



mlh global hr consulting

improving business through people

Business Matters – Innovation

“Innovation has nothing to do with how many R&D dollars you have...It’s not about money. It’s about the people you have, how you’re led, and how much you get it.” Steve Jobs, CEO Apple

As companies wrestle with the never-ending challenge of finding new sources of growth in stagnant or declining markets, the pressure to innovate is higher than ever. But can companies learn how to innovate? Or is innovation the preserve of a few lucky entrepreneurs, with the

Although companies say they want breakthrough products, most are far more adept at making incremental improvements to existing lines.
Harvard Business Review

right ideas at just the right time? mlh global hr consulting believes that innovation is a matter of structure, process, people and corporate mindset. Successful innovative companies do not innovate on impulse, they **innovate on purpose**.

This is supported, a recent study of 1,000 public companies by consultants Booz, Allen & Hamilton which found absolutely no correlation between business performance and the size of the R&D budget. They concluded that superior results are delivered by companies that operate superior innovation **processes**.

Create a climate for innovation

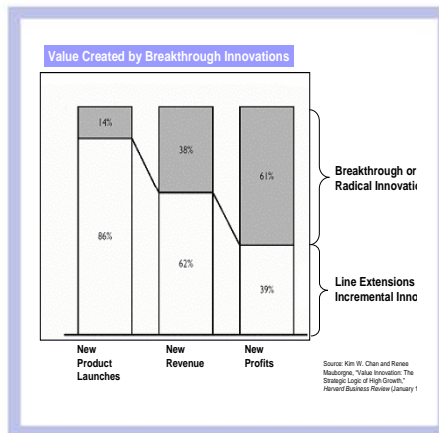
A specific kind of climate has to prevail within the company if it is to become a successful innovator. This climate can be created by default, when crisis threatens to drive the company out of business, or (preferably) by design, when management puts innovation at the centre of business strategy. At the beginning of this process an Innovation Audit can be used to

benchmark a company’s practices vs. the best practice of successful innovators. The Audit can provide a “case for change”, helping management establish an appropriate vision, opening minds to new ideas and new ways of working, encouraging collaboration and breaking down internal organisational barriers.

Establish a structured process to search for ideas

The search for ideas is the so-called “fuzzy front-end” of innovation. Ideas generation is almost by definition an unstructured process: however, innovative companies routinely employ a number of approaches which acknowledge the importance of

- open internal and external networks. Examples include:
- interactive web based Internal ideas competitions (Siemens, Syngenta);



- Learning from lead users and experts in target markets to identify products that will revolutionize the market (3M);
- Distributed internal and external networks, open-innovation web-based exchanges (Procter & Gamble), communities of practice (Cisco Services);

Characteristics of Innovative Companies

- They operate formal, **structured** innovation & venturing processes.
- They strive for breakthrough or **radical innovation** not incremental innovation
- They create a **climate** for innovation
- They engage **open, distributed networks** in the search for innovative ideas.
- They enable open information exchange and encourage **collaboration**.
- They develop **balanced portfolios** of innovation projects.
- They operate **flexible “stage-gate”** development processes.
- They are willing to **experiment** and accept the importance of “positive failure”.
- They fund “game-changing” projects through **internal and external corporate ventures**.
- They monitor the progress carefully, but **understand the need for patience**.

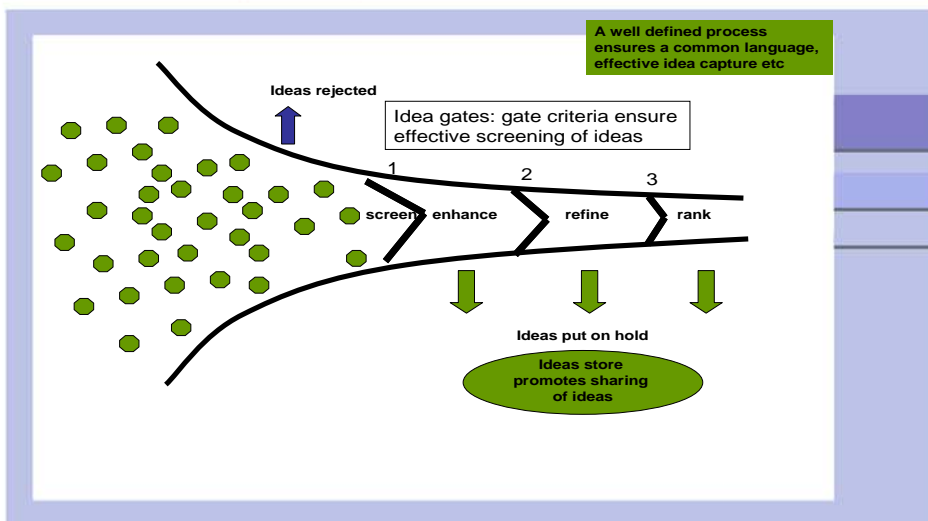
- early state entrepreneurs (Nokia); &
- Using Radical innovation Hubs to receive, evaluate and develop novel ideas that do not gain the attention of business-unit management (Nortel)

