THE STATE OF INNOVATIVE LEADERS REPORT 2018

The Status of Forward-Thinking Leaders

At DHR International, we work and speak with CEOs and board members on a daily basis to help shape and build their executive teams. For nearly all of these executives, no matter the industry, near or at the top of their list of key concerns and business threats is this: a fear of being disrupted out of existence or to the point of a significantly diminished market presence and relevance. In the executive recruitment business, never have we seen and experienced as much fundamental change in our industry as we are today, due in large part to the rapid pace of innovation among industries and organizations.

As the pace of innovation continues to advance, an increased number of organizations are approaching our business, seeking help recruiting, identifying, assessing, and onboarding leaders who have the capabilities to own and drive innovation across all levels of an organization. Creating, implementing, and fostering a culture of innovation is more difficult than it seems. It takes a unique mix of skills, capabilities, experiences, and a specific mindset to effectively drive innovation. And, coupled with that, companies want to ensure that the leader they recruit from the outside also fits within the culture of their organization.

Our firm has invested heavily in helping organizations unearth top candidates and, more importantly, effectively assess whether or not they have the ability to be innovative leaders. In partnering with Harvard Business Review Analytic Services, we were very interested in better gauging and understanding what those leadership skills are, asking corporate executives around the world what capabilities they think are the most important for innovative organizations. In conducting this survey, we were aiming to see if our hypothesis was correct, which was this: In today's rapid-cycle business environment, innovation has become a competitive imperative; though, more often than not, global organizations have not taken into consideration the breadth and depth of leadership needed to drive a culture of innovation. As this survey report indicates, there is a real substantive disconnect. While most companies indicated that innovation is an important strategic component, the vast majority of survey respondents believe that their organizations are not meeting innovation goals. Only 16% of surveyed organizations believe that their companies have been very effective in meeting innovation goals. And only a select number of organizations surveyed (14%) believe that they are succeeding in acquiring, retaining, and developing leaders with the right competencies. It's also worth noting that most respondents (85%) believe that innovation leadership efforts must start directly from the CEO.

What we can see and gauge from the survey results is this: Most organizations generally lack the leadership competencies needed to innovate successfully. These companies have generally not defined, measured, or rewarded innovative leadership. Our view is that, over time, there will be a shift as organizations increasingly, albeit slowly, apply the lessons learned from the innovation pacesetters in their respective industries.

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The Status of Forward-Thinking Leaders

In today's rapid-cycle business environment driven by technology advances, increasing and dynamic customer expectations, and a shifting competitive landscape, continuous innovation has become an imperative for most organizations. As industry after industry has experienced disruption and corporate longevity has plummeted, simply maintaining the status quo is no longer an option. Innovation has become an existential imperative—and having the right leadership in place to drive change throughout the organizations is critical.

Few organizations, however, are meeting their innovation goals because they lack the right leadership, according to a new survey of 636 business leaders by Harvard Business Review Analytic Services. Although there is some consensus around the most important competencies for innovative C-suite leaders, most respondents indicated that their current executive teams fall short. Similarly, many corporate boards lack the skills and experiences needed to oversee innovation.

"Everyone needs to innovate," says Jeff Mike, vice president and HR research lead for Bersin/Deloitte Consulting. "But capable, innovative leadership is actually pretty rare."

The overriding problem seems to be that companies have not defined what innovative leadership means to them, much less how to measure or reward it. Nor have they built programs for developing key competencies for innovative leaders or effective approaches to acquiring this talent.

In contrast, a subset of respondents who said their organizations have been very to extremely effective in meeting their innovation goals—those the study identifies as "pacesetters"—illustrates the connection between leadership and innovation success. Pacesetters are more likely to report that their C-suite leaders possess the key capabilities required to lead innovation; to say their organizations are very effective at acquiring, retaining, and developing innovative leaders; and to report fewer organizational barriers to doing so.

HIGHLIGHTS

85%
CONSIDER THE CEO THE MOST IMPORTANT EXECUTIVE TO LEAD INNOVATION EFFORTS.

44%
THINK LEADERS HAVE THE STRATEGIC VISION NEEDED TO INNOVATE SUCCESSFULLY.

14%
ARE EFFECTIVE AT ACQUIRING, DEVELOPING, AND RETAINING LEADERS WITH THE RIGHT COMPETENCIES.

The most innovative companies have found leaders who are **skilled at communicating a vision** of the future to **unleash the innovative potential** in the larger organization.

