gullonegroup consulting

Inherently, we all know that we must innovate to survive in business today. It's a hot topic for Boards and Executive Teams. Yet, in many established businesses today, there are employees in tea rooms around the nation wondering what happened to the brilliant idea they mentioned in the last team meeting. In established Australian organisations, the idea that we should innovate more is creating blank stares and discreet glances at the staff suggestion inbox. Executive Teams reassure their Boards - we do innovate, see? Of course you do. All organisations living today do. Yet too few organisations are managing it really well. How good is your organisation at capturing different types of innovation and transforming them into realisable value?

Innovation is just as important as having a focus on service, costs, people, quality and the many other factors that make up a successful business. But, in comparison to other critical success factors, very little time and effort is spent on innovation by established businesses these days. Most business leaders spend little, if any, structured time and effort on innovation due to many competing time pressures, difficulties in the acceptance of new risks, the need to deliver immediate real returns on investment and pressures on costs and resource allocation. There is also some confusion about how to strategise for innovation and welcome it into an established organisation. We mention 'established' because start-ups, usually on the technology front, are built on innovation. In Silicon Valley alone, there are currently over 16,000 start-ups according to one source[i].

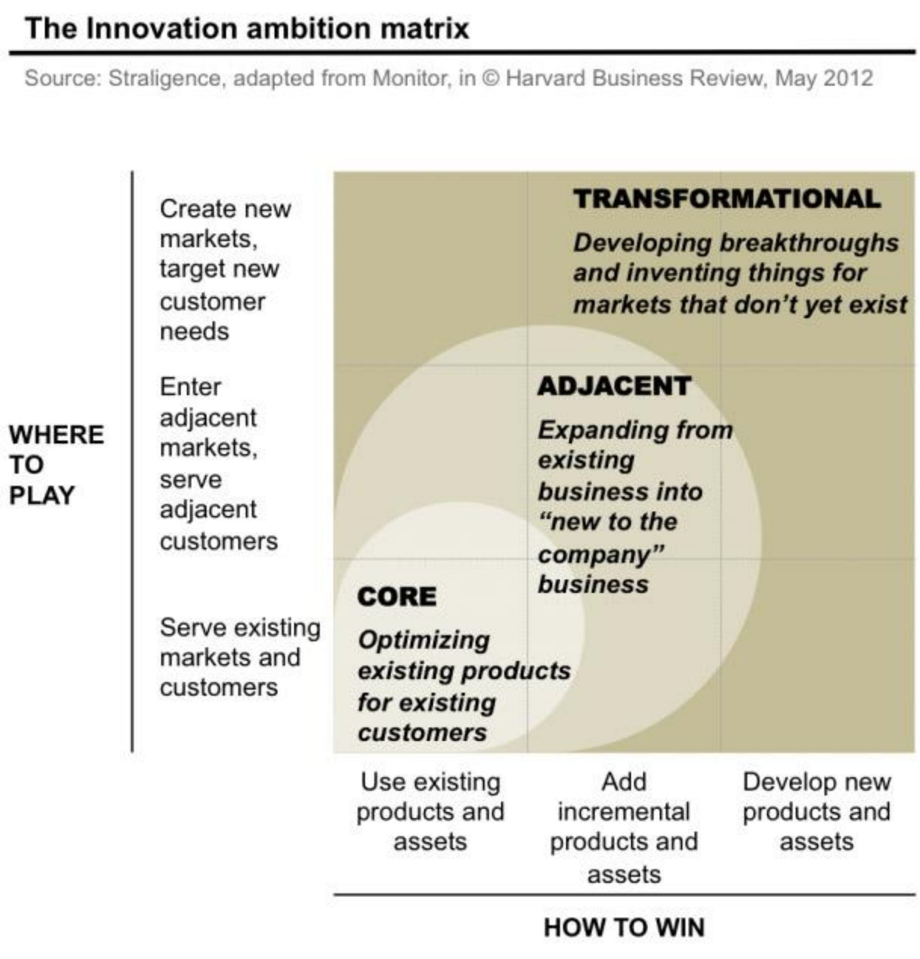
The start-up mentality is based on a healthy dose of entrepreneurial spirit. Invest time, talent, resources and thinking into an idea, concept or innovation to bring it to market. Once a proof of concept has been established, then seek funding or commitment from networks, crowd funding channels, venture capitalists or traditional sources such as banks. But as start-ups embrace the entrepreneurial spirit, many also need to embrace the risk of failure and those risks can be very high in a competitive and global market.

