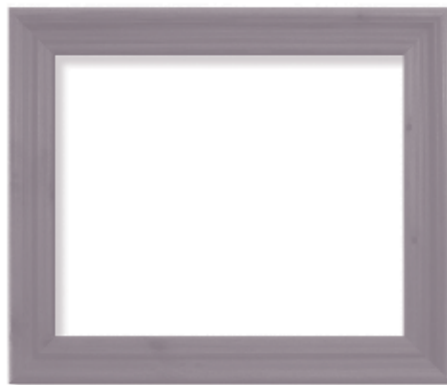
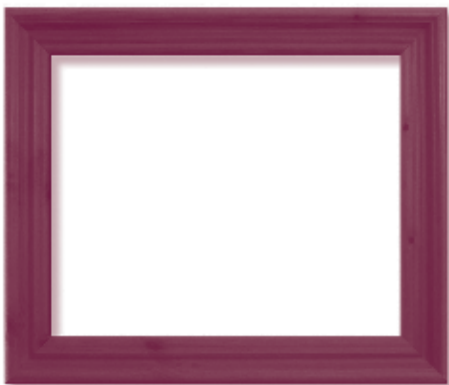




A Framework for the Intangibles of Innovation



Innovation's importance as a driver of business success has never been greater, whether in high-tech sectors or in service industries and even low-tech industries. Innovation no longer means simply investing in R&D or new product development. Its potential positive impact in all parts of a business is huge – and so too the risk when it is absent. Yet, despite a powerful business case for innovation, the roll call of companies that do it well, or even just attempt to do it in a more or less systematic way, remains surprisingly short. One CBI survey found that fewer than half of all UK firms have a specific board level champion for innovation.





In some firms, the reason for this lack of effort may be sheer indifference – these are firms who feel that they have no need to innovate. Sometimes, this is because they perceive their product, service or brand as occupying a unique and impenetrable niche in the market. Others may believe that their industry is mature and that innovation has run its course. Or they may be in another group, which sees competitiveness coming from their ability to bear down on costs – innovation being an expensive luxury. Firms in all of these categories are suffering from, what might generously be described as, acute myopia. No niche is invulnerable to changes in taste and technology. There are no industries where maturity precludes innovation – if not within the industry then from competitive substitutes outside it. And, nothing works better to reduce long-run costs than radical innovations in technology – just look at the impact of the internet on supply chains in a host of sectors from publishing through to car insurance.

There is a much larger group of companies who, while not blind to the need for innovation, are simply frustrated by their inability to achieve it confidently and consistently. For them, the inability to act is caused by a different set of factors which we might describe collectively as the *intangibles* of innovation. These intangibles are crucial to managing the innovation process within firms, but because they are intangible they resist the usual tools and levers available to management. As outlined below, they

are a direct consequence of the distinctive features of the innovation process itself – the things which differentiate it from other challenges confronting management.

Traditionally, firms have tried to deal with these different features of the innovation process by hiving it off into a separate centralised group such as an R&D department or IT function. However, this R&D-centred solution is looking increasingly threadbare as changes in the wider business environment combine to make it look too inflexible, too introspective and too slow. One of these changes is the need to tap into the skill-sets and technologies available from external partners. This shift has been termed ‘open innovation’, and a brilliantly successful recent example is the development of Apple’s iPod music player. In developing the iPod, Apple looked way beyond its own technology capabilities and drew in partners best capable of delivering key elements of the overall package. Apple could not do everything itself, but it could add enormous value through its ability to orchestrate, refine and ultimately package the results of this collective endeavour into a unique product that now dominates a marketplace populated by commodity offerings and poor imitations.

But, the iPod also demonstrates another of the changes which are making the R&D-centred approach to innovation obsolete. This is the increasing importance of service innovation, and the blurring of the boundaries between product, service and organisational

DISTINCTIVE FEATURES OF THE INNOVATION PROCESS

The importance of creativity and expertise

Innovation is no longer the domain of the lone inventor, as most innovations require intensive collaboration between project teams and across functional groups. Creativity and expertise remain a vital component of the process, however, making it harder to predict and manage.

The need for autonomy and an anti-hierarchical culture

The most radical kinds of innovation are driven by a transgressive ethos, a desire to break the rules and to challenge conventional wisdom. This kind of culture does not sit comfortably in large, established organisations – which is one of the reasons why such firms are often outperformed by the innovative drive of smaller, younger businesses.

