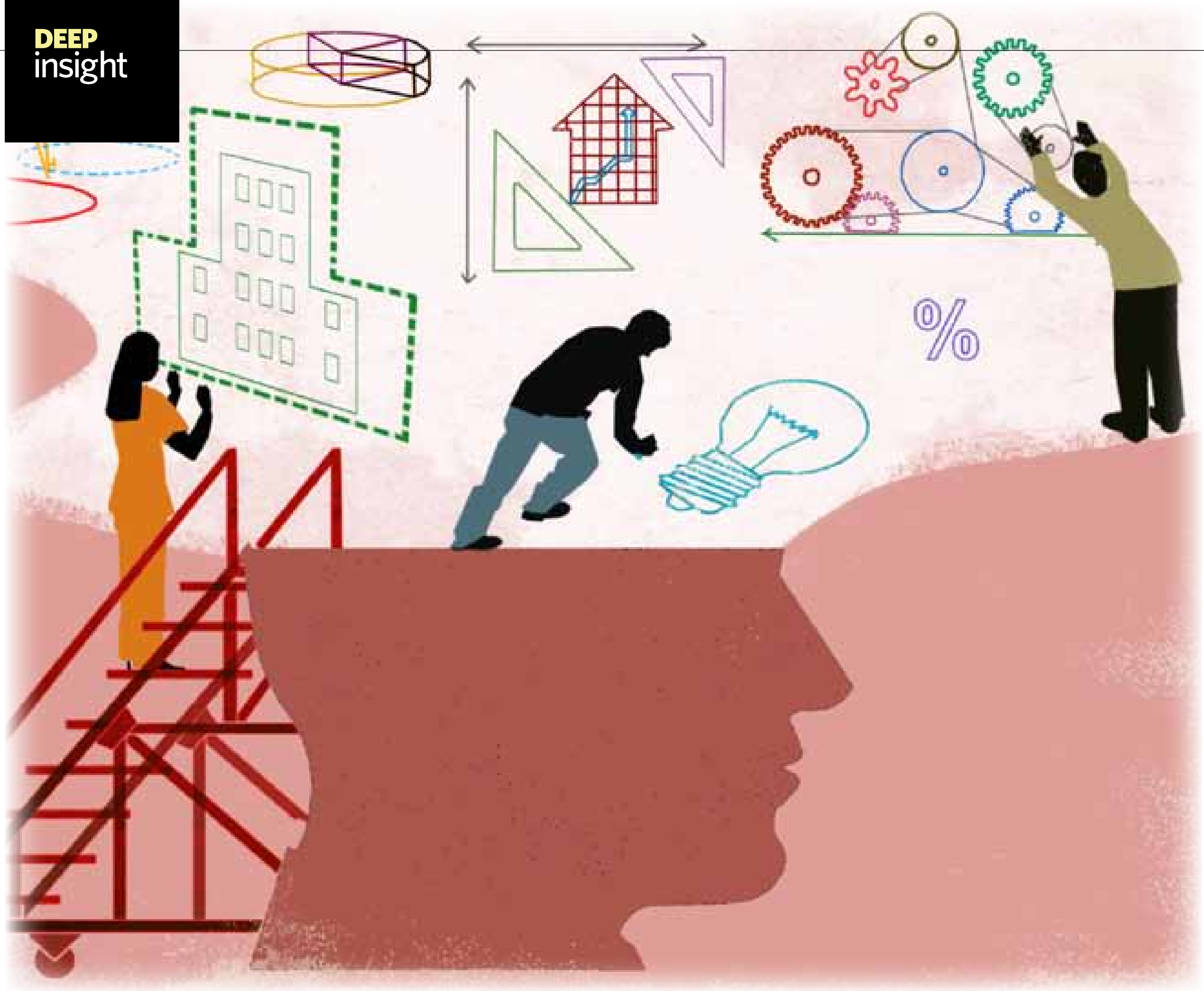
DEEP insight



A CUSTOMIZED ROAD MAP

Normalize Innovation to Transform Your Firm

By JOAQUIM VILÀ

Today Apple is hailed as a world leader in innovation. But will it still be so a decade from now? Certainly, Apple has an innovative corporate culture based on a distinctive set of values, principles and practices that promote individual initiative, find creative solutions to business problems and seize opportunities as they arise. But its culture is also strongly based on the legacy of its visionary founders. Unless this culture becomes normalized – transcending the very leaders who set things in motion – then this innovation comes with an expiry date.

