

Gauging the sea – understanding where we are

CHAPTER 1

'We make it clear that innovation is not only about new product development.'

What do we mean by 'Innovation'?

At the DTI's first Innovation Lecture in 1992, Akio Morita, then Chairman of the Board of the Sony Corporation, felt it necessary to emphasise that innovation is more than technological advancement. In fact, his lecture was titled: $S \neq T$, $T \neq I$, meaning, Science alone is not Technology and Technology alone is not Innovation. He elaborated, 'Just having innovative technology is not enough to claim true innovation. I see true innovation to be made up of three key elements which I call "the three creatives". Creativity in technology, of course, plus creativity in product planning and marketing as well.' Since his lecture, this broader understanding of the term 'innovation' has spread and today more and more people understand innovation to be a mindset rather than a particular technological advancement. While this is certainly true for those who drive innovation in organisations, it is not necessarily true for the rest of the organisation.

This change in meaning has an important consequence for organisations that want to be innovative: in order to be innovative it is not enough to plough money into research and development (R&D): they need to consider all aspects of the organisation. They need to align

Important: you have to link it all together. Don't have separate initiatives, you have to integrate them. When a new initiative is introduced here the employees look at how it fits in with the existing initiatives; it has to be cohesive.

all systems and structures, culture and leadership styles, to support the goal of becoming more innovative.

The interconnectedness of key areas for innovation – leadership, culture, strategy and vision, and process – will be revisited throughout the book. Good leadership is a key ingredient but, without supporting processes and a clear strategy, it cannot achieve its full potential. The interconnectedness is something which Akio emphasised in his 1992 address:

On a structural level, innovative management demands that all phases of the operation be seen as links in a single chain of innovation. Each link is allowed to pursue its own challenges – but is also aware of how it should integrate with the others. By links I am talking about applied research, development, design, production engineering, manufacturing, sales and service. Each link is vitally important – but equally so. It is important that the ‘prestige level’ of each link be similar in order to keep high achievers motivated in each group. And the creation and promotion of this approach is the responsibility of top management.

The innovation process does not begin by bubbling up from the research and development laboratory, or from brainstorming sessions by the product planners. The innovation process begins with a mandate which must be set at the highest level of the corporation by identifying goals and priorities: and once identified, these must be communicated all the way down the line. The targets you set must be clear and challenging because you cannot wait for innovation to just show up at your company one day. But you need not, and should not, possess the entire solution to the challenge you set. You just have to be sure that the target you raise is realistic, though it might appear impossible.

The innovative mandate, as determined by top management, can only succeed in an environment which nurtures it. That corporate environment must promote goal-sharing, unity of purpose, and the sense that everyone from the CEO to the factory operator are ‘all in the same boat’. To sail, or sink, as one. Creating this environment is not an easy task, but without it innovation does not have much of a chance.

The importance of innovation

The importance of innovation as a key instrument for achieving competitive advantage was first emphasised by management gurus such as Tom Peters, Rosabeth Moss Kanter and Gary Hamel in the 1980s, then by

governments. Now, there is hardly any manager who would deny the important contribution innovation makes to an organisation's success. This is reflected in the findings of a survey of 100 UK-based best-practice companies, conducted by the British Department for Trade and Industry (DTI) and the Confederation of British Industry (CBI) in 1995. This showed that things such as quality, reliability and low cost are merely qualifiers; they are the minimum requirements that have to be met. The prime drivers for differentiation and competitive advantage are innovation and customisation.

But there are other reasons why innovation has moved up companies' agendas. While the 1990s saw a great deal of growth through mergers and acquisitions, many companies now feel that they have grown as much as they can via this route. Any future growth will have to come from different avenues, primarily innovation and collaborative partnerships. A few interviewees from Innovation Exchange member companies, when asked what drives them to become more innovative, also mentioned external forces, such as the need to respond to competitive pressures and the fact that today good financial performance is no longer enough to satisfy financial markets. Organisations are increasingly interested in understanding what it means to be innovative, and are keen to gain insights into what innovative companies actually do.

The current status of innovation – a view from the Innovation Exchange

While few companies would publicly disagree with the statement that innovation is essential for future business success, the reality varies considerably, as the following quotes from Innovation Exchange member companies show:

- 'Innovation in this company is not really wanted.'
- 'Innovation and new product development are something we worry about if we do not have anything else to do; we don't have time for it otherwise.'
- 'Innovation does not get high priority from the board; they say it is important but not urgent.'

- ‘Innovation is someone else’s job.’
- ‘The attitude towards innovation in our organisation is: good idea but ...’
- ‘At present innovation is done enthusiastically by amateurs.’
- ‘Once every two months there is a session solely on innovation; this involves three to four senior trade people plus three to four board members. This sends a clear message about the high priority of innovation.’

Every organisation will be at a different point in its innovation journey, and every organisation is likely to have taken a different path. Becoming a (more) innovative organisation is a journey, and as with any journey, it is helpful to know where you have come from, how far you have travelled and, most importantly of all, where you want to go. As one innovation exchange member put it, ‘In order to innovate, you need to put strategy, planning and vision in place first.’

