



How do you connect innovation to business strategy?

By Chuck Frey and Hitendra Patel

1. How do you align innovation with business objectives?

When both innovation and business objectives are equally valued, broadly promoted and fully communicated, a culture naturally exists that fosters alignment of the two. In this culture, top-down business objectives are communicated throughout the organization so that all levels are focused on addressing the corporation's short- and long-term goals. It then becomes the innovators' responsibility to align their activities in support of the corporate goals.

There are several ways to naturally bring these two camps together. Jointly developing technology/product and business roadmaps encourages discussion and debate, forging linkages that guide actions. Internal business and technology fairs highlight near term successes while raising visibility to long-term opportunities.

-- Marc Chason, Motorola Labs

I practice the art of alignment, executed by a balanced scorecard approach. At Gene Express Inc., our strategy map shows us that the impact of aligning our objectives creates more than a ten-fold greater than working in silos. We have objectives related to creating product enhancements, intellectual property and continuously improving our operations. These are our innovation areas. On our strategy map and scorecard, it is clear how these feed into our financial goals. We have measures and targets in both these areas.

-- Jonathan Rowe, Gene Express, Inc.

- Get a CEO mandate for an innovation theme or pillar in each business unit strategy and incorporate innovation within the company's Balanced Scorecard
- Have a point person from each business unit on the corporate innovation and strategy teams
- Make sure to connect innovation results and outcomes to short- and long-term business unit performance

-- Ron Jonash, The Monitor Group

Fundamentally, innovation should be an integral part of business objectives. It's hard to find (or imagine) a business without growth cooked into the future strategy. Except for rare cases, that growth will need to be fueled by innovation. Some will go the route of acquisitions to achieve the growth, but innovation – be it brand renovation, evolution, or revolution – will largely be required to meet the growth gap desired by stakeholders. Regarding alignment, companies should stay true to the promise of what they are delivering to their customers or consumers...and keeping true will likely require innovation of their products or services to stay in line with the future needs and desires of the target.

-- Troy Geesaman, Laga

As with all things in business, if you can't answer the question, "How does this align with my business objectives?" don't do it!

Everything in business can ultimately be boiled down to "finding a solution to a problem." In fact, there's nothing we do that can't be rephrased that way. Without a customer with a problem to be solved, we wouldn't even be in business. But not every problem should be solved with an innovation. By taking a portfolio approach to business, we identify those problems for which we already have solutions, those that require improvement in an existing solution, and those that require whole new, differentiating solutions. That's where we need to focus our innovation efforts.

-- David Silverstein, Breakthrough Management Group



Today in this global marketplace, only governments and religious institutions somehow seem to survive without encouraging and supporting innovation and creativity. You have no choice.

-- Norman Bodek, PCS Inc.

Our Analysis

It should be a relief to our readers that our panelists offer very practical and proven tools to align the organization with the business objectives, innovation and the specific activities through product/technology roadmaps linked to business roadmaps as used by Motorola and the Balanced Score Card as used by companies like Gene Express.

The bigger challenge is what Marc Chason and David Silverstien mention: that there has to be an articulated business reason for innovation. In essence, what they are saying is to give innovation a business purpose, whether it is closing an emerging growth gap that cannot be closed by the current strategy or by acquisitions, or a specific problem that requires entirely new and differentiated solutions. Don't ever forget that innovation is a means to an end.

-- Chuck Frey/Hitendra Patel

2. How do you get senior management commitment to both short- and long-term funding of innovation initiatives?

Senior management must be able to buy into the project with the understanding that the investment in money, time and resources will lead to an impact greater than other proposals that are vying for the same resources. The innovator should be able to demonstrate to a reasonable confidence level that the corporate investment will deliver specific goals within finite time frames. To foster an innovation culture, senior management needs to expeditiously commit to the project or pass on it.

-- Marc Chason, Motorola Labs

While there is no guaranteed approach to getting senior management to commit to funding innovation initiatives, there are ways to improve the chances. Many times I have seen employees become frustrated with management because the employee has a great idea but the idea doesn't get traction. Most of these times it was due to the idea not being presented as a business plan. Imagine your leadership is a venture capital group and you are going for funding. Put your plan together and practice it with trusted colleagues. I suggest this because it doesn't get any easier outside your company unless you have a bundle of cash sitting around. If you take this approach, at least you might have something to work with when you throw your hands up in the air and decide to start your own company.

-- Jonathan Rowe, Gene Express, Inc.