Consider the leaders in computers in the '70s, consumer electronics in the '80s and the Internet in the '90s: Many owed their achievements to the influence of their founders. Yet, with rare exceptions, these same companies now stand out for their absence from innovation rankings, with many having disappeared off the radar altogether.

But consider another set of companies, like

Pfizer, Procter & Gamble, Dannon, General Electric, 3M, Intel, BMW, Johnson & Johnson and Singapore Airlines. Such companies have learned to treat innovation in a systematic, organized way, and their efforts are yielding long-lasting results.

A recent study by IESE and Capgemini suggests that the existence of formal processes for steering and governing innovation is closely linked to the success of that innovation. And as numerous other studies have shown, companies that regularly innovate end up outperforming their sector.

Nevertheless, 58 percent of the firms surveyed say they do not have an explicit innovation strategy. What's more, 45 percent do not have formal organizational or well-defined governance structures for innovation, 49 percent do not have a well-defined process to prioritize and allocate time and funding to innovation projects, and a "stunning" 54 percent have no performance indicators to measure the efficacy of their innovation efforts.

Why is it so difficult to implement a system of innovation management?

This article presents a phased methodology designed to set a company on the path toward innovation. It is based on two decades of experience I've acquired through training and consulting, both in helping companies to diagnose their ability to innovate, as well as in helping them to implement innovation processes linked to strategy. In addition, over the past six years, I have researched the best practices of 40 of the world's most innovative firms.

Drawing on these findings, I put forth a model that links purpose to idea generation, selecting the most powerful ideas from multiple inputs, and then focusing a company's creative efforts into specific product or service initiatives, in order to help managers launch innovation in a more systematic way.

EXECUTIVE SUMMARY

Companies that organize their innovation efforts in systematic, well-managed ways are those whose efforts will be rewarded. So says Joaquim Vilà, based on the best practices of the world's most innovative firms, as well as on his own extensive experience of innovation management. In this article, Vilà presents a systematic model of innovation management, which links strategy, problem solving and cultural change, and which is custom-tailored to the needs of each firm. Implementing this model in phases allows for progressive development of an innovation culture. The goal is to change the way in which innovation is led and managed at all levels of the organization, so that the company can establish a set of values, principles and practices that will strengthen and nurture the innovation process on an ongoing basis. In short, it's about transforming the entire company through innovation.

An Evolutionary Approach

Innovation starts with an initial *awareness-raising* phase to foster attitudes within the organization, especially among managers, that are conducive to innovation.

This is followed by a *credibility* phase, aimed at achieving early results and demonstrating to people within the company that success can be increasingly found in creativity and innovation.

The process of *systematization* results in a portfolio of strategic initiatives for innovation in various areas.

In the *consolidation* phase, the company reviews the way in which innovation is led and managed, in order to establish a set of values, principles and practices that will strengthen and nurture the innovation process on an ongoing basis.

The transformation to a culture of innovation does not happen overnight. Indeed, each of these phases contributes to the progressive development of an innovation culture. It is necessary to take an evolutionary perspective, following stages that gradually produce results over time.

The changes will vary in scope and magnitude. In the initial stages, the innovation achieved may be a better alignment of people and departments, and simple problem resolution. These accomplishments, in turn, can be extended to more comprehensive aspects, such as developing new product or service concepts, at later stages of the process.

Moreover, the process does not unfold the same way in all companies. A traditional organization, with limited innovation competencies, should put more emphasis on the early stages. Conversely, a company with some experience under its belt may move faster toward systematizing and consolidating its innovation (see **Exhibit 1**).

