

Key Caveats and Emerging Creative Solutions to Achieve Successful Corporate Innovation

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Abstract

Effective, sustained innovation remains one of the great challenges facing almost every corporation. This paper outlines several key caveats that corporations need to understand and adhere to if they wish to win the innovation game. The paper also outlines emerging creative solutions being used by several corporations designed to abide by such caveats and in doing so improve their innovation success rates.

Key Words: innovation; caveats; solutions; corporate

Introduction

It is common knowledge that corporate innovation failure is the rule and not the exception. One author went as far to suggest that corporate innovation is analogous to the mating of pandas; infrequent, clumsy, and often, ineffective (Tucker, 2002). There have been many reasons suggested for the lack of innovation success, from a broad variety of perspectives. These reasons, however, tend to fall into three basic categories: cultural and organizational barriers to innovation; strategic and market-related barriers to innovation; and process-type barriers to innovation (Utterback, 1994; Christensen, 1997; Sharma, 1999; Estrin, 2009). For example, a cultural/organizational cause behind a failure to innovate would be the lack of embedding innovation as part of the DNA of an organization. An example of a strategic or market-related cause of innovation failure is an organization's inability to recognize and respond to structural market changes that are transforming an industry such as the emergence of new customers and the dwindling of traditional core customers. An example of a process-type cause of innovation failure could be a strangling stage-gate system - perhaps originally designed to bring order to chaotic R&D activities - that drives risk-taking out of R&D only to yield the most basic incremental innovations.

In this paper we wish to present several key caveats about corporate innovation. These caveats are a result of our field research and immersion within corporations while they have engaged in innovation activities. We also present some creative solutions to these caveats that several corporations are now deploying that are resulting in improvement in their innovation pursuits (Crane and Meyer, 2011). Our hope is this paper will spark discussion and further research into this important topic.

Caveat 1: Successful innovation requires that the corporation clearly define innovation, what it is and what it is not. Once innovation is clearly defined, it must also be communicated throughout the organization. It will not be possible to be successful at innovation if the corporate cannot provide focus and boundaries for innovation. Moreover, innovation must be defined more broadly than simply new product innovation to include other forms of innovation such as business model innovation, channel innovation, and process innovation.

Emerging Creative Solutions: Several of the companies in our research sample had taken interesting, bold steps to rectify this pressing problem. For example, some C-Suite executives have specifically started defining types of innovation within the context of their respective industry, with clear examples of innovation type X including A, B, and C, and examples of innovation type Y including D and E. These innovation types included product, service, technology platform, channel and branding, and financial/business model innovations. We were told that this makes the parameters of acceptable innovation clear for everyone else. When an executive uses the word business model innovation, for example, people know what he or she means.

With this foundation of thinking in place, these executives then made innovation proposals along approved innovation types as part of the formal part of the annual strategic planning and portfolio management process. Whatever the specific approach, the bottom-line is that innovation needs to be taken out of the clouds and translated into actionable vectors so that fast-track managers and their personnel can respond with concrete proposals.

Caveat 2: Successful innovation requires a deep and fundamental understanding of customers and markets. Organizations must stay engaged and have a working knowledge of what is happening in their external environment. A system for tracking changes in the external environment should be part of the organization's innovation efforts. Such a system should examine structural changes in the external environment including socio-demographics, economic, political, regulatory and technological forces. The use of fuzzy-front end research should also be built into the innovation process. This must include both current customers and non-customers in order to avoid the trap of incrementalism and the tyranny of the core which largely limits innovation. Executives must embrace the notion that sometimes breakthroughs happen when you go beyond what you know or what you think you know.

Emerging Creative Solutions: The corporations we studied who seemed most serious about innovation were all conducting "innovation bootcamps" of one type or another for multifunctional teams. And as part of this hands-on training, immersion into the market was the primary feature. This included immersion into the customer's place of use and place of purchase, whatever that meant for the respective industry. In one corporation, it was to create "baking parties" in a facilitator's homes to better understand the needs, preferences, and life styles of young professional women who are at-home bakers— and it was these young women who were the new strategic target. For another CPG, the immersion was to do walkthroughs in small teams in club stores to understand the packaging and merchandizing requirements of this new strategic channel. For another industrial products company, it meant taking engineers into dealerships and construction sites in emerging markets, to spend time with salespeople, equipment operators and service technicians. And in another company, it was spending a day in the life of a software developer trying to use a major IT vendor's products, processes, and services to develop and sell their own applications. The insights gathered from these ethnographic immersions were all seen as invaluable — the sources of insights needed for distinctive next generation innovation.