Although each organisation needs to understand its specific context and constraints, some overriding trends among innovation leaders can be identified. The CBI conducts an annual survey on the innovation performance of companies based in the UK. Building on insights from the previous year, the 2001 report, sponsored by 3M and the British Design Council, focused on company culture and collaboration. It opened with the statement that, ‘Some things have certainly improved, such as faster development and turnover of products and processes – increasing the rate of innovation. But other factors affecting innovation, for instance collaboration, training and capital expenditure, have had their ups and downs.’¹

As the CBI survey identified, collaboration is an important contributor to innovation, and a willingness to collaborate is strongly influenced by culture, not only company culture but the professional cultures that exist within the organisation. An interviewee from a scientific organisation observed, ‘Scientists understand the rationale for collaboration but in their hearts they don’t buy into it. To them, collaboration is a sign of weakness.’ This point highlights the importance of understanding an

¹ Further insights on collaboration can be found in Chapter 5.

organisation's culture and context when choosing a path to innovation, as a good understanding of a company's culture and the underlying models of the world can help identify potential obstacles to change and innovation.

Other characteristics that are widely believed to support an innovation culture include:

- accepting failure as an intrinsic part of innovation;
- having an explicit strategy for the development of new products that is linked to the organisation's overall strategy;
- having a product portfolio – actual and under development – that balances risky and less risky products as well as short-term and long-term projects;
- the existence of a new product development process – though if followed slavishly it can become an iceberg that sinks great ideas rather than a gentle current that carries them along;
- the use of multifunctional teams;
- reward and remuneration systems that encourage entrepreneurial behaviour;
- ensuring top management understands and buys into the importance of innovation;
- monitoring and measuring innovation activities.

How did Innovation Exchange member companies do against these criteria? At first glance, quite well:

- Two-thirds indicated that they accept failure as an intrinsic part of innovation.
- All declared that they use multifunctional teams or are at least starting to do so.
- About half stated that they do use compensation incentives to stimulate an entrepreneurial environment.

Taking a closer look at the answers, however, shows a slightly different picture, which is indicative of where organisations are with respect to their own innovation journey.

Accepting failure

While two-thirds of participating companies had spontaneously declared failure to be accepted as an intrinsic part of innovation, closer questioning revealed a gap between rhetoric and reality. Even if a company states it has a blame-free environment, reality may look very different:

- ‘Yes, but then we would kill it in a very slow way.’
- ‘Yes, we are trying desperately not to have a blame culture – to a degree where people don’t get blamed even when they deserve it.’
- ‘We tend to ignore failure.’
- ‘People would not necessarily be sacked but moved sideways.’
- ‘No, we get twitchy when we fail, and want to find the person responsible for it.’

So rhetoric and reality vary considerably but it is not all bad news, as there were some positive answers, including the following:

- ‘Yes, it is accepted as a part of the process in supporting high risk/high potential projects. We have found that failing fast can be very useful.’
- ‘Innovation does not happen over night, the big bright ideas take time to develop. I strongly believe that behind big successes is the learning from two to three years of experimentation – probably called failure by some.’

And despite the widely acknowledged fact that failure is an intrinsic part of innovation, how many organisations make a conscious effort to carry out post-mortems to capture the learning? Besides the most obvious excuse, a lack of resources, the problem lies in the expectation that failure is a one-off affair. The other is that people move so fast within organisations that it is often difficult to analyse and document failure without pointing fingers. And even if a ‘post-mortem’ is undertaken, are the lessons learnt shared throughout the organisation, and are mechanisms in place to ensure that the same mistakes are not repeated?

New product development strategies

When asked about a specific new product development strategy, only a few companies declared not to have one at all, but about 25% were in what one might call a 'grey area'. For example one company declared, 'Sort of, we have a strategy – me too. And while we are trying to break out of it and things are beginning to happen, it is by accident rather than design.' Continuity after change in top management was seen to be a problem: 'We used to have a clear product strategy, but it all got stifled when the person at the top changed: most of our projects were cancelled and are only now starting to come on line again.' Unless the reasons behind such change are explained and communicated well to those concerned, a U-turn can lead to resentment and frustration on the parts of those involved in the planning and execution of the projects. Problems can also arise when those who do the product planning do not involve those who have to execute the plans, as illustrated by another quote: 'Yes, we do have a product strategy. It is developed by our headquarters – but then it is us who have to find ways to sell it to the customer.' Without some sort of process to achieve buy-in, projects are unlikely to receive the level of energy required to drive them through. It is always worth remembering that one of the critical success factors for innovative projects is the enthusiasm and determination of the individuals involved. Without that energy, many will just die a slow death.

Balanced product portfolios

Eighty per cent of the participating companies declare to balance short- and long-term projects through a balanced project portfolio. To quote, 'Absolutely, that's what we spend a lot of time on. We have a portfolio management group which meets three times a year. Their aim is to ensure that our product portfolio is balanced across a set of established criteria.' Best-in-class companies may look at as many as three or four different aspects:

We have three balances:

1. Between brands and product portfolios by making sure there is enough innovation in each area.

2. Between developed and non-developed markets, recognising that non-developed markets take longer for payback.
3. Across time horizons, which in our case equate to different levels of innovation.