Overcoming Fears

While managers may appreciate the positive effects that can come from implementing a systematic approach to innovation in their companies, the challenges of doing so may raise serious doubts in their minds: Which competencies will be required, and do we have them? Where should we concentrate our efforts? How must the efforts of the various units be aligned in order to have the greatest impact? Any program of change will inevitably encounter negative reactions and resistance: How will we deal with them?

Fear of the unknown and doubts about one's abilities tend to slow progress in organizations. Overcoming these qualms requires building the confidence of the management team in their personal ability to influence the success of the innovation program.

Albert Bandura, an eminent psychologist at Stanford University, suggests that the best way to create a strong sense of self-efficacy is by gradually accumulating small success stories, a process he calls "guided mastery." It also helps to become familiarized with the experiences of similar companies that can be taken as a reference. In this way, executives can face the difficulties before them as challenges to be mastered rather than problems to be avoided.

Awareness: Creating the Right Attitude

For innovation to take place, there needs to be fertile ground for it to happen. Everyone must understand what innovation will mean for the organization, and what it implies for each of them.

As with any program of change, innovation can give rise to defensive attitudes, as people seek to protect their own interests or those of their units. There may be a degree of cynicism stemming from the past failures of similar endeavors: "We tried the suggestion box, we did the workshops. Nothing changed, they didn't work."

These are excuses, not reasons, for not implementing innovation. In asking people to embark on a process of innovation, we are not asking to resurrect the same old things that were tried and rejected in the past, but rather we are trying to tackle the mental barriers that may be preventing people's innovation efforts from ever taking off in the first place.

The awareness phase aims to put the organization in touch with innovation. This will involve the leadership team, in particular, but also everyone else in the organization who will be instrumental in normalizing the innovation.

There are numerous ways of raising awareness. The way you choose to go about it will depend on your company's particular competencies. Activities include:

- gaining knowledge about innovation through forums, ideally in which the reasons for innovation can be openly discussed and debated.
- discovering and learning from other successful cases, especially if they come from firms that your company can identify with.
- conducting comparative studies of innovation in your industry and related fields.
- identifying any external factors that may adversely impact your business performance, and assessing the necessity of taking preemptive action.
- diagnosing the future strategic health of your company if it continues along the same path.

Only when top management is aware of the innovation potential is it possible to establish the values, principles and practices that will contribute constructively to the realization of innovation.

Metalquimia, an equipment manufacturer for meat processing, began its process of introducing systematic innovation in 1998. It started with the full support of the company's chief executive, Josep Lagares. After seeing the ratio of commercial success in the

