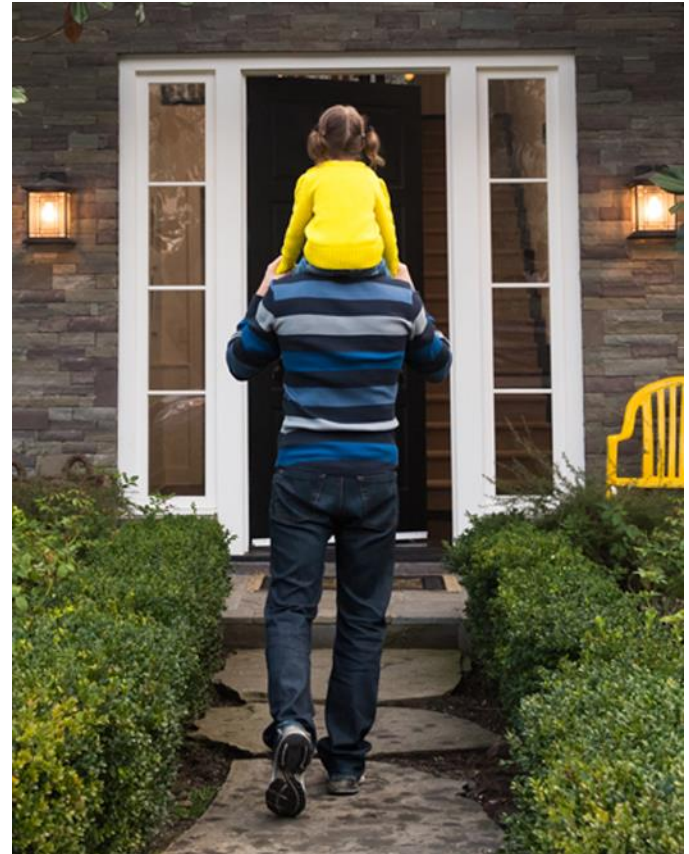




The Defining Characteristics of a Culture of Innovation

Creating the Culture



CSAA Insurance Group

Meg Wheatley, author and management consultant

"Innovation is fostered by information gathered from new connections; from insights gained by journeys into other disciplines or places; from active, collegial networks and fluid, open boundaries.

"Innovation arises from ongoing circles of exchange, where information is not just accumulated or stored, but created. Knowledge is generated anew from connections that weren't there before."

From her 2001 book "Leadership and the New Science"



Business landscape

Innovation may be the 'new normal' for long term growth.

The Conference Board CEO Challenge 2015

Innovation has been a key focus of CEO's as noted in the latest research by The Conference Board. Clearly one of the top 3 challenges over the past four years, Innovation has risen to the number # 2 position in 2015 immediately behind Human Capital.

Global N=943	Challenges 2015	Global 2014 N=1020	Global 2013 N=729	Global 2012 N=776
1	Human Capital	1	1	2
2	Innovation	T3	3	1
3	Customer Relationships	2	4	7
4	Operational Excellence	T3	2	N/A
5	Sustainability	8	9	8
6	Corporate Brand & Reputation	5	8	9
7	Government Regulation	7	6	4
8	Global Political/Economic Risk	6	5	3
9	Global/International Expansion	9	7	5
10	Trust in business	10	10	N/A



Business landscape

CEO's are taking a more **integrated approach** to innovation. CEO's see an **inseparable link** between customer centricity, human capital, and innovation, as well as the importance of **diversity of thought** on innovation teams and projects. **The challenge** is not technology itself – it is readily available – but, rather, **the ability of the organization (i.e., the skill level of its workforce) to use that technology to innovate.**

Human capital	Innovation	Customer Relationships	Operational Excellence	Sustainability
1. Improve performance management processes and accountability.	1. Create culture of innovation by promoting and rewarding entrepreneurship and risk taking.	1. Engage personally with key customers/clients.	1. Improve our organizational agility/flexibility.	1. Ensure sustainability is part of the corporate brand identity and culture of the organization.
2. Provide employee training and development.	2. Engage in strategic alliances with customers, suppliers, and/or other business partners.	2. Enhance quality of products/services.	2. Seek better alignment between strategy, objectives, organizational capabilities.	2. Incorporate sustainability goals into corporate strategic performance objectives.
3. Enhance effectiveness of the senior management team.	3. Find, engage, and incentivize key talent for innovation.	3. Develop a more outward-looking, customer-centric culture.	3. Raise employee engagement to drive productivity.	3. Enhance portfolio of sustainable products and services.
4. Raise employee engagement	4. Apply new technologies (product, process, information, etc.).	4. Increase speed of products and services to market.	4. Redesign business processes.	4. Engage with stakeholders to balance short-term pressures sustainability goals.
5. Improve leadership development programs.	5. Adopt a user-centric approach to innovation.	5. Tailor marketing, promotion, and communications campaigns to key customer needs.	5. Continual improvement (lean six sigma, etc.)	5. Treat sustainability issues as long-term risk issues.





By the way, what is culture?

Culture includes our attitudes, experiences, beliefs and values.

Culture is how we do things, a product of our daily interactions and decisions.

Culture dictates how people expect to work, and what the “rules” are about how our organization is managed and led.

