricing model which has enabled the Financial Times to switch from absolute reliance on advertising revenues to an increasing reliance on content revenues.

Talent

Recruitment. Within the Financial Times, FT.com has realised that the business now resembles a direct internet retail business, rather than a traditional publisher. Acknowledging that it lacks; "organisational heritage in areas such as data driven online marketing, web analytics and some of the more arcane areas of web development", it is targeting the recruitment of new talent who will thrive in this context.

Recruitment through acquisition. Acquisition is used to recruit new creative energy in to the business, as well as to expand its presence into new niche markets, investing in a number of non-traditional targets. One example is Money Media – a business that aggregates content for asset managers. It continues to operate as an independent business, with the intention that differentiating features of the organisation will be retained.



The Google story, told by Dan Cobley, VP Marketing, N&C Europe & Clay Bavor, UK Group Product Manager.

Background

Google is universally recognised as one of the world's most progressive digital organisations, adopting a unique approach to developing new products and services. Given Google's fast pace of growth and increasing scale, the leadership challenge lies in finding a way of retaining and optimising the differentiating characteristics which have driven Google's success within the context of an increasingly mature and large-scale organisation.

Strategy & vision

Small steps, big vision. Google lives the mantra of 'think big'. When someone had the idea to 'scan encyclopaedias and put them online', this was translated in to an objective to 'make every book in the world accessible to all'. The pursuit of visionary goals fuels the drive to achieve the best solution, inspiring individuals to overcome any operational barriers. "The goals are so amazing that the localisation of what needs to happen, just happens."

Launch early and learn from the mistakes. Google's agile development processes mean that products; "launch early and iterate often", on the basis that the best results often come after launch. This approach also creates an environment where 'dud' ideas 'fail fast', thereby minimising time and effort expended on them. "Our mantra 'always be shipping' drives a heartbeat to the way we work and the progress we make".

Environment & culture

The wisdom of the crowd. Google uses the wisdom of the crowd of Google staffers to rigorously filter ideas. Specific examples of this approach include the 'Google Marketing Dragon's Den', where success can lead to the development of a new go-to-market offering, and 'Demo Days'; in-house testing of prototype new products.

Learning environment. Regardless of the scrutiny applied, Google recognises that the market success of a cutting-edge idea is never guaranteed, and **embraces risk taking** as an inherent part of its truly innovative culture. Failure is openly recognised, with "post mortems" completed and published when something goes wrong. This culture of openness and learning from mistakes enables energy to be focused on driving success, without the distraction of cover-ups and blame.

Room to manoeuvre. As Google scales up in size, it is taking proactive steps to **create room to manoeuvre** and to safeguard its participative and innovative culture within the context of an ever larger organisation. This includes creating virtual business units, in to which key decision makers are seeded – Google used this approach to drive fast decision making in developing the Android.

Organisation & design of work

Simple rules. Google uses **simple rules** to define how employees should use their time in developing new ideas; Google staffers spend 20% of their time working outside their personal objectives to pursue other areas of interest, culminating in an Ideas Review, where it is decided whether the idea will become a core pursuit. A further 'simple rule' is that two criteria are used to determine whether an initiative should be progressed: is this a proven concept that Google knows how to scale? Will the initiative achieve a game-changing shift?

Talent

Linking outcomes to personal success. Given the swift pace of change, **burnout is a significant consideration**. Google's perspective is that burnout is much less likely to occur if people feel that there is positive progress, and if the outputs of their work are obviously linked to business progress. The role of leaders is to remove the obstacles that get in the way of people being able to observe positive progress.

Blurring of boundaries. Google deliberately **blends work and relaxation environments**, blurring the distinction between 'work' and 'play' and encouraging greater creativity. "The canteen is well considered... it encourages people to spend relaxation time with colleagues in productive conversations...". Additionally, **Google actively blurs the distinction between consumers and insiders**; it engages external users in the launch of new products by inviting a known user base to pilot new products and services. This enables the 'soft launch' of new products for Google, whilst also giving loyal consumers early access to desirable new tools.

