Innovation – the path of embracing change to create value

Insights from the frontier of understanding innovation

4th Innovation Best Practice & Future Challenges Report

"The Road Less Travelled" by Jami Tobey

http://jamitobeystudios.com

Dr Bettina von Stamm

Innovation Leadership Forum

April 2010

Some Background

This is the fourth time that senior innovation leaders have given their time to share insights around Innovation Best Practice & Future Challenges. The project, driven by my curiosity and therefore funded by the Innovation Leadership Forum, has collected views from 4 continents – and a collection of view it is, rather than quantitative research setting out to establish a 'truth'.

2001 41 interview, 21 companies (UK)

2003 72 interviews, 26 companies (UK, US)

2006 27 interviews, 24 companies (Germany, Netherlands, UK, US)

2010 45 interviews, 40 companies (Australia, Denmark, Germany, Poland, South Africa, UK, US)
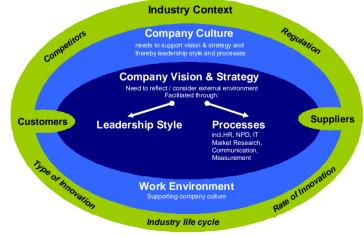
Participants 2010

The interviewees, self-selected and likely to have a bias towards innovation, have shared their thoughts and experiences openly and generously for which I would like to thank all very much indeed. The fact that I have spoken to individuals, asking primarily about their personal views and experiences, is also the reason why this report generally refrains from naming names or attributing stories to specific companies. On the contrary, I have sometimes changed the quotes a little to ensure the anonymity of its source remains in tact. In those instances where stories or approaches have been attributed this has been done because the information is available in the public domain, or 'my source' has agreed explicitly, and it has officially been signed-off.

I hope this report will give you insights into new approaches, confirmation that you are not alone out there – neither with your problems nor with your solutions ☺ – and provide you with some new points to take off from should you have become a little stuck on your innovation journey.

Before launching into the report perhaps a word about its structure. I have aimed to keep the report itself fairly concise, and have put much information – about tools encountered, approaches observed, material gathered – into a separate column and the Appendices.

As the previous reports, the conversations were structured around the 'BvS Innovation Framework' which reflects areas where innovative companies do something different from their less innovative counterparts; the questions that have guided the conversations can be found in Appendix I, a little more about the thinking behind the framework is provided in Appendix II.

Again, thanks to all who have contributed; I hope the results are enjoyable – and useful!

Innovation Best Practice & Future Challenges 2010

1.   A few things that struck me

I found it interesting to observe that some of the aspects that were talked about in 2006 – such as a innovation as mindset, managing at the portfolio level, creating infrastructures for innovation – had since been acted upon. Though, having said that, it is mainly the innovation leaders that are getting on with it while innovation laggards continue to talk about it....

As with the previous rounds of research, so too this time, before going into the questions in detail I should like to share a few things that stood out, some other observations, and a few 'top tips' I have extracted from the interviews. The things that struck me were,

- The innovation gap is widening further

- A shift towards a focus on people and relationships

- The challenge of crossing boundaries

- The emergence of sustainability as driver for innovation

- Innovation's influence on strategy

- Embracing complexity

The innovation gap is widening further

Connecting to the 2006 Report, I believe that the gap between those who 'get innovation' and those who do not keeps widening. This is reflected in what topics are being discussed, and how innovation is approached: those leading the pack are more likely to talk about people, relationships, behaviours, leadership and a holistic approach whereas those at an earlier stage of their journey continue to talk about processes, products and technologies. I also feel that this slow progression is almost a necessity: unless we have used up all levers within our comfort zone – processes, structures, roles – we seem to be reluctant to accept that we also need to address the less tangible aspects – which feel more uncomfortable for most – such as behaviours, mindsets and culture. Understanding innovation is a journey on which it is difficult to take short cuts.

This is probably also a good point to emphasise that creating an innovative organisation is a journey that has no end point – when ever you think you have sussed it out you need to start asking question again. I believe this is another point that makes us feel a little uncomfortable; knowing myself I always want to reach an endpoint, not quite comfortable with an unfinished status quo. Accepting that we are on a never ending journey is another mindset issue... The context in which organisations operate is constantly changing which means that what works really well today might not work quite so well tomorrow, and not at all the day after. Nothing new here, becoming too comfortable, too cosy, too successful has always been the first step towards decay and downfall since the dawn of mankind.