“Culture guides discretionary behavior, and it picks up where the employee handbook leaves off. Culture tells us how to respond to an unprecedented service request. It tells us whether to risk telling our bosses about our new ideas, and whether to surface or hide problems. Employees make hundreds of decisions on their own every day, and culture is our guide. Culture tells us what to do when the CEO isn’t in the room, which is of course most of the time.”

Frances X. Frei and Anne Morriss





Steve Jobs, former CEO, Apple

"Innovation has nothing to do with how many R&D dollars you have. When Apple came up with the Mac, IBM was spending at least 100 times more on R&D. It's not about money. **It's about the people you have, how you're led, and how much you get it.**"

From a 1998 interview with [Fortune](#)



Where to start – where to focus

- 1 What do you mean?
- 2 Where are we going?
- 3 Where are we starting from?
- 4 What needs to change?
- 5 How do we know when we're there?



What do you mean?



*Executive team defines innovation.
Be crystal clear. Get specific.
Full agreement, minimum 80% alignment.*

We defined it as...

Innovation at is the process of finding better, faster, and cheaper ways to improve service, creating outstanding member experiences (simple, proactive, personal), creating new products and services, and growing partnerships and revenue.

*Definition is relevant to the business.
It must be framed as a strategy lever.
There is no one right answer.*

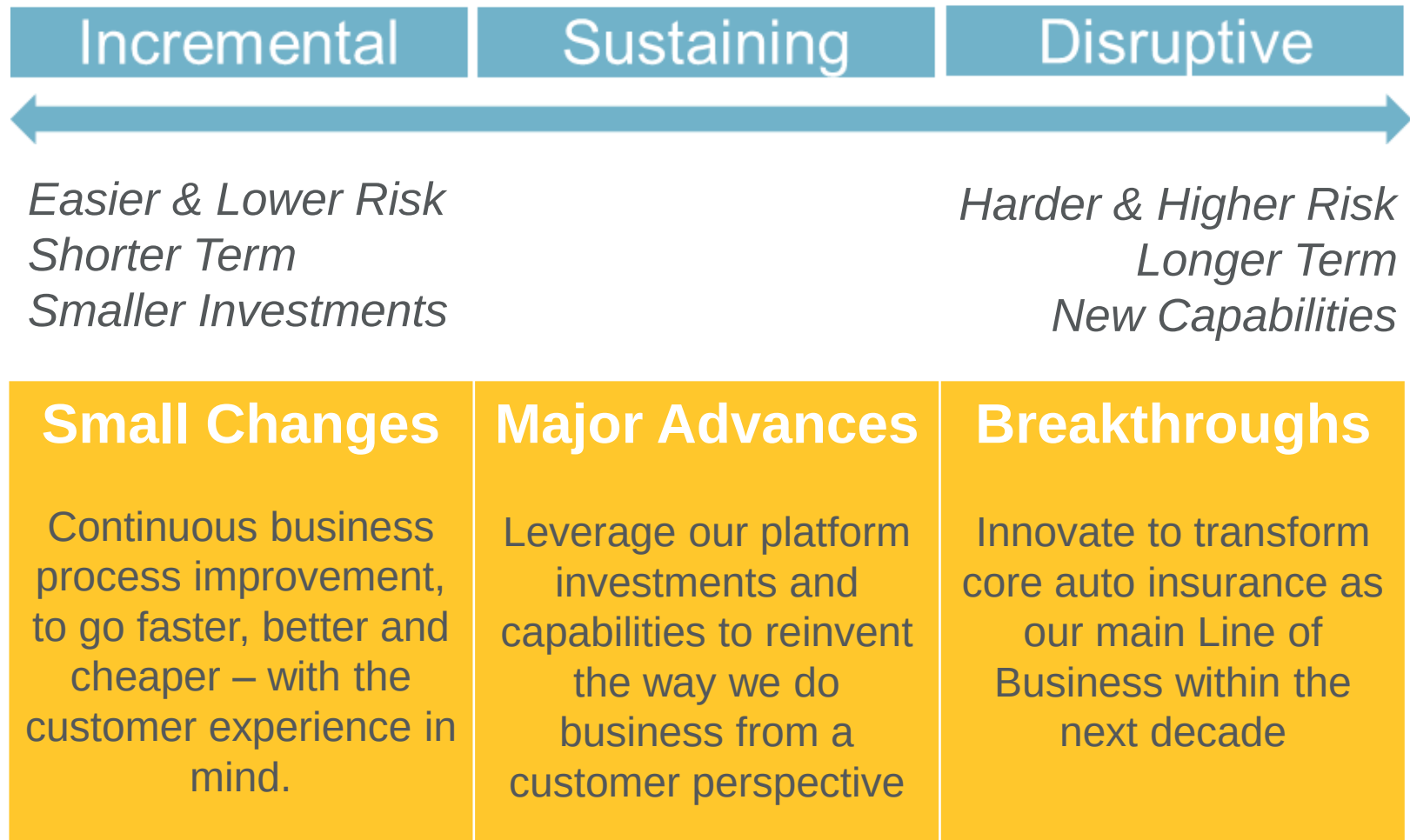


Where are we going?



