



Is Your Firm Ready to Innovate

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About the author-
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In the recent *Conference Board CEO Challenge 2011* report, more than 700 CEO's interviewed ranked only two challenges— growth and innovation—among the top five in all three regions of the world.¹ Firms increasingly recognize that creating a culture of innovation in particular is critical to remaining competitive in global markets. Buy a PC today and there's a good chance it will have been made in China. Use that PC to Skype a customer helpline and your call will be answered in the Philippines or Mumbai. Tap into your business network and you'll be using LinkedIn or Facebook.

Innovation leaders are redesigning entire business processes to do things better and faster than their rivals. Yet a surprising number of firms are unable to articulate a coherent strategy for innovation. "Fear of failure" and "having a culture that doesn't support risk taking" rank high among the reasons why firms struggle in this area. But the root problem is a failure to articulate a shared definition of what *innovation means*, and to understand the inner architecture of *how innovation works*. With a focused approach on building innovation capability, alignment, and mindset, firms can tackle both challenges.

Innovation Defined

Much has been written on innovation recently, but the current literature has a narrow product- or service-oriented view of innovation. We believe that innovation is not limited to R&D, new product development, and technology innovation, but must also include innovation around platforms, experiences, and internal processes. Through innovations in supply chain management, for example, Wal-Mart became the world's leading retailer. Apple dramatically and profitably innovated the customer retail experience. Regarding innovation as exclusively the domain of products or services blinds companies to opportunities, and puts them at a disadvantage to rivals with a broader perspective.²

A successful innovation strategy begins with a succinct definition of what innovation means to a company. With a succinct description in hand, two things happen: 1) alignment through the firm becomes easier because the approach can be understood by the entire organization; and 2) the quality of innovation efforts will improve because the desired outcomes are clear.

We define innovation as follows: “The discipline of doing things in new ways that create value for stakeholders.” While many similar definitions have been written for innovation, what distinguishes the BTS point of view is the emphasis on “*discipline*” and “*value creation*.”

Innovation: A Business Discipline That Creates Value

For the past 10 years, corporate America has pursued an operational effectiveness agenda punctuated by management tools and techniques such as Six Sigma, Lean, time-based competition, and outsourcing. Innovation has been left largely to teams with those famous “left-brained” skills. Known as “creative types,” “out-of-the-box thinkers,” or “visionaries”, these teams were often shuffled over to skunk works or divisions where they could work their alchemy unencumbered by the dreary conventionality of their management peers. The air of mystery surrounding innovators is frequently enhanced by innovation gurus, who offer to do ideation and out-of-the-box thinking for clients who—*theoretically*—can’t do it for themselves.

We disagree. Recognizing the importance of innovation as a business discipline, Drucker wrote: “Every managerial unit of a business unit should have responsibility for innovation and define innovation goals.”³ We believe that innovation is a business *discipline* that—*not* unlike marketing, finance, or supply-chain management — can be taught to anyone and made into a habit given the right environment and leadership. Moreover, innovation is a skill that can be cultivated throughout a business system, not just in new-product development groups. As with any skill, some will take to it better than others, but anyone can learn the basics and apply them to their work.

The second distinction about the BTS innovation point of view is that innovation is not invention, the practice of turning cash and time into products or services, but the act of finding new ways of creating value, or monetizing new ideas.

This distinction is not a small one. In our experience working with innovation leaders at Global 100 companies, we frequently hear: “We have pipelines set up to capture innovation ideas from our people. But then we get too many ideas, and most of the ideas stink.” This situation is common in firms that encourage unstructured innovation: environments in which leaders encourage innovation broadly, but fail to define clear criteria for what types of projects are significant enough to warrant pursuit. Hence, we believe that a firm’s definition of innovation must clearly describe thresholds for what constitutes meaningful innovation in terms of the minimum performance impact the innovation must produce, and which goals the innovations must target. In short, for innovation initiatives to “move the needle” on firm performance, it must be clear where the innovation need is greatest, and how big the innovation must be to have the intended effect.

The Inner Architecture of Innovation: Understanding How it Works.

Creating a culture of innovation requires firms to develop three core capabilities: *expansionist skills*, *reductionist skills*, and *unique leadership behaviors* to create an environment in which managers feel trusted and energized to use both skills.

Expansionist skills are the principles, techniques and tools needed to define innovation opportunities, to generate options for those opportunities, and to harvest from those options the ones with the greatest chance of success. Some suggest that this is the “easy” part of innovation—witness the raft of books and articles quoting Thomas Edison’s

famous remark: "Innovation is 2% inspiration, and 98% perspiration." This thinking is short-sighted, as it fails to hold managers accountable for *disciplined ideation*, which refers to specific actions exceptional innovators must take during the "inspiration" phase to identify unique consumer insights, and to carve options in a way that improve the probability of their success in the execution phase.

Reductionist skills refer to those principles, procedures, and tools required for managing the execution phase. The term "Reductionist" refers specifically to a set of highly specialized actions innovation leaders can take to reduce the uncertainty inherent in an innovation exercise through *discovery-driven execution*.

Creating a culture of innovation requires a third discipline **Innovation Leadership** which is frequently omitted in a firm's innovation calculus. Innovation leadership refers to the unique set of behaviors required to create an environment in which managers feel both trusted and energized to engage in high-risk innovation projects. These skills are quite different from the behaviors expected for successful leadership of "low risk" business (for which the business outcomes are easy to predict).

Innovate to Win

Growing one's business through innovation is critical to business success on the global stage. Developing a culture of innovation requires a shared definition of what innovation means to a firm, and an understanding of the Expansionist, Reductionist, and Leadership skills need to create and sustain it. With a focused approach on building innovation capability, alignment, and mindset, firms develop both.

1 The Conference Board CEO Challenge, 2011 RESEARCH REPORT TCB-R-1474-11-RR

2 Sawhney, et al. 2006

3 Drucker, Peter F. 1977. *An Introductory View of Management*. New York: Harper's College Press.

About BTS

BTS focuses on the people side of strategy, working with leaders at all levels to help them make better decisions, convert those decisions to actions and deliver results. At our core, we believe people learn best by doing. For 30 years, we've been designing fun, powerful experiences™ that have profound and lasting impact on people and their careers. We inspire new ways of thinking, build critical capabilities and unleash business success. It's strategy made personal.

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