Insights from Microsoft, as told by Ashley Highfield, UK Managing Director and Vice-President, Consumer & Online, Microsoft Ltd.

Background

As one of the largest and most complex corporations in the world, Microsoft has found its unique way of empowering innovation from the grass roots through their local teams; in addition to more centralised, often incremental product development functions in its headquarters. Its future challenge will be to protect its core businesses while continuing to respond to evolving consumer needs in agile and innovative ways.

Strategy & vision

Rigorous filtering. The Microsoft HQ in Redmond, Washington State, USA, is the **filtering centre for big ideas**, where decisions are made as to whether new product/service ideas should be progressed within the business, incubated outside the core business, or taken out of incubation and established as a standard product or service. This approach enables deployment of an appropriate resource mix to support ideas development.

Innovation pyramid, enabling innovation at all levels in the organisation. Microsoft has adopted a **bottom-up, local approach to innovation**. Everyone in the organisation is encouraged to think outside the box and contribute innovative ideas beyond their day-to-day roles. Additionally, **country-level activity is used to integrate the product and the go-to-market strategy prior to launch, followed by local launches** to trial innovative products. This is a way of working around the structured processes inherent to the global organisation, but with sound discipline and management imposed through the local leadership team.

Environment & culture

Experiment often and learn from your mistakes. Previously, Microsoft launched new products (such as Vista) on the basis that multiple novel features would ensure market success. The business results led Microsoft to **adapt its approach** and focus on consumer insight. This has set a new tone, with the development of Windows 7 guided by an entirely customer-driven approach – the new operating system was built off the back of millions of customers' comments, based on their experience of using Vista.

Organisation & design of work

Innovation as the responsibility of everyone. The UK Consumer & Online organisation at Microsoft has taken significant steps to **embed innovation within the organisation as the responsibility of everyone**, including establishing cross-functional teams which focus on generating ideas and driving change. Every employee is expected to join a team and contribute. Ashley Highfield explains: *"I created a change management programme... the idea was to create the burning platform, communicate that that sense of urgency, and then create a clear vision... You can then engage all 300 people to define the solution."*

Silos are important initially, combined with effective cross-functional working in later stages. There is **limited cross-teaming in product development**. Products are to an extent developed in silos in the initial stages of innovation, facilitating local ownership and helping to build expertise specific to the product. Microsoft uses an **EMEA incubation unit to identify high-growth products emerging at country level** and taking them to market globally. The unit is specifically incentivised to build solutions, rather than simply achieve sales targets. A specific benefit of the team working across territories is a robust and highly marketable end product.

Innovation and ideation embedded into performance management. Microsoft **actively incentivises innovation**, both individually and for teams. The awards structure is skewed heavily to **favour those who come up with new ideas, particularly if they fall outside their immediate area of responsibility**. *"We are expected to create, whether it's great advertising or great content on MSN, or great creative sales solutions..."*

Talent

Right mix of people. Microsoft is familiar with **acquisition as a swift method of building specialist expertise**, introducing a different culture, sparking new ideas and new ways of thinking.

Blurring of the boundaries. Microsoft has worked hard to **build strong relationships, blurring the boundaries between the product offerings** of different organisations. A specific example is Xbox Kinect, a popular technological innovation, which has driven innovative thinking in advertising; with companies such as ASOS are experimenting with Kinect technology to allow consumers to try on a virtual wardrobe of clothes.