*Think about innovation as a continuum.
One destination, different speeds.
Define non-negotiable leadership behaviors.*

Example: Innovation Continuum



Work facilitated by Soren Kaplan, InnovationPoint



One destination, different speeds

Organization	Focus	Description
Division 1	75% Incremental, 25% Sustaining	• Make processes better, faster, and cheaper through Incremental Innovation • Strategic functions also focus on Sustaining Innovation
Division 2	Primarily Incremental	• Evaluate processes and determine which are not necessary, or can be done faster (e.g., electronically) • Help business use and analyze financial data to create new insights • Bring in more external data including unusual (less obvious) sources
Division 3	50% Incremental, 50% Sustaining	• Speed combined with high quality to deploy new products & services • Product/service builder – all code is written (auto-generate code) with auto-generated test cases • Digital and search engine are potentially disruptive



One destination, different speeds

Organization	Focus	Description
Division 4	80% Incremental, 20% Sustaining	Find ways to support the business more efficiently and use its position of access to help the organization consistently identify and recommend incremental improvements
Division 5	60% Incremental, 30% Sustaining, 10% Disruptive	- Department A: Drive both Sustaining and Disruptive Innovation focused on competitive opportunities, new business model partners, and new ways to go to market - Department B: Focus on Incremental and Sustaining Innovation including insights, research, and customer journey mapping to improve insight - Department C: Focus on all three types including target area X (Incremental), sustaining target area Y (Sustaining) and new business models with target area Z (Disruptive)
Division 6	Primarily Incremental	Focus on incremental process improvements with some sustaining innovation



Leadership behaviors & expectations

Required to support a Culture of Insight & Innovation

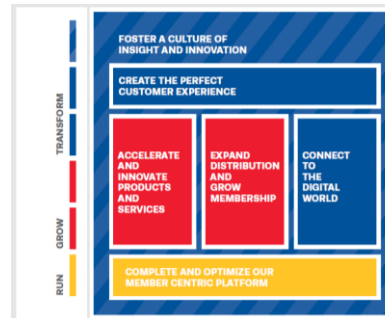
- Clearly communicate your expectations, and actively model the expectations and behaviors.
- Create an environment that is: transparent, open to experimentation and smart risk taking.
- Learn from well thought-out ideas that fail, apply the learning, recognize/support the people.
- Remove unnecessary bureaucratic structures, rules, procedures that get in the way.
- Balance the drive for perfection against commonsense, simplicity & speed.
- Create time for teams to focus on innovation (Google's 70-20-10, or whatever makes sense).
- Hard-wire innovation with individual/organizational goals, strategy and values
- Ensure we hire, develop, promote and reward/recognize innovative people.
- Ask bold questions, listen deeply – create the platform for new ideas, products, and solutions
- Look for opportunities to accelerate cross-business collaboration and teamwork.
- Bring the outside in, introduce diverse views, external perspectives
- Increase risk tolerance.

Work with your Leadership Team
to define in their language, 5-7.



Create strong alignment that makes sense

To the strategy



Foster a Culture of Insight and Innovation

To the values

OUR VALUES

- We are caring.
- We have humility.
- We have the courage to do the right thing.
- We keep our commitments.
- We are innovative and continuously pursue excellence.
- We are diverse and inclusive.

To how you assess, pay and develop talent



Where are we starting from?



*Thoroughly assess your culture.
Be clear about the starting point.
What can and can't we do, and how fast.*

“Instead of fighting your culture, zero in on the aspects you can leverage to help build a more connected, more agile, more [innovation]-enabled enterprise. Consider what’s unique about how you get work done, how your people solve problems, and how you create value for your customers.”



Cesare Mainardi, CEO Strategy&

Current state analysis

Three Lenses



Research-Based Cultural Assessment

- Competing Values Framework
- First Pass: Executive alignment; Second Pass: Full organizational assessment & alignment



Innovation Simulation – Prototype Approach

- Design Thinker Simulation [IDEO & ExperiencePoint], Top Talent development, assess cultural constraints and drivers for innovation
- 4 teams, 2 areas of focus: Observation of experience, team survey feedback



