Perspectives on Innovation

As organizations seek to grow, they must remain competitive and, above all, they must innovate. The pace of change and competitive landscape are such that not to innovate will almost inevitably result in stagnation and decline. Consumers worldwide expect a constant flow of new products and services, new healthcare solutions and new experiences delivered through different channels. Organizations are becoming more willing to embrace disruptive technologies, to pay closer attention to customer behavior and to deal with a shortening innovation cycle.

To achieve consistent success, leaders responsible for innovation have to nurture creative, disruptive thinking while setting measurable goals and overseeing rigorous, disciplined processes. They need to be able to deal with failure and create an environment in which people from disparate backgrounds can work together to achieve something remarkable.

We talked to several experts to find out what they have learned about achieving innovation success asking: What structures and processes have their organizations adopted? What are the barriers to great innovation and where are the cultural challenges? What is the best way to encourage and reward innovation?

Clear view of the need

Stewart Black
Former COO of Pizza Express and
Dawn Farm Brands, and VP R&D, Yum! Brands

Leading companies make innovation a standard, but winning, part of their business approach. In always acting like innovation leaders, they are able to simply exhaust their competition. These competitors spend and waste valuable time and resources first trying to understand the specifics of any given innovation, then working out what it means for them and how they might take action. In the meantime, the innovation leader has already enjoyed the benefits and is working up the next initiative. It's exhausting to chase and hugely positive for an organization's culture to lead.

Innovation should provide a steady stream of proven news and events, including but not limited to new products. It requires a process and approach that can be used across all parts of the business.

Embedded approach

There is no one formula for success, but it is best practice for innovation to be integrated into the overall business, not independent from it; embedding innovation throughout the organization gives an edge over the competition. It needs to be part of the planning and value chain process, with roles and responsibilities clearly defined right across the business, in marketing, sales and operations.

Each organization has to define and measure success in an appropriate way. The danger is that innovation is seen as useless and costly, so without clear measures, innovation may become a casualty when times get tough. It needs to be viewed as part of your total business gain. It is also difficult to reward people if the business measures aren't there. Innovation needs to be as important within the organization as financial planning or sales. It also needs transparent, and openly shared, budgets.

Setting out a clear brand positioning is essential before the innovation process can begin; innovation must never contradict this positioning. Those in charge of innovation must deal with three colliding commercial bubbles: the consumer (can we sell it?), the business need (can we make money from it?), and operations (can we do it consistently, every day and across cultures?).

Robust process

It is ironic that great innovation and creative thinking depend on robust process: a single process, embedded into a stage-gate approach, consistently applied with common language, methods and measures. Simply put, specific and clearly distinct stages that work to define the business need, explore ideas, develop those ideas and then test, validate and review. Each stage must be strong enough to support the one before and the one after. Typically, many failures occur when people start innovating halfway through the process.

To innovate successfully, you must really know the customer deeply. Usually, people running companies are not customers of the business themselves, so you have to go and be the customer and immerse yourself in their world. The stage most companies miss is defining the need, and you can only define the need when you really understand the customer. Alongside that you must always look at the competitive threat, business opportunities, trends and industry changes.

The second part of the process is the "explore" stage, with a team of people working up different ideas which fit with the defined need. It doesn't matter if you can't see how to execute them or what they look like; at this point it's about getting the ideas out. It may be wild and free, but there is plenty of technique in explore. Companies tend not to like newness, they

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like familiarity, so it's best to get people away from that part of the process if they can't filter for newness only — if you're not an "explore" kind of person, it's a miserable place to be!

Then comes the development part — followed by testing and validation. You need to keep asking, "Does it still fit with the need and the idea that supported the need?" If you dilute that point you will end up with something you don't want.

Companies can be at risk of not launching the product or idea they tested. They can be shy about pausing, redoing or stopping something at this point — instead, they sometimes rush ahead and launch what they think they should have done in the testing.

The last part of the process is review. You want to squeeze out every bit of learning you can. Companies are always moving on due to business pressures, but great ones stand back and ask what they've learned, good and bad, removing the bad from the innovation cycle next time around.

Communication

Communication is critical throughout and it helps to have common language. At Yum! we taught every project team to be able to provide a clear one-line business answer to the question, "What are you working on?" Organizations go through states of flux and innovation needs to adapt accordingly. You need to be able to talk about functional deliverables but always as part of the overall business plan.