Summary

	Strategy and vision	Environment and culture	Organisation and design of work	Leadership and talent
Culture	<ul style="list-style-type: none"> • Engrain an institutional acceptance of failure as a route to success • Promote “total innovation” as part of everyone’s job description 	<ul style="list-style-type: none"> • Instil a culture where mobility is the norm • Push the idea that experimentation is not just good, it is expected 	<ul style="list-style-type: none"> • Actively and visibly reward innovators at every level • Manage performance metrics to dis-incentivise “playing it safe” 	<ul style="list-style-type: none"> • Openness • Respect everyone’s contributions and talents equally
Structure	<ul style="list-style-type: none"> • Have a clear innovation strategy – based on a portfolio approach • Create silos for innovations, not silos for innovators 	<ul style="list-style-type: none"> • Promote cross-functional ways of working that enable communication between silos, but do not break them down 	<ul style="list-style-type: none"> • Support silos of deep expertise provided they have adequate communications in and out • Create organisational structures that cut across silos 	<ul style="list-style-type: none"> • Recruit and promote talent that is not wholly bounded by today’s silos
Leadership	<ul style="list-style-type: none"> • Have unreasonable expectations of teams – drive them to push the boundaries 	<ul style="list-style-type: none"> • Lead by example, by visibly connecting different parts of the organisation • Secure lines of funding for innovations and reducing short-term financial targets 	<ul style="list-style-type: none"> • Set simple rules to manage complex innovation processes without stifling them 	<ul style="list-style-type: none"> • Promote real leaders into management positions, not simply those who excel at their current role

Questions for TMT leaders to ask themselves

To test how innovative your organisation is, we believe there are a set of questions that you could start asking yourself:

Strategy & vision

- Do you have a clear strategy for the generation and development of innovations?
- Are you looking for innovations across all parts of your organisation?

Environment & culture

- Do people learn from mistakes in your organisation? Or do they feel the need to hide their mistakes, and miss the chance to learn from them?
- Are executives incentivised for innovation?
- What are the simple rules you could use to govern activity?

Organisation & design of work

- How easy is it to work across silos in your organisation?
- How much time do people have to innovate? Are they too focused on 'Business As Usual'?