Innovation and the C-suite

Innovation means different things to different companies, but only a handful of respondents reported their organizations were satisfied with the status quo. Just under half (45%) defined their innovation focus as transforming their existing business models, products, and services to leapfrog competitors. A little over a quarter (28%) said they want to keep pace with industry change while around a quarter reported a more disruptive stance. Changing technology, customer expectations, and business models are the top drivers for these efforts.

However, the vast majority of companies are failing to meet their innovation goals. Just 16% of respondents said their company has been very or extremely effective in its innovation attempts to date. "Executives universally cite the importance of innovation and

universally cite their struggles with it. It's a persistent, complicated, and multifaceted problem," says Scott D. Anthony, Singapore-based senior partner at consultancy Innosight. "Organizations have a set of systems, processes, norms, and metrics that have worked together for years to build the businesses they have today. But those stand in the way of trying to do something different. It requires a culture shift and attacking the day-to-day habits and underlying assumptions in the organization."

Such a fundamental shift in how an organization thinks, behaves, and operates requires a different kind of leadership—starting at the very top. Respondents named the CEO as far and away the most important individual leading their organization's innovation efforts. FIGURE 1
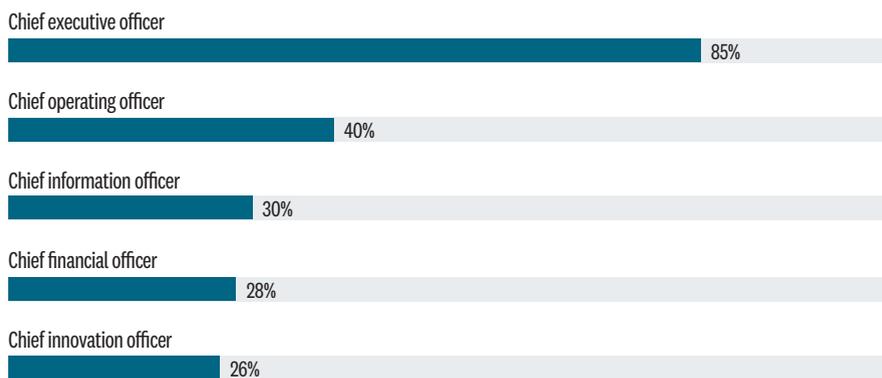
"If the CEO doesn't operate in the way that we know matters to continually innovate, it will never happen in the rest of the organization," says Linda A. Hill, the Wallace Brett Donham Professor of Business Administration at the Harvard Business School and co-author of *Collective Genius: The Art and Practice of Leading Innovation.*

Still, innovation and leadership experts point out that the CEO should not be the sole chief innovation officer charting a course for the future and dictating its execution. "Command-and-control leadership came out of the Industrial Age when things were more predictable and differentiation was a result of scale and size," says Bersin/Deloitte's Mike. Now it's up to the CEO to create an environment for innovation for the rest of the organization, and the entire executive team has a part in encouraging—or thwarting—it.

FIGURE 1

INNOVATION BEGINS AT THE TOP

CEO leadership is critical to innovation success. Which C-level roles are most important to leading your organization's innovation efforts? [SELECT UP TO FIVE]

Chief executive officer
85%

Chief operating officer
40%

Chief information officer
30%

Chief financial officer
28%

Chief innovation officer
26%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2018

Surprisingly, only 13% of respondents pointed to the chief human resources officer (CHRO) as an important innovation leader, although the role, Innosight's Anthony observes, is pivotal. "Innovation is an intensely human activity. Ideas about retaining and developing talent and helping the leadership team think differently should be the purview of the CHRO," he adds. "The challenge is that inside most large organizations, HR remains a very tactical function."

Those organizations that find strategic HR leaders are better equipped to innovate. Anthony points to Singapore telecom giant Singtel, whose global HR leader, Aileen Tan, has been crucial to its embrace of innovation. "She's an intense strategic thinker and critical to how Singtel future-proofs its talent."