If creating innovative organisations is about nurturing a certain mindset and if it seems to be difficult to take shortcuts, then the following follows...

- It is difficult to demand innovation one moment and declare it to be 'not important' or 'not relevant now' the next; behaviours do not change quite so quickly; this is why creating innovative organisations requires sincere long term commitment.

- For those who have been charged with figuring out what it takes to make the organisation more innovative it will not be easy to let go of that understanding; this is why many of those who have been sent on this quest and have found that creating innovative organisations is about nurturing a certain mindset and culture will be frustrated when this is a message not welcomed by senior management; and it makes such a role an 'ejector seat' for many. Over the course of running networking initiatives for the past 11 years I have seen more innovation leaders move out of rather than up in organisations.

- It perhaps also helps to explain the continuing high levels of dissatisfaction with levels of innovation performance we hear about in annually repeated surveys. While innovation is on the agenda in most organisations and seen as a strategic priority, it seems to be poorly understood what it takes to become more innovative. Senior management is buying into the argument with their minds – there is enough evidence out there that innovative organisations outperforming less innovative ones – but many fail to get it in their heart, which would be necessary to engage with behavioural and cultural change. As a consequence those who buy into the rationale of innovation but not the 'emotional' consequences of it continue to focus on processes and structures rather than turning towards addressing behaviours and cultures. This again is quite understandable as it is much easier to say 'they need to change', or even 'we need to change' than it is to say 'perhaps I have to change'. And by the way, I believe that decision making would become much more rational if we were to accept that much of our decision making is indeed *not* very rational at all... In a McKinsey Quarterly interview on his recent book *Switch* Chip Health argues for making an 'emotional case for change'; the interview can be found in Appendix III.

A final point here, those understanding innovation also realise that an innovative mindsets is not about finding people who constantly come up with breakthrough ideas. An innovative mindset is one that is open towards change, likes to challenge and be challenged, is focused on creating value (in its various shapes and forms) and, very importantly, appreciates diversity in all its different guises. We do not need organisations full of people commonly understood to be 'innovators' but full of those who relish the fact that some of us thrive on radical changes while others prefer incremental ones, each knowing their own preference, and valuing those of others.

This is supported by comments of several participants that the greatest achievement and advancement on their innovation journey over the last 3-5 years was that they had brought everyone involved in innovation together in the same space; they felt it had made a real difference in the quality, speed as well as overall performance of innovation. By the way, I was amazed that 'silos' – be they functional or between business units – remained a frequently mentioned barrier to (more) successful innovation.

A shift towards a focus on people and relationships

As I am a strong believer that creating innovative organisations has everything to do with mindset, values and behaviours I am delighted to find that some of the participating companies have moved people and relationships into the centre of discussions around innovation.

In the 2006 report was the example of a company which did not aim to measure innovation performance per se but was focusing on levels of engagement as a proxy. They held the belief, based on their own experience and that of others, that if people are engaged innovation will follow.

> **The 2 components of Engagement:**
> **Emotional**: taking pride in working for a company;
> **Rational**: understanding how your job fits into the 'bigger picture'.

Taking this a step further, one of this round's participants has placed people at the centre for driving innovation forwards. One of the ways this manifests itself is how project review meetings are run. Rather than, as customary, start with the review of budgets and project plans they focus on relationships, looking at how well they work together – or not – and what can be done about it. The comment was, "We look at individual projects and relationships, and if you do that well then money will follow." They have learned that if the relationships in the multifunctional teams, and between all of those who are involved in the innovation process in the wider sense, work well, innovation will happen, and it will happen at a good pace. They realised that not discussions about budgets made the difference in moving projects along but well working relationships.

Of course this does not mean that processes and other things are not important; they help, but in the end it is the people who make a difference.

The challenge of crossing boundaries

I often like to say that 'innovation happens when connecting different bodies of knowledge'; multifunctional teams are one expression of this and I have already mentioned the positive, accelerating impact successfully working in co-located multinational teams has. It is important to highlight that such collaboration does not happen by just putting everyone into the same space. We prefer to surround us with like-minded people whom we understand and with whom we get on easily. People from different functions do tend not to fall into that category. So work, training, understanding, coaching will be necessary to enable understanding and facilitate successful working relationships with those who are different from us.