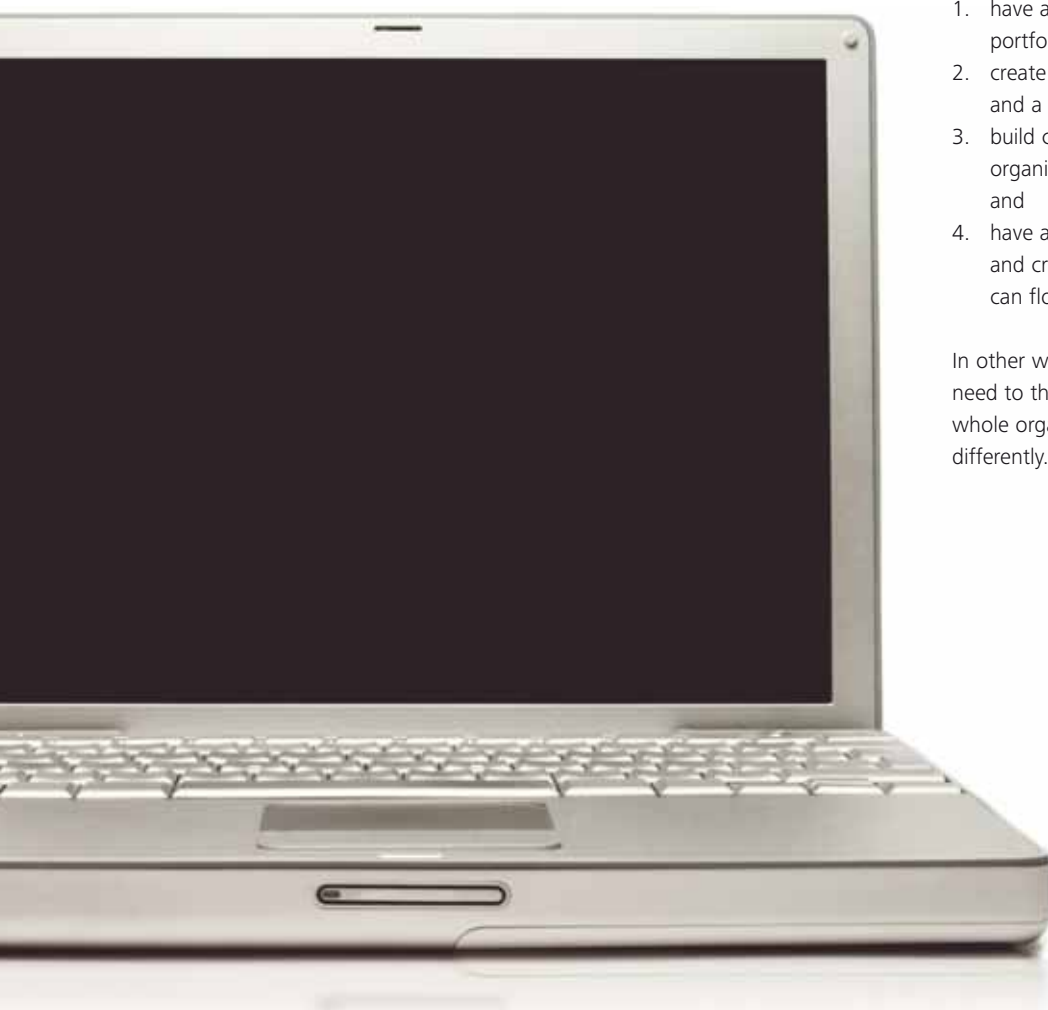
Leadership & talent

- How much focus do you place on finding the right talent? Do you make it a key job of senior leadership?
- How visible are you and your leaders?
- Do you get people from different functions or business units working together regularly?
- How wide is your resource pool? Is it limited to your organisational boundaries?



Conclusion

Innovation is tough. Large organisations find it particularly so. Yet some succeed.



Innovation is tough. Large organisations find it particularly so. Yet some succeed. The aim of this paper has been to explore how they succeed. Through our research we have uncovered some common areas where they focus their energy. They:

1. have an explicit, or implicit, approach to building a portfolio of innovations;
2. create a culture which embraces experimentation and a degree of risk taking;
3. build compensating mechanisms in to their organisation and make innovation everyone's job; and
4. have a relentless focus on acquiring the right talent and creating an environment where their people can flourish.

In other words to create an innovative organisation you need to think in a systemic way. Looking across the whole organisation and challenging it to think and act differently. A true leadership challenge.

About Deloitte TMT

The Deloitte LLP Technology, Media & Telecommunications Industry Group is represented in each sector of the firm: audit; tax; consulting; and corporate finance. The UK practice includes more than 1,500 professionals dedicated to helping their clients evaluate complex issues, develop fresh approaches to problems, and implement practical solutions. Clients of Deloitte LLP include some of the UK's top software companies, computer manufacturers, wireless operators, satellite broadcasters, advertising agencies, and semi-conductor foundries – as well as leaders in publishing, telecommunications and peripheral equipment manufacturing.

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Contact us

If you would like to discuss any aspect of innovation, please do not hesitate to get in touch.

Authors

Deloitte

Adam Canwell
Director, Technology, Media & Telecommunications
020 7007 8073
acanwell@deloitte.co.uk

Marianne Green
Senior Manager, Technology, Media & Telecommunications
020 7303 2726
magreen@deloitte.co.uk

Matt Guest
Manager, Technology, Media & Telecommunications
020 7007 8073
mguest@deloitte.co.uk

Jenia Lazarova
Manager, Technology, Media & Telecommunications
020 7007 4740
jlazarova@deloitte.co.uk

Spencer Stuart

Grant Duncan
Head of Media, Spencer Stuart
020 7299 3464
gduncan@spencerstuart.com

TMT Contacts

Deloitte

Will Gosling
Partner, Telecoms, Media & Telecommunications
020 7007 8132
wgosling@deloitte.co.uk

Ed Shedd
Leader, Global Media Practice
020 7007 3684
eshedd@deloitte.co.uk

Howard McMinn
Partner, Technology, Media & Telecommunications
020 7007 9765
hcmminn@deloitte.co.uk

Spencer Stuart

William Alexander
Head of European Technology Communications & Media, Spencer Stuart
020 7298 3405
walexander@spencerstuart.com

Footnotes

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