But how can we extract the good elements of an entrepreneurial mindset to welcome and foster innovation in an established business, while still managing the risks associated with such a step? In short, we need to manage for innovation. Established companies such as Apple, Samsung and Google manage for innovation every day. Innovation is woven into the company's DNA. It is expected. It is strategised.

In our consulting to the Boards and Executive Teams of some of Australia's most successful organisations, we hear, 'we need to be more innovative'. It's common to understand the need for innovation. It's much rarer for companies to reliably extract significant value from their innovation efforts. We work with our clients to generate innovative concepts, help them realise their own ideas and pick the prospective winners. Over a longer relationship, we help them build processes that will ensure the organisation has the ability to trampoline itself away from the competition for years to come. This last capability is the most important. It's the ability to manage for innovation. The starting point for developing this capability is being able to take the long view to an organisation's innovation efforts and know that enough is being done, where it counts. Boards and Executive Teams can develop a portfolio approach to assessing the organisation's innovation spectrum and identify where more attention is needed.

A tool that has been developed to assist companies better manage innovation is the Innovation Ambition Matrix[ii]. In effect, companies treat innovation projects on a portfolio basis so that resources are allocated according to the company's existing industry and desired evolution.

The following diagram[iii] summarises the different innovation zones.

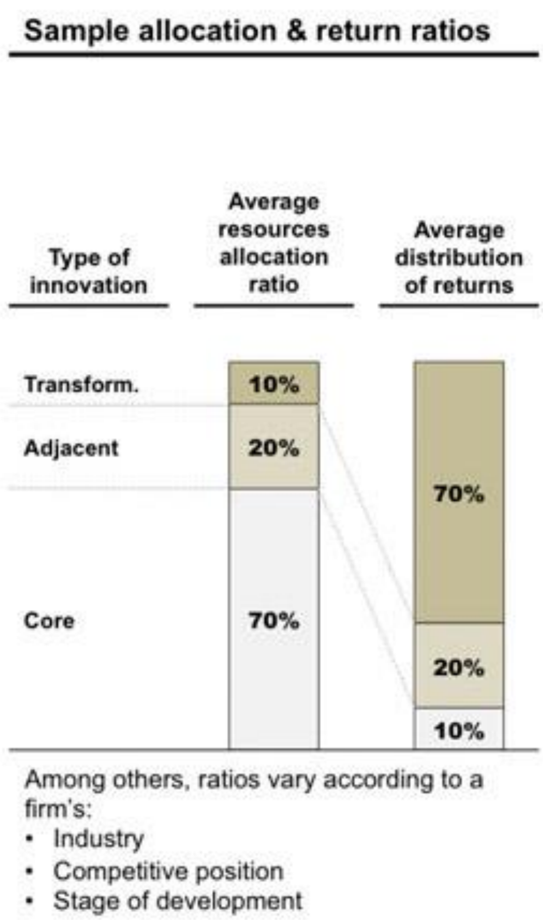


The Innovation Ambition Matrix is future orientated and premised on two fundamental questions a business leader should ask when thinking about managing for innovation:

1. Where should we play? and
2. How will we win?

There are three levels of ambition, namely Core, Adjacent and Transformational (as described in the diagram). The authors[iv] of the Innovation Ambition Matrix suggest that a good starting point is an allocation ratio of resources of 70% to Core, 20% to Adjacent and 10% to Transformational. To achieve the right balance between ambition and resource allocation, consideration needs to be given to the unique nature of the company (e.g. history, capacity, resourcing etc.) and the environment within which it operates or wants to operate in.

The authors examined how organisations' innovation efforts performed in financial terms. They found that the best performing organisations (in terms of standard metrics) derived about 70% of their innovation returns from their Transformational efforts, 20% from the Adjacent level, and 10% from Core. Interestingly, the realisation relationship was directly inverse to the effort and resources expended. For example, the 70% of innovation effort spent in the Core level yielded only 10% improvement. The Core zone is the safe, blue chip stock that helps to keep products and services relevant in a stable market. The big leaps (and a number of losses) live at the Transformation level. If a business can get the Transformational initiatives to work, they can potentially offer the greatest ROI in comparison to Core or Adjacent initiatives.



