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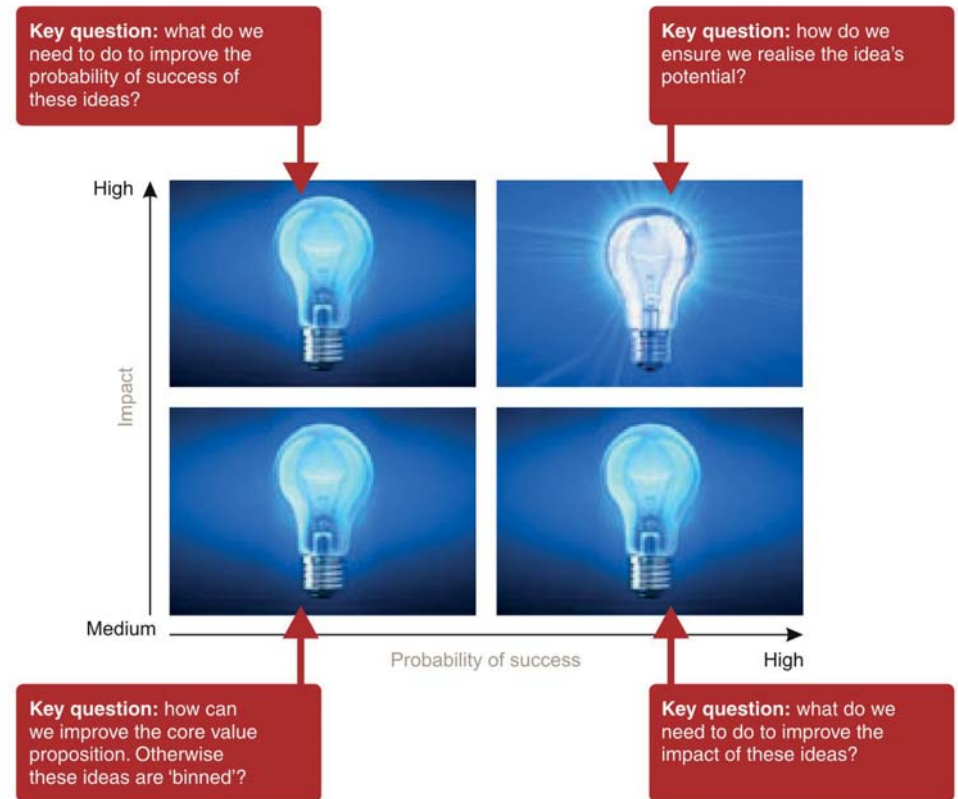
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*How can
innovation
transform
internal audit?*



Ideas filter



How do you do it?

1. For each of your ideas determine where it sits on the filter above against the two questions – do this quickly!
2. For ideas which are low impact and high probability of success, brainstorm how you might improve the impact
3. For those which are high impact and low probability of success, brainstorm how you might improve the probability of success
4. The ideas in the top right quadrant are those which you should implement in the first instance.

Final messages

We hope that you are now ready to have some serious fun. Serious because this is about solving some real and challenging business issues, and fun, because that is the only way you will unlock the ideas and potential for innovation within your teams.

Perspectives

You can unlock your thinking easily by shifting perspectives. You do this by asking questions about the problem or challenge you are having from a totally unrelated perspective. When you do this you will see the depth and quality of the questions you are asking change and become more values and motivations based. This will help you cut through to get better ideas.

Some examples of perspectives we have found powerful include:

- Ants (*introduces size, application*)
- Fisherman (*introduces dimensions around values and situation*)
- Italian (*introduces cultural and values differences*)
- Five year olds (*introduces age variations, freshness and playfulness*).

How do you do it?

1. For the problem or challenge you are facing list 10 questions you want to know
2. Second round – now ask 10 questions from the perspective of... (an ant for example)
3. Once you have these questions, brainstorm ideas to answer the questions you have listed in the second round
4. Check back once you have generated ideas and see if you have answered the questions you first listed.

Ideas filter

Once ideas have been generated, you need to prioritise which ideas you will invest in for implementation. The ideas filter does this in a simple and powerful way. When you use the filter it is primarily an intuitive process and should be done quickly. The ideas filter asks you two key questions:

1. **Impact** – Will it make a difference either in the market, on productivity and performance or in the culture of your business?
2. **Probability of success** – Can we do it? Do we have the capacity and capability to implement successfully?