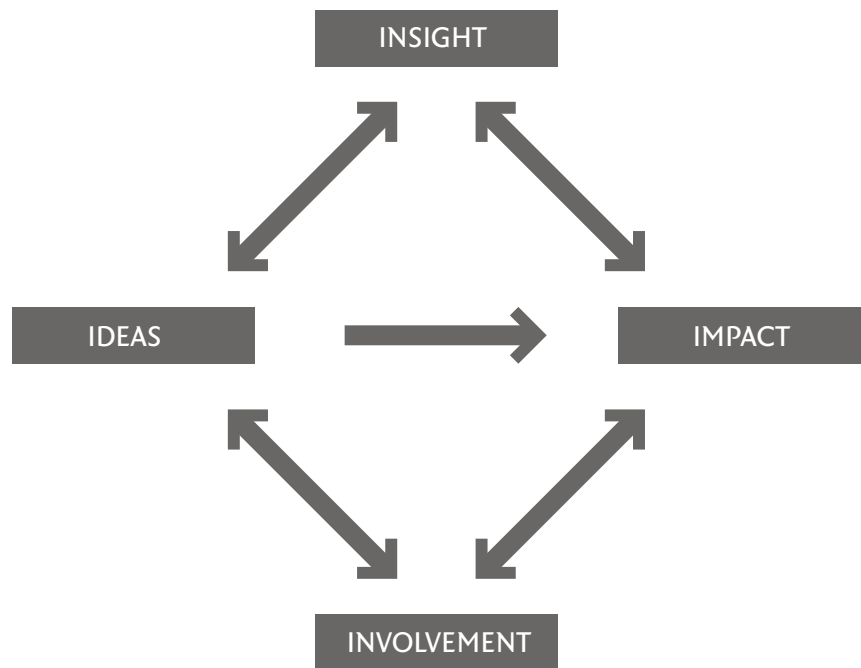
The need to share knowledge intensively

Innovation is fundamentally about creating new combinations of knowledge, and this includes knowledge from outside the business as well as from the different functional groups within it. Anything which gets in the way of this knowledge-sharing is a barrier to the innovation process. Functional silos are therefore a major barrier, but so too is a wider tendency to treat knowledge as the personal property of a few individuals or groups.

Tomorrow’s imperative not today’s

Unlike many other pressures on business, innovation is an imperative for tomorrow more than today. Firms under pressure in a highly competitive environment are more likely to view risky investments in innovation as something to do ‘mañana’. On the other hand, if firms do have a choice, they can respond to competitive pressures in a reactive way, by relying on their existing products and capabilities. Or they can see necessity as the mother of innovation and respond creatively by finding new ways of dealing with the pressures on them.

FIGURE 1: INTANGIBLES OF THE INNOVATION PROCESS: THE FOUR IS



forms of innovation. Firms that are able to combine these different forms of innovation can innovate through a new business model that radically changes the competitive environment in a whole industry. Thus, the success of the iPod as a product is intimately connected to the development of the iTunes computer software and on-line music store which represent service and organisational innovation.

THE SHOCK OF THE NEW

As the frontiers of innovation expand across all parts of the business, firms will increasingly have to stop leaving it to the experts in R&D and product development. Innovation has to become everyone's problem, and everyone's opportunity! Drawing on the experience of a range of leading companies, we have identified some of the intangibles which enable this to happen. We describe these intangibles as the *Four Is*: Ideas, Insight, Involvement and Impact.

Insight is top management's awareness of the future challenges facing the business and the role of innovation in meeting them. This kind of awareness is crucial because innovating madly in all directions is not a recipe for success. Insight not only helps guide the innovation process, it also helps to legitimise it within the firm – providing top management support and a compelling rationale for innovation efforts. Without such insight, top management may lack the patience to tolerate the knock-backs that inevitably come from attempting to do things differently. The quickest way to kill innovation is to slap down people whose innovation efforts suffer setbacks, because every path to successful innovation encounters failure at some point.

Ideas are the life-blood of the innovation process. They are also very democratic. You do not have to possess a PhD to have great ideas. So innovation can come from anywhere in the organisation and beyond it, with suppliers and customers being



COMMUNITY COMMENT

Frank Buytendijk, Vice President and Fellow, Oracle Enterprise Performance Management

Managing an organisation's performance and its innovation programmes is challenging as they are often at odds with each other. This is peculiar as it is innovation that essentially drives tomorrow's performance. Here are a few suggestions on how, from a performance management point of view, you can do a better job:

Manage innovation differently. Don't aim to optimise innovation programmes as you would optimise operations, ie, by looking to reach 100 per cent efficiency and effectiveness - if no part of an innovation programme ever fails then it is clearly not innovative! But . . .

