



Cass Business School
CITY UNIVERSITY LONDON

in association with



Innovation: mapping the role of the corporate leader

A survey commissioned by the CII and Cass Business School

Chartered Insurance Institute

Nick Marson FCII, PGCE, ICFAEC, LRPS,
Chartered Insurance Practitioner (Project Leader CII)

Niala Butt ACII, Chartered Insurer

Andy Couchman FCII, Cert PFS,
Chartered Insurance Practitioner

Sally Sanderson BA, FCIPD

Mark Towers ACII, Dip Mgmt, Chartered Insurer

Cass Business School

Dr Robert Davies MBA (Project Leader: Cass)

Dr Chris Storey

The full research paper can be downloaded
from the CII website: www.cii.co.uk/research



Executive Summary

A joint research project conducted by Cass Business School in association with the CII comes at an opportune moment. Businesses in the UK and many other developed economies face a potential perfect storm: after a deep and unexpected recession, business leaders face a double-dip recession and an extended period of low economic growth. This may have a fundamental impact on business strategy as customer retention as consistency of returns displace the historic drive for growth.

The Key Findings

1. Strategy and innovation are changing...
 - There is a strong recognition that traditional sources of competitive advantage such as cost reduction and product differentiation are changing.
 - For example, technology is driving competitors towards the same cost position.
 - A key task for corporate leaders is therefore to broaden their organisations' approach to innovation to find new foundations for strategic success.
2. Especially in these difficult times, financial services firms need to be on top of new approaches to innovation in use elsewhere.
 - This is particularly relevant to financial services firms that face a "perfect storm" of increasing regulation and stagnating growth.
 - Clearly a new thinking about innovation is needed: one that goes beyond simply product design and internal processes.
 - Some new innovation types have appeared in recent years, embracing customer experiences, distribution routes, and seeking new markets.
 - The challenge is creating a culture that increases awareness and knowledge of new approaches.
3. Cost reduction and M&A are innovation blockages.
 - There has been an historic focus on bottom line growth through acquisitions and reductions in expense base.
 - Some corporate leaders were concerned that this approach had robbed them of the capability to support the forms of innovation necessary to enable more organic growth.
4. Strategy, planning and innovation need to be better linked
 - There should be a closer relationship between innovation and overall organisational strategy.
 - Our interviews showed that many organisations are not linking long-term strategic objectives with the innovation activities needed to achieve them.
 - Such a linkage would help leaders develop and communicate a clearer innovation agenda.
5. The external environment can be a rich source of ideas, but many find this difficult
 - The external environment can be a rich source of reasons why an organisation needs to innovate.
 - Some of our interviewees found it difficult to view the outside world from this perspective.
 - Improving the ways in which organisations scan and project their external competitive environments will help to support the quest for innovation.

6. People seem to have different ideas of implementing innovation and change to get the job done.
 - Our research centred on what corporate leaders actually proposed to do to enhance the capacity for innovation in their organisations.
 - There is no single agreed approach: even though the majority of leaders interviewed faced broadly similar innovation challenges; they had different approaches to dealing with them.
 - The most popular approach concerned organisation structure changes, however others focused on cultural and skill-based changes.
 - Many of these routes to implementation may not be consistent with either the internal or external contexts confronting the organisations.

About the Research

The research is based upon 20 interviews conducted with corporate leaders.

- We used cognitive mapping processes and coding techniques to help us to "get inside the minds" of members of leadership teams to see how they personally thought about innovation and their roles in building the capacity for innovation in their organisations.
- The corporate leaders worked in a range of industries, but we placed a special emphasis on conducting research within the financial and professional services sectors.
- Of these 20 interviews, insurance operations represented 40% of the organisations analysed, banks and investment banks 20%, professional services firms 30% and other industry sectors 10%.

About Innovation

The focus here is upon major "new to the organisation" innovation, for example, entry into markets that an organisation had not participated in before. We are not therefore solely concerned with "new to the world" innovation.

Contact

Dr Robert Davies
+44(0)7770 988 348

r.w.davies@city.ac.uk

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SECTION 1: INTRODUCTION – ABOUT THE FINDINGS AND METHODOLOGY

“We know that there is an increased need for innovation and new forms of innovation – but we must find ways to enhance our understanding of how we can build the capability for innovation in our organisations.”

To achieve success in the long-term all organisations need to embrace innovation - the business world never stands still. It was this observation that drove the Chartered Insurance Institute (CII) and Cass Business School to form this joint research group to examine new emerging innovation issues for organisations. In particular, we wanted to pay special attention to (i) the role of the corporate leader in the innovation process; (ii) how corporate leaders thought about both innovation and the challenge of generating the capacity in their organisations for innovation; (iii) what new challenges the 21st century has put in front of these leaders and (iv) importantly, how corporate leaders are facing up to these challenges. We did this in the context of examining “new to the organisation innovation”, not just “new to the world innovation”. In other words, we were interested in how corporate leaders proposed to help their organisations deliver offerings, relationships and processes that their organisations had not delivered before. We asked:

“Is innovation changing?”

“Are the forms of innovation that we became used to in the 20th century good for the 21st century?”

“How do corporate leaders envisage innovation – and what does it mean for their organisations?”

“What is the role of the corporate leader in the innovation process?”

ABOUT THE FINDINGS

(I) There is a strong recognition that traditional sources of competitive advantage such as cost reduction and product differentiation are changing. For example, technology is making it easier for competitors to gravitate to the same cost position. A major task for corporate leaders is therefore to broaden their organisations’ innovation agendas to find new foundations for strategic success.

(II) Some corporate leaders were very concerned that a historic focus on bottom line growth through acquisitions and expense base reduction had, effectively, robbed their organisations of the capability to support the forms of innovation necessary to enable growth through organic means.

(III) Many corporate leaders displayed a tendency to think about innovation in more traditional terms, most notably offering (product) and internal process innovation. New innovation types have appeared in recent years that may be increasingly relevant, particularly to financial services organisations facing the prospect of increasing regulation. Generally, there was a lower awareness of these newer innovation opportunities.

(IV) There is room for a closer relationship between innovation and an organisation's strategy. We concluded from an analysis of our interviews that many organisations may not be making an explicit linkage between long-term strategic objectives and the innovation capabilities needed to achieve these objectives. Such a linkage would help leaders develop and communicate a clearer innovation agenda.

(V) The external environment can be a rich source of reasons why an organisation needs to innovate. Some of our interviewees found it difficult to view the outside world from this perspective. Improving the ways in which organisations “scan” their external competitive environments will help to support the quest for innovation.

(VI) A central role for corporate leaders wishing to enhance the innovative capabilities in their organisations is barrier identification; that is, seeking out potential obstacles that could hinder innovation activities. Many interviewees focused on the formal structures of their organisations when looking for barriers. However, skills and particularly culture can present formidable obstacles. Leaders interested in innovation need to make “barrier searching” part of their role.

(VII) A wide variation in proposed implementation approaches was found. Our major findings are centred on the process of innovation implementation, in other words, what corporate leaders actually proposed to do to enhance the capacity for innovation in their organisations. Here, we found that there was no single agreed approach. Even though the majority of leaders interviewed faced broadly similar innovation challenges, different approaches were proposed. The most popular approach centred around making changes primarily to the structure of the organisation. However another group of leaders, facing the same barriers, proposed a diametrically opposing course of action, focussing primarily upon cultural and skill-based changes to lead their innovation efforts. We conclude that many of the proposed implementation routes may not be consistent with either the internal or external contexts confronting the organisations. The long-term effectiveness of these opposing approaches to stimulating and managing innovation is an area for further study and reflection.

To conclude, innovation directly supports growth and helps to ensure an organisation's success, especially in turbulent times. But innovation is not limited to new offerings or improved processes. A far broader range of innovation types has appeared in recent years. These new innovation types, which move beyond offering and process innovation, are we believe of particular relevance to the financial and professional service sectors. To effectively manage a broad innovation portfolio, corporate leaders need to take an analytical approach, determining first the innovation implications of their strategy and then carefully matching planned interventions with the challenges that exist both inside and outside their organisations. This report includes approaches that leaders can adopt to apply the findings contained in this report within their own organisations.

This report:

Examines whether innovation is changing and how corporate leaders view and manage innovation.

Creates an “innovation palette” to help leaders identify the various types of innovation available and the leadership style necessary to make that innovation work.

Shows, in practical terms, how leaders can create an innovation road map, using cognitive mapping to help them lead innovation in their organisation.

ABOUT THE RESEARCH

To survive and flourish over time, organisations need to embrace change and innovation. This is the basic premise that prompted the Chartered Insurance Institute and Cass Business School to initiate this research project.

Some of the major questions that we were interested in answering included:

“Is innovation changing?”

“Are the forms of innovation that we became used to in the 20th century good for the 21st century?”

“How do corporate leaders envisage innovation – and what does it mean for their organisations?”

“What is the role of the corporate leader in the innovation process?”

This report is based upon 20 interviews conducted with corporate leaders. The corporate leaders, who were broadly at director or CEO level, worked in a range of industries, but we placed a special emphasis on conducting research within the financial and professional services sectors. Of these 20 interviews, insurance operations represented 40% of the organisations analysed, banks and investment banks 20%, professional services firms 30% and other industry sectors 10%.

At a very early stage in the research project, we heard a consistent message from many of the corporate leaders that we interviewed which was: *“We know that there is an increased need for innovation and new forms of innovation – but we must find ways to enhance our understanding of how we can build the capability for innovation in our organisations.”*

This message has shaped both the main research phase of this project and the final form of this report, which focuses on providing straightforward guidelines to leaders wishing to enhance the innovative capabilities within their organisations.

THIS REPORT

The remainder of this report is divided into the following sections:

Section 2: The Changing Face of Innovation. This section answers the first two of our research questions – *“Is innovation changing?”* and *“Are the forms of innovation that we became used to in the 20th century good for the 21st century?”* Information gathered from our interviewees certainly indicates that innovation is changing and this section discusses the limitations of traditional definitions of innovation and presents the schematic that has been adopted in this research. This schematic will help corporate leaders identify a broad spectrum of innovation opportunities that can, in turn, help organisations to achieve their long-term objectives.

Section 3: How do Corporate Leaders think about Innovation? This section addresses our third question, introduces the research findings and focuses upon the types of innovation that corporate leaders think are important.

Section 4: Innovation - The Corporate Leader's Role. Section 4 continues the examination of our findings looking in detail at how corporate leaders see innovation barriers, innovation drivers and, of course, their own role in the process of building an innovative organisation. This section addresses the final research question *“What is the role of the corporate leader in the innovation process?”*

Section 5: Putting the Findings to Work. This section takes our major findings and presents them as a series of simple workshop based exercises. These exercises will, we feel, help organisations to rapidly absorb our findings.

Section 6: How the Research was Conducted. Here we provide a summarised view of the methodology that we used. This section also contains an introduction to cognitive mapping, the principal tool that we used to gather and interpret data. This is a relatively new approach in the field of innovation research and the reader may wish to turn to Section 6 to read a short description of this methodology.

Section 7: Future Directions identifies our plans for further research and potential opportunities.

Appendix 1: Example Cognitive Map – Appendix 1 contains a more detailed example of a cognitive map in the form that it would take after a research interview.

Appendix 2: Contact – contact information is provided if you wish to explore further the content of this report.

References: Publication references cited in this report.

SECTION 2: THE CHANGING FACE OF INNOVATION

CRITICAL QUESTIONS

Continuous innovation is vital in all organisations, but perhaps especially so in financial and professional service firms. For example, offering based innovations in financial services are easier to copy as there are fewer patent protections, lower front-end capital investments, and even shorter product cycles (Lyons et al, 2007).

Without innovation, organisations in all industries will struggle to be different from their competitors.

But the world does not stand still. If the world continues to change, then innovation must change too and we must answer some critically important questions:

Is innovation changing?

Are the forms of innovation that we became used to in the 20th century good enough for the 21st century?

The second of the above questions raises the issue of whether the focus on process innovation and “operational leanness” that emerged in the 1990s will serve us well in the coming decade.

These were the first questions that we were keen to find an answer to and we received a clear response from several of our interviewees at an early stage in the project.

IS INNOVATION CHANGING?

Innovation is more than just a new product or service for customers. Innovation can take place in all dimensions of an organisation from the offering (products and services) it provides for its customers to the way that the organisation interacts with its staff.

But in the final analysis, innovation must be about creating a source of enduring competitive advantage. Early on in the research we found that sources of competitive advantage were definitely shifting in the eyes of many of our interviewees. One significant observation was that some corporate leaders felt that, over the past decade, their organisations had succeeded by excelling at two things:

- (a) Reducing the expense base of their operations through business process redesign, use of technology, downsizing and/or outsourcing.
- (b) The successful management of mergers and acquisitions.

But a group of corporate leaders that we interviewed had severe doubts that these skills were enough to set their organisations apart during the next decade and pointed to two major innovation challenges that will determine their business success in the 21st century.

The first challenge is a need to break away from a corporate mindset that has been moulded around strategies that relied primarily upon cost reduction and acquisitions to generate growth and profit. In the words of one of our corporate leaders:

“Over the past decade we excelled at acquiring companies and stripping the costs out of the business. There was just one problem. What do we do when we run out of costs to strip out and the acquisition targets dry up? We realised that we had a problem. We had forgotten how to grow organically – this is something that we must learn how to rediscover.”