A New Kind of Leader

Whatever the role, new leadership behaviors and approaches are necessary to foster innovation—competencies, notes Harvard Business School's Hill, "that relate to using yourself as an instrument to build the culture and organizational capabilities of agility and problem-solving."
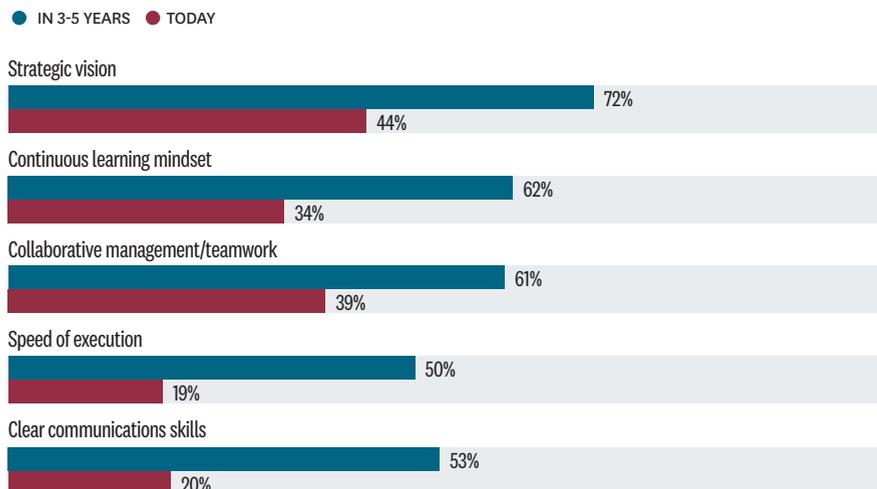
The most innovative companies have found leaders who are skilled at communicating a vision of the future to unleash the innovative potential in the larger organization. "Having a narrative about where you're trying to get to and the organization you're trying to become is the first step toward driving change," says Anthony. A continuous learning mindset and collaborative nature are also important, notes Mike. "You can't innovate without learning and collaborating."

Survey respondents cited all three of these competencies as the most important for innovative leaders. However, they indicated that their current leadership teams are largely lacking in these areas. Only 44% of respondents said their key leaders had strategic vision, while 39% said leaders were skilled in collaborative management, and 34% said they possessed a continuous learning mindset. FIGURE 2

THE COMPETENCY GAP

Most leaders today are not equipped with the capabilities they need to lead innovation. Which key competencies will innovation leaders need in the next 3-5 years versus competencies leaders possess today?

● IN 3-5 YEARS   ● TODAY

Strategic vision
72%
44%

Continuous learning mindset
62%
34%

Collaborative management/teamwork
61%
39%

Speed of execution
50%
19%

Clear communications skills
53%
20%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2018

Today's leaders know intellectually that they need to move their organizations in new directions and adopt new habits, says Anthony, "but they've been successful doing something completely different." Leaders steeped in traditional management principles will need to transform themselves and acquire new competencies in order to successfully create an innovation-capable culture.

For example, many leaders rose through the ranks by insisting on consensus and that employees fall in line in order to succeed. Nonetheless, innovation demands that leaders amplify differences within their organizations and be comfortable managing the kind of creative conflict that ultimately leads to a robust portfolio of new ideas, says Hill. "That's desperately lacking in the marketplace."

The pacesetters—those whose organizations have been very to extremely effective in meeting their innovation goals—were significantly more likely to report that their C-level leaders currently have the key characteristics for innovating,

"YOU CAN'T INNOVATE WITHOUT LEARNING AND COLLABORATING."
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FOR ORGANIZATIONS TO SUCCEED AT INNOVATION, THEY NEED TO ACQUIRE, RETAIN, AND DEVELOP THE RIGHT KIND OF LEADERS.

underscoring the importance of these competencies to corporate originality. For example, 69% of pacesetters said their leadership team possessed a collaborative management style, 63% credited their leaders with strategic vision, and more than half said their executives exhibited intellectual curiosity, a continuous learning mindset, and data-driven decision-making skills.

Boards Need to Step Up

C-level leadership isn't enough, however. "Without the full support of the board, management is unlikely to take the big bets required to innovate," says Hill.

Few boards appear to be meeting their responsibilities in this area. Just 16% of respondents overall said that most of their current board members possess the necessary skills to oversee innovation, compared to 40% of pacesetters. Meanwhile, only one-third of respondents reported their boards have a committee dedicated to innovation.

"Most boards are stunningly undiversified and stunningly incapable of really understanding the world of innovation," says Anthony. "Boards think about their role in terms of governance and minimizing risk, and doing something new is risky. But they don't realize the biggest risk of all is to not pursue innovation."

Boards can prove tremendously valuable, not simply in working with the executive team to set up the right environment and culture for innovation but also in providing access to external expertise. Singtel, for example, brought on a serial entrepreneur, Match.com co-founder Peng-Tsin Ong, as a director shortly before it began its transformation from a traditional telecom company to a diversified media and marketing company.