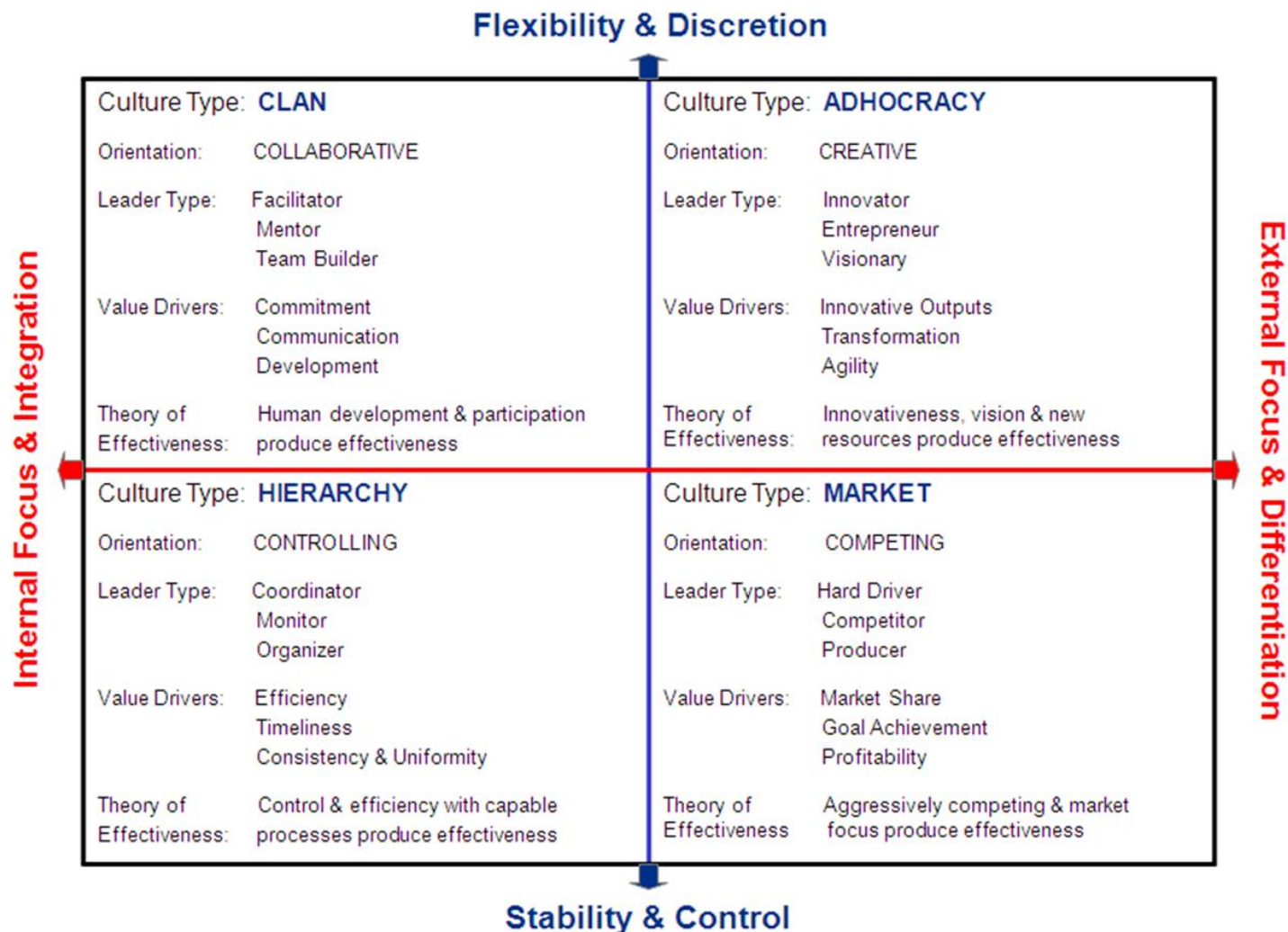
External Assessment

- Outside in: Use an existing external best-practice partner, BTS, to assess diverse set of internal stakeholders
- Identify strengths and opportunities



Cultural assessment

Competing Values Framework



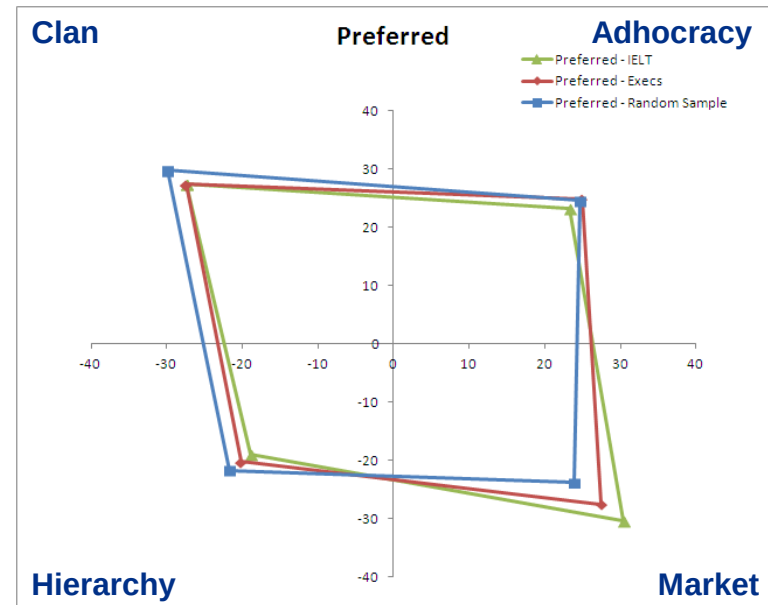
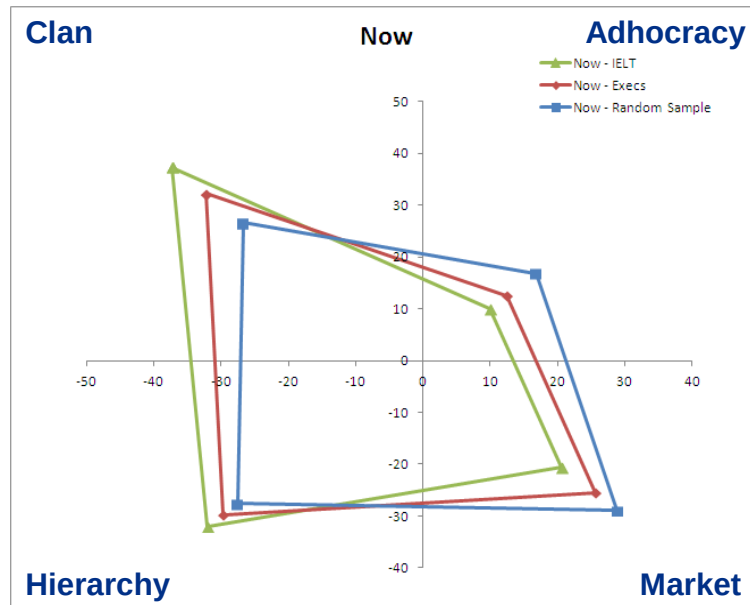
Competing Values Framework – Cameron and Quinn