The second challenge was how to be innovative, not just in terms of offerings and processes, but in terms of acquiring, developing and motivating the organisation's most valuable asset, human resources, as it is this asset that ultimately drives innovation success in any organisation. A group of interviewees felt strongly that organisations must seek innovation in the way that they work and interact with this most valuable asset, their employees.

Several of those interviewed felt too that the form and scope of both strategy and innovation are changing.

Many writers have observed that the effects of technology (most notably the Web over the past decade or so) have been threefold. First, the Web has allowed us to reduce the costs of producing, marketing and distributing products. For example, in the UK's insurance sector, technology has rendered obsolete decades old processes and revolutionised both costs and skills. But this means technology is making it easier for competitors to reach the same cost base and operational processes are therefore becoming a commodity issue rather than a source of enduring competitive advantage.

Second, the technology is making offering life cycles shorter. For example, the video recording format VHS probably had a life cycle of over 20 years. Industry commentators now think that its replacement, Sony's Blu-Ray technology, may have an expected life cycle possibly only 25% as long.

Third, and possibly most importantly, the Web is encouraging product transparency. By product transparency we mean that it is easier for the end customer to compare the prices and features of competing offerings. In the financial services sector, we have seen an explosion in price comparison or "aggregating" sites, meaning that it is becoming easier for customers to compare the price and content of competing offerings.

So we can conclude that it is becoming increasingly difficult to use just the cost base of the organisation or its core offerings, as platforms to make the organisation fundamentally different from its competitors.

Therefore, traditional sources of competitive advantage, both in offerings and the expense base of the organisation, are being challenged and no more so than in one of the industries at the centre of this study - the UK's insurance industry.

These shifts all add up to one thing, huge pressure on today's corporate leaders as they seek new sources of differentiation and therefore innovation.

WHAT DOES THIS MEAN FOR INNOVATION?

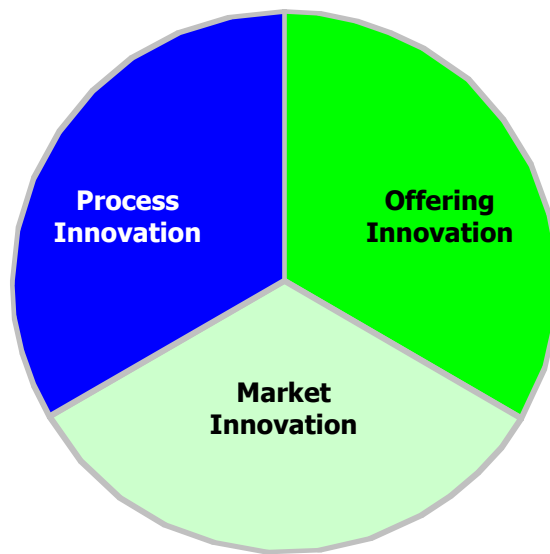
These observations mean that innovation assumes even more importance for organisations wishing to succeed in this new environment. But before we progress any further, we need to be clear what we mean by the term "innovation".

Our focus in this research is not upon "new to the world" innovation - a common interpretation of the word - but *significant, new to the organisation* innovation. We are therefore concerned with, broadly, how organisations do things that are significantly different from *what they have done in the past*.

Having identified that we are interested in *significant new to the organisation innovation*, we need to consider what are the *types* of innovation that an organisation can use.

Traditionally, innovations have been classified into three broad categories as we illustrate below:

ILLUSTRATION 1. An Established Innovation Typology



Here, “offering innovation” refers to new to the organisation products and services – innovation in terms of the products and services that an organisation has traditionally offered to its customers to create value and generate profits. This is an established and conventional way of thinking about innovation. To make it clear that we are concerned here with both tangible products and less tangible services, we refer to this type of innovation as “offering innovation”.

“Market innovation” refers to innovation in how an organisation reaches out to discover new customer segments. easyJet would be a good example. It found a customer segment that none of the traditional airlines were servicing and it discovered a new channel or route to reach out to this segment too.

Finally, “process innovation” focuses upon innovation in the processes and methods that the organisation uses to produce and deliver its products and services, or offerings. An obvious example is finding new processes that reduce the cost of producing products. As we have already mentioned, the arrival of the Web has acted as a catalyst for many organisations to focus upon process innovation as they seek to reach the new lower cost positions that are now possible with Web-based technology.

Whilst this approach to classifying innovation types has been useful in the past, it is clearly deficient in identifying the broader spectrum of innovative activity that some of our corporate leaders have pointed towards. So, we need an “umbrella” definition of innovation that captures the breadth of what the corporate leaders that we interviewed had in mind and, of course, new innovation types that are appearing in research literature.

Other researchers have observed this problem too and have suggested a broader categorisation of innovation, pointing to a range of different forms that reflect the complexity of strategy in today’s world. One group of researchers has proposed that there are 12 different categories of innovation (Sawhney et al, 2006). However, in the interests of simplicity, we were keen to provide a framework for thinking about innovation that may be a little more digestible, and therefore easier to apply in practice. Having reviewed both the research literature and the views of our interviewees, we identified a further two innovation types that are relevant in addition to the three set out above:

(a) *Customer experience innovation* – this concerns “*everything a customer sees, hears, feels and otherwise experiences while interacting with a company at all moments*”. It explores therefore the issue of customer relationships and, importantly, what the customer experiences in addition to the core offering when the customer interacts with the organisation.

(b) *Distribution innovation* – innovation in “*the channels of distribution that a company employs to take offerings to market*”. In insurance in the 1980s, Direct Line adopted distribution innovation by discovering a new route to its customers, and was arguably the first to successfully pioneer technology, in the form of the telephone, to carve out and define a new distribution channel.

But after some reflection, we felt that the types of innovation identified above (offering innovation, process innovation, market innovation, customer experience and distribution innovation) were missing something that both our corporate leaders and other management researchers were telling us.

Many of our interviewees told us that innovation was needed not just in what an organisation offered to its clients, but in terms of finding new relationships with employees. A group of our corporate leaders was adamant that a key area for future innovation activity was within the organisation itself, not in terms of its products or processes, but in terms of its relationship with its most important asset, its employees. In other words, innovation in human resource management. There is one simple reason why this area is important; if an organisation cannot deliver innovation in terms of its relationship with its employees, how can it in turn expect employees to innovate for the organisation?

This form of innovation reflects the proposals of Hamel and his conception of *management innovation* defined as “*innovation in management principles and processes*” and Hamel goes on to offer a more comprehensive definition “*a marked departure from traditional management principles, processes, and practices or a departure from customary organizational forms that significantly alters the way the work of management is performed. Put simply, management innovation changes how managers do what they do*” (Hamel, 2006, p75). This is materially different to process innovation as introduced earlier which is concerned just with how an organisation produces its offerings. It is clear that in looking at the examples that Hamel provides, he has a special focus on innovation in the ways that an organisation works with its people, just the type of innovation that our corporate leaders were so interested in.

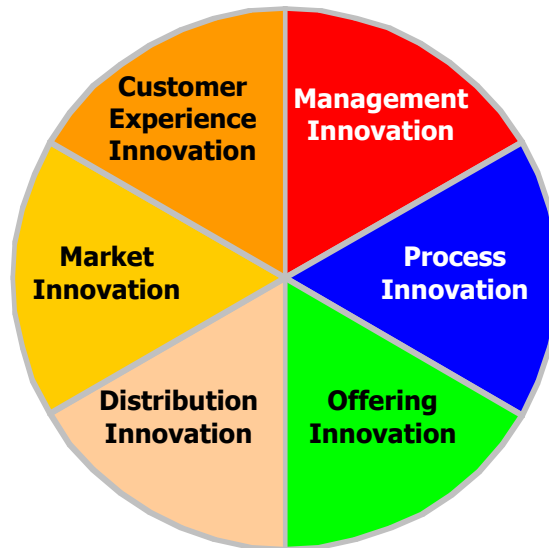
So in all there are six, not just three dimensions or types of innovation that we should be concerned with as we show in both Table 1 and Illustration 2.

TABLE 1. The New Innovation Dimensions

Innovation Type:	Definitions:
Offerings	<p>New to the organisation products and/or services.</p> <p><i>Apple's iPhone is an example as are insurers that use derivative products instead of traditional insurance policies to manage their clients' risks and liabilities.</i></p>
Markets	<p>Breaking out to serve new customer markets not served before.</p> <p><i>easyJet is an example – bringing affordable air travel to those who had never flown before. eBay is yet another – finding customers who want the thrill of the auction room but who had been overlooked by traditional auction houses.</i></p>
Processes	<p>Redesign of processes that produce the organisations offerings to improve efficiency and effectiveness. New organisational structures to provide better customer focus.</p> <p><i>Toyota's "just in time" inventory management system is an excellent early example of process innovation.</i></p>
Distribution	<p>New distribution routes or ways of reaching out to customers.</p> <p><i>Direct Line was a pan-industry leader in direct distribution when it broke the traditional insurance broker dominated model of insurance distribution.</i></p>
Customer Experience	<p>Innovation in the way customers interact with the organisation.</p> <p><i>Progressive Insurance introduced immediate response vehicles to attend to claimant policyholders at the site of their accident, providing a rapid seamless service that could handle many claims in 24 hours.</i></p>
Management	<p>"Innovation in management principles and practice". Finding new ways of managing, especially in terms of the relationship between an organisation and its staff.</p> <p><i>Building leadership at GE, building a community at Whole Foods and harnessing employee intellect at Toyota.</i></p>

We can see this broader spectrum or "Innovation Palette" in Illustration 2.

ILLUSTRATION 2. The Innovation Palette



CONCLUSION

Strategy is changing and so are the forms of innovation that an organisation must deliver.

Traditional sources of competitive advantage, such as products and the cost base of the organisation, may be losing their effectiveness and, just conceiving of innovation in terms of “products” and “processes” is too limiting, especially from the perspective of the top-level corporate leader wishing to drive innovation in her/his organisation. Organisations have to look to new types of innovation to succeed but, most importantly, innovation is needed in one area that has possibly been overlooked in the past, and that is the organisation-employee relationship, embraced here within the management innovation dimension that we introduced earlier. For some of the organisations that took part in this research, this form of innovation is of critical importance for another reason, it is the employees who directly form the organisation's offering. Interestingly, prior research tells us that innovation in the employee – organisation dimension is the type of innovation that we know the least about.

So, instead of merely products and processes, organisations and their corporate leaders must focus upon a far broader and demanding “innovation palette”.

SECTION 3: HOW DO CORPORATE LEADERS THINK ABOUT INNOVATION?

OVERVIEW – THE CHALLENGE

In the last section we looked at two questions:

“Is innovation changing?”

“Are the forms of innovation that we became used to in the 20th century good for the 21st century?”

Our findings were clear. The sources of competitive advantage that organisations use is changing and potentially in a significant way. Innovation is changing too. The historic three-way classification of “product-process-market” innovation is now a far too simplistic schematic to help us conceive the range of innovation opportunities open to organisations. This observation applies especially to organisations in the financial and professional services sectors that rely significantly upon their employees’ intellectual capacity as a central component of their offerings to customers and clients.

Understanding how financial and professional services organisations will innovate in the future is of central importance, especially when we consider the challenges and changing landscape presented by the current economic crisis. In the face of the prospect of increasing regulation, financial services organisations in particular may have to turn increasingly away from offering or product innovation to the other, newer, forms of innovation that we have introduced in order to differentiate themselves. Understanding the broader “innovation palette” will, we believe, be a key factor that could determine an organisation’s future success.

In this section we now turn to look specifically at this question:

“How do corporate leaders envisage innovation – and what does it mean for their organisations?”

The answer to this question will give us a clearer view of how leaders see innovation - very much a first step in building an innovative organisation.

HOW DO CORPORATE LEADERS ENVISAGE INNOVATION?

Before looking at how our own research findings can answer this question, it would be helpful to see what past research has to say.

Thinking About Innovation: What research can tell us

The possibilities for innovation within an organisation are, in practice, very broad and this can therefore be a real problem if innovation activity is not properly controlled.

Too wide a range of innovation activities can be overwhelming and exhaust the organisation. Without focus, provided by top-level management, the innovation process can slow to a crawl, especially if opportunities are pursued that do not have a realistic chance of seeing the light of day. Two of the key leadership roles are therefore to ensure that there is a realistic number of innovation projects and that innovation activity is directly relevant to the organisation, its strategy and its long-term objectives. Frenetic innovation activity can produce exhaustion, and an exhausted organisation must be avoided at all costs.

So, it is up to the leader to give the organisation direction. In other words, to provide it with an “innovation road map”. After all, a well-defined innovation strategy stops staff from wasting time on ideas that corporate leaders would ultimately kill or think irrelevant (Anthony et al, 2006).

But it is not just a case of giving direction in the form of a list of things that the organisation will and will not do. Corporate leaders must also ensure that innovation activity addresses a bewitching problem, one that both demands fresh thinking and sets a daunting target for the organisation (Hamel, 2006). So in addition to providing clarity and direction, corporate leaders must ensure that they are setting their organisations a demanding, but achievable, challenge.

To do this, leaders should think about the tough tasks that the organisation never seems to get right. For example, the weaknesses that established organisations may have or the emerging challenges that the future has in store for the business. Only a daunting target, clearly unattainable through existing modes of operation and thought, will stimulate fresh thinking and overcome the limitations of traditional ways of working.

To do this, leaders must look for role models outside the industry. Benchmarking or looking for role models inside one's own industry is unlikely to uncover breakthrough concepts (Hammer, 2004). Leaders must also try to identify and challenge an established industry “rule” or way of doing things. The very clear message here is to ensure that thinking in the organisation goes beyond “what worked in the past”. This is particularly true when an organisation faces uncertainty and the prospect of major change in its marketplace.