The phrase "a picture is worth a thousand words" is never truer spoken when it comes to enabling senior management grasping the opportunity about to be seized – or missed – through innovation. Visualize the opportunity wherever possible to show how the innovation concept can be made real. Sure, a little "flash" helps when it comes to capture initial attention and to convey passion, but since you're likely operating in the fuzzy front end, you can't be devoid of the facts that most boardrooms require to release the floodgates of funding. Grab their attention with the visualization, substantiate with facts or best-informed estimates, and then hook them with a clear plan to show an accelerated plan for commercialization. Nothing warms the heart of a CEO and his leadership team like an idea that will yield a solid return on investment in the near-team future.

-- Troy Geesaman, Laga

Sell, sell, sell. The reality is that with the exception of some founders, who are more entrepreneur than manager, few innovations come from the top. Selling from the bottom up is critical — but that's for ideas. When it comes to "initiatives," it is highly unlikely that you will successfully convince a management team of the need for innovation if they haven't seen it themselves; but you have to try or throw in the towel.

Your willingness and eagerness to accept change is, for the most part, genetically coded into you. "Change management" helps you deal with change, but it doesn't make a leader more likely to see the need for it in the first place. So you have to really sell — hard sell — the business case for why an organization needs to fund your innovation initiative. I think one of the best ways to do that is to do a scenario analysis that diverges from the most common approach, which is to show the potential benefits of something. Instead you have to model what happens if you don't do something. You have to be willing to talk about how ugly the baby is and you have to be willing to take the risk of being unpopular. If you're selling to the leaders of a business, you're probably putting your job on the line. But that's what it's going to take.

-- David Silverstein, Breakthrough Management Group

- Get innovation on senior management's Key Performance Indicators and metrics, and make sure innovation is a major dimension of succession planning and promotion
- Hammer home how much future earnings expectations mean to stock price and the value of senior management stock options when exercised
- Deliver innovation results and outcomes so that senior management believes that innovation matters on their watch

-- Ron Jonash, *The Monitor Group*

Robotics was invented in the United States but very few American companies adapted the technology while virtually every Japanese company did. They not only used the technology, but over one hundred Japanese companies now make their own robots. They saw the long term need to compete with the Chinese and other Asian companies. They could not compete on labor costs. Sadly, we think that we can survive by emptying out our factories and letting Asia make our products for us. Last September, I visited a Panasonic plant in Kobe, Japan and saw banks of automatic insertion machines producing circuit boards with almost no labor. Japanese management realizes that only through innovation and creativity can they continue to compete.

How to wake up American senior management? Good question?

-- Norman Bodek, *PCS Inc.*

Our Analysis

Ron Jonash's suggestion of putting in place innovation KPIs for the management team will drive significant commitment to long-term innovation. This is often imposed by the board of directors or the CEO. This is exactly what happened in the late nineties in the resource industry (Alcoa, CEMEX and Weyerhaeuser) and the food & beverage industries (Pepsi and Bunge), and more recently in the pharmaceutical and financial services industries. Norman Bodek highlights this type of visionary leadership, as Japan stuck with robotics as a solution for reducing labor cost versus outsourcing to China and India.

Something more actionable but still difficult, especially for those driving innovation from the bottom requires individuals to really sell their ideas, to make those ideas believable and to promise meaningful results within reasonable timeframes. Both Troy Geesaman and Jonathan Rowe are very eloquent in describing these points.

In general, all the panelists encouraged individuals to be passionate but also to use a business plan and visuals to ground the idea and promise returns in time frames of the leadership cycle.

In closing, Ron Jonash reminds us about the need to have sustained innovation results right from the start to develop and maintain momentum for innovation.

-- Chuck Frey/*Hitendra Patel*

3. What can you do if senior management demands "financial proof" for an idea?

If senior management demands "financial proof," then the innovator is going to have to provide it.

If the company has an existing innovation review process, there should exist templates and guidelines that can be followed so that the innovator does not need to develop a new method, but just complete the existing one. If an innovation review process does not exist, the innovator is in a position to develop one which will provide an opportunity to showcase his innovation, as well as ultimately being adopted as the senior management review process.

-- Marc Chason, *Motorola Labs*

It's possible to model a number of scenarios for any innovative idea. To me, that's about the extent of it. Imagine if you could guarantee returns for ideas. Look at how the Wii ate Playstation for lunch. Playstation invested in the best processor, the best graphics and the most media and got killed by the Wii (inferior graphics, odd new controller). Did anyone expect that? I know the Wii manufacturers didn't expect it, because there were shortages of consoles. I just don't think there is a sure thing with innovation. Sometimes a simple approach is to look at what will happen to sales and revenue if your company doesn't innovate. Considering the speed at which business changes now, leadership will get hit during their watch if new good and services aren't offered.