Caveat 3: Successful innovation requires that fear be removed from the corporation. Risk-aversion permeates many, if not, the majority of large corporations (Foster and Kaplan, 2001). The root of such risk-aversion is that employees remain in a state of fear; fear punishment, fear losing their jobs, or fear about never emerging as a potential future leader of the organization (Deming, 1982). Yet, innovation is all about doing something new and accepting that sometimes failure may result when attempting newness. If people fear punishment for engaging in innovation, innovation will simply not happen. People will take risks if executives are willing to allow them to do so. Moreover, it must be communicated that failure is not a negative construct but, in fact, simply part of innovation. In sum, risk-taking has to be encouraged, not discouraged, if corporations are to be successful with innovation.

Emerging Creative Solutions: We saw a handful of companies begin to make leadership of a new product line or service development – an effort beyond the core – apart of the accepted career path for fast-track managers in their preparation for the C-Suite. And as part of this, executives asked their HR department and senior staff to structure “safe exits” back into the core business for innovation team managers. This allows the fast-track manager to spend two or three years developing and launching a commercial innovation to market and then, if it is his or her preference, to return to a more traditional management position in the business.

Caveat 4: Successful innovation requires comprehensive, progressive and equitable incentive systems instituted within their organization that align with their innovation efforts. This includes even making innovation part of the performance review system for everyone in the organization. And, of course, these incentives come in many forms, both formal and informal and intrinsic and extrinsic. For example, metrics-driven bonuses must be combined with programs that reward behaviors that are not measured in a spreadsheet such as risk-taking behavior for innovating.

Emerging Creative Solutions: While on a high-risk innovation team, the manager should not be penalized relative to his or her peers in the core business. A few corporations we studied were experimenting with a reward system that was milestone-based, particular if the corporation had embraced a venturing process that was different than the traditional stage-gate. This makes sense because prior to commercial launch, there are no revenues or contributions to profit against which performance can be measured. Instead, milestones such as “alpha”, “beta” and “launch” are more appropriate interim milestones for new businesses.

Caveat 5: Successful innovation requires an effective idea management system. Previous research suggests that a lack of a sound idea management system is an impediment to successful innovation (Wycoff, 2004). Yet, companies can either purchase an idea management system or train their people for effective ideation. Either way, a good idea management system generates and captures ideas in a way that encourages people to build on and evaluate new possibilities. Many innovation projects have died on a sticky-note covered wall as participants lost energy trying to figure out what to do with those yellow pieces of paper fluttering to the floor. Having an effective system that generates and captures ideas and engages people in developing, modifying, enlarging and evaluating those ideas is just as critical to innovation as accounting systems are to the financial health of an organization. Good screening criteria can also focus ideation; however, overly restrictive criteria can stifle ideation and perpetuate assumptions and mindsets from the past. And, a critical ingredient for the idea management system is a clear understanding of current and future needs of customers!

Emerging Creative Solutions: A robust idea management system serves as an enterprise-wide resource to help people generate, build upon, and evaluate new possibilities. We studied one corporation, a large computer systems manufacturer and services provider, that has a powerful repository for new product and service ideas coupled with an equally powerful customer insight business process. This company had

implemented its own content management system to record, track, and follow through on needs and requirements expressed by users in bi-annual customer summits. As part of this, new product or service concepts, or specific new features for current product lines and services, were developed for each major customer request. As part of the customer summits, the company ran specific break-out groups focused on different major elements of technology application and use. Technology-savvy facilitators crystallized the needs and frustrations into design elements for the company's products. In the time immediately following the summits, the needs and design elements from the various customer groups were organized and road mapped into the company's development plan. Through a secure portal, customers could see how and when their ideas might take form in the company's commercial offerings. This system and the business process behind it had operationalized the concept of "co-design." It had also proved a great way to build customer loyalty in a B2B type business.