However, leaders can influence the process of innovation in their organisations simply by spending more time attending to both the future and the present. Leaders need not, and perhaps should not, involve themselves with the details of specific innovation activities, such as detection, filtering, development, and deployment. Corporate leaders can be at their most effective by focusing on the overall innovation picture or road map as opposed to getting closely involved in working in individual innovation development projects.

In summary, past research tells us that:

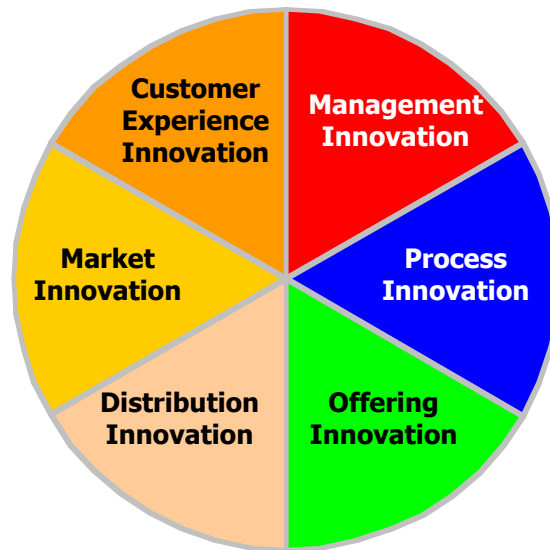
1. Firm direction should be given. A clear “innovation road map” must be provided. Clarity and direction is important too so that one can ensure that the organisation does not become overwhelmed and exhausted through wide-ranging and disparate project activity. Effort and scarce resources must be correctly focused.
2. Time should be invested in considering the future marketplace that your organisation may face (Yadav et al, 2007), especially the macro forces that can drive change in any business sector (the political, economic, socio-demographic, technological, environmental and legislative forces). Use the outputs from this work to drive the innovation road map.
3. Innovation activity should not be constrained by past practices or “what worked before”. When defining your innovation agenda, consider the full range of innovation types that we have introduced here and think beyond product and process innovation.
4. Ensure that the innovation road map presents a real intellectual challenge for the organisation.
5. Focus on the total high-level innovation picture. Do not be tempted to meddle with individual innovation projects. Leave that to other managers who are directly responsible for innovation projects. The role of the corporate leader is to set the innovation road map, communicate the importance of innovation, clear away barriers and provide resources.

How Corporate Leaders Envisage The Innovation Road Map: Our findings

A clear primary task for the corporate leader is to provide an innovation road map. Such a map can only be created if leaders have a clear idea of the types of innovation that their organisations can engage in.

In Section 2, we presented a new, broader classification of innovation types that we now show again, as Illustration 3.

ILLUSTRATION 3. Conceptualising innovation – the innovation palette



We can start to analyse the ways that (I) our interviewees conceived innovation by using this innovation palette and (II) how they used the palette to define an innovation road map for their organisations.

We therefore used the innovation palette to classify the innovation descriptions that interviewees gave us. We scrutinised the cognitive maps (please see Section 6 for a description of this research tool and Appendix 1 for a more detailed example) to find references to innovation types. These references were then classified into one of the six innovation types shown in the innovation palette. The results are summarised in Illustration 4.

Illustration 4 provides us with a classification of *all* the innovation types mentioned by *all* our interviewees. It can be seen that two innovation types predominate in the minds of the group of corporate leaders that we interviewed, these are offering and process innovation, being arguably two of the historically more established innovation types. Illustration 4 also tells us that offering innovation accounted for one third of the innovations mentioned by interviewees. Process innovation was very close behind, accounting for just over a quarter of all the innovation types referred to by interviewees. Therefore, these two innovation types accounted for well over half of all the innovations that our interviewees talked about. Interestingly, customer experience and management innovation were the next most frequently referred to. Market and distribution appeared to assume less importance and were less frequently referred to.

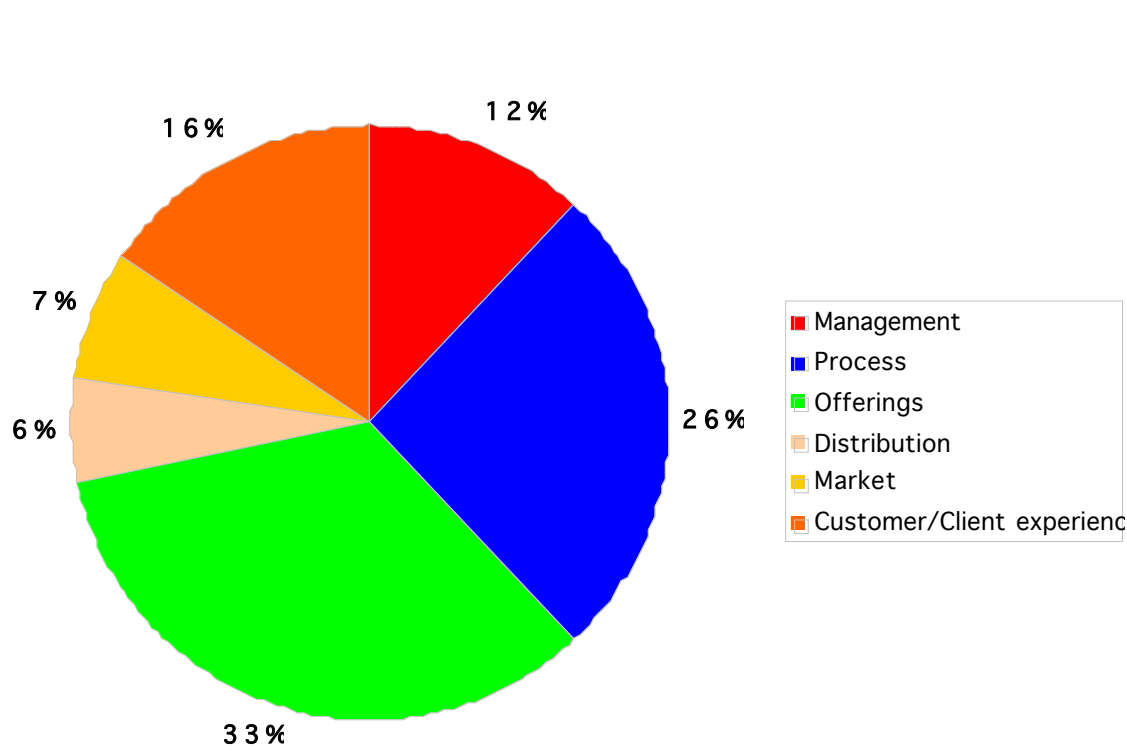
Illustration 4 shows how frequently different types of innovation were mentioned by interviewees as a group. Next, we wanted to understand the *awareness* of the full scope of the innovation palette amongst individual interviewees. In other words, did a large or small proportion of our interviewees have an awareness of the full range of innovation types described by the innovation

palette? Again, the results are biased towards more established innovation types with offering innovation being the only type of innovation referred to by nearly all interviewees:

- 90% of interviewees referred to offering innovation.
- 55% referred to process innovation.
- 55% mentioned management innovation.
- 40% referred to customer experience innovation.
- 30% talked of distribution innovation and...
- Only one in four mentioned market innovation.

None of our interviewees referred to a range of innovations that could be classified into all six categories of the innovation palette. None of the interviewees used, therefore, the full breadth of the innovation palette.

ILLUSTRATION 4. Innovation types described by interviewees



This indicated a potential lack of awareness of the full range of the innovation palette. This led us to look at our research information in more detail. We realised that in terms of innovation awareness, our research sample fell into three distinct groups.

The first group, that we could call the balanced innovators, generally talked about an innovation that focused in broadly equal terms on internal innovations (process and management innovation types) and innovations focused on the world outside their organisations (offering, distribution, market and customer experience innovation). However, thinking was still dominated by offering and process innovation types. Just over a third of interviewees, 35%, fell into this category.

The second grouping focused almost exclusively on external innovation types. For them, management innovation was the only internal innovation type mentioned. But once again, offering innovation strongly dominated interviewees' minds within this group. Again, 35% of interviewees were in this group.

The final group was concerned with internal innovation and, in particular, process innovation. 30% of interviewees were in this final group.

THINKING ABOUT INNOVATION: CONCLUSIONS

Established innovation research is quite specific. One of the key tasks for the corporate leader is to define the innovation road map. In other words, how innovation will play a role in achieving the goals of the organisation and the broad types of innovation that the organisation will and will not get involved with. We also noted that the “road map” should present real challenges to the organisation.

Against this backdrop, we can make the following observations:

- (a) Understanding the innovation palette. None of our interviewees referred to the full range of innovation types, six in all, that we introduced in the last section. Generally, we feel that the research reveals that there is a lack of awareness of the full range of innovation types that are available to organisations. There is still, we feel, too much reliance upon offering and process innovation when leaders talk about and conceptualise innovation.
- (b) Innovation and strategy. There appears to be a gap between corporate level strategy, where the organisation wants to go, and innovation activity. Our analysis points to the need to spend more time conceptualising corporate level strategy in innovation terms. Setting a clear picture of where the organisation will and will not go in innovation terms will help to avoid ambiguity when top-level leaders communicate with their teams and the rest of the organisation.
- (c) Setting the innovation challenge. Only a few, possibly four, interviewees could in our minds articulate a real, substantial, innovation challenge for their organisations.
- (d) Communicating the need for innovation. As a group, our interviewees found it difficult to talk about innovation. It took some time for an innovation road map to appear in many of the interview sessions. This leads us to conclude that leaders need to reconsider how they communicate the role of innovation in the achievement of the organisation's goals and objectives.

These findings reveal that in many organisations innovation is not a regular item on corporate leaders' agendas. Certainly, at the corporate level, there may not be a clear linkage between corporate strategy and innovation activity. The innovation road map seems to be a missing tool, yet expressing corporate aspirations in innovation terms may be a powerful communication approach, one that can both help overcome ambiguity and stimulate constructive debate and action.

SECTION 4: INNOVATION – THE CORPORATE LEADER'S ROLE

WHAT IS THE ROLE OF THE CORPORATE LEADER IN THE INNOVATION PROCESS?

This is the last of our major research questions and is addressed in this section. To examine the role that leaders think that they should have in the innovation process, we will look at three supporting questions:

- (i) *What, in leaders' minds, **drives** the need for their organisations to innovate?*
- (ii) *How do leaders see the **barriers** or obstacles to innovation and where do leaders think that these barriers are located in their organisations?*
- (iii) *What do leaders think that **they should do** to stimulate innovation and overcome innovation barriers?*

We will now examine each supporting question in turn.

WHAT, IN LEADERS' MINDS, DRIVES THE NEED FOR THEIR ORGANISATIONS TO INNOVATE?

As in the last section, we will start by looking at what the innovation literature can tell us.

The Drivers of Innovation: What research can tell us

Drucker (1985) defined entrepreneurship as: "*a commitment to the systematic practice of innovation*". The corporate leader as the innovation entrepreneur is: "*responsible for the initiation and design of much of the controlled change in his organisation. He continually searches for new opportunities and problems and he initiates improvement projects to deal with these*" (Mintzberg, 1973, p. 168). A central role for the corporate leader is then to search out and communicate new reasons why the organisation must innovate.

We call these reasons "innovation drivers".

It is very difficult to present a generic list of innovation drivers as they should be contextually specific to the organisation – reflecting an organisation's:

- Strategy and goals.
- Perception of the future opportunities and challenges in its marketplaces.
- Internal position – its structure, culture, processes and skills – in other words, the organisation's strengths and weaknesses.

It is clear that leaders should be scanning both the internal and external environments to look for reasons to innovate. So, past research is clear that top level leaders must be closely involved with the definition and communication of innovation drivers, why innovation is of critical importance to the organisation's future.

The Drivers of Innovation: Our findings

Turning now to our research, some of innovation drivers mentioned by our interviewees are introduced in Table 2 below. Drivers are divided into two categories – those emanating from *inside* the organisation and those emanating from *outside* the organisation:

Table 2. How Interviewees see Innovation Drivers

External Drivers	Internal drivers
“Need for performance and green innovation”	“Being the employer of choice”
“Globalisation”	“Need for decentralisation”
“Innovation undeveloped in the sector”	“Static turnover”
“Short-termism”	“Ensuring the retention of people”
“Environmental sustainability”	“Get a buzz from doing things differently”
“Client needs precipitate innovation”	“Stimulus from people within”
“Half-life of products has shrunk dramatically”	“How can I use where we’ve arrived at”
“Regulatory challenges”	“A change to the remuneration model”
“Industry is poor at servicing its customers”	“Cost efficiency”
“Changing demands in the market”	
“To grow we must deal with more difficult business”	

Source: Research database

Internal drivers emanate from needs inside the organisation whereas external drivers are stimulated by changes or perceived future threats and opportunities emanating from the outside world.

But the question still remains, how well could our interviewees identify and define innovation drivers?

Generally, our findings followed those discussed above in respect of innovation types.

We found that many interviewees had some difficulty in identifying a really broad range of drivers.

In terms of both internal and external innovation drivers, over half our interviewees could only identify one or two drivers in each category. Possibly, this was an area that many interviewees had not considered before, echoing our earlier observation that many interviewees probably do not explicitly consider their strategies and goals in innovation terms.