I've always looked to adopt the RACI model (responsibility, accountability, consultation and information) in helping manage innovation and ensure effective communication across teams and businesses. I learned the hard way that it is important to know who you have to keep informed and never to surprise the boss or the organization! Innovation in isolation has limited success. Innovation as a fully integrated approach in any business maximizes wins and successes.

Having rebels at every level

John MacFarlane
Chief Executive Officer, Sonos

I would look at innovation as an outcome of a whole variety of actions that involve teams at every level. It is the result of your culture, your approach and what you reward. I don't think you can go to somebody and say "be innovative." The enemy of creative thinking is groupthink inertia, so you have to get innovation into the DNA of the culture, into the teams you're hiring and how you approach problems.

You need to have change agents and to give them some room, but it is a delicate balance because teamwork is important. You do need a mix of rebels in your teams at every level, including the board.

Candid culture

Transparency is key. Without transparency it's harder to innovate. I also think it helps to have a deeply candid culture in which people are willing to say when you are failing at something or missing your goals, and they talk about it in such a way that you are not being attacked. If you don't have that, you are in trouble. You might still produce an innovative item or two, but it will by exception.

I don't think there is any one thing that will improve your approach to innovation, but one necessary item is that you do need to keep hiring people who don't always fit the mold. The trick is you have to be constructive and sometimes these people won't be. You have to get behind their leadership and really support them, but be able to identify when the change is healthy and when it is not.

At the board level, it's really easy to just get sucked into the current numbers, the audit committee results, the next quarterly results. So it's important that you have people who can pull your focus up to the right level and look at the field. If we are creative at the board level, at the brand and product design levels, even in our approach to IT and facilities, we will have innovation.

Good times, bad times

The challenge is, what do you do when you are not innovative? For example, you might have a long string of good growth and everybody is sprinting flat out; then it's really hard to make room for innovation. You may have hard times and it's really hard to get the pressure off of everybody so that they are still thinking and being creative. Those are actually the times when you have to be the most creative, and when you have to be the most mindful about what pressure you are putting on the team.

If you don't innovate, you die either a fast or a slow death, depending on where you are not innovating. The music distribution industry went through a period of terrible lack of innovation and the whole market significantly contracted in a pretty short amount of time. Today, the music business is undergoing huge disruption, so are consumer electronics and retail. This is not an environment in which you can exist for very long if you are not being innovative — in how you make your products, how you market and sell them, how you support them. So for us, not innovating would be fatal.

Rewarding innovation

When it comes to rewarding people, the most important thing when someone has an innovative idea is to champion it — that means really giving the person or people full credit for it and helping them enact the idea. You can of course reward a patent or something like that, but I think the most important thing is to publicly acknowledge the ideas (and people) that are really innovative and impactful. Who led the charge? There is always someone who led the charge, or a set of people, and giving them credit is free and usually far more meaningful than anything else.

I am not a huge believer in allocating people's time to innovation specifically, say, 10 percent of their time to "innovation" but rather ensure they have time to think, or setting budget room for innovation in relation to overall expenditure. My focus is far more on the culture and the team mix than specific goals of time spent on "innovation."

Being creative creates and requires conflict: Someone is going to have a different idea from the group. Making a safe creative conflict environment is the responsibility of team leaders at every level. That's a hard task and why you've got to get the culture right so that the people who are naturally creative feel rewarded, and those developing the skills are encouraged.

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I am a believer in performance reviews that are done well, but if you have not planned and spoken about it in the front of the year cycle, it's not going to be terribly successful. You need to sit down with the team and talk about what needs to happen over the next time period — whether it be three, six or twelve months. You set out what you think is good performance, identify areas where you need some innovation or things that the team are really passionate about. You would certainly want to reward that

behavior at the end if it had a successful impact. Where a review goes horribly badly is if it is all done at the end and all you are doing is looking back at what the person did. You are better off rewarding the behaviors all the way through, otherwise you are not going to have the right culture.

Barriers to innovation

The biggest challenges are the status quo and the demands of the immediate near term. Innovation takes a little bit of room and time. You mustn't have a culture where people are penalized for trying something and not being successful. You have to have a culture where you agree in the beginning that you'll take a risk but you may fail. How that failure is handled is important. I tell people that if you are not making mistakes you are probably not pushing yourself hard enough and you are not trying new ideas. It all comes back to talking about them at the beginning. If you both agree there is a high risk of something not working out, no one is surprised if it doesn't and you learn from it. When it does, it's a very positive event.