Only one participant emphasised the importance of co-ordinating company strategy and innovation activities – coming back to the theme that the entire organisation needs to be aligned to innovation. For example, looking at individual innovation activities without considering the broader picture can lead to the rejection of ideas or developments that do not yield immediate financial returns.

But having a strong vision for innovation activities creates another challenge for companies. How do they deal with promising innovations that are only marginally relevant to the company's core business or which could potentially threaten it? (This is discussed later when we consider radical innovation.)

New product development processes

It is surprising to find that not all participating companies had a defined new product development process even though, as one interviewee put it, 'Having a systematic process does not necessary mean that it is good.' Another issue is that many organisations have introduced a process – but it only exists on paper: 'Yes, we have a process, but it does not work. It exists on paper only because people do not have any faith in it.' Probed further, it turned out that there had been no training when the process had been introduced, which could have improved its acceptance rate. Having an overly complicated process is also likely to lead to problems:

Yes, we have a very systematic new product development process. We also have launch assessment forms, detailed descriptions of products, all sorts of tables and declarations to fill in, information about packaging, et cetera, et cetera. All this has to be presented at the outset. We introduced the system about three years ago and over time it got more and more complicated. At present it is much too formalised and, as a consequence, development time may have been shortened but the time before approval has increased; in fact, time for approval has increased to three months where it used to be a couple of weeks.

An overly complicated process that requires the endless filling in of forms and schedules is likely to stifle innovation. Best-in-class companies tend to have a different approach to process, ‘Yes, we have a systematic new product development process, in fact, in a matter of weeks we will have a new one. Headquarters is feeding learning into the process and it is continuously changing. For example, we used to have a process with four gates; now we are down to two. It is important to keep revisiting it and keeping it simple.’ The theme of evolving and experimenting is one that is characteristic of innovative organisations.

The use of multifunctional teams

We found that all companies were – or were about to start – using multifunctional teams. Best practice is probably best reflected in the following two comments: ‘Yes, we have a strong commitment to teams and this year we are using extra facilitators to help teams work together. We are aware that teams don’t just happen,’ and ‘Yes, whether people are dedicated full time to any one project depends on the project size, importance and workload. People here are primarily attached to a brand, not a function or project.’ The second comment also indicates that the kind of approach to teams that works best will vary from company to company.

Incentivising entrepreneurship

As to incentivising entrepreneurship, most answers actually related the question to the existence or absence of suggestion schemes, which is not really what is at the heart of the question. Entrepreneurial behaviour refers to the willingness to take risks, to be highly self-motivated, and not to give up when facing the first obstacle. But in some companies, the reward structures were clearly counter-productive: ‘Incentive schemes here are set up for people to eat each other,’ or ‘At present people don’t know why they do or do not receive awards.’ The issue of schemes and incentivisation for innovation will be discussed in more detail in Chapter 4, so all that should be pointed out here is that we have become increasingly aware that financial incentives are not the best motivator for innovation.

When it comes to rewards and remunerations, multinational organisations face a particular challenge, namely to find approaches and systems that work across more than one national culture. For example, some cultures are more group-oriented, others more individualistic. Finding approaches that work for all cultures can be challenging. As one member commented, ‘The challenge is to find something that works and is right for the Scandinavian, Calvinistic culture instilled in people right from the early days at school as well as the AngloSaxon culture. At present a bonus is based on 50% company performance and 50% team performance. Individual performance is built in as a multiplier.’

While designing reward structures that are appropriate across cultures may be particularly tricky for companies with a multinational workforce, there is also a more general issue around the need for a ‘one-company-ness’ as one interviewee put it. If, as the findings indicate, innovation is dealt with more and more at the company rather than the business unit or departmental level, people need to have a sense of belonging that is associated with the company in general rather than with the particular part they are working in. Asking the simple question, ‘who are you working for?’ might provide some interesting insights. Understanding where the divide between ‘them’ and ‘us’ lies is important, as ideas, projects and other initiatives coming from ‘them’ quite frequently encounter the not-invented-here syndrome. Creating a sense of oneness tends to require a strong culture that is communicated through clear and simple messages that every employee can identify with. It is important that every employee understands what the company goals are and how his or her work fits into the wider scheme of things.

Top management buy-in

Spreading the gospel about innovation among top managers seems to have been a priority for the past few years, and many interviewees report that today they have good top management support: ‘Yes, we have worked very hard over the last three to four years. Today in our gate-keeping system the most senior person in the company is the gate-keeper. This was definitely not the case five to six years ago.’ But here, too, there is often a discrepancy between what is said and what is done.

Typical comments on this topic included, 'Yes, but words, not actions,' 'We talk about the importance of innovation and creativity but when it comes to it, there is no person at the top level who would actually understand creativity,' or 'There is a lack of clear signs of real commitment.' But sometimes it is the top management who are fully behind the drive for innovation, and their challenge is how to spread the gospel to the lower management levels: 'Where it dries up is two levels down; it is seen to be too much trouble and there are no resources.'