Even so, it takes more than a startup star on the board to effectively encourage innovation and to understand all the facets of it—from industry disruption to emerging technologies. "It's about the collective literacy of the board and a collective understanding of why it matters to take the risks involved," says Hill. "You need a board that's courageous." She points to the example of retail grocer Kroger which, facing intense competition from the likes of Amazon and low-cost competitors Lidl and Aldi, is making a long-term investment in innovation and transformation that has impacted short-term earnings and resulted in its stock taking a hit. "You need a board that backs management as they work through the inevitable challenges—and, frankly, missteps—associated with executing an innovation agenda," Hill says. "That can require not just changing the composition of the board but—perhaps more importantly—its processes."

If a company board does not have an innovation committee, that speaks volumes about its priorities, says Anthony. Companies known for their ability to innovate, like Procter & Gamble, Ford, South America's Telefonica, and Dun & Bradstreet, all have them. "That tells a clear story," he cautions.
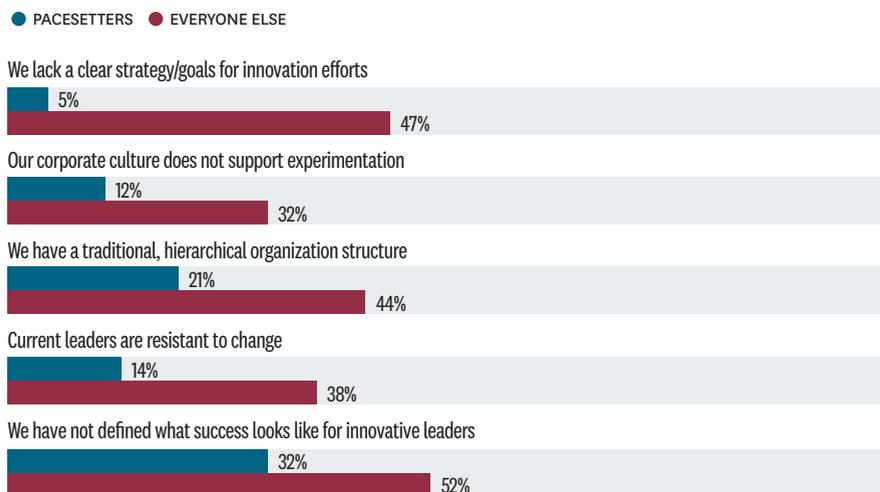
A Team of Innovation Leaders

For organizations to succeed at innovation, then, they need to acquire, retain, and develop the right kind of leaders. Unfortunately, very few respondents—just 14%—said that their organizations are very effective at doing so.

They blame a lack of clarity about what their companies expect from innovative leaders. The biggest hurdles, according to respondents, include not defining what their

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FIGURE 3

CLEARING THE BARRIERS TO INNOVATION

Successful companies have a clear strategy, along with leaders and a culture that embraces change. What barriers make it difficult for your organization to acquire, retain, and develop innovative leaders?

● PACESETTERS   ● EVERYONE ELSE

We lack a clear strategy/goals for innovation efforts
- 5%
- 47%

Our corporate culture does not support experimentation
- 12%
- 32%

We have a traditional, hierarchical organization structure
- 21%
- 44%

Current leaders are resistant to change
- 14%
- 38%

We have not defined what success looks like for innovative leaders
- 32%
- 52%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2018

INSTEAD OF ASKING CANDIDATES ABOUT AN IDEA THEY GENERATED, IT'S MORE EFFECTIVE TO GIVE THEM A PROBLEM TO SOLVE AND LOOK AT HOW THEY COME UP WITH THEIR IDEAS.

success looks like (48%), not measuring or rewarding leaders for their innovation-related achievements (47%), and the lack of an innovation strategy (44%).

Ambiguity also extends to whether and how companies incentivize innovation. Just a handful (7%) said innovation performance metrics were an integral part of performance management and compensation, while respondents reported little consensus about whether they should pay innovative leaders a premium. In fact, 43% said they did not know how much extra their organizations would be willing to pay such leaders—an indication that their companies have not communicated the value of innovation leadership skills.

The pacesetters, not surprisingly, have done better. Nearly half (45%) of this group says their organizations are very effective at acquiring, retaining, and developing leaders, and they are less likely to complain of certain barriers to doing so. Nearly all the pacesetters report having clear innovation strategies, for example, and the vast majority do not feel corporate culture, organizational structure, or resistance to change are holding them back. FIGURE 3

The findings suggest a need to transform how companies assess, measure, and reward leaders, starting with the hiring process.