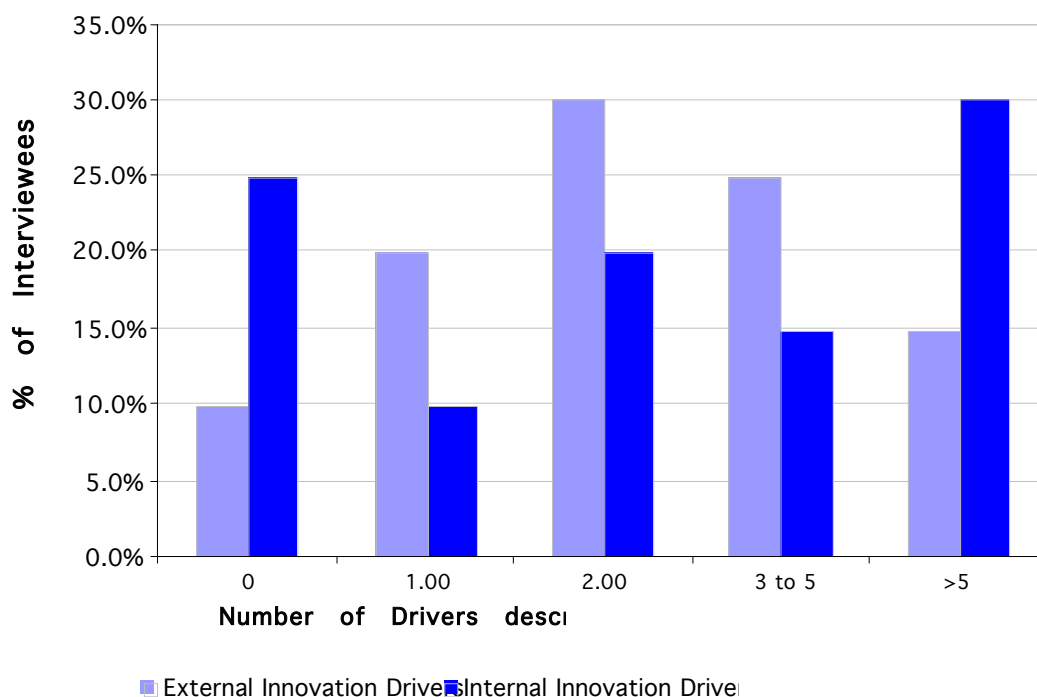
Again, this is an important finding, as we have seen from our review of past innovation research that effective innovation leaders must be able to articulate to their organisations the need for innovation. Being able to articulate innovation drivers is therefore a key characteristic of a leader wanting to stimulate innovation and indeed change.

Illustration 5 below introduces our findings in respect of innovation drivers. This illustration provides an analysis of the numbers of innovation drivers mentioned by our interviewees. We can see that many had difficulty in identifying internal reasons why their organisations should innovate. A quarter did not mention any internal drivers at all and a further 10% could only mention one internal driver.

Many interviewees had difficulty in seeing the need for innovation in the external environment too. In fact, 30% of interviewees referred to either only one or indeed no external innovation drivers. This potentially indicates the need for leaders to spend more time analysing developments and trends in the external environment in terms of innovation needs and opportunities.

Earlier in this section we noted the existence of three different innovation groups or clusters – the “balanced innovators”, “offering innovators” and “process innovators”. Interestingly, views on innovation barriers did tend to vary by these groupings. As a group and, unsurprisingly, offering innovators thought of innovation drivers almost exclusively in external terms. Process innovators paid more attention to internal drivers, but surprisingly balanced innovators, again as a group, paid most attention to internal drivers, not a balance of the internal and external drivers.

Illustration 5: Innovation Drivers



These findings reinforce one earlier conclusion. Leaders should cast their corporate strategy in innovation terms.

Most organisations conduct reviews both of the external environment and internal capabilities when developing their corporate strategy. Instead of, for example, merely expressing the findings in terms of a strengths, weaknesses, opportunities and threats analysis (SWOT), leaders can look at the weaknesses quadrant and draw up a list of reasons to innovate and link these reasons to the desired innovation outcomes using the innovation palette. This will provide a list of potential internal innovation drivers.

This exercise can be repeated for the findings in the opportunities and threats quadrants, linking each finding to a desired innovation outcome. This will provide a list of potential external innovation drivers.

A clear observation at this point is that if corporate leaders do wish to focus on innovation, then more time must be invested in thinking about the underlying drivers, or need to innovate, and link this thinking directly to their organisation's strategic objectives. Such clarity will help leaders in turn to communicate more clearly with the rest of the organisation. In turn this will evidence the need for innovation.

The words of one corporate leader summarise the position: "*There are more drivers of innovation than there are barriers*".

HOW DO LEADERS SEE THE BARRIERS OR OBSTACLES TO INNOVATION AND WHERE DO LEADERS THINK THAT THESE BARRIERS ARE LOCATED IN THEIR ORGANISATIONS?

This is the second supporting question we wish to explore. This question is concerned with where our interviewees looked for innovation barriers or blockages that stop an organisation innovating. Again, we start by seeing what prior research can tell us.

Innovation Barriers: What research can tell us

Up until now, we have looked at the role of the leader from the perspectives of providing direction and reasons why innovation is needed.

But the role of the corporate leader is not just restricted to setting challenging aspirations. Research tells us that another critical activity for corporate leaders is to seek out innovation barriers - things that stop innovation - to ensure that the right innovation environment exists inside and possibly outside the organisation. Jassawalla and Sashittal (2002) argue that for innovation to flourish, leaders need to manage the intense, day-to-day interactions between the culture (i.e. the organisation's belief and value systems), the emerging innovation strategy (i.e. technology and offering-related objectives and investment decisions), and the setting (i.e. who is involved, who can make decisions, and even how the organisation itself is structured).

The make-up or structure of organisations can often establish internal barriers that stop organisations reaching their full innovation potential. But the culture of an organisation can present a formidable barrier too. To detect and overcome such innovation barriers, effective and inquisitive leadership is required. Research in the innovation field tells us that barriers typically take the following forms:

1. *Lack of knowledge*: The more knowledge or expertise an organisation has regarding a process the better it is likely to be at performing that process. Therefore, in this case, an organisation's innovation capability will depend on its knowledge and expertise. Put succinctly, the more knowledge and experience an organisation has about innovation, the better it will be at innovation. Experience, in the form of an organisation's memory, can play a key role. Cohen and Levinthal (1990) reported that organisational memory can enhance a business's ability to assess and import new information, which promotes creativity and innovation. Experience and expertise can therefore lead to more confidence and organisations are more likely to pursue innovative strategies.

But knowledge can be a double-edged sword. Leonard-Barton (1992) warns against existing knowledge becoming a *core rigidity* inhibiting change, as existing knowledge has a tendency to filter-out information that does not fit with an organisation's established perceptions. This can lead to failure to spot emerging threats or potential opportunities - in other words, external innovation drivers. This is why a culture of learning should be at the heart of innovation. Garvin (1993) defines a learning organisation as one skilled at creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and

insights. A learning culture helps encourage employees to adopt an open-minded enquiry-based approach to decision-making. This occurs when managers and employees proactively question the long-held assumptions and beliefs of the organisation. This process is sometimes referred to as “unlearning”. This, coupled with the support top management has for change, and the willingness and freedom employees have to experiment, leads to an increased level of learning in the organisation. McKee (1992) introduces the concept of “meta-learning” to refer to learning about organisational processes. So, to be effective in the long run, organisations must be continuously improving their innovation processes.

2. *Lack of Trust:* Trust is vital in an innovative organisation. Valuable knowledge must be widely distributed within and across organisational units. This will only happen in settings where trustworthiness is clearly signalled and sensitively maintained (Mile, 2007). Within trusting relationships, individuals freely collaborate in the process of innovation, both sharing and creating capabilities. Leaders can help to build and maintain a trusting climate that generates high rates of innovation by regularly recognising and acknowledging contributions and encouraging efforts to find new knowledge sources across the organisation.

Frequently, new to the organisation innovations start as grassroots ideas and movements, fostered by people distributed throughout the organisation who are passionately committed to finding and exploiting opportunities for innovation (Hammer, 2004). An environment of trust is needed to foster and develop both passion and initiatives.

3. *Lack of Space:* Leaders need to be able to provide the resources (tools, processes, structure, finance and, importantly, time) to enable innovation to happen. But senior managers need to do more than just provide resources. They must use their personal network of contacts (both inside and outside the firm) to gather the support and resources for implementing a new idea, and use their personal influence to convert sceptics into believers (Lyons et al, 2007). They need to shield innovation projects especially in the early development stages. This provides the space within which the innovation will flourish.
4. *Cultural Alignment:* Leaders also need to work with innovators to solve vexing strategic issues. Leaders can play a critical role because they can overcome the often choking influence of “the established way of doing things” which frequently is a real barrier in longer established organisations.

In summary, past research tells us that we must be aware of three broad sources of innovation barriers:

- (a) Skills. Here, we are potentially concerned with skill deficiencies, lack of knowledge and experience.
- (b) Culture – especially in terms of fostering a climate of trust, team working and overcoming preconceived views of how things are done in the organisation.
- (c) Structure. The organisation's structure can present a range of barriers. Structure, in the form of job and task descriptions, can restrict access to the time and resources needed for innovation. The way the organisation is structured too can present physical barriers or “silos” that prevent co-operation, team working and the transfer of skills, knowledge, experience, ideas and information across the organisation.

Innovation Barriers: Our findings

When we analysed the interviews for references to innovation barriers we were keen to take a fine-grained view of barriers. This would help us to identify where knowledge of barriers did and did not exist amongst our interviewees.

Firstly, we divided, or coded, barriers into external and internal types (just as we did for innovation drivers) - those located outside and those located inside the organisation.

We then looked more closely at the internal barriers and sub-classified these following the findings from past research as introduced above into:

Skill-Related Barriers: This refers to barriers in respect of skills, knowledge and innovation experience.

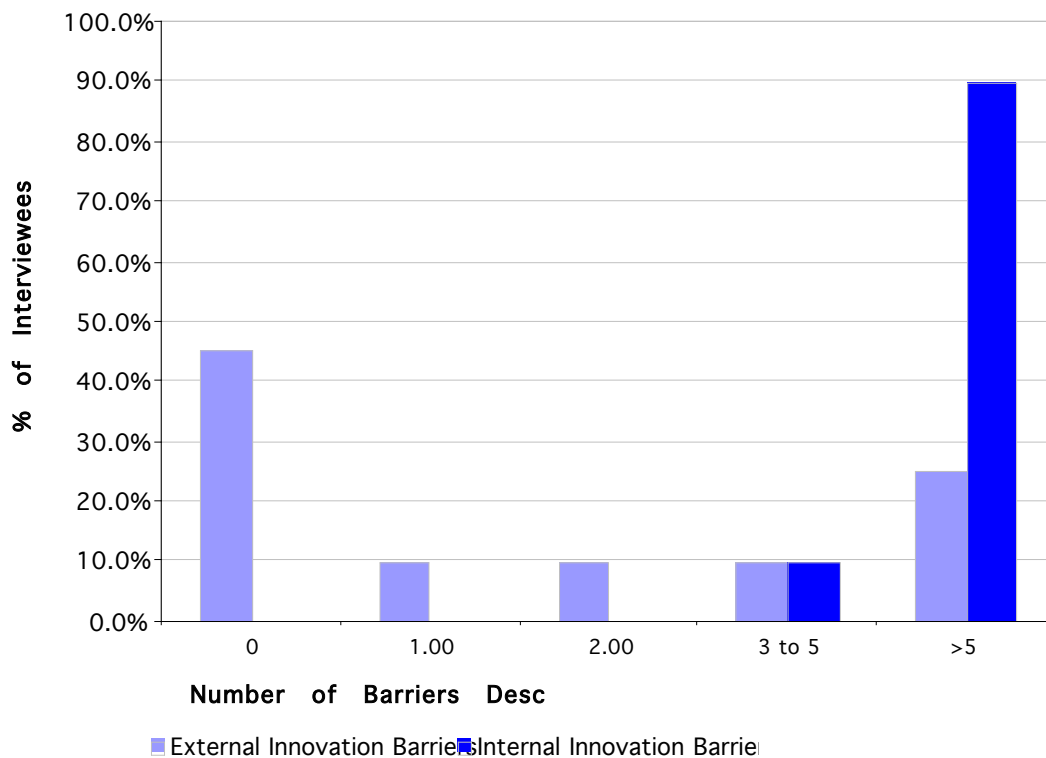
Cultural Barriers: This is exactly what it says - barriers that interviewees see in the culture of their organisations such as “the established way of doing things”.

Structural Barriers: The previous two dimensions deal with the less tangible aspects of an organisation, its skills and culture. Structural barriers, as the name suggests, focuses upon barriers or impediments that are located in the tangible elements of the organisation. Examples would include problems with organisational structure, reporting lines, work processes and authority structures, that can all get in the way of providing the “space” for innovation.

We will start our analysis by looking at a simple high-level view; were the barriers seen as being inside or outside the organisation? These high-level results are shown in Illustration 6. Interviewees found external innovation barriers hardest to identify. Indeed, 45% of interviewees did not refer to any external innovation barriers at all.

However, interviewees fared far more impressively when talking about barriers inside their own organisations, practically all interviewees - 90% - described five or more innovation barriers inside their organisations.