Measuring innovation

While most organisations have some kind of measures in place to monitor innovation, about 25% of participating companies did not track their innovation efforts at all, which seems a large number given that innovation is often seen to be the lifeblood of an organisation. But even if innovation performance is measured in some way, it is only meaningful if the insights are fed back and quickly translated into action: 'Yes, we are very good at it, it is one of our key performance indicators; we are learning from the insights but just don't act on them quickly enough.'

An interesting comment was made by a participant from one company that is generally considered to be highly innovative: 'Interesting question. We used to look at the number of projects that drop out of the innovation funnel – but what is the point? Even if people are being told 'no' they continue with their project anyway; we have a handful of people who are always breaking the rules.' It seems that innovative organisations are 'just doing it' rather than talking about it or measuring it. More observations about measurement can be found in Chapter 3.

Change is the only constant

'We know that if we fail to change, in a few years time there will be no business left.'

Although best practice provides important guidance and insights, what works in practice will vary from organisation to organisation. It is

therefore very important for an organisation to understand where it is coming from, where it wants to go and what its specific context and constraints are. Understanding what one could call the organisation's starting point is important for another reason. The degree to which people within an organisation are open to change will depend to a certain degree on the company's culture, but more often it is driven by the 'state of affairs'. People in an organisation in crisis mode will be more open to change than people in an organisation that does extremely well. In the latter scenario we are most likely to encounter the complacency syndrome: 'we are doing very well, thank you very much. Why should we change? Never change a winning team.'

Some interesting insights on the implementation of change stem from research undertaken by Johnes and Davies (1999). Investigating what caused some organisations to be more innovative than others revealed that in those organisations that were more successful, the CEOs had:

used an unconventional approach to shock staff into action. They ruthlessly opened minds to market threats and opportunities. After administering shock treatment, they carefully returned responsibility to first-line managers through a deliberate managerial shift. In contrast, chief executives of companies that were less successful at starting innovation encouraged debate on alternative strategies as a prelude to any action. This apparently more logical approach led to frequent disagreements that sapped employee motivation.

This is an interesting observation, particularly in light of the commonly held belief that direct involvement is critical.

The openness to change in general will have an impact on the possible speed with which steps toward becoming a more innovative organisation can be taken. To understand an organisation's starting point, questions to ask could include:

- What is our cultural heritage? What kind of people work for the organisation and what are their beliefs and values?
- What are the implications of past and present organisational structure? Where does the power lie within the organisation, and why?

- What constraints are imposed by the wider context? What are the industry standards; are there regulatory boundaries?
- How open is our organisation to change. Are we facing a threat everyone in the organisation is aware of and understands?

Being aware of context and constraints by no means implies that an organisation has to stay within its existing boundaries. But understanding the status quo will help to inform the choice of approach that is most likely to work for the organisation, as well as highlight areas in which additional expertise or skills are required. There is no one right approach.

When embarking on the innovation journey, it also helps to start with a few realisations:

- Becoming more innovative is all about change.
- It will [have to] affect all aspects of the organisation.
- Change does not happen overnight.
- The journey will never be complete.
- Preparing the ground for innovation will help.

Let us look at these realisations in turn. Becoming a more innovative organisation is all about change. And that change has to go right through all aspects of the organisation. For example, it is not sufficient to introduce a new product development process and expect innovative new products to follow. Success requires training and if different working practices are involved, such as teamwork, an adjustment in performance management systems is also necessary. Nor is it sufficient to establish a suggestion scheme – which in fact, when handled badly, can have a detrimental effect. To have a stimulating effect, suggestion schemes require, as a minimum, quick response times and clear and well communicated selection criteria. The least useful step is probably to announce that henceforth innovation will be one of the company's core values. Such statements offer no insight into what staff are expected to do, nor how they are to do it. An organisation is a system of interconnected parts. Changing one will inevitably affect the rest.

The two key aspects of the change required to become more innovative are, first, that it has to be all-embracing and, second, that it involves

changes in behaviour. In other words, it takes time. As one member of an Innovation Exchange company recalls, 'It has taken us three years just to get innovation on to the agenda!' The thing about change is, people tend to resent it, unless they are given a good reason to buy into it – a crisis introduced by the top is one such reason. Innovation generally arouses an additional layer of resistance, as becoming more innovative is not only about doing things differently, it is about behaving and thinking differently. Can patterns of behaviour change overnight? Becoming more innovative does not happen on command. Innovation is a frame of mind, a habit of constantly questioning the status quo and not taking for granted approaches that have worked in the past. However, neither is innovation change for change's sake. To quote again a member of the Innovation Exchange, 'We have the habit of experimenting; we never do things the same way twice. We always look at how we did it last time but then say, what has worked, what has not, let's keep what has worked and find a different way of doing what did not go too well last time.'