-- Jonathan Rowe, *Gene Express, Inc.*

Your team should clearly have done its homework to build the financial case where it is feasible to estimate. Build financial models from innovation in existing and adjacent categories, and be well grounded in your assumptions. If you need help, be upfront about it. Ask the leadership team for their best resources to work through the numbers. It will prove that you believe in what you're pitching, and ultimately, their own functional teams will become owners of the numbers and, hopefully, co-champions of the initiative.

-- Troy Geesaman, Laga

- Develop a good template for advancing business cases on ideas and concepts connected to winning platforms and value propositions
- Reverse engineer concepts and rapidly test key assumptions and uncertainties (last experiment first)
- Ask what it would mean or matter if competitor or disruptor pursued the idea

-- Ron Jonash, The Monitor Group

First, are we talking about an idea, or ideas? Multiple Ideas are easier than a single idea, because you can show the expected return on a portfolio of ideas. Lone ideas are risky and are seen as such. It would be like running a venture capital firm that only expects one in five investments to take off — and then you make only one investment. When you treat an idea in isolation, expect to go through the same hurdles you would with any project, needing to meet your company's required rate of return for a project. But if you can put in the context of a portfolio of projects, you'll have an easier time. Also, use some of your innovative juice to figure out economical ways to test your idea without a big investment. Look for ways to innovate the way you sell your concepts, the way you test them, the way you finance them, etc.

-- David Silverstein, Breakthrough Management Group

Look the role of senior management is to lead, not to manage. The dictionary definition of manager is "A person who controls and manipulates resources and expenditures." How to wake up American management? Easy, get a large hammer and hit them over the head.

We must move from top down management to bottoms-up to empower every person to develop to their fullest capability. You never know where the next important idea will come from. Now, gather your employees into teams and identify opportunities and problems to work on; allow them the time to brainstorm, to study other technologies, to benchmark - especially sending them to Japan on study groups. Invest in your people. View your company as if it was an on-going university, everyone working towards degrees.

-- Norman Bodek, PCS Inc.

Our Analysis

We gleaned four key takeaways about how to address the issue of financials for new ideas with new and emerging data:

1. If management asks for financials then you have to provide them
2. Make assumptions and ask leadership's help to get the data
3. Find "innovative" ways to execute the "last" experiments first
4. Be clear about the cost of not pursuing the idea or if a competitor pursued

The above four points were mentioned by the majority of our panelists, though Jonathan Rowe reminded us to not over focus on the financial details this early in the game. We would like to complement Jonathan's point by suggesting the inclusion to the financials, a qualitative section which talks about the learning and new options that pursuing this idea creates.

Meanwhile, Troy Geesaman reframed the problem into an opportunity to build commitment and sponsors for the idea, while Marc Chason and David Silverstein saw this exercise as an opportunity to build innovation process and capability.

-- Chuck Frey/Hitendra Patel

4. How do you get management to commit resources (or if you can't, how do you drive innovation on limited resources)?

Getting resources committed is going to be a big challenge unless you already have a culture of rewards in place for innovation and not operations. I have a story of a senior colleague who wanted to implement a change that would revolutionize the services offered by his company. The plan was well thought out and had support. When it came to budget time, he got the OK if he could convince others to give him money from their marketing and advertising budgets. So he had to convince marketing colleagues to not advertise (or advertise less). That wasn't going to happen because annual sales targets had to be met. You probably know a story just like this.

One approach to securing resources, if you work in a company that has a typical annual goal culture, is to understand the chain of management that would be impacted by your need for resources. Try to get them involved in your idea. It may be easier to ask for a small resource commitment from a bunch of people than one large one from the top. If you can get this commitment, when you present to senior management, it will show that others are interested and willing to invest in you.

-- Jonathan Rowe, *Gene Express, Inc.*

If management is not willing to commit resources to an identified innovation opportunity that meets “financial proof” targets, then the innovator needs to question whether there is truly a drive for innovation. Assuming the innovator still believes affirmatively, securing external business unit funding may be appropriate. This may include partnering with different business units within the same company, forming limited cross-industry initiatives or obtaining government grants to provide the necessary resources.

-- Marc Chason, *Motorola Labs*

It's all about the need for investment, a demonstration of how the status quo will not continue to deliver the required returns, and how we need a portfolio of innovations to drive future returns. At the end of the day, it's business 101. The problem is that today many business leaders don't want to admit to the downward looking future they really face. Denial is the ultimate killer of innovation.