If you have a 'low' response to both questions, a decision needs to be made whether to invest in building the probability of success (capacity and capability) and impact or whether other ideas should be supported.

Innovation

Innovation is the new black. It is talked about by CEOs as one of the most important areas of focus to achieve growth. It is acknowledged as a source of energy and motivation for employees and is now considered a key business lever.

Why discuss innovation in the context of internal audit?

Internal audit is facing many challenges. Some of these are:

- Doing more with less
- Minimising the impact of audit on the business while maximising the insights
- Streamlining processes – planning, fieldwork, reporting
- Getting the resourcing model right for your business
- Using technology to better effect
- Demonstrating the value added.

Insight + Ideas + Impact = Innovation

Each internal audit team will have their own list of challenges or objectives. This paper is designed to kick-start innovation in your team or to add to your existing activities in areas, that will make a difference to performance and value.

What is innovation?

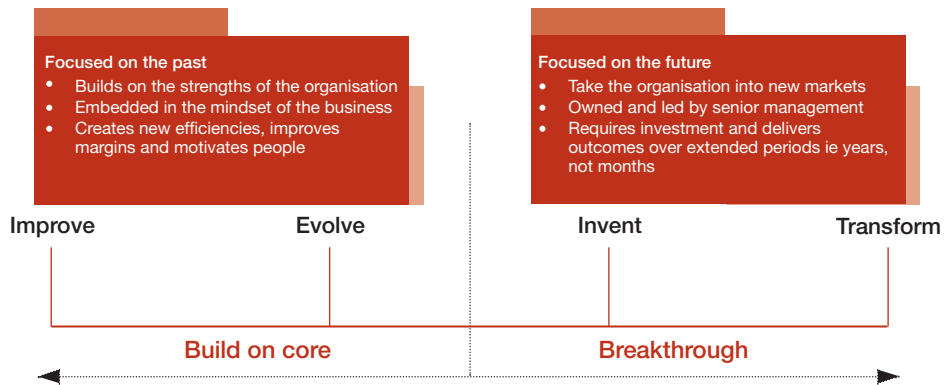
There are many definitions, each reflecting the bias or strengths of the person who conceived of it. Rather than getting tied up in the 'right' definition it is important to understand the underlying principles – what it is, and what it is not.

The most common misconception is that innovation is the same as creativity. Not surprising, given that creativity is foundational to innovation and many organisations gravitate towards it because it is fun and exciting.

That said there are many businesses who focus on developing innovation processes only as a way of addressing the challenges to evolve their performance. However, there is a difference. Creativity is embracing ideas and ambiguity while innovation is the process of extracting value from those ideas. Each offers benefits, but it is the combination of the two which will really create step change.

The innovation spectrum

Another misconception about innovation is the magnitude required to 'be' innovative. Some believe that innovation only results from ideas or projects that are large, require major funding and have the potential to totally transform the business. While transformational innovation is important for future growth, there is also incredible power in the change which occurs every day within a business through improvement and evolution. Incremental innovation can only be successful if:



The diagram above shows the types of innovation across a spectrum. It is the balance between incremental and transformational innovation which will have the greatest impact.

Innovation is all about behaviour

Once we understand 'what' innovation is, it is important to discuss 'how' to be successful. Yes there are innovation processes. It is, however, behaviour or, more correctly, culture which will determine whether an organisation is successful or not in its innovation endeavours. In its most simple form we are referring to the mindset of the organisation, its receptiveness to

When focused on culture, two dimensions are important



1. Employees are engaged and committed
2. Management has signalled its importance and has enabled it to occur
3. It builds on the core strengths of the business.

...all of which point to a high performing business.

creativity, comfort with uncertainty, risk taking and lateral thinking to achieve change.

We have all seen examples of businesses which set up systems and processes designed to achieve certain outcomes only to fail because the prevailing culture does not enable them to be successful. This is never more important than in the area of innovation.

Some simple tools to apply

The tools described below and on the following page are examples of ways in which you can begin your innovation journey, or if you are already on it, to add to your kit bag. The key message to remember is that we will only see what we are looking for and so in the innovation process it is important to:

- have an open mind
- expect the unexpected
- be prepared to explore what the unexpected might mean
- suspend judgement to let ideas flourish.