IMPROVE INTERVIEWS

While companies desperately need new kinds of leaders, they continue to rely on traditional interviewing techniques, which provide only limited insights into a leader's innovative potential. Just 11% of respondents said their organizations are very good at assessing new recruits for their innovation capabilities. One out of five said their organizations are not good at this at all. Most conceded the need for better interview questions (56%).

Mike suggests that instead of asking candidates about an idea they generated, it's more effective to give them a problem to solve and look at how they come up with their ideas.

"It's not about a right or wrong answer, but the process the candidate took to understand the problem and generate new ideas," he says. Nearly half of respondents (47%) agree that requiring candidates to participate in case-based work simulations or situational judgment tests would improve their ability to assess candidates' innovation leadership potential.

MEASURE AND REWARD INNOVATION

Companies may not be rewarding leaders for their contributions to innovation because they're too focused on maintaining the status quo. "There's so much pressure for execution in most organizations that innovation is not weighted highly in performance evaluations or balanced scorecards, even if companies attempt to measure it," says Hill. "And few companies have figured out how to hold managers accountable, yet make space for the need to fail fast and learn when innovating."

Hill has developed a diagnostic tool that helps companies determine the impact a leader has on innovation based on the culture and behaviors they have built within the organization. "It gives them insight into what a successful leader of innovation looks like. You can't just look at outcomes because real innovation can take a while to pay off," says Hill, who has worked with organizations from startups to the National Aeronautics and Space Administration (NASA) to figure out how to identify leadership behaviors needed to support efforts for a manned mission to Mars.

It can be more difficult to reward a behavior or way of working than a more easily measurable skill, but companies that value innovation must do so. "If someone has a valuable tech skill you want, you pay them a premium," says Mike. "If it's innovation you're trying to accomplish, why not design your rewards to incentivize it?"

It's just as important not to penalize innovative leaders. Truly innovative leaders will fail, and organizational

Truly innovative leaders will fail, and **organizational structures must be reworked** to figure that into the equation.

structures—such as performance reviews or bonus structures—must be reworked to figure that into the equation. "That will give you even more bang for your buck than fine-tuning the positive incentive program," Anthony says.

Tata & Sons, for example, each year awards innovative employees in their organization, not for the outcomes of their new ideas but for having learned from their attempts. Thousands of employees compete for the "Dare to Try" prize each year. "It's a powerful signal that changes the organizational mindset around risk taking," Anthony says.

The Leadership-Innovation Connection

It's abundantly clear in comparing the experiences of pacesetters to the rest of the survey respondents that having C-level leaders and board members with the right competencies is the bedrock upon which an innovative organization is built. To get there, companies need to create clear innovation strategies, define what it means to be an innovative leader, and rethink the ways in which they recruit, assess, retain, develop, and incentivize those who are capable of fostering innovation in the organization.

The good news, as the innovative pacesetters show, is that it can be done—and it will deliver results. "Some will argue that large organizations are innovation wastelands—that they can only continue to execute their existing business models until they die. But that is not the case," says Anthony. "This is a solvable problem. Any organization can do this."

METHODOLOGY AND PARTICIPANT PROFILE

A total of 636 respondents drawn from the HBR audience of readers (magazine/ newsletter readers, customers, HBR.org users) completed the survey.

SIZE OF ORGANIZATION

25%
10,000 OR MORE EMPLOYEES

29%
1,000-9,999 EMPLOYEES

8%
500-999 EMPLOYEES

37%
499 AND FEWER EMPLOYEES

SENIORITY

29%
EXECUTIVE MANAGEMENT/ BOARD MEMBERS

44%
SENIOR MANAGEMENT

16%
MIDDLE MANAGERS

10%
OTHER GRADES

KEY INDUSTRY SECTORS

10%
EDUCATION

10%
FINANCIAL SERVICES

10%
HEALTH CARE

10%
MANUFACTURING

10%
TECHNOLOGY

9%
GOVERNMENT/ NOT-FOR-PROFIT

7% OR LESS
OTHER INDUSTRIES

JOB FUNCTION

22%
GENERAL/ EXECUTIVE MANAGEMENT

9%
SALES/BUSINESS DEVELOPMENT/ CUSTOMER SERVICE

8% OR LESS
OTHER FUNCTIONS

REGIONS

53%
NORTH AMERICA

23%
EUROPE

13%
ASIA/PACIFIC

6%
LATIN AMERICA

5%
MIDDLE EAST/ AFRICA

1%
REST OF WORLD

Figures may not add up to 100% due to rounding.