-- David Silverstein, *Breakthrough Management Group*

- Set up Investment Board to balance power of the budgeting process and set up an Investment Fund or challenge fund for Innovation
- Leverage other people's money, resources, and assets through partnering and alliances
- Drive through metrics and make case for powerful ROI

-- Ron Jonash, *The Monitor Group*

Our Analysis

Our panel came up with five very creative complementary suggestions for resources to drive innovation:

1. Create an investment fund for innovation which is different from the funding process for current projects in the budget
2. Have a compelling business plan with a powerful ROI
3. Get incremental funding commitment from a range of units within the company, avoiding the risk of overburdening one unit for resources and also building a broad base for support for advancing the idea
4. Sequence and stage the funding for the ideas with logical stop points
5. Partner beyond your organization and leverage their resources

The first point requires support from leadership and the second point is a given. The other three are standard techniques used by entrepreneurs to garner resources and scale up.

-- Chuck Frey/Hitendra Patel

5. How much resources should a company devote to innovation (% of resources, time, people)? How should this be split between short-term and long-term opportunities?

Business cycle vagaries make resources allocation per formula a dangerous game. The company's nature (e.g., high technology, commodity, etc.), position in its industry (leader, fast follower, etc.) and top-line/bottom-line growth directions all influence the resource allocation decisions. Understanding how past innovation investments (successful and unsuccessful) affected the company is critical to determining future allocations. With a baseline understanding of short-term and long-term innovation metrics, dynamic funding adjustments can be implemented to suit the relevant business climate.

-- Marc Chason, *Motorola Labs*

Deciding on how much resource a company should devote to innovation is really a case-by-case scenario. Some companies work very well by acquiring others' innovations and therefore would invest less than the companies that need to make the innovation. Some innovations are hidden from the consumer (Wal-Mart's supply chain), while others live and die by consumer product innovation (Mercedes-Benz). Importantly, there should always be a clear pathway in the strategy and budget that links to innovation processes.

One opportunity to increase the chances of innovation lies in job rotations. I have recommended that each year, approximately 5% of the employees should be required to rotate into a new role. This fosters both long- and short-term idea generation. Some companies have internal competitive granting opportunities for innovative ideas. There are pros and cons to this. The benefit is that the company has put resource aside for developing new ideas. The downside is if the people deciding the resource distribution are conservative, the types of ideas that get submitted in the future will be geared towards the council's behavior. Some companies give their employees fixed amounts of time to do their own research. While this is also a corporate investment in innovation, an idea that may require 30 days of work to develop now

takes 30 weeks if that person only gets a half-day to work on it. There needs to be a way to transition promising work to the fast track.

At my current company, we have targets and measures in our scorecard specifically related to product enhancements and intellectual property. We have short-term goals (per year) that feed into a total revenue stream over the long term. As a small company, everything is about finding a way to create or do something new.

-- Jonathan Rowe, *Gene Express, Inc.*

- At least one-third to one-half of senior management and executive team meetings (a la Sony) are focused on innovation
- Once you decide on relative strategic priority and balance for your company and industry, make sure to keep that share inviolate and avoid incursions from fire-fighting requests

-- Ron Jonash, *The Monitor Group*

That's a loaded question. There are so many variables that could affect resource allocation for innovation – size of company, growth goals, category, and leadership chutzpah! The factor should be directly equated to the amount innovation is expected to contribute to the growth gap of the company (e.g., if innovation is slated to contribute 50% of a company's 20% growth goals for the next five years, then a proportionate amount of staffing and budget should be resourced). Too often, innovation is thought of as a gamble or “a risky bet” as part of the plan and resources are held back and/or allocated to other “sure bets.” In fact, innovation risk is greatly lessened if there are appropriate resources given to meet the opportunistic stretch goals often assigned to the innovation team.

Regarding the split between short-term and long-term, again I hesitate to give percentage figures. My judgment would simply dictate that there is a clear separation of talent dedicated to both efforts. At times, there will need to be fluidity among staffing to allow the development of short-term commercialization of innovation, but there should always be talent dedicated to discovering the future beyond the next 3-5 years.

-- Troy Geesaman, *Laga*

Our Analysis

This was a tough question for the panel where the panelist mainly gave a directional and qualitative answer. Our conclusion is that there is no cookie-cutter recipe for investment. We did however extract the following insights:

- Leaders should be spending between 33% and 50% of their time on what is next for the company considering they have a management team running the day-to-day business
- Link innovation investment to the growth gap that innovation is expected to close
- Insight for innovation investment amount comes more from studying past investments within your own company versus looking outside at competitors or other companies that you admire — who most likely are pursuing different business and innovation strategies
- Rotation programs and giving employees some flex-time are clever ways to drive innovation without making huge demands for resources

Innovation needs to have some degree of serendipity, but no company should leave innovation and growth to chance. Companies must view innovation investments as portfolios and failures as experiments and creation of options.

-- Chuck Frey/*Hitendra Patel*

In the next interview:

What is the best process and tools to put in place to involve all the important parties and drive innovation across the enterprise from concept to customer?