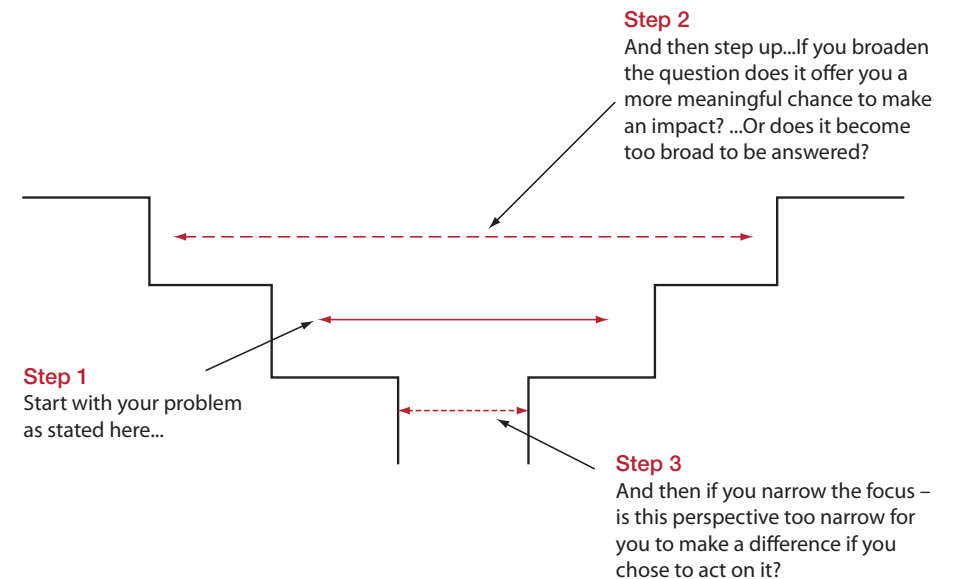
"To raise new questions, new possibilities, to regard old problems from a new angle, requires creative imagination and marks real advance in science."

– Albert Einstein

Funnel of scope

There has been much effort wasted in organisations because the question or problem being addressed was either too broad or too narrow. This tool will help you test your question to make sure you put your energy to solve the right problem or pursue the right opportunity.

How do you do it?



Element	Question	When it's working ...
Shared vision and the will to innovate	Is innovation on the strategic agenda of your business?	The organisation articulates a desire to become more innovative and this intent is well understood
Top management commitment	Has your management team provided time, funding and resources to support the innovation program?	Resources and support are available for the long-term implementation of innovation objectives
Enabling culture	Are you working in a business environment which will encourage you to become more innovative?	Strategy, systems and organisational symbols are all aligned to ensure that all innovation activities are set up for success and advance the business
Appropriate structure	Does your current structure offer flexibility for those who want to participate in innovation activities?	Organisation design which enables creativity, learning and interaction Not only a 'skunk works' model; key issue is finding appropriate balance between 'organic' and 'process' options for particular contingencies
Teams and recognition	Do your people know 'how' they can participate? Are there recognition systems in place to encourage participation?	Roles which energise and facilitate innovation are clearly defined and celebration of success and innovation behaviours is part of the fabric of the business
Tools and processes	Do you have some simple tools and processes to facilitate the innovation process?	Common tools which are adaptable to a variety of situations available to teams to use when they have the opportunity for situational innovation or are participating in more formal innovation activities
Creative climate	Do your people believe they are able to be creative in their roles?	The strategy, systems and symbols in the organisation all support the ability of employees to embrace creativity as a valuable part of their day to day role Positive approach to creative ideas, supported by relevant reward systems – a 'winners culture'
Relentless communication	Do you have channels through which you can communicate progress, achievement and learnings?	Within the organisation as well as outside. Internally in three directions – upwards, downwards and laterally

“I am not sure who discovered water, but I’m pretty sure it was not a fish”

– Tom Kelley, IDEO

Leadership

The role of leadership, or the ‘tone from the top’ is fundamental to the success of any innovation program. To ensure the business realises the value from innovation leadership needs to create a culture that will enable it. The behaviours which underpin this are very different from the traditional management paradigms.

From

Command and control
Information is power
Delegation
Single answer solutions
Fear of failure
Risk aversion
Rigid work practices
Individualistic
Perfection

Team

Curiosity, courage, creativity, appropriate risk taking, lateral thinking, collaboration, open mindedness are behaviours exhibited by highly innovative employees. The challenge for the business is to ensure its performance and reward systems encourage these behaviours and that the strategy and organisational symbols both explicitly, and implicitly, reinforce the importance of those behaviours.