Illustration 6: External and Internal Innovation Barriers

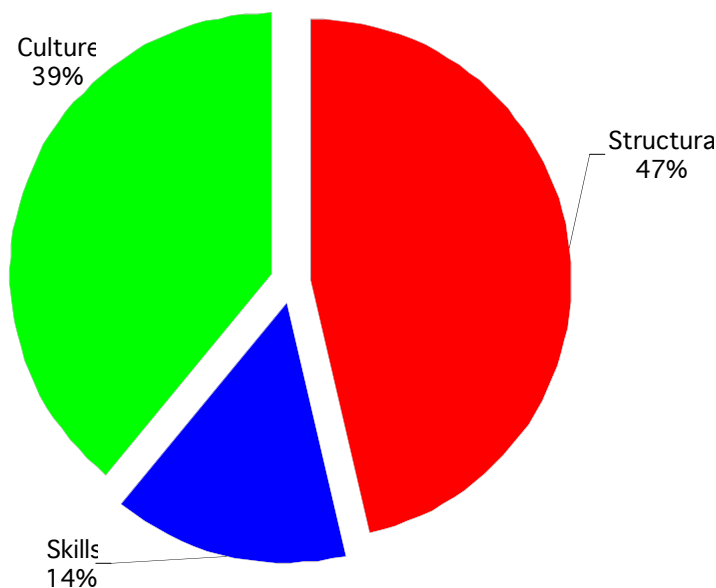


Generally, most leaders appeared to have a good knowledge of internal innovation barriers, but we wanted to explore this understanding of internal barriers in more detail. Illustration 7 shows a finer-grained analysis of the internal innovation barriers mentioned by our interviewees, dividing these internal barriers into the skill, cultural and structural classes introduced above.

In terms of the entire sample, looking at Illustration 7, this initially appears to be a reasonably balanced spread of internal barrier identification.

A closer analysis of our findings, however, revealed sub groups or clusters of interviewees just as we had seen when we looked at innovation types. What we did observe is that there is no common pattern of barrier identification amongst our interviewees. In fact, we saw three broad sub-groups or clusters of barrier awareness. Some saw structural barriers, basically problems in the structure and processes within the organisation, as the real issue. In this cluster as a whole, interviewees saw 75% of barriers related to structural issues within their organisations. The second cluster had a more balanced view and, as an average, members of this group saw just under half - 46% - of innovation barriers being related to structural issues. Finally, the third cluster took a culture-led approach in barrier identification. This last group saw far fewer structural barriers, on average only 28% of all the innovation barriers identified by this group related to structural issues.

ILLUSTRATION 7: Innovation Barriers



Earlier in this report we noted that there were three groupings of organisations - those that wanted to pursue a broad, balanced approach to innovation, those that wished to focus on offerings and finally those that were more concerned with internal innovations. However, identification of barriers did not vary significantly by these groupings of innovation intentions.

The divergence in barrier identification that we have observed could be due to two reasons. First, every organisation is unique and will present therefore a unique combination of innovation

barriers. Our findings could simply reflect this reality - at one extreme we have organisations dominated by structural problems, at the other, organisations troubled with cultural issues.

Alternatively, the research could tell us that some interviewees may have a better idea of where to look for barriers and problems than others. Some leaders may have an imperfect view of where barriers could exist. In general, our findings from looking at how interviewees saw innovation barriers, can be summarised as follows:

(a) In line with our findings for innovation drivers, the research indicates that corporate leaders should spend more time analysing developments and trends in the external environment to look for both innovation barriers and drivers.

(b) Structural issues predominate when many corporate leaders think about innovation barriers. More time should be devoted to looking for skill-based and cultural barriers too. This observation relates particularly to the issue of skills. On average, skill based barriers only represented some 15% of internal barriers mentioned by interviewees and one-fifth of interviewees did not make any reference at all to skill-based innovation barriers.

WHAT DO LEADERS THINK THAT THEY SHOULD DO TO STIMULATE INNOVATION AND OVERCOME INNOVATION BARRIERS?

Overcoming Barriers

Having looked at how our interviewees saw the obstacles or barriers to innovation, we will now turn to look at how these barriers might be overcome. Here we are concerned with the actions that leaders believe that they should take to both overcome innovation barriers and increase the innovative capacity in their organisations.

In short, we are interested in innovation *enablers*. To do this we used the same classification as we used for internal barriers, classifying innovation enablers (in other words, the leader's proposed actions to overcome barriers and create the capacity for innovation in their organisations) into:

- *Structural interventions* – changes to the structure of the organisation and its processes. We have also included the hiring and firing of staff in this category. Interventions here can be thought of as direct commands from the top of the organisation.
- *Skill based interventions* – actions to change the skills of existing staff within the organisation. This category therefore focuses purely on actions to enhance the skills, knowledge and therefore competencies of staff currently in the organisation.
- *Cultural interventions* – direct interventions by the corporate leader with the aim of changing and enhancing the organisation's culture.

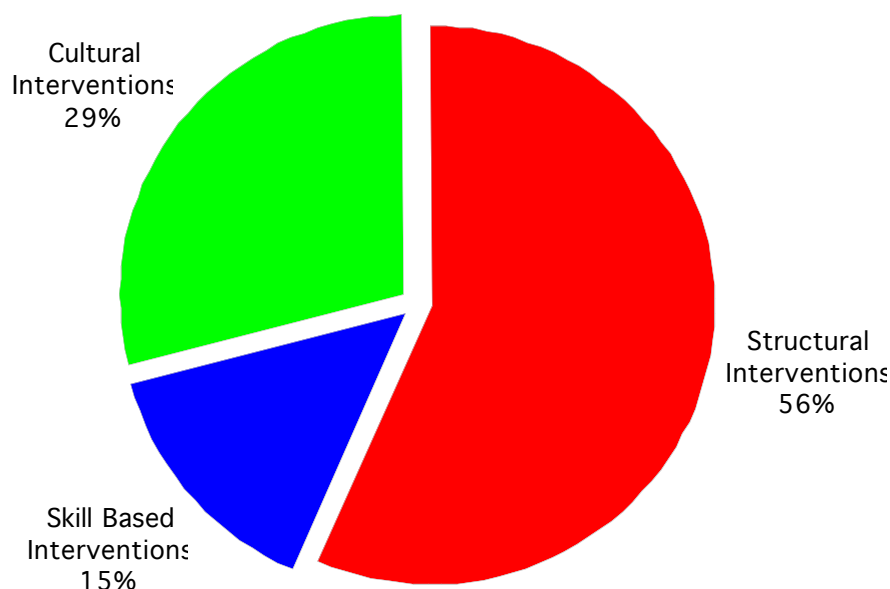
Illustration 8 shows the balance of enabling activities over these three categories reported by our interviewees.

This analysis came initially as a surprise to us when we contrasted the findings in Illustration 8 with the barriers shown in Illustration 7. There appeared to be a mismatch between the innovation barriers that interviewees identified and the types of enabling actions that interviewees talked about. In short, there appeared to be a tendency to have an over-reliance on structural interventions or enablers, (changes to structures, processes, systems and hiring new staff), and under-reliance upon direct cultural interventions when leaders talked about what they should do.

This indicated in our minds a possible lack of congruence between the barriers that corporate leaders saw in their organisations and their proposed actions. This was also an apparent

anomaly that could not be explained by the different types of innovation that our interviewees wanted to pursue.

Illustration 8. Innovation Enabler Analysis



The issue of an apparent lack of alignment between innovation barriers and innovation enablers is shown in Illustration 9.

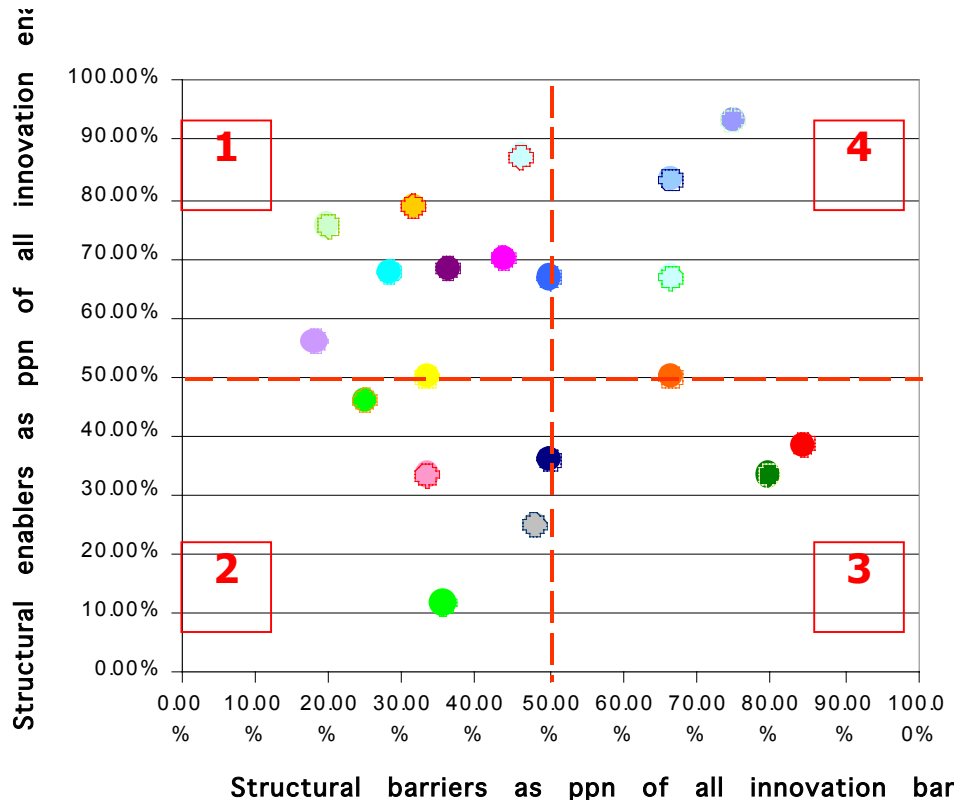
Illustration 9 is divided into quadrants. Moving counter-clockwise around the illustration from the top left quadrant, we can see that quadrant one is the most densely populated. Nine out of our 20 interviewees are in this quadrant. In this quadrant interviewees do not, in general, see the structure of their organisations as the major source of innovation barriers but they do intend to use structural changes as enablers to increase innovation capabilities.

Moving down to quadrant two we can see exactly the opposite approach. Interviewees here too do not see the structure of their organisations as presenting the bulk of the problems, but their approach to increasing innovation capabilities is different. Here we see a major focus on cultural and skill-based changes rather than more formal changes to structure and staff.

If we move across to the right-hand half of the illustration we first see that this area is less densely populated. In quadrant three, organisations see that structural barriers predominate, but wish to use cultural and skill based interventions to build innovation capacity.

Finally, in quadrant four, we see a group intending to overcome primarily structural barriers with structural enabling actions.

Illustration 9. Illustration Barriers and Enablers Contrasted



The majority - 70% - of interviewees are in quadrants one and two, but broadly two different approaches to innovation capability have been revealed. To summarise, interviewees in quadrants one and two face similar barriers, but propose different approaches to overcoming them.

We were keen to explore these different innovation approaches in more detail and we turned to our cognitive maps. As we explain in Section 6, cognitive maps help us to explore management cognition, or how managers mentally “see” issues and processes. The cognitive maps that we prepared proved to be particularly valuable. The maps provided us with evidence with regard to the chain of causality that our interviewees had in their minds. These chains explained how the proposed actions would overcome barriers and then subsequently produce increased innovative activity.

We looked at a sample of organisations from quadrants one and two and discovered that the leadership approaches varied considerably.

Leaders in quadrant one generally:

- (a) Used structural changes and hiring in new staff to spearhead their innovation efforts.
- (b) Relied upon one or a small number of formally constructed projects to drive the creation of innovation capabilities. Descriptions of these initiatives included “*framework process to deliver results*”, “*formal product programme*”, “*hard measures*” and a “*strategy and product committee*”.

(c) Limited direct intervention to the structure of the top management team, making few, if any, direct incursions or interventions into the rest of the organisation. In short, the focus of change was very much “top management centric”.

(d) Did not make interventions that would directly impact the culture of the organisation. This may be of some concern as a culture that values entrepreneurship has been shown to outperform cultures dominated by internal cohesiveness or by rules (Deshpande and Farley 2004). Arguably, confronting cultural barriers should therefore be at or near the top of the corporate leader’s agenda. Even when cultural interventions were proposed, formal methods were articulated, for example, “*a statement of values*”.

(e) Presented a fragmented picture of how innovation capabilities would be increased.

(f) Presented separate causal chains for barriers and enablers with limited interaction between the two.

Leaders in quadrant two faced similar barriers but took a cultural and skill based approach to innovation capability building generally:

(a) Described fewer “top down” structural changes. When structure was referred to it included the creation of an “informal structure” or a way for employees to work on innovation outside their formally defined roles and reporting lines. Rather than “top management centric change”, the emphasis was on behavioural outcomes at the business level, where the organisation interacts with its customers. Attention was focused upon how leaders’ actions, at different levels in the organisation, would impact values and behaviour.

(b) Referred to longer and quite complex causal chains with nodes spawning multiple children (new causal chains). Some of the interviewees in quadrant two gave quite detailed “cause and effect” descriptions of how they saw their enabling actions working.

(c) Proposed using multiple initiatives to overcome barriers and create innovation capabilities. This is in direct contrast to some leaders in quadrant one who relied typically upon one or a handful of formally constructed projects to drive innovation.

(d) Focused on directly confronting cultural and skill-based barriers, looking in particular at changing leadership behaviour across the organisation.