Drawing ideas from growth markets

Kai Oistamo
Executive Vice President, Corporate Development, Nokia

Innovation is deeply rooted in the culture and values of the company; it is part of how we evaluate people. Innovation occurs in multiple places: product innovation takes place in R&D, clearly, but innovation can be just as much about the business model. An example would be The Mix Radio — it brought the product creation side of things together with business development people and with the help of technology innovation to create a new business model.

We are embracing whatever forward-looking innovation we see, whether it's in-house or out-of-house. This leads into an important point. In our industry, and in many other industries today, companies should not be looking only at in-house innovation. They should be exploring innovation in the overall ecosystem they are in. It really doesn't matter whether you are an innovator or whether innovation comes via a partnering company or a startup. You don't have to do everything yourself. The most important thing is that consumers get the right experience through your properties —— in our case, through their device.

Speed is of the essence

External pressures are so evident in our industry, of course. This is a hyper-competitive market; somebody will be there ahead of you if you're not careful. We are in a race to create new innovations that add value. Things are commoditizing very fast in our sector. The cycle time, in terms of how long a competitive advantage can last, is probably shorter than in any other industry. That really drives innovation, and you have to keep your offering fresh day in and day out.

You have to be quick and nimble in identifying what is happening out in the world and then go after it aggressively. Speed is of the essence. You can't afford to be sluggish about embracing innovation or slow to make decisions. Internal resistance and the attitude of "not invented here" can be a real barrier to progress. An organization needs people with the courage to drive things that they believe are innovative. There is a whole host of inventions that do not turn into innovations; you may be the first to have an idea, but if you don't bring it into the commercial phase, it's really not an innovation.

If we were to look back over the past 10 years at Nokia and be self-critical, we have been really good

at inventing things but we have not been as good at bringing them to the market at the right time and in the right way. The way to do this is to ensure that there is a multifunctional dialogue in the organization; it is essential to foster connections across different functions. This is what innovation is really about. A technology innovation only becomes real when it's combined with usability, the right business model and marketing. It goes back to the culture issue of really embracing innovation.

Convergence and globalization

This is a converged industry, which used to be made up of Internet players and mobile players, hardware manufacturers and software manufacturers — now we are all in the same industry and innovation is coming from all over the place. Everybody needs to be on their toes and agile enough to see where the world is going to go. It's very difficult in this industry to forecast beyond three years into the future. That would not be the case if we were talking about the steel industry or the car industry.

As a result of globalization, the center of gravity or innovation in the mobile industry has changed. As a whole, most of the software innovation in this industry happens in Silicon Valley, whereas much of the hardware innovation has migrated to the West Coast of China. I can't overemphasize the importance of emerging markets in this industry today. They provide a huge opportunity, but the innovation needed to meet the demands of consumers in emerging markets can be completely different than that found in a high-end smartphone in the West, where there is a different sensitivity about what is considered innovative. Remembering your consumers is extremely important.

Expanding knowledge through collaboration

Robert Urban, Ph.D.

Head, Johnson & Johnson Innovation Center (IC), and former Executive Director, David H. Koch Institute for Integrative Cancer Research at MIT.

It's important to remind ourselves what innovation is and what it's not. At MIT, we did tremendous amounts of fundamental-type research every day. We chased down mysteries that we thought were important, creating a remarkable amount of content. On occasion, elements of those discoveries could represent the raw material for innovation. Then we might begin to develop something based on that which addressed a truly important unmet commercial need. This deep digging exercise, coupled with an ability to identify, value and advance those small details, is important for creating innovative and usable products or services.

Creating a diverse ecosystem

People doing the fundamental research are not always interested in figuring out if what they've discovered is commercially relevant. Research is what drives them and what they're good at; it's the incentive system they operate in. Not everyone involved has to be part of the full solution.

In the right kind of ecosystem, there is a rapid exchange of information by other members of the community with different frames of reference who can interpret the creation and take the discovery in a new and valuable direction.

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This diversity is the key to an innovative culture. You need to have people who are from a range of backgrounds that overlap, where one person can see things another person might have missed.

Varying levels of innovation

The more innovative the product is at the start —— for example, an idea that comes from a previously unexplored vantage point —— the more chance it has of being disruptive rather than just incremental in its impact on the market.

Every day, products in development lose aspects of their innovation: Almost invariably you wind up learning things about them that make them less exciting than you thought they would be. As they reveal themselves, you realize there are detrimental issues to deal with, such as toxicity. Of any two product ideas that get to market, the one that started at a much higher level of innovation has the opportunity to remain a competitive advantage for a longer period of time, even though it may have carried a higher risk. The market always demands more innovative products.