Anyone who has made a New Year's resolution will appreciate how difficult it is to change. And in the case of a New Year's resolution the person generally wants to change. Two insights follow. First, how much more difficult is it to change the behaviour and ways of thinking of someone who might not be quite so convinced about the necessity to do so? People might change their behaviour if the rewards are aligned accordingly, but when do people really start to think differently? Innovation is one of those things that will not happen 'because I told you so', but because people understand and experience the benefits. Second, even if people are happy to embark on the journey, they will need time to modify their behaviour and to internalise the change.

While taking time to change is not exactly appreciated by the City, it does have some advantages. For example, if we do not expect things to change overnight we might be more open to experimentation along the way. As there is no one right approach to infusing innovation into an organisation, finding what works best often requires trying different concepts or approaches. It is also necessary to consider the speed at which the change will occur, as well as the ambitiousness of the plans. To quote from the Innovation Exchange interviews again, 'Rather than starting in a

blaze of glory we started slowly, then gathered strength. We believe that how we do it has to fit in with the company's way. This may be too slow for some, but to make it stick you have to find a balance between speed and company style.'

What does the last bullet point, preparing the ground for innovation, mean? As one interviewee said, 'You can only achieve innovation in stages.' In their particular case, it was a three-step process:

'Innovation builds on learning and insight; it is important that people understand this road to innovation.'

- 1 Get organised and put processes and procedures in place that will support innovation, including those related to new product development, human resource (HR) policies, idea generation and so on.
- 2 Learn more. Learn about what is known and what the company's strategy is.
- 3 Generate ideas.

Without the first step, ideas might get lost or might not be brought to a successful conclusion. Without the second, mistakes from the past may be repeated but, more importantly, no one will know or understand the criteria used to choose ideas.

If becoming more innovative is all about change, then we need to understand what the critical success factors for implementing change are:

- Provide strong and empathic leadership.
- Select only the best people for the change team, ensure consistency among team members, and give them far-reaching autonomy.
- Provide training at the outset.
- There must be a clear direction.
- Ensure people down as well as up the chain of command are motivated.
- Track benefits of the change programme – have people sign up to targets.
- Keep people informed; find the best way of ensuring the information actually reaches the recipients.
- Change should be propelled forward by excitement and enthusiasm, rather than time pressure.

Drivers of change

We know that change lies at the heart of innovation, but what is at the heart of change. What is driving it, and what are the implications for innovation? There are five trends:

- 1 mergers and acquisitions,
- 2 a quest for radical innovation,
- 3 globalisation,
- 4 megabrands,
- 5 centralisation.

Mergers and acquisitions

'I think that in most companies there are probably not too many new product development activities during times of a merger; the most you are likely to find are tactical changes.'

Most companies participating in the Innovation Exchange research had undergone significant periods of change over the recent year, mainly induced by merger and acquisition (M&A) activities. The change often had important implications for innovation. As one interviewee pointed out, 'The tremendous work overload means that there is no energy left for creativity and innovation, only for consolidation.' Another interviewee saw similar consequences: 'At present there is really no appetite for innovation – and there are no financial resources available while the companies are being consolidated. I generally feel that during times of a merger there is probably not too much innovation going on, rather tactical changes.' But the aftermath of a merger or acquisition and the desire to improve innovativeness have one thing in common; they both require revisiting all aspects of an organisation, including a change of culture, alignment of systems, procedures and processes, new structures, and so on. And a merger or acquisition might represent the necessary shock to open up people's minds for change, which might as well be used to improve innovativeness.

'We have invested a lot on culture after the merger and it has been hugely successful, but of course there is still a long way to go.'

Another aspect that needs careful management after mergers and acquisitions can best be described as continuity in change. This can be a particularly important aspect in customer-facing operations, as the following quote illustrates. ‘Personal relationships that develop between sales personnel and customers as well as company and individual reputation are important in most industries, yet these tend to get diluted through mergers and acquisitions.’

‘There is great value in continuity. It all grinds to a halt if everything changes at once.’

A quest for radical innovation

‘Expected growth means that we need radical rather than incremental innovation.’

Achieving ambitious growth targets requires radical, not incremental, innovation. As one interviewee put it, ‘We are quite capable of incremental innovation on a decentralised basis. In fact, we are quite good at it but it is all within the existing business framework and our comfort zone. We are not so good at transformation and moving outside the box – but at least we are aware of this and have started to work at it.’ The anticipated shift towards radical innovation is interesting for two reasons. First, will the commitment to radical innovation be sustained in times of economic downturn? Second, what about voices that state that

In their article ‘Achieving new product success in highly innovative versus incremental new industrial services’, Ulrike de Brentani and Elko Kleinschmidt suggest that depending on how innovative a new service is, a different set of project dimensions is required:

Incremental:

- close contact with and intimate knowledge of customer needs and operations;
- a seamless fit with the specialised experiences and resources of the service firm;
- using a systematic and planned approach.