→ To

Empowerment and trust
Openness
Participation
Multiple answers and experimentation
Learning from failure
Sensible risk taking
Flexibility and adaptability
Team oriented
Trial and learning

The innovation process

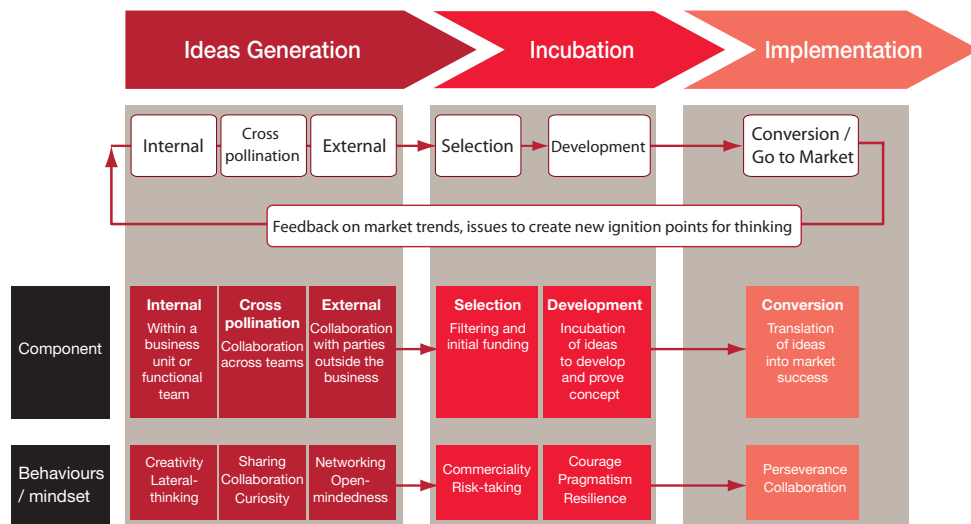
On the following page is an example of a simple innovation process which will help you think about how the various components of innovation fit together. It also shows the behaviours relevant to each phase of the process. Here are key definitions to help navigate the model:

Ideas generation – Using insights to stimulate thinking on the possible options available to act; idea generation requires structure, tools and is best done in groups. This reinforces the importance of taking the time to collectively solve business problems. Creativity is the driving force.

Incubation – Taking the ideas generated and evolving them to determine which ones are likely to deliver a viable outcome. Two questions to answer when selecting ideas – Will it make a difference? (impact) and can we do it? (capacity/capability).

Implementation – The point at which you extract value from the innovation process – converting ideas into outcome. This is where the principles of good project management come into play: from funding, planning to resource allocation.

“We can’t solve problems with the same kind of thinking that created them”
– Albert Einstein



“The real act of discovery consists not in finding new lands, but in seeing with new eyes”
– Marcel Proust

How can you set yourself up for success?

Here are some guidelines drawn from companies who are already on the innovation journey.

- 1. Clarity** – from leadership about direction and focus as well as the new cultural norms; what is valued and supported and equally what is no longer acceptable
- 2. Relentless communication** – from leadership through all available channels. Messages which are clear, consistent and include stories which will build the folklore to support the key behaviours and outcomes such as heralding those who have had a go. Consistency comes from the senior team all telling the same story, no matter what situation they are in
- 3. A few simple metrics** – against which progress of the program can be measured. The balance between behavioural and process needs to be right. Some examples include number of ideas converted, number of ideas in the pipeline, time spent in generating ideas
- 4. Involvement** – of people at all levels, throughout the business, in the program. Volunteering is best although conscription may be needed to kick-start activities
- 5. Vivid examples** – integrated into the daily conversations of the business about how the innovation program is making a difference, highlighting failures and lessons learned; recognising creativity as well as success

If you get innovation right, what are the benefits?

Does innovation make a difference and does it deliver benefits to organisations? Absolutely. The benefits are very wide ranging, from reduced costs, increased value through to employee motivation and retention. Other benefits include:

- Growth
- Improved performance by refining systems and processes
- Faster new product and service launches
- Improved customer experience and satisfaction
- Increased flexibility and organisational agility
- Increased staff satisfaction and retention
- Increased motivation and productivity
- Better teamwork.

Are you ready for innovation?

Organisational or team readiness to adopt an innovation mindset is important. Below is a simple quiz to determine how ‘ready’ your organisation or team is. The quiz also gives you a framework for thinking about what you need to do to improve, or begin, your innovation journey.

If you answer yes to the questions – you are ready and able, if there are some ‘nos’ these indicate the areas you might have to address to make the most of the creativity of your people and quality of your systems.