

## Driving Innovation: Innovation Your Way

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Innovation is the buzzword these days, and, as is typical of new approaches to business, the first few companies to market really think it through. They test the waters, make mistakes and learn. And, in the end, they usually succeed.

The rest, however, tend to be less deliberate. They prefer to take the easy way out, following the leaders and crediting themselves with adopting the “best practices” of others. Well, unfortunately, I have some bad news: Someone else’s best practice isn’t likely the best practice for you.

More often than not, the goal behind an innovation strategy is growth through differentiation, so someone else’s best practice cannot be a legitimate differentiator for you. If you have access to it – having read about it in a book or heard about it at a conference – odds are your competitors are doing the same thing. You differentiate yourselves into the same place – commoditization.

The key to a truly effective innovation strategy is to make it your own. Make it work for your company, make it unique, link it to your strategic imperatives and ensure that any innovation you develop is a true differentiator.



There are many factors to consider when developing an innovation strategy to fit your business. I suggest starting all the way at the top with your shareholders. Ask questions such as: What kind of return are they looking for? What’s their risk tolerance? How much patience do they have for long-term changes to take effect? You can get this information in a number of ways:

1. Look at the composition of shareholders (institutional, individuals, retirees, etc.) Look at the kinds of funds that hold your stock.
2. Look at the beta of your stock and your industry (a measure of its past volatility).
3. Understand why shareholders invest in you in the first place. Are you a hedge (e.g., gold)? Are you a diversification play? Do you move in tandem with or counter to the general market?
4. Talk to them.

From there, you can decide if it’s appropriate to be pursuing innovations that are far removed from your core, or whether you should stay closer to home. Consider a 100-year-old chemical company whose stock price has grown steadily at an average rate of 8 percent a year while paying a 2 percent dividend. Someone in the company has an idea for a new business model that will totally trump the U.S. automobile industry. Easy pickings, you conclude, after they pitch it to you as a way to diversify the business and perhaps hit a home run while they’re at it. What should you do?

Answer: Probably take a pass. At best, patent the idea (if patentable) or find a buyer for it. You have no competency in the automobile industry. And there is no reason for investors to give you their money to invest in the auto industry. Also, if the investors want greater diversification, they can take some of the money that’s in your stock and put it into the auto industry. Bottom line: customers don’t pay for your automobile expertise. If you have money for such investment, give it back the investor in the form of dividends and let the investors diversify themselves.

Now suppose there’s an opportunity to improve your standing geographically or across industry segments; or suppose one of your people comes up with an idea to adapt a chemical you produce for another industry. Should you pursue it? In this case, perhaps you should. It would be logical to conclude that you’re capable of achieving a level of success along these lines that your investors can’t achieve on their own. Plus, you need a new growth opportunity from time to time if you’re going to maintain the 8 percent growth to which your shareholders have become

accustomed. There's always some risk associated with your business – and this sounds like the right kind of risk to take.

Innovation is not just about taking shots in the dark at new ideas. Real innovation is well thought out and consistent with the overall strategy and climate of the business.

Now you can begin to develop your innovation strategy.

Consider these questions:

1. Why now? What's changed? Why are you developing an innovation strategy when you haven't had one before?
2. What types of innovations do you want? We generally answer this with one or more of these answers: process, product, service, solution or business model innovations.
3. Just how innovative do you need to be? Here, we're looking at three choices: incremental, substantial and breakthrough innovations.

Generally speaking, a balanced portfolio of innovations is appropriate. In general, you'll have more product, service and solution innovations, fewer process innovations and far fewer related to your business model.

Now it's time to start thinking about from where the innovations will actually come. There are generally two answers to this question: inside or outside. Inside can mean everything from dedicated R&D investment to highly engaged employees who are generating ideas every day.

Outside can mean an open innovation network where ideas flow to you from many sources (Procter & Gamble has earned a reputation for this strategy), or it can mean an acquisition strategy where you watch for others that are innovating and try to scoop them up before they get too far (CISCO and Microsoft are better known here). Outside can also mean you draw your ideas from nature through such approaches as "biomimicry."

Personally, I like to see employees getting engaged. No one knows your business better, and thoughtful employees tend to be happy employees. However, creating a culture where ideas flow freely is not easy. Most organizations have successfully stifled innovation in the past by making it hard for an idea to break through multiple levels in the chain of command. Reinvigorating the creative spirit takes time and leadership.

The best way to begin is to engage your employee population in developing innovation concepts. When you participate in developing an idea, you generally buy in right away, as opposed to having to be sold on someone else's idea.

Most organizations have a culture that has developed over time – one that is grounded in the current state of the business – so organizationally, expect resistance. But, don't make a common mistake in assuming that people in the organization are resistant to change. I hear this all the time, but it doesn't pan out. The reality is that most people like change (to some extent); they just don't like to be changed.

Note the difference – "being changed" vs. "changing." In the former, someone is telling you what your new reality is. In the latter, you're participating in defining the new reality. Change means diversity; it means intellectual challenge; it means things are interesting. Human beings thrive on such dynamics. Being changed, on the other hand, means being controlled, manipulated or deemed subservient. Human beings do not thrive on these dynamics and, in fact, become demoralized and unproductive.

You'll also want to seek out supporters at all levels of the organization. Many are familiar with the concept of viral marketing. The same principles apply within an organization. This is to say, if you're planting seeds at all levels and getting participation and advocacy at all levels, the masses will buy in much more quickly. That's not to say that everyone will buy in or that everyone should. One thing you have to do is to take stock of your current population and ask yourself if they're the right people to drive – and to sit on – the bus after a transformation is complete.

Lastly, to be really successful, it's important to understand from where real innovations generally come. And this is perhaps the most frustrating part of innovation, because real innovations generally come from unexpected places; they're unplanned and they're hard to recognize.

Real innovations come from people who break the rules – not those that follow them. They come from people who are saying "no" to the established ways of doing business. Real innovations are often derived from behavior that is

counter to just about everything we've been taught about good business: order, discipline and process conformity, for example. So to foster innovation, you have to learn to shed all that makes you comfortable, and learn to strike a balance between the behaviors that have made you successful in the past and those that will make you successful in the future.

Becoming more innovative can be a tremendously exciting journey, one with rich rewards. However, as with most rewarding pursuits, there's a lot of hard work – and risk – you'll encounter along the way. The key is to manage that risk with clear innovation leadership, powerful methods and tools and, above all, with people who can personalize innovation for your company.