What this research does clearly reveal is that there is no one agreed or shared approach to enable innovation. Illustration 9 clearly shows a fragmented approach with the two most popular approaches (quadrants one and two) being opposed. This clearly leaves us with the question – which one is right?

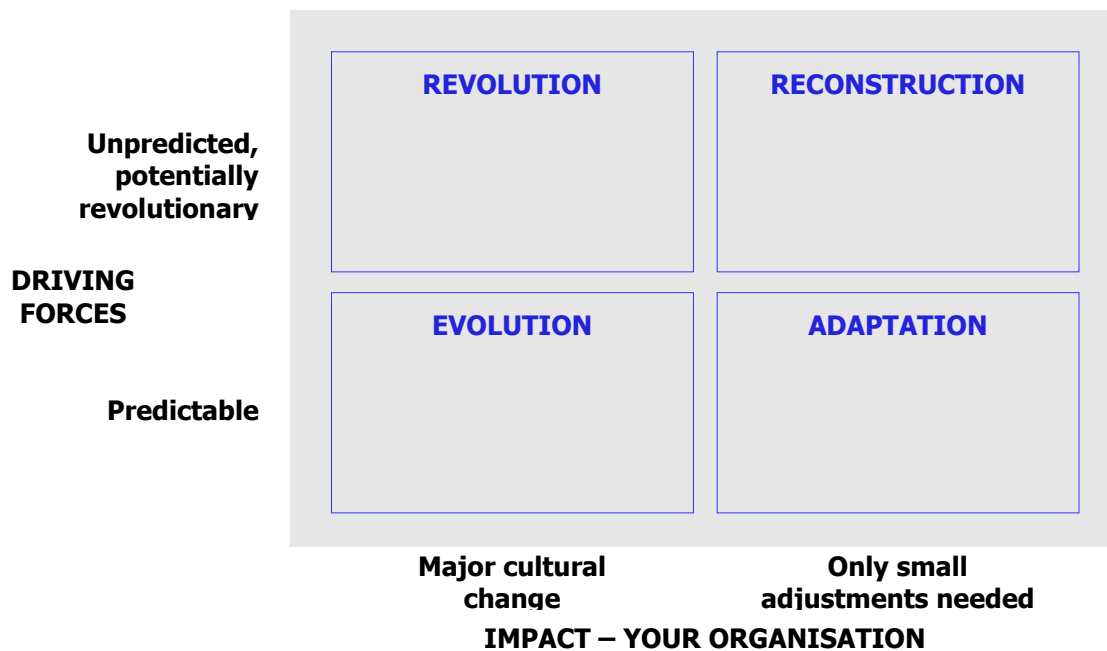
This is obviously an area for further research, but if we initially draw upon the change management literature and previous research in the financial services sector, we may be able to start to explore the answer to this question.

The change management literature clearly tells us that leaders wishing to initiate change in their organisations must consider matching the characteristics of their leadership style to the context that their organisations face. Illustration 10 shows that there are four different contexts or change situations that an organisation can face. The vertical axis, labelled “Driving Forces” runs from a situation where the organisation faces predictable change to unpredictable, revolutionary unexpected change. A move from watching movies at home using a VHS video tape player to

on-demand internet-based viewing would be an example of a gradual, relatively predictable change. The 2008 crisis in the banking sector and subsequent recession is a very good example of revolutionary, unpredictable change.

The horizontal axis defines the impact on the organisation. Are only small adjustments needed that do not involve major cultural shifts? Or is more radical change needed, a total reorientation in the organisation's underlying values, norms and competencies?

Illustration 10. The Context of Change



Source: Adapted from Balogun, J and Hope-Hailey, V (2008) *Exploring Strategic Change*, 3rd edition, Prentice Hall.

We can see that leaders could be faced with four change situations with different challenges:

- *Adaptation*. Change is predictable, only relatively small adjustments are needed.
- *Evolution*. Change is predictable, but major adjustments are needed including a cultural shift. There is, however, time to complete this difficult task.
- *Reconstruction*. The organisation has been hit with an unpredicted change but it can survive without large-scale changes. Cost cutting measures to get through a temporary economic slowdown would be an example.
- *Revolution*. Here we are faced with the most difficult situation, an organisation hit with sudden unforeseen shifts that threaten its whole business direction. Major changes are needed in strategy, structure, skills and culture but there is not very much time to execute these changes. Typically, maintaining financial viability will be at the front of leaders' minds.

The key lesson from change management research is that a leader's style must match the context that the leader is faced with. The “change contexts”, as Illustration 10 tells us, can be very different.

These styles that leaders can use, and the context that they are most appropriate for, are introduced in Table 3.

Participative and educational styles work well when an organisation is faced with adaptive and evolutionary change. Reconstruction demands some direct intervention from top-level management but there is room too for participative approaches and delegation. Only in the case of revolutionary change is a strongly directive approach needed from top management. But even in this situation, previous research in the insurance sector (Johnes and Davies, 1999) clearly tells us that leaders need to shift relatively rapidly from a directive style to more participative and educational approaches.

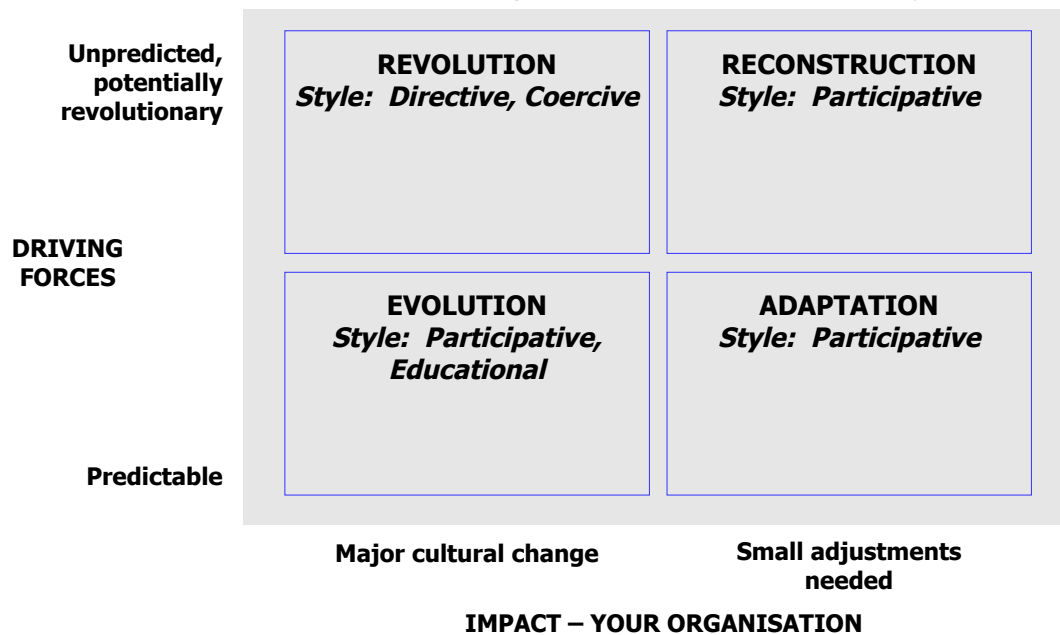
TABLE 3. CHANGE MANAGEMENT LEADERSHIP STYLES CONTRASTED

Style:	Description:	Comments:
Educational	One to one working groups to encourage staff to understand the need for change and to gain new skills. This can take the form of competency development workshops led or sponsored by the corporate leader.	This approach takes time. In a revolutionary change context it is useful as a second stage exercise after radical action has been taken to stabilise the organisation.
Participative	This is when the leader tries to engage staff in change decisions. The degree of participation can vary from full involvement in decision-making through to considering how management decisions will be implemented.	This approach involves at least some delegation of control by the leader.
Directive	Leaders make all the decisions about what is to be done and how it is to be implemented.	Useful when there is little time, but unless accompanied by a later shift in style, may result in resistance.
Coercive	Leaders again make all decisions but use their position power to drive change through. A “firing and hiring” based approach.	To be reserved for situations where the life of the organisation is in immediate danger. Later shifts in style will be needed.

Source: Adapted from Balogun and Hope-Hailey (2008)

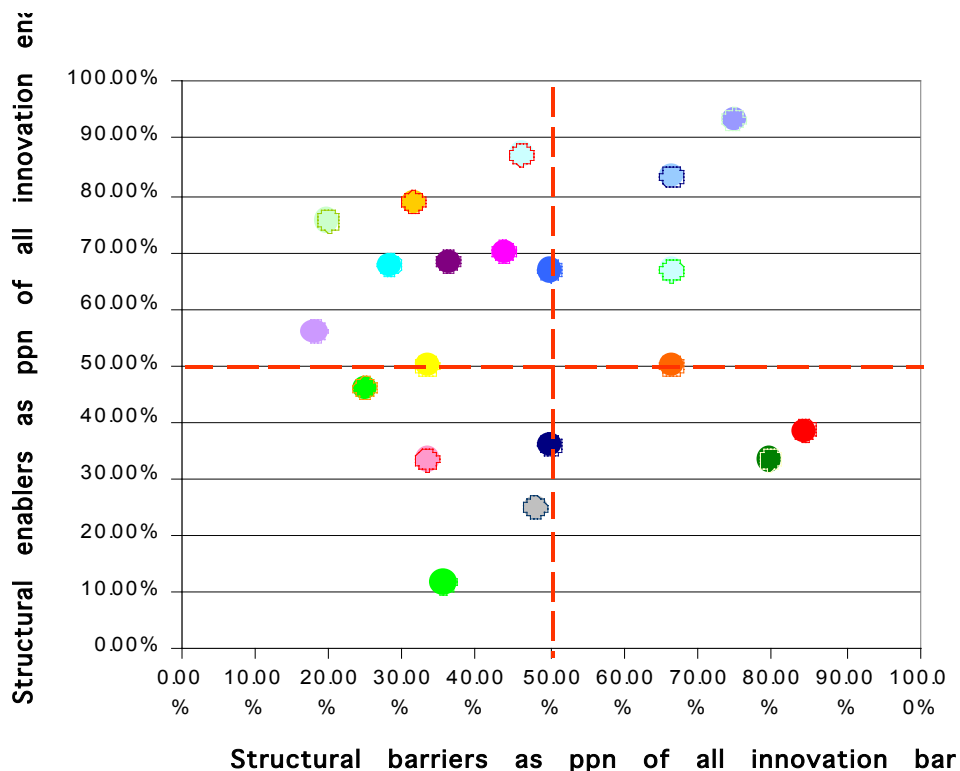
For clarity, Illustration 11 maps the change context against the most appropriate management style.

Illustration 11. The Change, Context and Leadership Style



The contexts faced by our interviewees were, in our opinion, in the adaptation and evolutionary areas. None of our interviewees appeared to face the extreme challenges of revolutionary change. But many proposed focusing upon structural changes indicating to us a directive leadership style as shown in Illustration 12:

Illustration 12. Leadership Styles Contrasted



The change management literature, however, tells us that participative-educational style may be more appropriate for quadrants one and four.

This would indicate that many interviewees may have difficulty in selecting the most appropriate leadership style to manage their innovation efforts, particularly those in quadrant one that formed the largest sub-set of organisations interviewed.

As Illustration 12 shows, many of those interviewed may need to reconsider the leadership style that they propose to use, giving greater attention to the participative and educational approaches.

The need to carefully correlate leadership style with the context that an organisation finds itself in is an important finding from this study.

Again, the words of one corporate leader that we interviewed may summarise the environment that leaders should seek to create.

“Motivation comes from the top; innovation comes from the bottom”

CONCLUSION: WHAT HAVE WE LEARNT ABOUT INNOVATION MANAGEMENT?

We have looked at four key dimensions of innovation management from the perspective of corporate leaders:

- *Conceptualising innovation – the innovation road map.* This is to do with the definition and communication of the broad types of innovation that the organisation will and, even more importantly, will not engage in.
- *Understanding the need for innovation or the innovation drivers.* Where corporate leaders should look to find reasons to pursue the quest for innovation.
- *Looking for barriers.* Understanding where, inside and outside the organisation, obstacles to the innovation process may exist.
- *Enablers.* The types of actions that corporate leaders can take both to overcome innovation barriers and to stimulate innovation activities. In particular, we have highlighted the need to match leadership style with the context that the organisation faces.

This research produces some very clear pointers for leaders wishing to increase the innovative capabilities of their organisations. Our findings can be summarised as follows using these four key dimensions.

Conceptualising innovation – the innovation road map

Here we can summarise our findings as follows:

- (a) *Understanding the innovation palette.* Our interviewees had difficulty in describing the full range of innovation types that we have introduced in this report. There appears to be too much reliance upon offering and process innovation when leaders discuss innovation. Greater consideration should be given to the “new” innovation types

discussed in this report. These newer innovation types may be useful, for example, in the insurance and professional services sectors as sources of differentiation.

- (b) Innovation and strategy. There may be a gap between the process of defining organisations' strategy, where the organisation wants to go, and innovation. Conceptualising strategy in terms of innovation, in other words, what the organisation has not done before, is an important starting point in constructing an innovation road map.
- (c) Communicating the need for innovation. This is very much related to the last point. As a group, our interviewees found it difficult to talk about innovation. Many organisations may have to reconsider how they communicate the role of innovation in the achievement of the organisation's goals and objectives. The exercises contained in the next section may be helpful in this regard.