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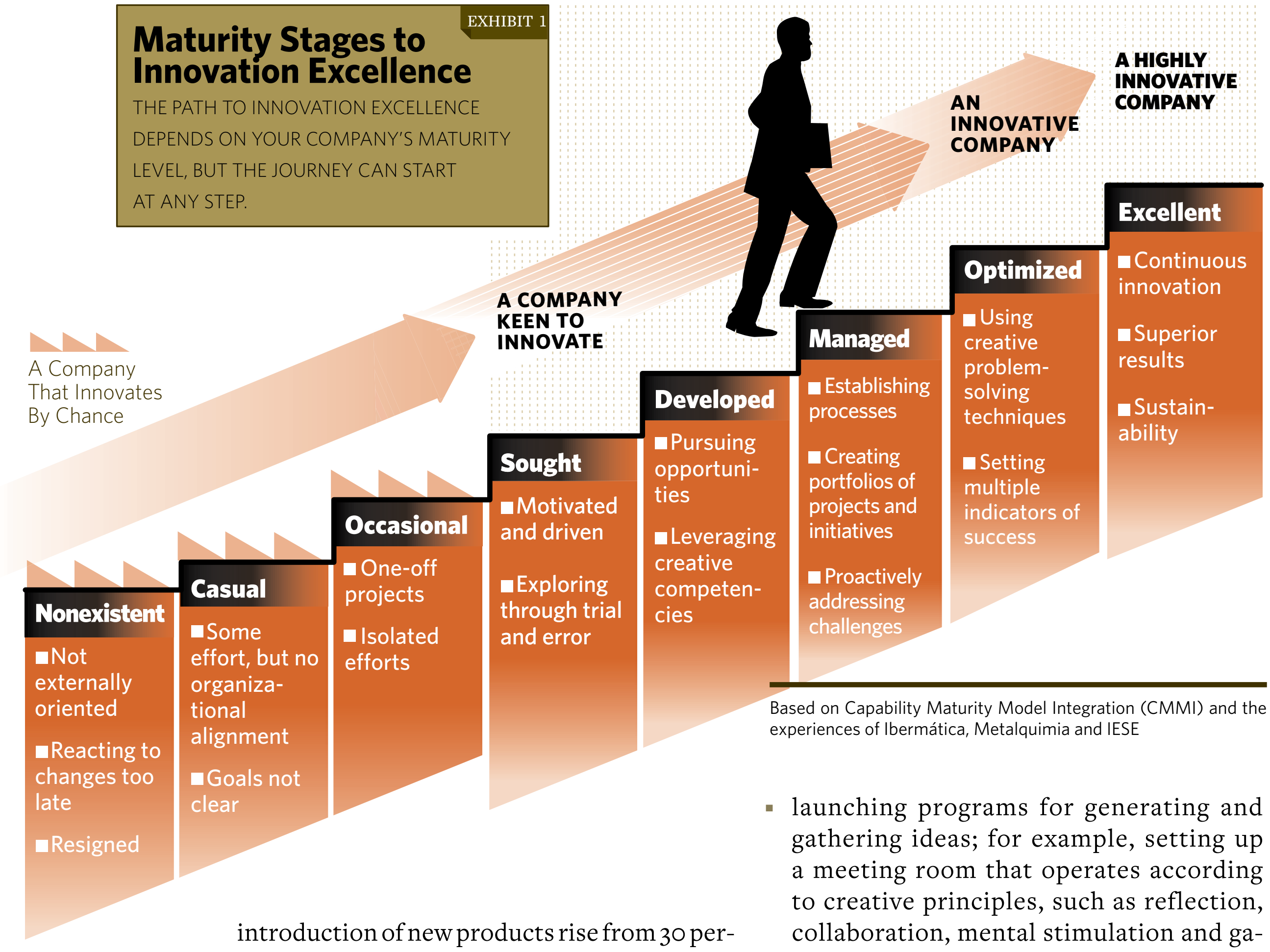
Joaquim Vilà is a professor of Strategic Management and Innovation at IESE. Holder of a Ph.D. in Strategic Management from the Wharton School of the University of Pennsylvania, he is a veteran consultant in the implementation of systematic management to foster innovation in enterprises. He is also a member of advisory and innovation committees at leading companies and the founder of three companies devoted to innovation: Soft4CRIT-CRITflow, Estratègia i Organització and Total Business Innovation. His research focuses on innovation management, developing competencies in management teams, and how to convey and give relevance to an innovation strategy among middle managers.



Based on Capability Maturity Model Integration (CMMI) and the experiences of Ibermática, Metalquimia and IESE

introduction of new products rise from 30 percent to 88 percent, Lagares personally went on to lead the company's transformation based on creativity and systematic innovation.

Credibility: Proving It Can Be Done

Once management is convinced, confidence must be built across the organization in their ability to profit from their innovation efforts. As such, it is vital to show that the organization can achieve better results by taking an innovative approach. Some of the actions that build credibility include:

- holding workshops on specific problems, and showing how, with simple techniques, the people in the organization are able to add value; recognition should be given for the best ideas.
- addressing a complex problem using creative techniques that transcend the limitations of a traditional, rational approach; the principles of "design thinking" as popularized by companies such as Ideo, Frog and Humantific provide good examples.
- launching programs for generating and gathering ideas; for example, setting up a meeting room that operates according to creative principles, such as reflection, collaboration, mental stimulation and games; or launching a virtual platform, such as Critflow, that encourages employees to contribute ideas about problems proposed by management, and offers incentives for participation, as Chaordix does.

