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Who Has Innovative Ideas? Employees.

The trick is knowing how to tap into them. One answer: innovation communities.

By JC SPENDER & BRUCE STRONG

Let's take the mystery out of innovation and its inspirations. Most great ideas for enhancing corporate growth and profits aren't discovered in the lab late at night, or in the isolation of the executive suite. They come from the people who daily fight the company's battles, who serve the customers, explore new markets and fend off the competition. In other words, the employees.

Companies that have successfully made innovation part of their regular continuing strategy did so by harnessing the creative energies and the insights of their employees across functions and ranks. That's easy to say. But how, exactly, did they do it? One powerful answer, we found, is in what we like to call innovation communities.

Every company does it a little differently, but innovation communities typically grow from a seed planted by senior management—a desire for a new product, market or business process. A forum of employees then work together to make desire a reality.

Innovation communities tackle projects too big, too risky and too expensive to be pursued by individual operating units. They can be created with little additional cost, because no consultants are needed. After all, those in the midst of the fray already know most of the details relevant to the project.

A lot of senior managers think the opposite: that the people around them don't understand what's needed or are incapable of seeing the big picture. This is why some call in consultants. But we say this often shows a signal lack of strategic courage and resolve. We say trust your own people.

Innovation communities are a way of giving new shape and purpose to knowledge that your employees already possess. The detailed discussions that take place, led by senior managers, often represent a company's most productive and economical engine for increased profits.

Here, then, are seven key characteristics that we have identified as being part of successful innovation communities.

CREATE THE SPACE TO INNOVATE.

Line managers and employees occupied with operational issues normally don't have the time to sit around and discuss ideas that lead to cross-organizational innovation. Innovation communities create a space in which employees from across the organization can exchange ideas.

At first, participants typically meet face to face at a central location, often company headquarters, then shift to virtual meetings for follow-up sessions. The most important thing is blocking out time free of daily responsibilities to devote to discussion and creative thinking.

Senior management sets the agenda. A clear statement of purpose and themes for discussion are set forth. Participants are free to discuss ideas without concerns about hierarchy and quarterly financial results.

Each year at food retailer Supervalu Inc., 35 to 40 mid- and director-level managers break up into four teams to discuss strategic issues suggested by executives in the different business units. The managers discuss issues outside their own areas of expertise and work on their leadership development at the same time. Over periods of five to six months, they hold electronic meetings at least weekly and meet in person at least five to six times, all while continuing to perform their regular duties.

Japanese pharmaceutical maker Eisai Co. has convened more than 400 innovation communities since 2005 to focus on health-care-related issues such as examining possible new structures and sizes of medicines—for instance, a medication now on the market in Japan in a jelly-like substance that Alzheimer's patients can swallow easily—and devising social programs for the families of Alzheimer's victims. Every Eisai employee world-wide participates in at least one such project, and spends time with patients as well. The company thinks connecting in person with patients is crucial because it helps employees see and understand issues that the patients think are important, and so enhances the employees' ability to see beyond pure data.

GET A BROAD VARIETY OF VIEWPOINTS.

It's essential to involve people from different functions, locations and ranks, not only for their unique perspectives, but also to ensure buy-in throughout the company afterward. Innovation communities focus on creating enthusiasm as well as new products. At Honda Motor Co., innovation groups in the U.S. draw members from sales, engineering and development, and from different business units across North America. Some companies, like General Electric Co., involve consumers and business clients in new-product discussions as well.

Sometimes groups seek out certain kinds of participants. Best Buy Co., for example, assembled mostly women employees, from store cashiers to corporate executives, to discuss how to make its stores more attractive to female consumers. The inspiration: Best Buy considered women a seriously underserved market segment with high growth potential. Store data also revealed that women customers tended to return less merchandise than men did, and so generated more profits.

CREATE A CONVERSATION BETWEEN SENIOR MANAGEMENT AND PARTICIPANTS. By definition, innovation communities can't work in isolation: To create sustainable cross-organizational innovation, it's important that ideas flow to senior managers. If they don't, innovations will tend to have limited, local effects that don't benefit the organization as a whole.

Discussions about innovation should be open but guided conversations between senior managers and lower-ranking participants. Everyone has to be on the same page, especially when it comes to understanding the competitive environment and how to respond.

But establishing effective strategic conversations is perhaps the most challenging factor for the success of innovation communities. For example, they require that truth be allowed to speak to power. If participants are inhibited, ideas that result are likely to be limited in impact, affecting a few units instead of the entire organization.

Discussions shouldn't be without limits. Senior managers should set the topics and keep discussions on course, because "blue-sky" conversations, while fun, generally waste time.

Eisai's communities revolve around the company's strategic concept of "human health care"—a philosophy that focusing on patients and their families is the primary goal and produces innovative ideas.

Some companies take special measures to encourage participants to speak freely and stay focused. Making sure, for example, that group leaders don't have direct control over promotions and salaries of the participants. This will help banish concerns about repercussions for being critical, and remove incentives for those who might be preoccupied with trying to impress managers.

PARTICIPANTS SHOULD BE PULLED TO JOIN, NOT PUSHED.

Members need to be enthusiastic about participating. Employees can't be forced to reveal their thoughts or be imaginative.

Immediate rewards, like cash, usually drive people to focus on winning the prize instead of following the often-twisting but ultimately satisfying path to successful innovation. Instead, try explaining how the forum's work has the potential to benefit the organization, its customers, or broader social goals.

Another incentive: Make it clear that participating in innovation communities will be helpful for career advancement.

TAPPING UNUSED TALENT AND ENERGY KEEPS PRODUCT-DEVELOPMENT COSTS LOW.

One reason these forums are economical is because they tap into unused energy. An innovation community sends a message that senior management is listening and that employees will benefit from participating. In many cases, potential contributors are just waiting to be asked.

Permanent structures aren't required, and productivity needn't suffer. Innovation-community leaders and teams participate for a limited time as they mostly continue to perform their regular roles.

COLLATERAL BENEFITS CAN BE AS IMPORTANT AS THE INNOVATIONS THEMSELVES.

Innovation communities promote learning on both a personal and organizational level by bringing people together to exchange ideas. The repeated discussions and problem-solving missions can give rise to valuable social networks that lead to further exchanges of ideas in the future.

Organizations also tend to use innovation communities to broadcast their strategic vision throughout the company. Eisai has made its groups responsible for training more than 3,000 employees about its concept of human health care.

The meetings also help prepare junior managers for more responsibility, since participating managers sometimes have to turn over some of their duties in order to attend forums.

At Best Buy, the women-focused forums strengthened the company's pipeline of potential leaders and led to less turnover among women employees.

MEASUREMENT IS KEY.

Innovation communities are sustainable only if they can produce demonstrable value. Otherwise senior management loses interest.

All of the organizations we've noted try to gauge the success of their communities, based on how many ideas are implemented and with what results. Supervalu reports that over the past 10 years recommendations were implemented from 22 of 29 projects completed. Company executives and

business leaders determine which recommendations to implement and whether revisions are necessary.

As past downturns have shown, the current economic weakness offers new opportunities for those who seize them. Companies with imagination and courage can do more than tread water amid the slump. Tools like innovation communities can help businesses take advantage of the upheaval and rewrite the rules of their industry.

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