Scientific rigor

There is a real opportunity to harness innovation coming out of scientific research, facilitated by real-time data exchange that accelerates the innovation cycle time. There is at least a possibility that some of the products we develop can turn out to be even more exciting downstream than they were when we started, because we know more now about how they work, about how they perform in patients, etc. Historically, when things move into the development side (e.g., testing in humans) to some degree the science turns off.

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Given that the world that we're heading toward is going to be far more demanding of us in order to support healthcare product reimbursement, the only way we can be as good as we need to be is to make sure we are as scientifically rigorous as possible all along the continuum. We must add value from start to finish and make certain that our products are really working, rather than simply validating and testing the initial discovery or technology.

Understanding the science well enough to be able to imagine what it can and can't do is an important component in efficient innovation. Having intuition based on an analytical appreciation for how something does or doesn't work is fine, but there are fundamental laws of biology, chemistry and physics which can't be overcome simply because you wish it so. All innovation has to be rooted in good fundamental science.

Collaboration

In any situation or business, it is hard to be an expert in a lot of things, especially when science moves so quickly and becomes so specific. This reinforces the need to be collaborative, both internally with colleagues and externally with partners or even potential competitors.

When you have a wide-ranging portfolio of technically based products, it is hard to stay on top of all the things that are changing so rapidly and to know how your product compares to the world's cutting-edge science and the portfolio products that you are developing. It's very difficult to stay on top of the late-stage assets in your program or to have a clear sense of where the replacement solution will come from.

Relying entirely on your internal organization to do that is really limiting, and having ways to efficiently interact with the various key opinion leaders is critically important. The real trick is doing it in a way that ensures capital efficiency and return on capital. Overlapping entities means overlapping objectives and cultures; a masterful effort is required to manage this innovation so that all involved feel that their disparate objectives are being met.

The next generation of researchers will be more and more comfortable with virtual collaboration, particularly as technology improves to facilitate this. I suspect there will be more crowdsourcing-type solutions in the future, for example, in solving specific problems or helping to fund innovation.

Those who are good at dealing in fact and detail are not always good at seeing the whole picture and dreaming of the possibilities. This is where "group innovation" is beneficial. There has to be a dynamic perspective to innovation as you work towards what the market will be, not what it is today.

For example, how will personalized medicine change the way we think about product, pricing and reimbursement? Does a new product have a way of mapping to the future market dynamic? These two key elements always have to be connected somehow.

FOCUSING ON PERFORMANCE

DR. TOM WANG
General Manager, Global R&D Strategic Cooperation, Corporate R&D Center, Haier Group

Haier's success has come from innovation. It focused on quality innovation in the 1980s, service innovation in the 1990s, and integrated supply chain/market innovation in the late 1990s to early 2000s.

Because of the Internet, customers have much better information about product offerings. They demand products with diverse features to meet their individual needs. In the late 2000s to early 2010s, Haier turned its focus to customer solutions and brand innovation. Today, we adopt open innovation to leverage global resources (such as universities, research institutes, suppliers and professional associates), combining them with Haier's innovation resources to achieve our global innovation goal of better products for customers.

Organizing for innovation

To achieve our innovation goal, we have transitioned our organizational structure, decision process and performance measurement to a new system. Traditionally, the decision-making process in most of the company was top-down driven. Today, we would like all employees to interface with customers and understand their needs so that they can bring them value.

Performance measurement has been focused on the value that employees generate for customers. The manager's role is to provide employees with the resources to deliver value to customers. No matter whether you are in R&D, sales/marketing or manufacturing, you need to work together to achieve this goal. We have successfully transitioned our 80,000 employees into more than 2,000 business cells, and these business cells are what drive innovation.

Putting the customer first

The appliance industry is one of the toughest competitive industries. Innovation is critical for the success of the business. No appliance company can survive without constantly bringing value or innovation to customers, and we normally budget 3 percent to 5 percent of annual sales for innovation.

> The major challenge is to have a system to attract innovative people and retain them, as well as one that encourages consumers/customers to participate in the innovations.

Although pressure to innovate comes from the competition, it primarily comes from customers' needs. Customers in different regions (Americas, Europe, Asia Pacific) may have different needs from product offerings (features, pricing, appearance, etc.),

which is why we leverage an open innovation platform to work with innovation resources worldwide, so that we can better address the needs in each region.

The major challenge is to have a system to attract innovative people and retain them, as well as one that encourages consumers/customers to participate in the innovations. These are both critical elements for successful innovation.

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