Combining these methods often produces more robust results. Specialized consultants are usually brought on board to help implement them, although it is good for employees to acquire these competencies for themselves, leaving the consultants to focus on more complex issues. Having a few small, initial successes helps to build confidence among the skeptics and empower the pioneers: "We can do it, we are competent."

This is effectively what happened at the insurer AXA Ireland when it launched its Mad House program aimed at generating new ideas. It started by gathering seven employees to brainstorm customer solutions. Some 200 ideas emerged, of which 20 were implemented. The success of these early initiatives helped to build wider credibility for innovation.

Transformation With Results

Various companies have been able to achieve successful results, simply by adapting the flexible methodology of systematic innovation management to their own needs.

PREFABRICATS PLANAS

- **Sector:** Building materials
- **Size:** Medium (110 employees)
- **Strategic Challenge:** Reorient business; serve customers without geographic limitations

In 2007, Prefabricats Planas' market was within a 200-kilometer radius of its factory in the Catalonian province of Girona. This greatly conditioned the organization's design. The received wisdom was that concrete doesn't travel well, so there was no use trying to be competitive beyond this region.

The innovation plan redefined the way business was done, and challenged several aspects of management.

Since 2010, Prefabricats Planas has secured contracts in numerous European countries, with projects located more than 1,000 kilometers from headquarters. In 2012, more than 70 percent of Prefabricats Planas' revenues came from long-distance projects.

ROCHE DIAGNOSTICS IBERIA

- **Sector:** Medical diagnostic systems and solutions
- **Size:** Large (750 employees in Spain)
- **Strategic Challenge:** Maintain privileged position of profitability within the international group

Roche Diagnostics Iberia adopted methodical innovation in 2003. Although it is a subsidiary of Roche Diagnostics, the company innovates regularly, and more than 15 percent of its employees are involved in various aspects of innovation. While operations in Spain have been affected by cuts in health spending, the company continues to lead the market, and it is achieving solid results in Latin America.

CRETAPRINT

- **Sector:** Machinery for decoration of ceramic tiles
- **Size:** Small (45 employees in 2008, 90 in 2011)
- **Strategic Challenge:** Revitalize the business; enter new field of technology

In 2006, Cretaprint introduced a systematic approach to innovation management. A year later, it introduced digital inkjet machines. While many companies in the tile sector have ceased operations, Cretaprint has seen its revenues climb from 6 million euros in 2008 to 30 million euros in 2011, with a 150 percent increase in profitability.

TELEFÓNICA GROUP

- **Sector:** Telecommunications
- **Size:** Large (280,000 employees)
- **Strategic Challenge:** Lead the digitization of the real economy in targeted sectors

Telefónica introduced its own method of innovation management in 2006. Its organic growth model is evolving into an open model, involving multiple partnerships and agents, and aimed at extending its services across the entire chain of operators, suppliers and customers. In recent years, Telefónica Digital has created a subsidiary specializing in innovation and new services. It has also launched new efforts to support entrepreneurs, such as Wayra. It is committed to the decentralization of innovation. Thanks to this ecosystem, the group remains a leader, despite the global financial crisis.

Eventually, an innovation director post was created. As the number of innovation programs grew, they developed specific criteria for selecting ideas according to the type of innovation.

Over a five-year period, more than 70 percent of AXA staff participated in some form of innovation activity. Customer satisfaction improved significantly, which reinforced the idea that innovation was making a sizeable contribution to results.

Systematization: Ensuring Results

A good innovation plan starts by defining what you want to accomplish, and then identifying the areas of strategic importance that require change. Linking innovation to business strategy lends tremendous strength to your plan. It serves to capture the interest of senior managers, focuses the efforts of numerous departments that might otherwise feel left out, and helps everyone to allocate resources more effectively.