Operate a flexible, stage-gate approach to project development & funding

A large portfolio of innovation projects will tend to spread limited resources too thinly and reduce speed-to-market. Typically some further mechanism is required to review and identify the more promising projects and rationalise the portfolio in their favour.

Consider also internal venture funding mechanisms to efficiently manage innovation projects and provide employees with access to development and funding of innovative ideas.

“The best way to get a good idea is to get a lot of ideas”
Linus Pauling



Adopt a portfolio approach to building an innovation pipeline

Successful innovative companies adopt a portfolio approach to the selection and management of their innovation projects. Selection criteria will vary from one company to the next, but will generally involve some form of review of fit against a checklist of criteria, economic value judgement based on payback time, NPV, etc; and/or assessment of risk vs. reward.

Identifying the right portfolio of innovation projects is absolutely critical to long-term success. The selection process requires an ability to see how the project can create value for end users, an appreciation of costs and benefits to the company and an ability to identify and eliminate projects where there is limited potential for commercial return. Cross-functional collaboration is therefore critically important: selection of innovation projects should not be only by R&D. Most selected projects will fit with current business strategy and competence, but innovative companies will also place bets on a few risky, "off-piste" projects. The aim is to achieve a balanced portfolio.

Avoid mistakes, but be ready & willing to fail – often & fast

A company that reacts to failure by

seeking to allocate blame cannot experiment, and a company that is afraid to experiment cannot innovate. Innovative companies organise for rapid experimentation, in the laboratory and in the marketplace. It is important to avoid mistakes, but the right attitude to failure is critical. The company must be ready and willing to fail – early and often. Acknowledge the importance of "positive failure" and be ready to learn from projects that don't work

Use corporate ventures to commercialise ideas: be willing to be patient

Many innovation projects produce propositions that fit comfortably with a company's core business and are saleable through its existing channels. However, some innovations may not fit the company's core business, culture or competences. It may

It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to management than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institution and merely lukewarm defenders in those who gain by the new ones.
Machiavelli

be necessary to commercialise such innovations through corporate ventures. Corporate ventures offer a diversity of benefits. They can be used to foster and enable an entrepreneurial culture internally within the company. Internal ventures enable transfer of internally-generated ideas away from the line organization, making internal financial resources or corporate venture capital available to support them. External corporate venturing can be used to make direct equity investments in new ventures to gain strategic benefits, or to accelerate idea sourcing and selection by co-operating with venture capital firms. It is important to measure the ventures' progress in achieving strategic objectives, but it is equally important to exercise patience – radical innovation takes time

"IDEO encourages its designers "to fail often to succeed sooner," and the company understands that more radical experiments frequently lead to more spectacular failures"
Harvard Business Review

Make the best of your people

Innovative companies tend to see their people as part of the solution, not part of the problem. They will typically engage all staff in "high involvement innovation". Managers will listen to all ideas derived from employees – regardless of job title or position – creating the advantage that the more people are involved in promoting innovative change, the more receptive they are to change itself. Furthermore, these companies do not underestimate the importance and value of their scientists and technologists. The most successful innovative companies have managed to put innovation at the heart of their corporate culture; innovation becomes "the way we do things around here". Alignment of objective setting, recognition and rewards is crucial if a high innovation climate is to be sustained. This requires the ability to deal with cross discipline project working, 'blue sky' research or skunk work, fast failure to name but a few.