Taking the insight that diversity supports innovation a step further, particularly large organisations have started to explore innovation opportunities at the boundaries of their business units. This is surprisingly a relatively new field for most, likely to lead to 'interesting' challenges, particularly if the two business are following different sets of rules; such differences can be in the regulatory requirements, ways of managing and engaging stakeholder or required time scales. In several instances interviewees commented on challenges arising from senior management's lack of appreciation and understanding of context-specific constraints and issues. While nothing is more becoming for innovation than to challenge the status quo and current ways of doing things, transferring performance expectations from one field to another can cause problems. For example, moving from 'food' to 'food with medical claims or properties' will have implications for the timeline within which a project can realistically be brought to a conclusion, for whom to engage and involve, as well as communications with consumers.
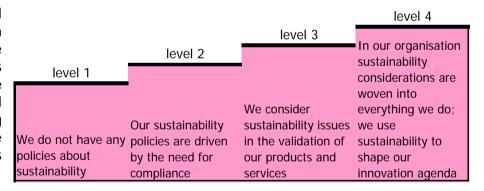
I still believe that the greatest innovation opportunities arise from crossing boundaries (functional, business unit, industry) but careful attention needs to be paid to understanding the consequences and challenges that result from it.

Finally, open innovation is a different manifestation of 'crossing boundaries' and interestingly, while it comes with its own set of issues and challenges, in a workshop on open innovation run by the Innovation Leadership Forum Networking Group it was commented upon that collaboration with external parties does often seem to be easier than collaboration within the business boundaries. In Appendices IV and V respectively you will find an article on 'How to measure open innovation value from xxxxx and 'Open innovation in pharma', from Stephan Linegard's blog

The emergence of sustainability as driver for innovation

I found it quite remarkable that, while sustainability did not really enter the conversations in 2006, in this latest round it was often mentioned even before I could ask my question around it. As one interviewee put it when I shared this observation, "Sustainability is everywhere, all the way through the innovation process; over the past 3 years it has gone from 0-100%." However, he continued, "This does not mean that companies are actually good at it". I quite agree, particularly with the latter. In the interview a whole spectrum of understanding and embracing sustainability emerged, from being a driver in strategy and vision, and hence innovation activities, so a bare acknowledgement of its existence and aiming to get away with a minimum, i.e. ensuring that products and services released comply with existing regulations.

The graph to the right shows different levels of understanding and internalising sustainability that was developed in an ILF workshop on Sustainability and CSR June 2008 (I have enclosed an extract from the meeting notes in Appendix VI). Moving from left to right awareness shifts from 'doing the necessary' and 'covering my back' to proactively using the sustainability agenda to drive innovation activities. Industry context and regulation are strong influences on the stance an organisation takes. Having said that, in those companies where sustainability was a driver of the innovation agenda this was primarily driven by the organisational leader's personal conviction.

level 1	level 2	level 3	level 4
We do not have any policies about sustainability	Our sustainability policies are driven by the need for compliance	We consider sustainability issues in the validation of our products and services	In our organisation sustainability considerations are woven into everything we do; we use sustainability to shape our innovation agenda

Given the changes in societal awareness around the challenges humanity is facing, reflected not least in an increasing number of initiatives springing up to actively help tackle the issues, it is my firm belief that those organisations who are leading on the sustainability agenda will create a competitive advantage over those who do not. This is not only for philanthropic and emotional reasons but has also hardnosed financial ones: considering sustainability from the outset often leads to cost reductions in a number of ways such as reduction in material used, reduction in the number of different materials used, reduction in production, manufacturing steps, a shift from product to service. In their book *Natural Capitalism* Hawken et all have described four principals of natural capitalism, all of which are likely to reduce cost – see box overleaf. More on how participants view the role of sustainability in the context of innovation in the write-up of Question 9.

The 4 Principals of Natural Capitalism From: *Natural Capitalism: Creating the Next Industrial Revolution* by Hawken, Lovins & Lovins, Back Bay Books, 2000

1.   Dramatically increase the productivity of natural resources
Achieved primarily by reducing waste through changes in the product design and production processes, increasing yield 10 or even 100 times. With such efficiency improvements the initial investment required pays for itself in short periods of time. Looking at the wider system (systems approach), and all aspects of a product's life cycle can provide the insights necessary to achieve such reductions.

2.   Shift to biologically inspired production models
Aim to eliminate waste by trying to achieve closed-loop systems as seen in nature, e.g. compost; if the closed-loop system does not work for a single product, perhaps the waste from one product can be used as input for another. This approach can reduce a company's materials' requirements by up to 90%.