Cultural assessment

Now versus Preferred

Adhocracy



ELT	Now	Preferred	Diff
Clan	37.3	27.4	-9.9
Adhocracy	10	23.3	13.3
Market	20.6	30.4	9.8
Hierarchy	32.1	18.9	-13.2

Execs	Now	Preferred	Diff
Clan	32.3	27.5	-4.8
Adhocracy	12.5	24.9	12.4
Market	25.5	27.5	1.9
Hierarchy	29.8	20.2	-9.6

Random Sample	Now	Preferred	Diff
Clan	26.7	29.9	3.2
Adhocracy	16.8	24.6	7.8
Market	28.9	23.8	-5.1
Hierarchy	27.6	21.7	-5.8

* Gaps of > 5.0 between Now and Preferred indicate a need for significant culture change.

Cultural assessment

Biggest pain points, biggest opportunities

More of	Less of
The organization is a very dynamic and <u>entrepreneurial</u> place. People are willing to stick their necks out and <u>take risks</u>. The management style in the organization is characterized by hard- driving competitiveness, high demands, and achievement	The organization emphasizes permanence and stability. Efficiency, control, and smooth operations are important. The organization is a very personal place. It is like an extended family. People seem to share a lot of themselves.
The management style in the organization is characterized by <u>individual risk taking</u>, <u>innovation</u>, freedom, and uniqueness.	The management style in the organization is characterized by security of employment, conformity, predictability, and stability of relationships.
The leadership in the organization is generally considered to exemplify <u>entrepreneurship, innovation, or risk taking</u>.	The management style in the organization is characterized by teamwork, consensus, and participation.
The glue that holds the organization together is commitment to <u>innovation</u> and development. There is an emphasis on <u>being on the cutting edge</u>.	The organization is a very controlled and structured place. Formal procedures generally govern what people do.



What we learned about innovation

Innovation Simulation



It's not in our DNA.



It's not Expected.



We need more Structure.



We don't have Time.

What we learned about innovation

Innovation Simulation



- The ideas are in the room – the challenge is location and day-to-day work
- Our collaborative nature can keep us from meeting deadlines, agree to one thing but modify on fly
- The company you work for is only as good as who you report into, we have a culture from empowered to feared
- We need greater effort to define and drive a unified culture
- I was surprised to see how committed we all were to improving the culture, aligning to values
- We want to be a high performance company and world class organization
- I learned that everyone has a different interpretation of culture
- We are very action oriented, do not always make the time to truly innovate
- That thinking outside the box is a bit of a stretch for us culturally
- There are widely varying views to the Company's level of commitment to cultural change
- Our culture is collaboration...maybe to a fault. I feel this is something we are really strong at already.
- People don't think there is enough direct, honest communication around real issues
- We talk about diversity and innovation, but it still feels a little 1960's gold-old-boy
- Our culture has an inconsistent view of what performance looks like and the role of the manager
- Our ideas will be much richer if we ensure interdepartmental collaboration
- It appeared that many of us found it difficult to not influence the answer with our experience
- We don't debate well, prefer to collaborate to get along, not comfortable surfacing different p.o.v.'s, interpret tension and conflict as detractors vs. looking at as part of the process to get the optimum solution



Culture of Insight & Innovation Interviews – External Strengths

Theme	Interview Quote
Live Our Values	"We show up well, we do the right thing, and we are caring."
High Performance Culture	"We've had a big shift in the past few years to focus on performance – everything from distribution to incentive systems; we are truly performance oriented."
The Team	"Our people want to be great – they want to be part of the AAA brand and they are loyal."
Transparent	"There is an openness in the organization regarding changes that are taking place – new initiatives, opportunities for growth, PAS, CAS, etc."
Employee Focused	"We want to take care of our employees and the employee engagement survey is very important to us – probably more so than a lot of other organizations."
Inclusive	"We want to ensure we have everyone on board; we operate with consensus."



Culture of Insight & Innovation Interviews – External Opportunities

Theme	Interview Quote
Risk Aversion/ Fear of Failure	"We are a risk-averse company...over the years there were a few different ideas or projects people had that failed...people got killed..."
Limited Constructive Feedback	"Leaders need to say 'we welcome your ideas'...and then as leaders they need to give feedback on the idea...'But if you disagree with me then go talk to this person, feel free to explore this idea with someone else."
Process & Org. Constraints	"It's just so much work to try something different here."
Lack of Empowerment	"We need employees who are knowledgeable, empowered, and decisive...If you hire the right people then you have no problem empowering them."
Lack of focus on Improvement	"We should always be asking – 'what can we do to improve our work?' "We need to get that constructive feedback and be more critical on ourselves."
Team Weaknesses	"I'm not sure we have all the correct leadership and management skills in place..."