Discontinuous:

- contact with the market;
- high degree of corporate synergy;
- fit with the company’s overall problem-solving capabilities;
- the company’s long-term reputation;
- internal innovation environment: visionary leadership and a culture that encourages creative ways of viewing the world.

the consumer is not too keen on too much radical innovation? In a Masterclass held at London Business School, Professor George Day of the Wharton and London Business Schools commented, 'The market seems to get tired of radically new products.' But it is not just that people get tired of radical innovation. The market for innovative products is usually quite small initially, since only a small percentage of a potential pool of customers will be willing to buy a new product straight away (the early adopters). The vast majority will wait and see before making a purchasing decision (the late adopters). The laggards want to be reassured that the product works and represents value for money.

If radical innovation is in the area of delivery or process, it tends to be less visible to the end user. Examples include the selling of computers online (Dell) and online banking (Egg). In such cases, the take-up seems to be quicker because the consumer does not have to make a decision about the innovation itself but rather the outcome – which tends to be cheaper and faster (more convenient). It is probably questionable whether people would be equally keen to take up the idea if it was more expensive. In the case of tangible products, the risk seems to lie with the consumer, whereas in the case of services, it tends to rest with the provider.

So what kind of innovations are companies generating today? A survey conducted by the US-based InnovationNetwork (www.thinksmart.com) among its members revealed that the majority (67%) of innovations were derivative ideas (an extension of an existing product, for example a 14-inch TV now made in 19-inch), 23% were breakthrough ideas (a known idea, but not in the market yet, for example a TV set that is High Definition) and only 10% of innovations were radical (brand new products, for example a TV in eyeglasses). However, this 10% generated 24% of profit whereas the other 90%, made up of incremental innovations, generated only 76% of the profit.

Of course, despite the obvious benefits of radical innovation, there is a need to balance radical and incremental projects. This poses a significant challenge. How can organisations ensure that resources are available for both growing the existing business and investing in new and potentially risky projects? Most organisations are still not very comfortable with high-risk projects, which makes this all the more difficult.

The balance in allocating resources can tip either way, as the following two quotes illustrate: ‘We find it difficult to find the discipline to liberate resources without disrupting existing business’ was one company’s view whereas another stated, ‘Through the drive for new ventures we have neglected our core business.’ There is no easy answer.

Another issue with the pressure to innovate was described by another interviewee:

We have to find a way of managing a contradiction: when there is pressure to perform no one wants to innovate because it feels too risky, no one wants to stick their neck out – but that is just when innovation is required most, when you have to get out of the ditch. At the same time resources are generally only available when things are going well. This means that you need to put things into place while things are good. One thing we have learned is, you cannot turn innovation on and off like that, you have to keep it going through the good and bad times.

There are three messages here:

- 1 Prepare for innovation when times are good.
- 2 Keep innovating during difficult times; innovation is what is most likely to help prepare you for the upturn.
- 3 Understand that it is not a matter of ‘let’s be innovative today’ but it is a question of being innovative all the time. It is a frame of mind, not a task on the to-do list.

The same interviewee describes how to keep innovation constantly on the agenda.

We don’t have innovation budgets at the local level, it is held at the centre. This is one way of ensuring that innovation budgets are not the first to be cut when the going gets tough. It also ensures that the central team has access to the best work and the best people. We believe that it is very important to protect the innovation budget from business pressures. And it works – in the last recession we did not cut our innovation budget – because that’s when it is needed most – and it has paid off when we came out the other end.

Globalisation

'Within 5 years there will be two kinds of managers – those who think in terms of a world economy, and those who are unemployed.'

Drucker (1999)

'Recent research suggests that globalisation is a myth'

Rugman and Hodgetts (2001)

A third widely noticeable change is the trend towards globalisation. There is some debate as to whether it is a fact or only a myth, but this seems to be driven mainly by different starting points. Some people talk about globalisation at the economic level, some at the organisational level, and some refer to globalisation at the product level.

Economic globalisation

Tom Friedman, author of *The Lexus and the Olive Tree* (2000), is referring to the economic level when he defines globalisation as, 'The inexorable integration of markets, nation states and technologies to a degree never witnessed before in a way that is enabling individuals, corporations and nation states to reach around the world farther, faster, deeper, and cheaper than ever before.' For example, between the developed world and emerging markets, the dollar trade volume went up from \$802 billion in 1986 to \$2 trillion in 1996. Although trade between countries has existed for thousand of years, what makes people sit back and think is globalisation's recent and unprecedented speed and scale.

Organisational globalisation

Second, when globalisation refers to the organisational level, it is about the increasing degree to which organisations engage in cross-boarder activities.² The degree of globalisation will vary between industries. For example, the degree of globalisation in petroleum, timber, aluminium and chemicals industries is higher than in shoes, luxury goods or legal services,

'New product development activities are coordinated on a global basis by HQ which means that resources are harnessed and centralised.'

² See Uljin *et al.* in References.

and significantly higher than in funeral homes or large-scale production materials.³

Product globalisation

At the product level, discussion tends to occur at two levels:

- whether products are sold globally; and
- whether they are being developed by global teams.

Another way of viewing this is by product development stage (idea generation, product development, product testing, production and distribution, launch, marketing and advertising, and after-sales service), and the degree of globalisation for any one product may vary from stage to stage.