> Transferring this responsibility to a middle manager – a director of R&D or someone similar – without top-level support would be a mistake, because these managers have neither the necessary authority nor power.

Once the strategic areas are defined, the aims need to be identified. "Defining the desired future" and other "design thinking" tools can help in this process.

The strategic objectives can vary. A hospital I consulted for saw an emerging market opportunity in community care services and focused its innovation efforts in that direction. A distributor sought to solidify relationships with key suppliers, in order to innovate its regional distribution channels and services. A traditional business in the mature industry of construction opted for organizational innovation instead.

Management purposes go further, ranging from solving business problems and market challenges, to bridging internal development gaps, to addressing the frustrations of customers and other clients; in short, doing anything necessary to unblock whatever impedes progress toward the goal. The role of management is to define the challenges and encourage a broad-based approach to idea generation. Managers are also instrumental in determining the selection criteria for projects and in mobilizing key collaborators.

The systematization phase is also a time to reinforce awareness and credibility among all employees. As the innovation program kicks off, senior managers need to remain actively involved, so as to counteract any employee resistance, which is counterproductive to the innovation effort.

Resistance will be less if employees have been allowed to participate as much as possible in the front-end stages. Apart from getting employees to generate ideas in creativity workshops, it is vital that there be systems in place, like *easycrit*, to capture those ideas, so that employees feel that their contributions are genuinely being registered and taken seriously.

If handled well, employees will begin to make this process a habit, and they will be forthcoming and self-sufficient. Providing recognition and incentives for the collaborators who contribute most to creativity and innovation will support the development of a wider culture of innovation.

After idea generation comes the formal evaluation process, which is the responsibility of members of the senior management team, who are usually also members of an innovation council. This process normally entails several filters, tailored to company criteria. One of the aims is to come away with a portfolio of projects and initiatives that can be launched.

These projects and initiatives need to be carefully defined and planned. This requires appointing those people who will be part of the development teams. These teams should comprise a broad range of individuals beyond the usual areas of R&D and marketing.

At this point, you will need to set up governance bodies to manage the innovation program of change. Transferring this responsibility to a middle manager – a director of R&D or someone similar – without top-level support would be a mistake, because these managers have neither the necessary authority nor power.

Experience shows that it is much more effective to form an *innovation council* in which members of the senior management team are well represented. Many companies form such committees, with varying structures.

BBVA, for example, has an executive innovation committee and another at the operational level, and each business unit has its own. At Ikea, there is a steering committee for international projects, and a management committee for each country. Nestlé, meanwhile, has 15 innovation committees in Spain alone, one for each business unit. At Roche Diagnostics Iberia, the innovation committee comprises the CEO, three division directors and three unit directors.

Consolidation: Making It Sustainable

An innovation system will not take hold unless it is underpinned by transformational leader-

> It is important to grasp that innovation is, above all, transformation. To mark this distinction, it is telling that Tetra Pak renamed its Innovation Process Board the "Transformation Council."

ship. In this regard, how senior managers behave throughout the entire process becomes a determining factor in ensuring lasting capacity.

Senior managers must show a clear commitment and a strong will to support innovation. As one vice president of Procter & Gamble said, people need to know when they come to you with an idea that you are going to listen to them, even to the extent that you are willing to change some of your own processes to give their idea the chance it deserves.

For this to happen, you need to have open channels of communication, and employees must be actively encouraged to engage in innovation. Ikea, for example, lets employees dedicate time considering how to improve company operations. BMW allows engineers to pursue some early-phase projects that even their managers may not be aware of.

Despite the challenges that arise during this process, managers have the responsibility of following the road map and helping to move the organization forward. This requires having a bold vision, and leading with conviction.

For the Indian industrialist Ratan Tata, chair of the Tata Group, his dream of providing all Indians with an affordable means of transport became the impetus to innovate. Though this posed a major challenge for engineers, in 2008 Tata succeeded in introducing the world's cheapest car, the Nano, priced at roughly $2,000.