“We know where most of the creativity, the innovation, the stuff that drives productivity lies – in the minds of those closest to the work. It’s been there in front of our noses all along...”



Jack Welch

What needs to change?



What should be reinforced?

What needs to be changed?

What are the priorities, in what order?

.

Consolidated risks & opportunities

CSAA Insurance Group

- **Leadership & Accountability**

- *Failure to secure and maintain leadership alignment and accountability was identified as the biggest risk to successful innovation by our external thought partners.*
- Create alignment on what and how we will innovate – clarity and expectations.
- Set innovation as a key priority, with all employees taking responsibility/accountability.
- Develop as an integral part of how we work on a daily basis.
- Take small steps, build on early success and be open and receptive.

- **Capacity & Focus**

- *Employees have identified time as one of our biggest constraints. They feel they are working at 120 percent capacity now and have very little time for additional efforts.*
- Free up employees' capacity to spend time on innovation.
- Create focus and establish clear priorities.
- Set goals against 80-90% capacity with the time to focus on innovation – example: 70% of employee's time spent on core business, 20% on projects related to core, and 10% on project not related to core.
- Examine opportunities to free-up additional time through meeting management, process design, knowledge management and daily time management.



Consolidated risks & opportunities

CSAA Insurance Group

- **Safety & Openness of the Environment**

- *There is a general reluctance or fear to challenge the way things are done, try new things. Fear that their careers will be hurt if they don't succeed.*
- Create an environment that is safe and tolerant to failure, where people are free to experiment, try new things, and explore new ideas.
- Recognize and celebrate intelligent failure, identifying learnings and application.
- Increase transparency, provide real and honest feedback on ideas.
- Universally recognize when we successfully implement ideas, who was involved, what resulted and what we learned that can be applied to other areas.

- **Skills, Capability & Structure**

- *During any significant change skills, capability and structure will arise as key challenges and differentiators. Skills and capability represent a clear current gap.*
- Completed: integration of innovation into our core competency set as well as our values.
- Develop the innovation skills to enable employees to be successful.
- Education, tools, training, process and leadership are all required.
- Build relevant structure and governance into our innovation approach, particularly in the early stages as to gain a strong foothold. Open innovation can occur later on.



Vision of the Future

Based on employee input through our engagement and cultural surveys, the future is:

More Like:

- A dynamic, entrepreneurial place where people are willing to stick their necks out, take risks.
- A management style that is achievement oriented, and challenges the status quo.
- An environment that supports individual risk taking, innovation, freedom, and uniqueness.
- A leadership team that exemplifies entrepreneurship, innovation and risk taking.
- An organization committed to innovation and development, and being on the cutting edge.

Less Like:

- An environment that is unchanging, permanent, stable, and driven by control.
- A personal place that functions as an extended family.
- A dependence on security of employment, conformity, and predictability.
- A requirement for consensus with the full participation of everyone in decisions.
- A lot of rules, structure, and needless procedures that limit innovation and risk taking.



How do we know when we are there?



*Use a balanced set of metrics, analytics.
Use only what makes sense for you.
And, hint: There is no “there.”*

Metrics to consider

- **Innovation Index**
- **Sustainable Engagement Index**
- **Innovation Competency Trends**
- **Innovation Platform**
 - ROI of Innovation Platform Investment
 - Number of Challenges Run
 - Number of New Ideas Generated, Number of Ideas Launched; Ideas Launched as a Percent of Total Ideas
 - Idea Implementation Lag Time
 - Percent Employee Participation in Idea Generation
 - Percent of Ideas Launched by Cross Functional Teams
 - Open Innovation: Percent Ideas Generated/Implemented Based on Partner Club/Member Input
 - Percent Ideas Submitted by Teams versus Individuals
- **Innovation Tools & Training**
 - Number of Employees/Teams Trained on Innovation
 - Financial/Service of Productivity/Process Improvement Gains Generated by the Training
- **Insight**
 - Number of Insights Implemented, and as a Percent of Total Number Generated
 - Financial/Service Impact of Insights Implemented
- **Disruptive Innovation**
 - Number of New/Disruptive Products/Services Launched
 - Percent of Total Revenue/Income Generated by New/Disruptive Products/Services
 - New/Disruptive Products/Services as a Percent of Total Products/Services
 - ROI/Time to Market of New/Disruptive Products/Services
 - Percent New/Disruptive Products/Services Generated with Partner Club/Member Involvement
 - Revenue Generated Through New Products/Services Sold to New Customer Segments
 - Percent Revenue Generated by Services versus Products



Support for enterprise metrics

Measure	How Supported
Net Promotor Score	Develop skills and an environment to encourage innovation with the customer in mind. Improving processes and cross-functional collaboration Implement an enterprise innovation platform and supporting tools to give employees a channel to communicate ideas
Revenue	Leveraging employees' ideas with an effective governance process will provide new potential for increasing revenue through new products and product enhancements Disruptive innovation becomes part of the organization with dedicated time to respond to, and create, disruptive innovation in the insurance industry and for the company
Expense Ratio	Create cost saving, and cost avoidance, opportunities for Loss Adjustment Expense and Underwriting Expense through streamlining processes and enabling teams to improve day-to-day work through continuous improvement



