BY KEVIN O'DONNELL

COUNTERING THE INNOVATION BACKLASH

AN INNOVATION BACKLASH is underway on the business scene, and to a certain extent it's justified since innovation success has been elusive. Statistics show that less than 2% of new product ideas make it to market. Of those, less than 5% will truly be "new." By any serious study, some 95% of all innovations fail.

Why is it that so many smart people are making bad decisions?

It's led to a decline in senior executive satisfaction with return on innovation spending—to 46% in 2007 from 52% last year, according to an annual survey by *BusinessWeek*. That might also explain why only 23% of respondents called innovation a top concern, a substantial drop from last year's 32%.

Innovation—done right—can be an important driver of organic growth and a powerful differentiator that adds substantially to a brand's value. Just ask Apple, whose business and brand power have soared on the strength of its demonstrated excellence at innovation. Or Netflix, which made a name for itself by creating a whole new paradigm for movie rentals. Or Boeing, whose brand and business have been reinvigorated by its revolutionary 787 Dreamliner—promising to use 20% less fuel than current jetliners and enhance passenger comfort.

Although it's tempting to search for quick fixes when it comes to innovation, becoming successful innovators over the long term requires commitment to an overall innovation system. This goes beyond just the processes and structures that support innovation to include the philosophies, capabilities and behaviors that permeate the organization.

A healthy innovation system has various features, but two must-haves.

The first is a balanced mix of creativity and discipline. Innovation is not strictly either art or science. Room must be made for both analytics and intuition, and the mix has to be managed. When the process and approach are skewed too heavily toward science, creativity is stifled, breakthrough ideas rarely emerge and innovation is, at best, incremental. Skew too heavily toward art, and ideas are often "off strategy," operationally infeasible or commercially unviable.

An imbalance in its system set 3M back in its fabled commitment to innovation leadership. This occurred after the St. Paul, Minn.-based company began putting a new management emphasis on Six Sigma quality improvement principles, with the accordant heavy emphasis on rigorous measurement to help decrease production defects and increase efficiency. But the emphasis on process excellence overbalanced what it takes to innovate—variation, failure and luck. Creativity was squelched. Less than a quarter of 3M's sales are now derived from new products, down from the one-third previously. Recently, many of 3M's Six Sigma-related initiatives have been de-emphasized in a bid to get the magic back.

3M's official company policy explicitly fosters innovation: Employees can use 15% of their time to pursue independent projects, and the company unequivocally encourages risk and tolerates failure. That sort of tolerance is just unimaginable to most.

And that leads to a second attribute of a healthy innovation system: acceptance of failure. Success does, in fact, tend to breed success. It also tends to breed intolerance for failure. Most business cultures are not hardwired to support regular experimentation and the failure that goes with it.

Adopting more of a venture capitalist mindset—vs. the prevalent corporate investment orientation—can go a long way toward creating a culture that embraces failure. The venture capital mindset is just the opposite of the corporate model, which presumes a high degree of certainty and success. To innovate successfully requires a certain amount of humility, grounded in acceptance of the fact that there is more you don't know than you do.

How to get there? One step is to move toward test-and-learn models for real-life experimentation with new innovations, whether products or customer experiences. Done on a smaller scale, with a slice of the target market, this allows for evaluation of commercial viability of new ideas, while offsetting the financial risk of failure.

Likewise, it is critical to reward and recognize appropriate failures, as these can be catalysts for success down the road. In addition, it's not a negative to let customers see you fail. Just make sure you involve them in the process to make the outcomes that much better. That's what McDonald's is doing with its Moms Quality Correspondents, a national panel of six real mothers the company has welcomed into the inner sanctum to ask questions and share their findings about its food quality and nutrition.

Innovation remains an imperative—at least, for businesses that expect to retain their competitive edge, achieve growth and ensure their brands stay fresh and relevant in anticipating and meeting customer needs. Those organizations that recognize it's more than the trend du jour, and inculcate behaviors, philosophies and systems into their cultures accordingly, will continue to come out ahead. **m**

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