Don't leave innovation alone. Use 'strategy maps' to link innovation to business processes, customer value proposition and to the financial bottom-line.

Innovate innovation. Innovation is not about putting people in a room and waiting for ideas to emerge. The innovation process is like a management process: it starts with understanding stakeholder contributions and requirements, it needs a market focus, it requires a planning cycle and its progress should be monitored.

an especially fertile source of ideas. Yet, despite the wealth of ideas available to them, very few firms are fully able to exploit and capture this potential for innovation. One solution is to develop idea capture systems, such as suggestion schemes, customer focus groups and cross-functional teams.

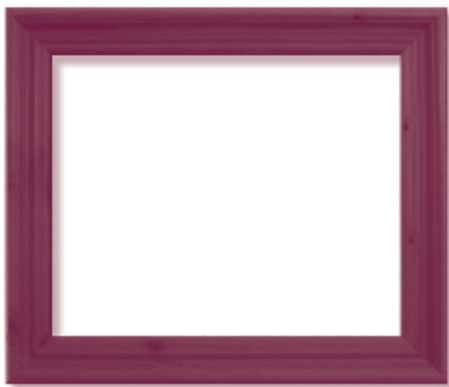
Involvement is crucial to these new approaches to innovation. Getting a much wider range of groups involved in the innovation process is a prerequisite for the kinds of idea generation and cross-boundary collaboration now required. But involvement is not easy. Many employees are not motivated to be creative, and involvement in innovation comes a poor second to the day job. In contrast, management and HR policies that enhance the employee's engagement with the firm, and which give them greater autonomy in their work, are most likely to get their involvement. 3M – a famously innovative company - has the '15 per cent rule' which encourages people to spend 15 per cent of their work time on projects of their own choosing.

Impact comes from the organisation ensuring that the ideas and efforts of individuals are channelled in the right direction to bring about real business value. This involves systematic approaches to reviewing and filtering ideas so that the most resources are applied to the best projects. One widely used solution here is a 'stage-gate' approach in which projects are reviewed at key points in their development to ensure that they are technically viable and commercially valuable.

As outlined in the model below, the *Four Is* are all intimately connected. The insight provided by top management, for instance, helps to inspire new ideas but also promotes greater involvement in the process, and guides it towards business impact. Similarly, while there are many ways of capturing and exploiting ideas, their ultimate success rests on the organisation's ability to get people involved in the process.

Of course, these are all intangible features of the innovation process, and until new ideas are actually converted into new

The most radical kind of innovation is driven by a desire to break the rules



COMMUNITY COMMENT

**Kevin McFarthing, former
Global Director for Strategic
Alliances, Reckitt Benckiser**

“Getting the right insights, ideas and involvement depends on corporate culture. Reckitt Benckiser’s core values of achievement, commitment, entrepreneurship and teamwork drive our innovation. When this is coupled with fast decision-making, it ensures all ideas are considered and involvement of key people should not be optional. Innovation should be both encouraged and incentivised, which it is in RB as it is fundamental to our economic success. The insights, ideas and involvement are crucial to both the quality and the quantity of the output. Sharing of best practise in insights and ideas should be active across the organisation; otherwise companies will only have small areas that succeed.”

for example elaborate and judgemental stage-gate exercises, that minimise the risks but also minimise the motivation of everyone unlucky enough to be involved in the process.

It is important to accept that much of that which makes innovation work are the intangibles. Managing these intangibles, however, is not about controlling and regulating – innovation cannot be commanded. It occurs when the distinctive needs of the innovation process are recognised, and when a supportive organisational environment, in which everyone - top management, R&D staff, but also rank and file employees and external partners – is engaged by that process. When it does occur, it can be transformative.

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products or services in the marketplace hard evidence on the success of the process is lacking. However, the experience of a range of organisations suggests that identifying these features and making them work together is an important step in managing the intangible ingredients that make up competitive success. We have focussed on these intangibles because, for all the reasons, outlined above, top managers are often uncomfortable with the ambiguous and anti-hierarchical features of the innovation process. Even when they are sincerely committed to innovation, the temptation is to regulate and control the process. At worst, this leads to highly bureaucratic approaches,



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