The first step is to map innovation projects into their categories of 'Core', 'Adjacent' and 'Transformational'. Each industry will have its own desirable portfolio profile – a diversified industrial firm will concentrate most of its efforts in the 'Core' and 'Adjacent' levels. A technology firm will focus on innovating at the 'Transformational' level, in recognition of the fast-moving market in which it operates. Regardless, all organisations should have some focus in each zone.

The management of Core and Adjacent initiatives is similar, for instance:

- Strong analytical skills are used to interpret customer and market data
- Teams are integrated into the existing business

- Projects are funded through the company's profit or budget
- ROI is used to determine whether the initiative proceeds or not
- Traditional financial methods are used to assess ROI and capital injections

Transformational initiatives are managed very differently; using the same management process is fraught with danger. Projects in this category will not get off the ground and eventually stifle the welcoming of innovation in an established business if the same management process is used. For transformational initiatives the management approach should entail:

- Scenario planning and the analysis of ambiguous data
- Open conceptualisation of likely broader market trends, including technologies
- Separation of teams from the existing business
- Breakthroughs often require sustained effort and significant investment
- Recognise that the traditional stepped approach to sales, or business case methodology may not be appropriate and should not be imposed
- Assessment of the progress of transformational initiatives with a wider range of non-financial indicators that also look inward, such as the benefit to organisational learning

At Gullone Group we recommend that innovation needs to be carefully strategised. Our strategy development approach always dedicates a category to improvement and strategising innovation.

Be clear about what innovation means in your business. Map out your current innovation portfolio and ensure you are investing the right amount of resourcing and pursuit at each level. Do you have a gap? Ensure that your process for harvesting innovative suggestions is right for the level. Staff and management tend to excel in Core as they are dealing with production, customers and feedback every day. Marketing and Executive teams often focus on the Adjacent level and they are well-positioned to do this with their exposure to other business models, markets and networks. MDs and Boards tend to generate and assess concepts at the Transformational level, but the ideas can come from anywhere. Be careful that your transformation concept submitted anonymously in the staff suggestion box isn't thwarted by protocol hurdles that kill it before it reaches the MD.

If anyone responds to a new idea with 'no, it's not in our core competencies' or 'no, that's not core business', or (worse) groaning, it's a sign that your organisation has a restrictive innovation culture or inadequate innovation resourcing. Sometimes this is sound thinking, particularly for government-owned enterprises with a specific charter or for a company struggling to survive. For an otherwise healthy, independent organisation, it's a sign of rigidity that will kill off the entrepreneurial spirit of your people.

At the very least, ensure your organisation is pro-actively seeking, assessing and using information about the external environment, detecting trends that might be intercepted by your transformative development. When regular employees are already dealing with significant work challenges, being given a blank sheet of paper headed 'Innovation' can just become an irritant. Ensure you have at least one innovation resource that is free to investigate, create, co-opt others and drive new ideas through to their decision points. This might be an internal resource or an external consultant.

A leader's ability to speculate should never be taken away but realise that not all ideas from leaders are good ideas. Have a mechanism whereby Core and Adjacent ideas can be captured but not necessarily enshrined within the business unless the data, analysis and market conditions all point towards a successful outcome within a relatively short space of time. Be acutely aware of the time to market. We get rather nervous when someone says 'I have a great and innovative idea but it is going to take five years of investment and effort to get it to market'. The external business environment is changing at such a rapid pace that in five years that particular product, service or initiative may just be irrelevant or introduced by someone else. As a guide, we suggest that the cut off period for new Core or Adjacent ideas should be a maximum of three years to get it to market.

Transformational ideas are different. Manage this risk by restricting the investment – steer the project to early decision points quickly, but don't be afraid to keep exploring that new frontier if the relative investment is low.

Our position as trusted advisor to our clients offers the perspective required for developing Transformational initiatives. We are also able to assist clients in ensuring their innovation processes achieve the projected benefits faster.

To revive innovation into your business is to welcome the future.

Gullone Group Consulting
Level 27
101 Collins Street
Melbourne VIC. 3000
p: +61 3 9221 6281
w: www.gullone.com

[i] Angel.com/silicon-valley Start-ups.
[ii] This matrix is a further refinement of the diagram developed by mathematician H. Ingor Ansoff to help companies allocate funds to growth initiatives. This Matrix was developed by Bansi Nagli and Geoff Tuff and covered in the Harvard Business review, May 2012.
[iii] Staligence, ibid.
[iv] Bansi Nagli and Geoff Tuff.