3.   Move to a solutions-based business model
Shift from an emphasis on sales of goods on sales of services; example: agricultural chemical producer who sells weed free fields instead of bags of chemicals, hence ensuring that a minimum rather than a maximum of chemicals are used – it is in the interest of the manufacturer to use as little as possible, rather than to sell as much as possible.

4.   Reinvest in natural capital
As the costs arising from deteriorating ecosystems rise, businesses need to invest in renewable resources. Companies face direct costs from the consequences of deteriorating eco systems, resulting in climate changes, e.g. high winds and floods. For example, the deforestation in China's Yangtze basin in 1998 triggered floods that killed 3,700 people, dislocated 223 million, and destroyed 60 million acres of cropland. The total costs of the disaster amounted to £30 billion, forced a logging moratorium and required a $12 billion crash programme of reforestation.

Innovation's influence on strategy

The final one of my 'upfront observations' seems quite logical once you have thought it – though I had not really thought about it up to now: several participants were stating that their innovation activities were influencing company strategy. Given the remit that innovation teams have – identify new opportunities and ways of doing things for our business – it should not really come as a surprise… Needless to say that this influence is openly acknowledged in companies advanced on their innovation journey, with the strongest example from a company where the former Innovation Director has become the organisation's Strategy Director, and clearly not the case in an organisation where innovation is in no shape or form represented at board level. Hence, the degree to which potential changes in direction arising from innovation activities are taken up and are taken seriously by senior managers depends very much on their attitude towards innovation. Cynically put one could ask, are we innovating because everyone else seems to think it is a good idea or are we innovating because we truly would like to seek to identify new directions and opportunities for our organisation?

I believe that in order to avoid an organisation's precious and scare resources being wasted the reason for innovation needs to be stated explicitly and clearly: why are we engaging in innovation, and what is it that we are trying to achieve through it? Decision making needs to be clear and transparent, otherwise people will withdraw and disengage. I would argue that innovation without passion and bringing some of one's personal beliefs into it will be mediocre, lukewarm. Bringing oneself into the game though also makes it more personal, which makes it even more important to understand the way decisions go, particularly when the decision is a 'no go'.

Embracing complexity

For some reason complexity has always been close to my thinking in the context of understanding innovation. I understand levels of complexity to be the consequence not primarily of the number of elements in a system but rather the degree to which they interact and are interdependent; in addition complexity increases when interactions are unknown or unpredictable. In my view things that are complicated can be simplified, things that are complex cannot. We can only attempt to represent them in a simple way but in order to do so we have to understand and embrace the underlying complexities fully.

Why talk about this in the context of innovation? Well, the topic of having to deal with increasing levels of complexity was mentioned by several during the conversations, and highlighted as one of the 'future challenges' they need to find ways to address. Why is complexity becoming more of an issue? Any move away from linear relationships is likely to increase complexity; rather than going into lengthy explanations I would just like to create an awareness for the need to consider complexities by giving a few examples where I see moves away from linearity:

- Organisations are becoming less hierarchical; this means that to get things done we can rely less on command and control and have to switch to negotiation and persuasion instead; this is at a minimum a two-way relationship, more often than not involving many more players all interacting with each other;

- Organisations are becoming more global and seek to exploit the possibilities and opportunities that arise from that; again we see an increase in players, and if they have equal rights and status this again will lead to a multiplayer situation with interactions that go in many directions;

- We see an increase in pace of change and speed of communication; this means that less time is available to deal with things in a sequential fashion; many things need to be addressed simultaneously;

- Organisations are shifting from a focus on profit only towards working on a triple bottom line, given consideration to people and planet as well as profit.

- Innovation in my view is often characterised by high levels of complexity, driven by high degrees of interdependency as well as high levels of uncertainty of the interactions and their consequences.

- I also keep arguing that the times of 'either or' are over and we need to embrace the 'and' whereby the 'and' may often seem contradictory or outright irreconcilable at the outset. Yet those who will manage to embrace the 'and', without sinking to the lowest common denominator will be the leaders. In order to get there, by pursuing the 'and', we have to deal with complexities that did not exist in the world of 'either or;.

I have not (yet) and answer on what it actually looks like to embrace complexity successful nor what tools and approaches will allow us to do so successfully but I feel that it is something to keep an eye on, and that it will involve systems thinking being able to see the big picture as well as the detail, and require social as well as analytical skills.