Innovation Index

Innovation Index

70%

n/a

n/a

n/a

■ Favorable ■ Neutral ■ Unfavorable

		2013	Insurance Industry Norm	High Performing Norm
5. The company does a good job of encouraging the sharing of information and ideas across the organization.	70% 21% 9%	n/a	+18*	0
18. My immediate supervisor/manager encourages new ideas and new ways of doing things.	81% 12% 6%	n/a	+15*	+16*
23. The company does a good job of rewarding individuals who provide breakthrough ideas.	67% 23% 11%	n/a	+18*	n/a
28. At the company, you can try new things in order to be innovative.	67% 24% 9%	n/a	n/a	n/a
43. In my department, we collaborate to come up with innovative solutions.	80% 8% 12%	n/a	n/a	n/a
44. The company has established a climate where one can challenge our traditional ways of doing things.	68% 13% 19%	n/a	n/a	n/a
45. Please indicate the extent to which you feel you can impact innovation at this company.	57% 27% 16%	n/a	n/a	n/a

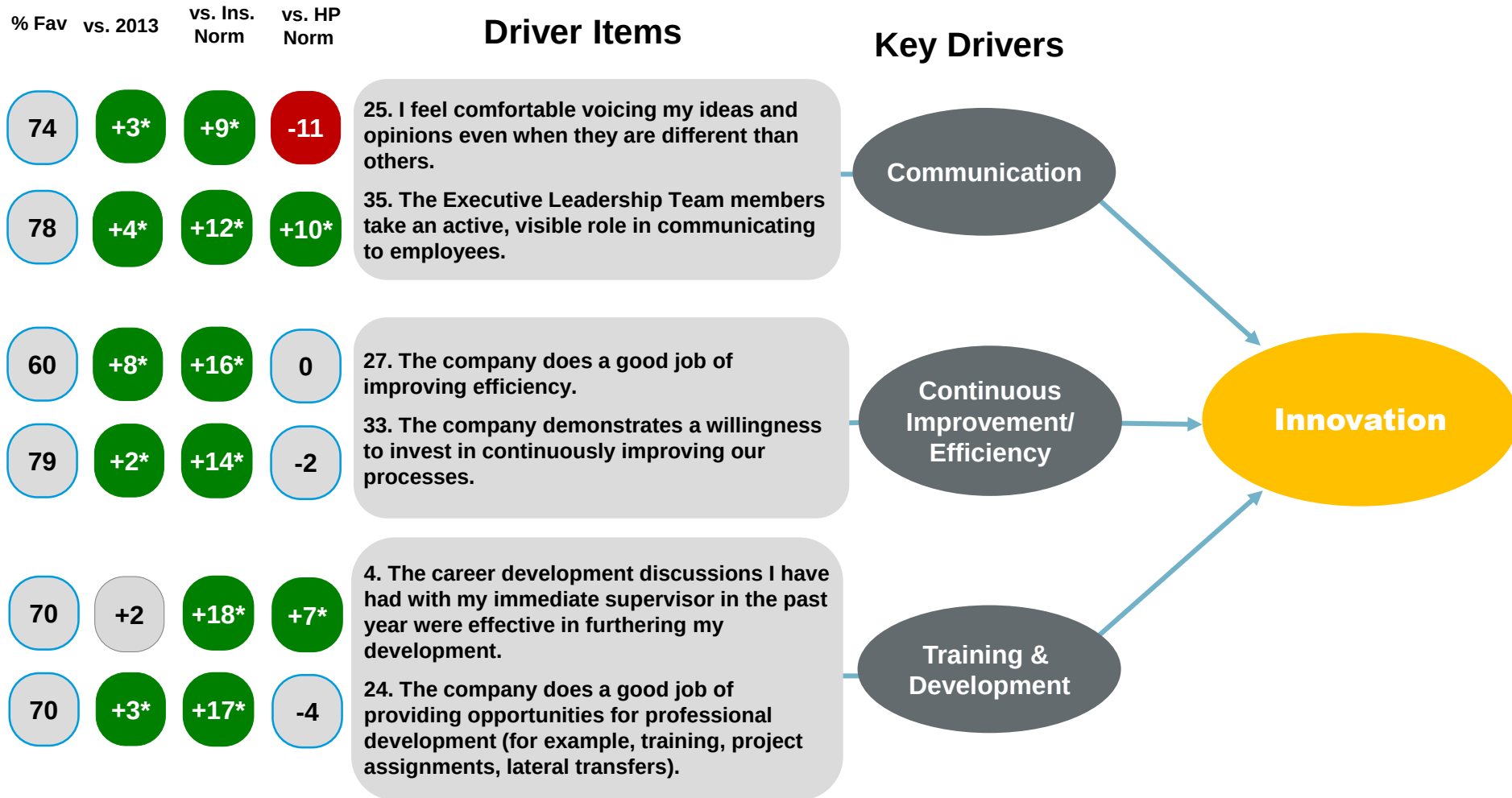
We are adding the following 2 questions:

- *My organization strives to be more innovative than our competitors.*
- *This organization is doing a good job of moving quickly from creating ideas to implementing them.*

Colored cells indicate a statistically significant difference



Key drivers of innovation



Colored cells indicate a statistically significant difference

Sustainable Engagement Index

Sustainable Engagement

77%

+2*

+11*

-3

Favorable Neutral Unfavorable

2013

Insurance
Industry
Norm

High
Performing
Norm

12. I have a clear understanding of how my job contributes to the company achieving its strategy.

91%

7%

+3*

+8*

0

17. I would recommend CSAA Insurance Group to others as a good place to work.

79%

15%

6%

+3*

+10*

-8*

39. I would prefer to remain with the company even if a comparable job were available in another company.

77%

15%

7%

+3*

+8*

-3

4. The career development discussions I have had with my immediate supervisor in the past year were effective in furthering my development.