Caveat 6: Successful innovation requires a balance between the freedom to think beyond current paradigms and the discipline required to systematically implement innovative ideas. Indeed, innovation does require a process and whatever the process it has to be documented so that everyone understands the rules of the game. One of the first ingredients is developing project and market-related success parameters. But, while it is important to have an innovation blueprint, any innovation process has to build in enough looseness for people to explore new possibilities as well as openly collaborate with others inside and outside the organization. It is also important that the process accommodate handling outlier ideas that might not fit current strategies but have too much merit to be discarded. The process should also include time to innovative and effective training for people involved in innovation including mental readiness and tangible skills to make the business case for innovation projects.

Emerging Creative Solutions: We examined several corporations who are in the midst of implementing a distinct process for approving, funding, and mentoring internal corporate ventures, defined as bolder innovations that while leveraging company technology, take the innovation into new market segments and new types of user applications. As opposed to the sequential nature of traditional stage-gate steps where projects are winnowed down before market risk is taken, the internal venturing processes were characterized by:

- A rapid "launch and learn" approach focused shortening the time to test new ideas with customers in actual points of purchase and to minimize the cost of failure. This approach assumes early market risk at low cost, using "lean" development and manufacturing strategies.

- To provide milestone-based funding based on parallel activities, including business planning and prototyping; small iterative test markets in conjunction with product engineering; and limited market launches before funding for full channel roll-out.

- A governance structure comprising just several senior level executives – a venture board – as opposed to all functional and business unit VPs involved in traditional stage-gate governance. This mirrors the actively involved, fast moving boards of venture capitalists investing in startup ventures.

In conjunction with this, however, "throwing new ventures on the other side of the parking lot" most often doomed those very ventures to failure, robbing them of access to the R&D, manufacturing, and selling capabilities of the main corporation. "Separate but within" was the balance struck by these internal ventures, and the best ones transformed into their own business units once achieving reasonable scale.

Caveat 7: Successful innovation requires a corporate culture that encourages and supports innovation. Innovation must be embraced as a fundamental core cultural value of a corporation. It must be embedded in the corporate culture and mindset of every employee. This serves as the foundation for successful innovation. And, while many suggest innovation is a creature of strategy, based on what we observed we suggest it resides more in the cultural domain. Therefore, corporations must build a culture focused on innovation, one that emphasizes leadership, experimentation, learning, patience, trust, openness, flexibility, collaboration and, of course, smart risk-taking. To build this type of culture, for some, could mean starting over! For others, it could mean transforming the culture by hiring people who already have a history of engaging in successful innovation and/or those who are already pre-disposed to innovation and are willing to lead in this area.

Emerging Creative Solutions: We studied several corporations who are attempting to transform their culture as it pertains to innovation. A few, for example, as part of their hiring practices run diagnostic tests on prospective employees to check for innovation readiness (e.g. risk-taking, optimism resilience etc.) and are hiring those who score high on these diagnostics. Some others have begun conducting corporate innovation audits to determine the extent to which their companies are prepared for the innovation and to identify flaws and/or impediments affecting their innovation efforts. A few companies are seeking out even more novel solutions. For example, some are now offering innovation courses as part of their training programs on their corporate campuses, taught by members of the C-suite. This signals a cultural commitment to innovation. Others are partnering with universities to build innovation courses into business school curriculums in order to plant the seeds about the importance of innovation. Interestingly enough, one university with the support of corporate partners, is now offering a course on innovation to every student on its campus – a campus with over 20,000 students – to demonstrate that innovation is valued and should be encouraged. The hope is that corporations will be able to hire personnel who are ready for innovation and who will take leadership roles in championing it throughout their organizations.

Conclusions

Regardless of industry vertical or size of corporation, most, if not all, are struggling when it comes to innovation. Our first-hand observations, in fact, confirmed that organizations are failing at innovation most of the time. Importantly, however, we observed several corporations implementing creative solutions to improve their innovation batting average. We believe that to succeed at innovation corporations must embrace the caveats outlined in this paper. Those caveats include: defining innovation and communicating it throughout the organization; focusing innovation efforts by having a deep and fundamental understanding of customers and markets; encouraging and tangibly rewarding risk-taking; developing a robust idea management system to fuel their innovation efforts; finding and implementing an effective and flexible innovation process and invest and support it; and finally, and importantly, establishing and promoting a culture of innovation - making innovation a core value and a strategic pillar for future corporate growth. And, there are ways to accomplish these goals. As we outlined in this paper, several corporations have found some creative solutions to innovation dilemmas and are now finding improved innovation success. We have tried to share these solutions in the hope such solutions will diffuse across other corporations who continue to struggle with their innovation efforts.

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