The major influences determining the level of globalisation at the product level are variations in consumer taste between different countries. While often underestimated in the past, this is why there are very few truly global products.

For example, car specifications are fine-tuned to address local preferences; food products appeal because of their local or regional association, and even what kind of deodorant one can buy varies from country to country (for example, one can only buy antiperspirant, not deodorant, in the UK). And one should not forget that even Coca-Cola, widely cited as a 'truly global product', started off as a product that was developed in response to a specific local need in a specific market. Marketing and its taste, which appealed to a wide audience, have made it one of the most widely available products around the globe today. Coca Cola has become global, but it was not developed with that intention in mind.

There are many reasons for wanting to globalise, including the desire to cut costs, to increase efficiencies, to create a greater visible presence in the world market and, not least, to keep up with the competition. Being able to sell a product on a global basis can mean fewer manufacturing plants, longer production runs, and therefore reduced change-

³ See Bryan *et al.* in References.

Collaboration across national borders – the example of Eurostar

International collaboration can also add an interesting dimension to developing products 'across boundaries', particularly if each participating country expects to get its share of the development task according to its financial backing, rather than its expertise. The need to share the task can lead to interesting and costly logistical dynamics, as with the development of Eurostar, a high-speed train connecting the capitals of the UK, France and Belgium. All three countries were represented in the manufacturing consortium responsible for the design and development of the new train. As a consequence, each country expected to be given its fair share of the design and development work, whereby it was agreed to split the task according to each country's financial backing of the project, 40% UK, 40% France and 20% Belgium. The design task was split as follows: the front end of the train (driver's cabin) was given to a British design consultancy; a French design consultancy was put in charge of the interior and livery, as well as the overall coordination, and the Belgian design consultancy was given the luggage racks, seats and toilets to design. Integrating the separately designed aspects turned out to be an extremely challenging task which, in the view of many, did not lead to the most successful result.

In addition there was the need to consider the areas of expertise of each company forming the individual consortia – which all had been formed in the expectation that the bid would be given to one consortium, rather than split between three. As a consequence, the splitting up of the development and manufacturing became complex, resulting in some components being produced by two different companies in two different countries and being shipped between as many as seven different sites.

over times, fewer products to stock and the opportunity to focus resources. However, there are down-sides, one being that a focus on a small number of products or global brands requires deep pockets to launch, market and support the selected few.

As usual, the difference between success and failure lies in the 'how', not the 'what'. One company explained how they manage the risk and try to make it work:

We have a very limited number of global projects – or rather projects with global potential. That everyone understands the difference is very important, otherwise expectations become unrealistic. At no time are such projects managed from the centre; the leadership is always with one of our local innovation centres. We also make sure that batch sizes would work in smaller plants, just in case we find that global acceptance cannot be achieved. But since the local centre does not always have the right skills and resources to execute the project, we will second people from the centre or give part of the project to the central research facility to support them, and to make sure global considerations are taken into account early on. The teams often work together virtually – but the leadership always stays local.

There are several important insights we can draw from the quote:

- Carefully control the number of projects with global potential.
- Start with the premise that a project has global *potential* rather than expecting that it *will be* global. A step-by-step introduction will allow careful cost management as well as potentially integrating early feedback.
- An important question companies considering global product development should ask themselves is: ‘Who is running the project, the centre or the region?’ Most companies are aware of the fact that, as interviewees pointed out, ‘Lots of information is held by regions and difficult to access.’ A company that has made the effort to ensure a balance between global and local commented, ‘The matrix we are using to balance global and local requirements was time-consuming to start with. And it was frustrating to get consensus and consistency across the process but we have managed it now. How have we overcome the initial problems? Because of the commitment of the people and the clarity everyone shares about business direction.’
- It might be helpful to fund the project from the centre to make sure the product developed is best for the company, rather than one particular country. In Chapter 5 Jens Maier and Ian Owen, both from Zurich Financial Services, share their experiences on how an initiative designed and introduced at the centre has been rolled out and applied at a local level.

Megabrands

‘If megabrands become the name of the game, the question is, how to motivate those who are not working on megabrands?’

Because of the increased number of mergers and acquisitions and the strong regional orientation of managers, many organisations now have to deal with a myriad of brands, often competing against each other. To reap the benefits of these mergers and acquisitions, companies are looking at their product portfolios to see where products can be consolidated or merged.

A member of the Innovation Exchange describes their approach to consolidating their product portfolio

'The regions used to be fairly independent, which meant that we ended up with lots and lots of brands – until recently we were not even sure how many. When we looked at our portfolio we realised that a good 10-20% of products overlapped. After cutting out duplication there were still too many individual brands left. We wanted to focus and reduce further, and set a target of getting numbers down to about one-sixth of the original portfolio – and we knew that eventually we would want to go down even further than that. There were different ways of achieving the reductions:

- merging brands: if we found that we had two different brands in different countries that were otherwise the same;
- merging local brands with similar big brands;
- migrating brands: trying to get brands that have similar positioning under one name.

At the same time we wanted to ensure that we still offered enough diversity that we could address our customers' needs.'