In summary, our research tells us that corporate leaders need to spend more time exploring and understanding the full breadth of the innovation palette described in this report. Arguably, too much attention is being paid to more traditional forms of innovation, i.e. offering and process innovation. Corporate leaders should consider how other elements of the innovation palette can help organisations to achieve their strategic goals. In a climate where we may face increased regulation, looking beyond offering and process innovation may be particularly valuable.

Why Innovate? Understanding Innovation Drivers

- In terms of describing the need for innovation, only a few of the corporate leaders that we interviewed could give a detailed account of innovation drivers. Some did not identify any.
- Nearly half of interviewees, 45%, did not identify more than three innovation drivers.
- There is a need to spend more time considering potential changes in the external environment and how these changes could impact the innovation agenda. For example, 30% of our interviewees only described one external innovation driver.
- Attention should also be paid to an organisation's internal environment when considering innovation drivers. Some of the corporate leaders starting out on their innovation journeys were keen, for example, to enhance the relationship between the organisation and its employees, recognising that a new generation of employee may have different needs and demands from earlier generations.

Looking for Barriers

- We found a similar situation with regard to innovation barriers. Most interviewees took an inward looking approach when conceptualising obstacles or innovation barriers. A substantial proportion of our interviewees, 45% of the sample, did not refer to any external innovation barriers at all.
- Interviewees generally performed better when talking about internally located innovation barriers.
- However, there was a tendency to focus largely upon an organisation's structure as the primary source of its problems. More effort, we would recommend, should be placed in

discovering skill and cultural based obstacles. For example, 20% of interviewees did not refer to any skill based barriers at all.

Enablers: Defining Action

- It is clear that there is no one agreed approach to tackling the process of building the capacity for innovation in organisations, the approach that leaders should use.
- Two broad approaches have appeared. The most popular being to use structural changes to spearhead the effort. A significant proportion of interviewees planned to use this approach. A smaller group chose a cultural and skill-led approach.
- Arguably, the most significant finding is that interviewees may have difficulty in matching their leadership approach to both the external and internal challenges that their organisations faces. Few, if any, of the organisations interviewed faced the threat of revolutionary change but many leaders planned to use predominantly formal and directive approaches to building innovation capabilities in their organisations. Research tells us that more participative, skill and knowledge building approaches may be far more effective in delivering the long-term cultural changes that are needed to support innovation.

SECTION 5: PUTTING THE FINDINGS TO WORK

Using Cognitive Mapping

Cognitive mapping is a relatively simple process that can add a new dimension to strategy-making and business planning. The techniques that we have developed and the coding approaches can be easily used in workshop sessions to enhance established planning processes.

In this section we recommend a range of steps that you can use to supplement your own business planning process. By using these steps you will take advantage of the findings in this report.

We suggest a three-step process to help you start the innovation journey.

Before you start this process you will need:

- A view of how the external environment will change.
- A view of where you want your organisation to be in terms of size and markets in three to five years time.
- Ideas about how you propose to differentiate your offerings from those of your competitors.
- A SWOT (strengths, weaknesses, opportunities and threats) analysis.
- Dedicated time and space that will allow you and your management colleagues to think without interruption.

Step 1: Conceptualise the Innovation Palette

A very clear message from our research is the observation that innovation is changing. There is now more to innovation than just offering and process innovation. In all, we have identified six major types of innovation that we feel are relevant to a broad range of organisations, these types of innovation, the innovation palette, are shown again in Illustration 13.

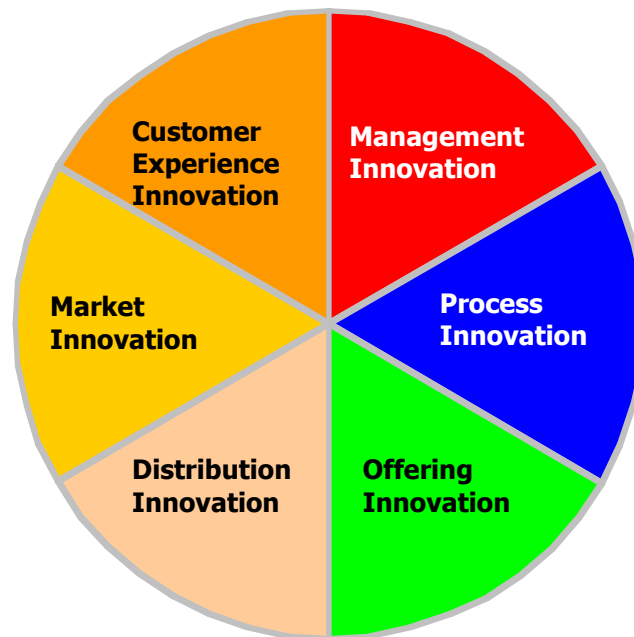
As a management team, review your longer-term (three to five year) objectives. Then consider which forms of innovation your organisation needs to achieve these objectives. As we have done, you can use a pie chart to visually show the different innovation types. Rank the importance of each innovation type that your organisation will depend on. Use this ranking to adjust the size of each segment of the innovation palette (pie chart) so that it visually represents the relative importance of each innovation type. The most important innovation type is represented by the largest area or slice. If an innovation is not relevant (and not all will necessarily be relevant), then that type will be omitted. But do make sure that consideration has been given to each of the six innovation types, not just offering and process innovation.

Label this diagram “Future View”.

Now look at the types of innovation that your organisation has used over the last five years to get to where it is today and again rank the relative importance of each and use the ranking to draw another innovation palette or pie chart, this time called “Current View”.

Contrasting the two views will make it easier to see which types of innovation capabilities must be created. It will also make it much easier to communicate both what the future strategy means in practical terms, where the organisation should focus its efforts and why innovation is important.

Illustration 13. The Innovation Palette



Step 2: Looking for Drivers, Barriers, Enablers and Outcomes

A form of cognitive mapping can be used to help your team plan for innovation. At its simplest, it can be thought of as a flow chart linking activities and outcomes.

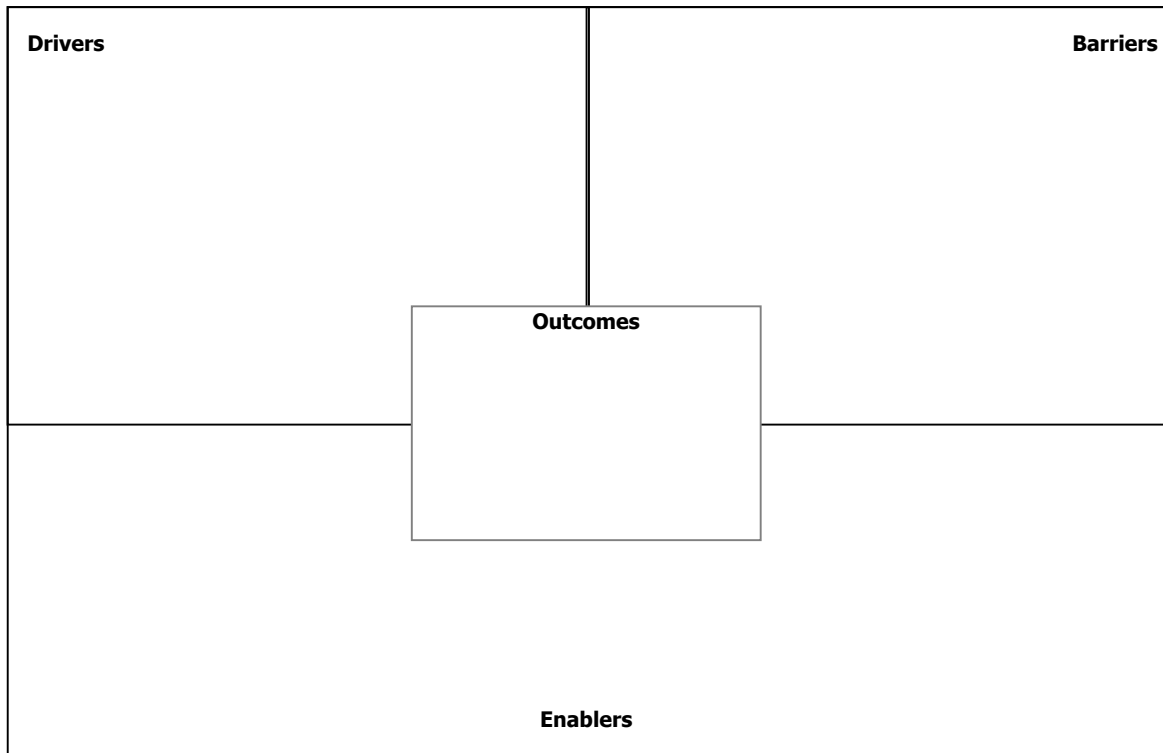
With your team, take a sheet of paper (A3 or a flip chart sheet) and divide it into four sections as we show in Illustration 14.

Now, using the results of the first exercise, list out the innovation types that are important to your organisation and will enable it to achieve its objectives. This list should be entered in the “Outcomes” section.

Then look at the SWOT (strengths, weaknesses, opportunities and threats) analysis that you will have completed as part of the strategy process. Look carefully at the opportunities, threats and weaknesses. This will help you and your team identify innovation drivers – real, relevant reasons why your organisation must innovate – both externally and internally. These are entered in the “Drivers” box.

Now, stop to ensure that the innovation types listed under “Outcomes” answer the demands of the “Drivers”. You might want to add to your innovation palette at this point!

Illustration 14. Building a Workshop Map



The next step for the team is to list out the barriers or obstacles to achieving the innovation outcomes. You will quickly develop a series of statements in the barriers section. You can use *Post It* notes for this process. Look at the statements that relate to problems inside your organisation. If the problems relate to structure, systems or processes – label these as “Structural Barriers” and put them into one group. If the problems relate to skills or knowledge apply a “Skill Barrier” label and put them into a separate group. Finally label and group issues related to values, perceptions and behaviours as “Cultural Barriers”.

Now, get the team to identify what actions should be taken to overcome each barrier working through group by group. These actions should be listed in the last quadrant – enablers. Link each barrier and enabler together. Typically, enabling actions are linked in the form of a sequence of actions needed to overcome a barrier. You should end up with a series of causal chains.

Step 3: Reviewing

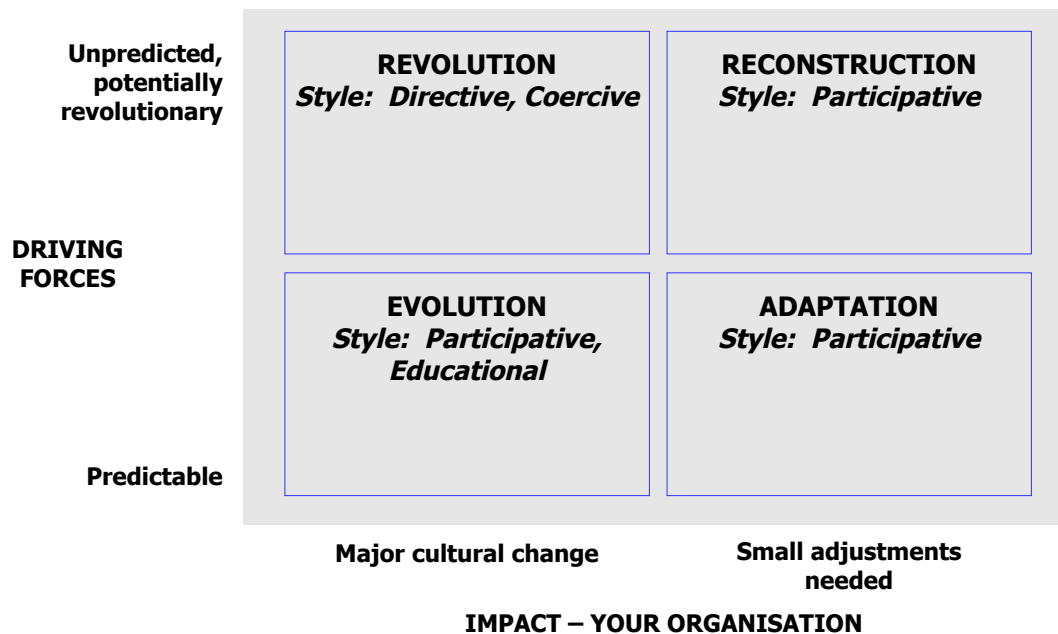
You now have a powerful piece of paper - a definition of what innovation types the organisation must implement, why it needs innovation, what obstacles it will face and an overview of what it will do.

But, drawing from the learning points in our research, some checks must be made:

- Do ensure that you have fully explored the organisation for innovation barriers. It is tempting just to focus on the structural problems. Identifying skill and cultural issues may take more time. There should be some balance between structural, skill and cultural problems.
- Do ensure that each barrier is addressed but at the very least by one enabler. Do not just rely upon one large-scale project to solve all your problems! Try more than one approach to tackle each barrier.
- Take time to think about the leadership style that is needed. You can get an indication of the leadership style that the team is proposing by looking at the enablers. If these are predominantly labelled as “structural”, then this indicates very much a top-down directive, interventionalist management approach. If there is greater focus on “skills” then this is an educational based approach. A bias towards cultural interventions signals a participative approach.

Look now at Illustration 15. Does the style match the situation that your organisation faces?

Illustration 15: Matching Leadership Style to Context



Strongly formal approaches based on directive structural change, are probably best suited to emergency situations when the organisation has very little time to recover. If your selected approach starts with a heavily formal approach, make sure that the proposed actions switch as quickly as possible to include more educational, participative approaches. It is unlikely that structural change on its own will create the innovative organisation.