70%

19%

12%

+2

+18*

+7*

8. At the company, there is generally good teamwork between departments.

58%

28%

15%

0

+3

-22*

13. The company provides the resources necessary for me to work effectively (hardware, tools, equipment, supplies, etc.).

79%

15%

7%

0

+13*

-7*

1. My job provides me with a sense of personal accomplishment.

79%

15%

5%

+6*

+12*

+5*

9. I receive the support I need from other work groups to provide high-quality service to our members, policyholders, partner clubs, internal and external customers/clients.

67%

26%

7%

+3*

+9*

-14*

31. The company is effective at encouraging employees to improve their health and well-being.

91%

7%

+4*

+20*

+13*

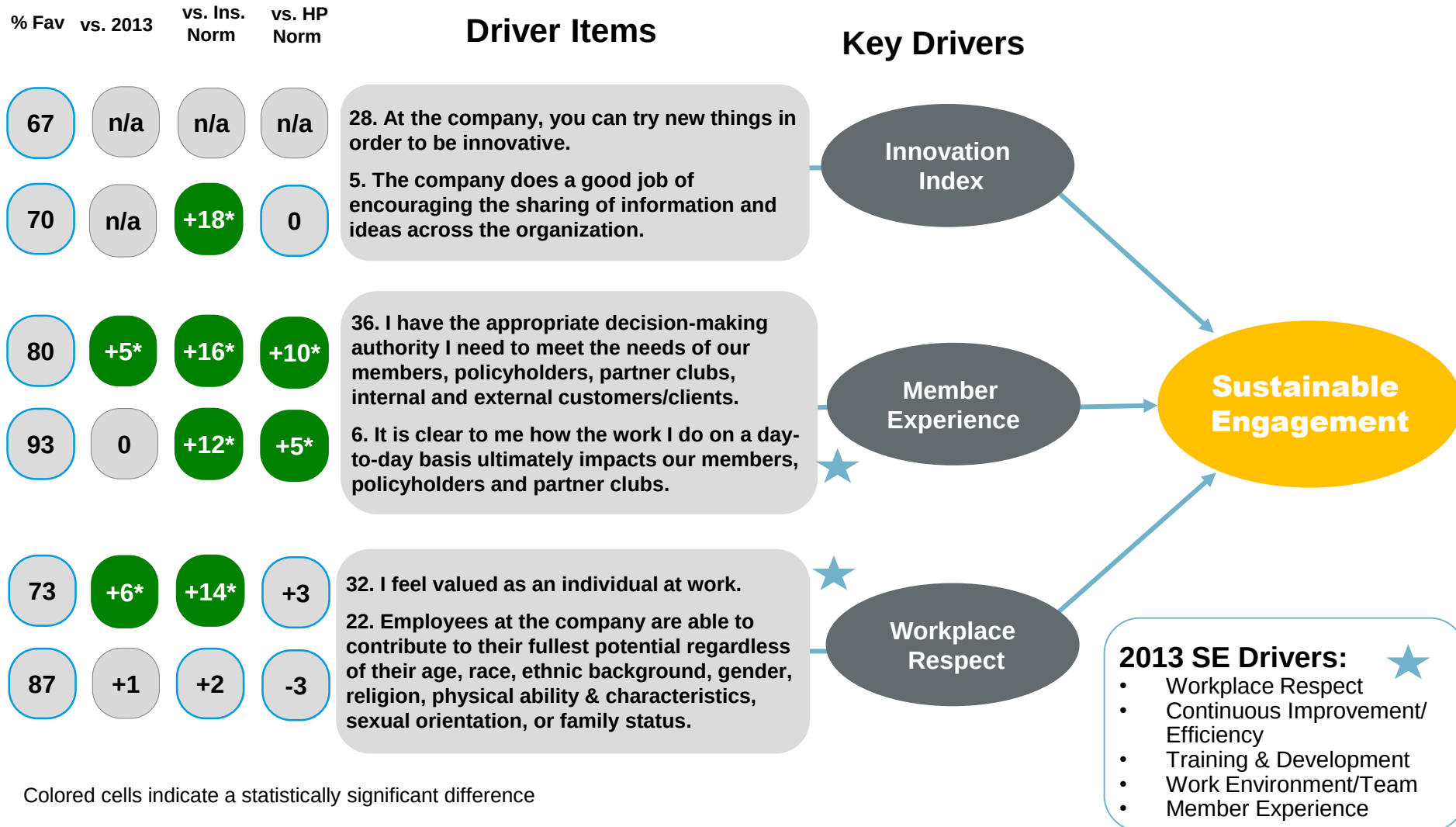
Engaged

Enabled

Energized



Key drivers of Sustainable Engagement



“The best way to have a good idea is to have a lot of ideas”

Dr. Linus Pauling