Out of this has emerged the megabrands trend.⁴ Streamlining the product portfolio does not only happen in industries where individual brands play an important role, such as fast-moving consumer goods or pharmaceuticals; the trend is similarly visible in manufacturing and the service sector. A side-effect of establishing megabrands is that they provide a focus for innovation, as a member described: 'We are trying to build brands. When doing that it means that innovation has to take place within the brand. We have brand keys that describe what the brand stands for; they provide clear guidelines.' However, one big challenge for companies moving towards megabrands is how to motivate those staff who do not work on the megabrands.

Centralisation

'Intellectually, people are buying into things but there is always some hope that it might not apply to them.'

Hand in hand with increasing trends towards innovation, globalisation and megabrands is the move towards stronger centralisation – at least for new product development and innovation activities. There are several arguments put forward to support this:

⁴ One participant defined megabrands as brands that make one billion US dollars within two years of introduction.

- ‘We have a lot of duplication and dilution of resources. Bringing new product development and innovation under central control has made this visible and allows us to act accordingly.’
- ‘For innovation to work, you want critical mass. That’s a powerful argument for centralising innovation resources: more people, more money, more brainpower; this way you get much higher-quality work.’
- ‘One of the hardest decisions is which projects to launch. It is a trade-off between size of opportunity and possibility of success; we use these two criteria to manage our pipeline; we want some savings and quick wins but also some risky but potentially highly rewarding projects. The advantage of doing this out of the centre is the bird’s-eye view; another is cross-funding over a longer time horizon.’⁵

In best-practice companies, centralisation is underpinned by efficient resource allocation and projects that are aligned to company strategy: ‘The central innovation and development department will look at new ideas, assess whether they fit with the company’s strategy and, with a recommendation, pass them on to the leadership council, which makes the final decision. If it is decided to go ahead, headquarters also decide where it is executed and what resources are allocated to it.’

Even though there is a shift towards stronger centralisation, most interviewees mentioned that the role of the centre was mainly to deliver services, not to control. As one interviewee put it, ‘The role of the centre is to provide services, to provide a hassle-free environment for the business units so they can get on with their business.’ However, if the centre takes on a more prominent role, communication about what is going on, and why, is essential.

A supportive and company-wide IT infrastructure can be an important factor in making a stronger central focus work. While today’s IT systems are capable of providing the capacity and speed that is required, unsatisfactory past experience can be a barrier to people’s motivation to use it. People need to be convinced that speedy access to (quality) information is actually the norm rather than the exception, and that the

⁵ A major hurdle for projects in companies with a strong focus on globalisation and ‘megabrands’ tends to be their global relevance and availability of resources.

information they receive is meaningful and up-to-date. In order to get buy-in, it is important that the main reason for centralisation should not be the desire to cut costs but to increase benefits.

Other benefits of centralisation include:

- achieving general synergies, such as sharing support functions;
- HR management, including identifying and nurturing leadership talent and moving people between the different parts of the company;
- intellectual capital, covering such things as the transfer of ideas and sharing of knowledge.

There are also down-sides to centralisation. Increasing centralisation means that someone has to give up power, and that is likely to cause resentment. The centre is often perceived to be negative and blocking, creating additional demands for reports and forms to fill in. So if not approached considerately, centralisation can cause increased bureaucracy, as one interviewee describes: ‘In the past, when we developed designs for packaging, we used to be able to just go across the road to sort it out. But now that we are much more globally focused and design is centralised, it takes so much longer and it has lost the personal touch. Instead there are issues caused by language barriers and long-distance communication. Face-to-face communication is so much more effective and less prone to misunderstandings.’

A final observation on centralisation made by one of the interviewees was, ‘The times when the pendulum swings from local to centre or vice versa are the most difficult ones because that’s when you’re not sure where the power lies and as a consequence most waste appears.’

But, as one interviewee summed it up, ‘There is always a local–central tension; this is an issue bigger than innovation. That’s why it is important to establish a company-wide “we”. We have managed to break the barriers down bit by bit; having the “central guys” sit locally has also helped.’ So centralisation is another strong reason why a company should strive to achieve an oneness which does not end at the business unit boundaries but stretches across the entire organisation. The binding element could be a code of conduct, a shared set of values, a common goal – all aspects of a strong company culture. There are a number of

innovation paradoxes, however such as the local–central tension, which will be explored in Chapter 6.

Anchor points

- Innovation is a necessity, not a nicety – but many companies still think of innovation as being important rather than urgent.
- Becoming more innovative is about change – treating it like a change programme might help.
- Innovation is a journey – it takes time.
- Innovation is a frame of mind, not a fashion to be worn today and forgotten tomorrow.
- Innovation requires different behaviours and new ways of thinking.
- Intrinsic motivation is more important than financial incentives – people can be told to change their behaviour but not to think differently: they have to want to do it.
- Innovation needs direction – unless people know what is to be achieved, innovation becomes a lottery.
- Innovation requires a holistic approach – understanding a company's starting point and context are essential.
- More radical innovation is needed – today there is less and less scope to achieve future growth through mergers and acquisitions.