Don't make the mistake of believing that this is the exclusive domain of recent start-ups. Consider what William L. McKnight of 3M said more than half a century ago: "As our business grows, it becomes increasingly necessary to delegate responsibility and to encourage men and women to exercise their initiative. This requires considerable tolerance. Those men and women, to whom we delegate authority and responsibility, if they are good people, are going to want to do their jobs in their own way.

"Mistakes will be made. But if a person is essentially right, the mistakes he or she makes are not as serious in the long run as the mistakes management will make if it undertakes to tell those in authority exactly how they must do their jobs.

"Management that is destructively critical when mistakes are made kills initiative. And it's essential that we have many people with initiative if we are to continue to grow."

This role of leaders – not only of setting ambitious goals, but of managing progress toward those goals by supporting personnel as they run up against adversity – will ultimately determine whether an innovation culture takes root or withers over time.

An Orderly Transformation

It is important to grasp that innovation is, above all, transformation. An innovation process will require changes in procedures, knowledge bases, organizational relationships and leadership styles. Anything that implies no change is continuous improvement, not innovation. To mark this distinction, it is telling that Tetra Pak renamed its Innovation Process Board the "Transformation Council."

The construction materials manufacturer, Prefabricats Planas, understood this back before the financial crisis hit the sector hardest.

Prior to 2007, the company had undergone training on creativity and innovation capabilities (*awareness*), and had organized workshops to glean ideas from staff on business issues (*credibility*). By 2007, anticipating that the construction boom could not last, the management team developed an ambitious strategy, which involved significant changes in the orientation of the business.

A wide range of people were invited to give their input on the issues and opportunities arising from the new strategy, and they introduced a specific procedure for selecting ideas.

Since 2009, Prefabricats Planas has pursued an innovation portfolio that is completely transforming its business.

While the rest of the sector in Spain has seen its operations dwindle to 10 percent of pre-crisis levels, Prefabricats Planas has maintained an enviable 83 percent of its business.

It has been able to do this partly by expanding its geographic focus, but more importantly by offering new products and services, and by introducing organizational innovation. Thanks to its transformation, Prefabricats Planas finds itself in a stronger competitive position today.

Many other companies of widely varying sizes, sectors and degrees of complexity have been able to achieve similar results, simply by adapting the flexible methodology of systematic innovation management to their own companies' requirements (see **"Transformation With Results"**).

"Yes, But We're Different"

Despite the many success stories, systematic innovation management frequently elicits the following reaction: "It's fine for some, but we can't do it, because our company has unique features that make it different from the rest."

In their book *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal*, Michael L. Tushman and Charles A. O'Reilly selected companies from vastly different sectors and locations that were recognized for their achievements in innovation, and they studied the levers that managers used to foster a culture of innovation.

Although each individual company, by itself, did nothing particularly revolutionary, what all the companies did do the same is worth noting: They all tolerated honest mistakes; most treated employees as human beings, not resources; they rewarded innovative contributions; and there was full managerial commitment.

In other words, the values, principles and practices that would seem to foster innovation are fairly universal, regardless of the sector or geographic location of your particular business. Certainly, innovation management needs to be adapted to the peculiarities of your business context. But I would insist that the principles as described in this article can be applied generally.

It's In Your Hands

If a company innovates regularly and in a well-organized manner, it will acquire new capabilities and undergo a gradual transformation. In doing so, it will reach more advanced stages of development.

Accompanying this process should be the values, principles and practices of transformational leadership, which nurture a culture of innovation over time.

You will achieve a robust, customized culture of systematic innovation to the extent that you develop an innovation capacity that is:

- wide-ranging, across different categories;
- continuous, allowing initiatives and projects to be spawned on a regular basis;
- distributed throughout the organization;
- focused on strategic issues, challenges and business opportunities relevant to your firm;
- aimed at delivering results.

Having such a culture in place will bestow a business legacy stronger than any that may have been left by an entrepreneurial founder. The continued success of the company will be in good hands. ☐

TO KNOW MORE

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