Conclusion

Using these simple steps can add a lot to the strategy process and help your organisation adopt the findings from our research. It will help you:

- Develop the innovation road map and real reasons why innovation is important to the future of your organisation.
- Present a comprehensive review of innovation barriers.
- Identify an implementation path showing the outcome of each enabling step.
- Make sure that the planned leadership style is right for the situation that your organisation finds itself in.

Finally, as one of our corporate leaders stressed, it is worth spending time considering innovation as a strategic issue:

“If you don’t change, innovate, you will go backwards.”

SECTION 6: HOW THE RESEARCH WAS CONDUCTED

THE RESEARCH PROCESS

Unlike many innovation studies, the goal of this research was to get right into the minds of corporate leaders. We wanted to see how corporate leaders perceived innovation as we moved towards the second decade of the 21st century and what role innovation had within the strategies of organisations. From this foundation, we then wanted to explore how leaders saw the drivers of innovation, the obstacles standing in the way of innovation and the actions that corporate leaders proposed to take to stimulate and increase the innovative capabilities within their organisations.

We used cognitive mapping techniques to chart the minds of the leaders that took part in this study. We conducted 28 detailed interviews over the life of the project and 20 of these interviews were used in the formation of this report. An associated case study will be available as a learning aid.

The data gathering and analysis process followed these phases:

Phase 1: Pilot Study. We conducted a pilot study to identify what the real worries were that corporate leaders had when they thought about competing in the future. This helped to firmly define the types of innovation that interested corporate leaders. We also used this opportunity to test and refine our interview and cognitive mapping methodologies. This phase was used to shape the direction of our future research activities. We were keen not to define our detailed objectives until this first phase had been completed. We did not want our own preconceived views influencing the shape and direction of the research.

Phase 2: Main Study Interviews. We approached a range of corporate leaders (typically chief executives and members of the top-level management team) who we thought might be interested in the problems presented by competing in 21st century. Broadly, the interviews were unstructured and we used the methodologies tested during the first phase of the project. After explaining our research process and introducing the cognitive mapping approach a starting question was posed - "What does innovation mean to you?" and from that point the interviewee was allowed to continue. Some questions were posed to further explore the conception of innovation types, drivers, barriers and enabling actions but these were minimised as we wanted the form and content of the interview to be shaped by the interviewee.

Phase 3: This final phase consisted of three distinct steps:

- Mapping. We then constructed cognitive maps to represent attitudes to innovation as presented in the interview. The maps were checked for accuracy by at least one other member of the research team who had attended the interview.
- Initial Analysis. We selected a sub-set of cognitive maps that the research team thought represented a cross-section of leaders that we interviewed. We then experimented with a coding approach to analyse the content of the maps and a method of graphically displaying the findings. Coding is an approach to classifying statements made by interviewees to help us analyse the aggregated findings across different cognitive maps. Using the experimental coding and display methods, we presented our analysis of the sub-set to our academic colleagues at Cass Business School. Following this presentation, the feedback received and our reflections upon the data gathered, we decided to materially revise our coding methodology so that we could explore more deeply the characteristics of different sub groups of clusters of interviewees.

- Main Coding Phase. Having completely revised the coding approach, we reviewed all the cognitive maps in terms of content. We rejected maps that we thought contained insufficient detail for further analysis. Two members of the team were appointed for final coding (one from the academic team membership, one from the business team). The two coders independently reviewed and coded a sub-set of the cognitive maps. The results were then contrasted to ensure that both coders were interpreting the cognitive maps in a similar manner. The coders then proceeded to complete the remaining cognitive maps. Using the results of the coding process we generated a profile of the entire sample. We then proceeded to look for clusters or sub-groups of interviewees that displayed similar characteristics.

We also took the decision to produce a case study to enable practitioners to further explore the findings of this research. This case study will be separately available as a supporting learning aid.

We found that the process of conducting the interviews absorbed relatively little of our time. The process of defining and redefining analytical approaches and searching for meaningful sub-groups was however demanding in terms of time, imagination and effort.

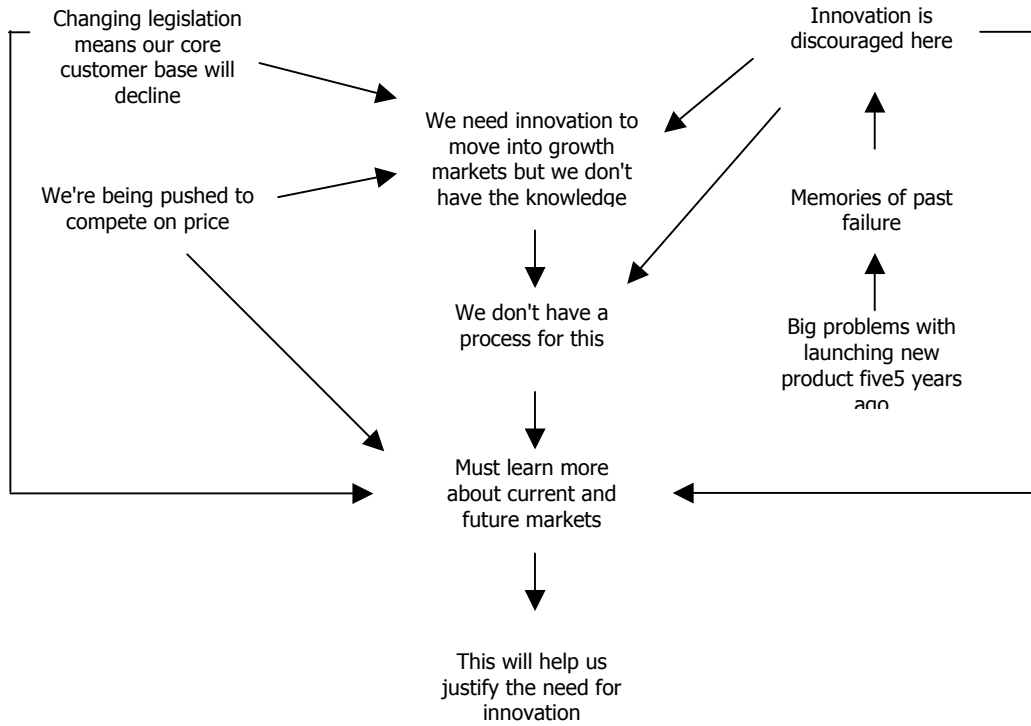
ABOUT COGNITIVE MAPPING

Exploration of managerial cognition, or managers' belief systems and mental models, is a relatively new field in management research (Fiol and Huff, 1992) and one of the main objectives of this study was to extend our understanding of innovation through the exploration of management cognition. It has also been held that cognitive mapping is a useful tool to enable researchers to investigate the innovation field (Swan, 1997).

Cognitive maps themselves can be defined as 'internally represented schemas or mental models for particular problem-solving domains that are learned and encoded as a result of an individual's inter-action with their environment' (Swan, 1997). In the form that we applied cognitive mapping, it can be regarded as a method to gather statements from interviewees about innovation related concepts and beliefs and to describe these concepts and beliefs, together with their relationships, in a visual manner. A simple example of a cognitive map is shown below in Illustration 16, a more detailed example is in Appendix 1. Cognitive mapping should be seen therefore as an attempt to reconstruct the concepts and beliefs that have been communicated to the researcher (Eden, 1992).

As explained above, our approach to gathering information was based solely upon face-to-face and largely unstructured interviews. We did not use documentation (such as board minutes or internal reports) to gather content. Our objective was to gather information directly as we wished to explore and understand the unique cognitions of the interviewee (the corporate leader) with respect to innovation.

Illustration 16. Individual Cognitive Map (Simplified)



SECTION 7: FUTURE DIRECTIONS

This long-term research project has enabled us both to identify a number of areas for further research and to gain experience in using cognitive mapping as a research tool. We present here questions for further research that emanate from this study.

We would add that we found that the cognitive mapping process enabled us to develop deep insights and we would recommend its use to others wishing to explore the following questions and indeed other fields of innovation research.

“Initiating Innovation: Which leadership styles produce enduring results?”

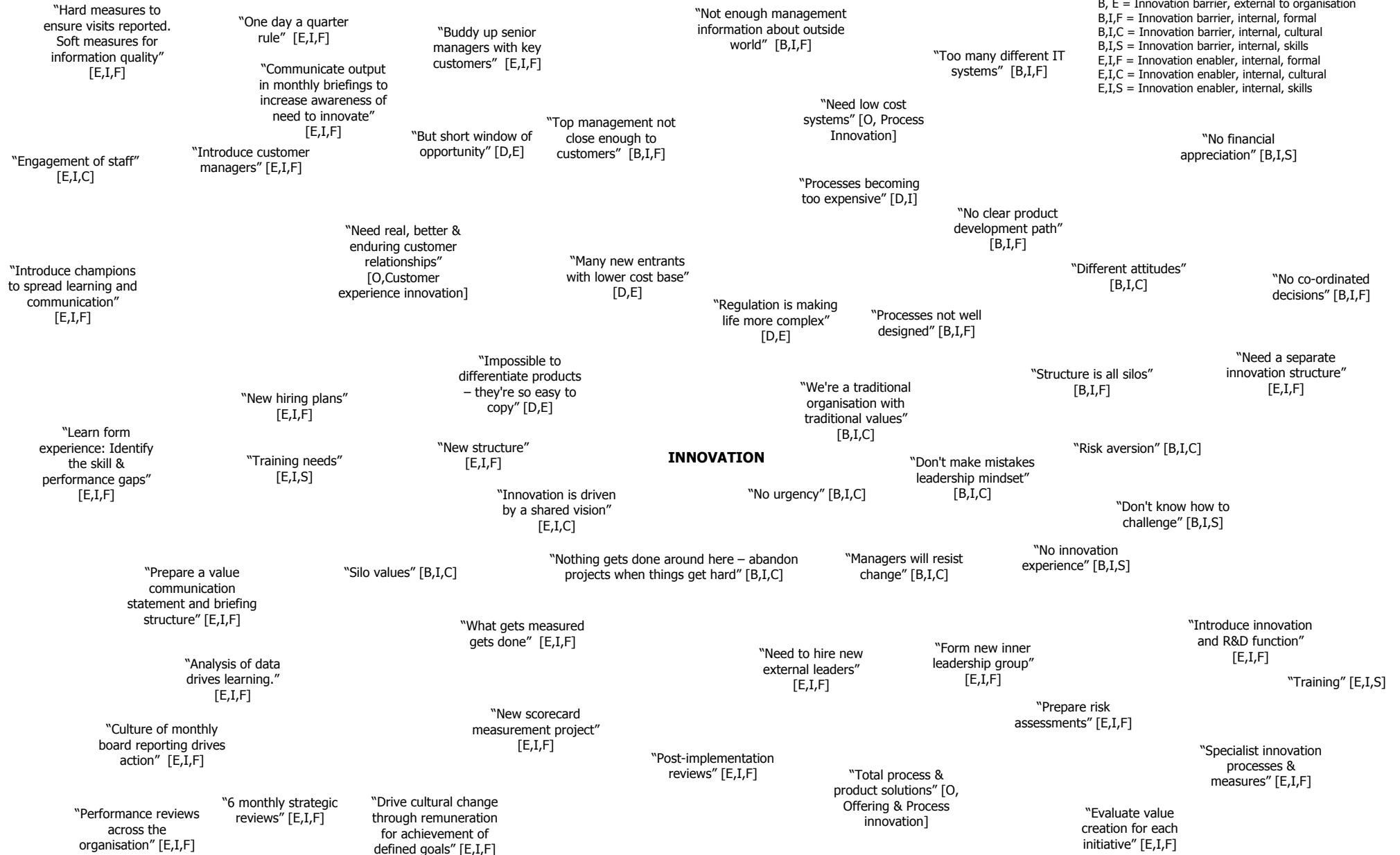
“Initiating innovation in established financial and professional service firms: Is there one best way?”

“What is the relationship between management innovation, process innovation and outward client-centred innovation?”

“Formal teams or informal structures: Which is the best vehicle for innovation management in financial and professional services firms?”

APPENDIX 1 COGNITIVE MAP EXAMPLE

Key:
 D, E = Innovation driver, external to organisation
 D, I = innovation driver, internal – inside organisation
 B, E = Innovation barrier, external to organisation
 B, I, F = Innovation barrier, internal, formal
 B, I, C = Innovation barrier, internal, cultural
 B, I, S = Innovation barrier, internal, skills
 E, I, F = Innovation enabler, internal, formal
 E, I, C = Innovation enabler, internal, cultural
 E, I, S = Innovation enabler, internal, skills



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APPENDIX 3. CONTACT INFORMATION

If you would like more information regarding the content of this report or the issues that are raised, then please contact the following team members:

Dr Robert Davies	r.w.davies@city.ac.uk +44(0)7770 988 348
Dr Chris Storey	c.d.storey@city.ac.uk +44(0)2070 408 728
Nick Marson	nickmarson@parallel-mind.com
Andy Couchman	andy@andycouchman.com +44(0)1451 821982
Sally Sanderson	sallysanderson@profexconsulting.com
Niala Butt	niala-butt@lineone.net
Mark Towers	mark.towers@axa-sunlife.co.uk

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Cass Business School
106 Bunhill Row
London EC1Y 8TZ
Phone: +44 (0)20 7040 8600
www.cass.city.ac.uk



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In 2002, City University's Business School was renamed Sir John Cass Business School following a generous donation towards the development of its new building in Bunhill Row. The School's name is usually abbreviated to Cass Business School.

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