

INNOVATION

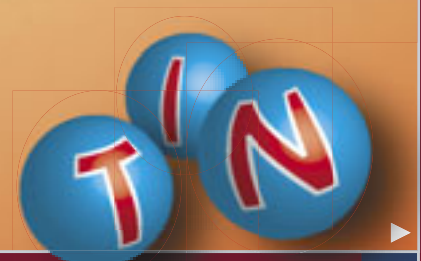
a fundamental for a great business

Innovation separates the ordinary from the extraordinary. It all starts with leadership.

By Dianne Jacobs.



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Throughout history the ability to imagine new worlds, shift perspectives or think differently has defined some of our greatest breakthroughs. Think of Gutenberg's printing press, the myriad achievements flowing from Bill Gates' Microsoft, of the lateral business model behind Larry Page and Sergey Bin's Google. These are people who have persevered with an idea until it became reality.

Companies founded on fresh ideas have changed the way we live, work and play; they have shaped the competitive landscape and captured a critical lead within their industries – think of CNN, Starbucks, eBay and Apple.

Ditto with individuals working within company structures. Think of Richard Drew's 3M Scotch Tape or Ken Kutaragi's PlayStation at Sony, or of Tim Berners-Lee who developed a program named 'Enquire' while at CERN (the European Particle Physics Laboratory) as a way of sharing scientific data – 'Enquire' has now become the World Wide Web!

As companies need to compete in differing and changing climates, new thinking and creativity will be as important to the bottom line as any other driver. No advantage and no success are lasting.

Innovation is the spark that can propel one organisation ahead of the rest, create new business models and find new sources of revenue – it is fundamental to competitive distinctiveness.

With so much at stake, can you afford not to be innovative?

As wonderful as breakthrough innovations can be for a company's bottom line and corporate image, it is more often that steady small-scale development will deliver the consistent growth needed to differentiate. Leadership, purpose, discipline and technology all play a significant role in delivering innovation.

Here are some ways to shift gears.

Think outside-in – start with the customer

Every company regardless of size, purpose or industry faces the same question: 'what is the best way to deliver products and services to our customers?'

The challenge is to understand what customers need, find a way to fill that need efficiently, and at the right price; or what frustrates them, and find ways to eliminate these areas of frustration.

Successful companies must not only generate new ideas, they must identify the most promising and act on these quickly and effectively.

Focus on what your customers actually value. Examine where your products and services fit in the total chain of buyers' solutions. Look for new sources of value. What would happen if you eliminated features, created features, reduced some or raised others?

Frequently, customers don't fully understand their needs until they try out prototypes. They can then explore exactly what works and what does not. This 'learning by doing' stems from shared interaction and problem solving with the customer.

Culture at the core

If it is the customer who determines 'what' you do, then it is the company's culture that shapes the 'how' – including the acceptance of change and difference, levels of trust and collaboration and the open flow of information across the company.

Creativity is a source of meaning in people's lives and most of the things that are interesting, important and human are the results of creativity, so when people are involved in creative work there is a greater sense of personal satisfaction.

But leading-edge cultures are more than that. The tone of these businesses

'There's more productivity to be gained in the advances that will come in the rest of this decade than the industry has delivered in our entire history up to this date.'

– Bill Gates, Microsoft Chairman and Chief Software Architect.

resonates from the senior executive team – its agenda and its dialogue with staff. There is real effort on getting clarity around purpose, processes and people – and the interconnections. Good leaders get buy-in by communicating this direction time and time again, as they never assume what is obvious to them is also obvious to others.

‘Culture Led, Market Driven’ organisations understand this, but also use their strong business focus on innovation as a core competency and a critical means to drive current and future value.

They also know that often people ‘manage in the moment’ and are too swamped by operational tasks to reflect or think creatively. There may even be a reluctance to change, or a preference to keep things the way they are. The question is how these natural barriers can be managed and with what processes.



‘Good leaders prepare the organisation to innovate. They really put a focus on people, process and culture to make sure that their companies are great places to work. Great leaders pick the right places to innovate ... spend time in the marketplace ... make choices ... fund the ideas ... with maximum return from the risk.’

– Jeffrey Immelt, Chairman and CEO General Electric.

Planned spontaneity

A well-defined and articulated innovation management system, including the right scorecard measures, is essential. So is flexibility.

The problem is that many companies do well at finding and assessing new ideas, only to run into a shortage of people and skills during implementation. Even the better companies leave ideas on the table.

It is a paradox that most useful ideas originate from a structured process rather than random inspiration.

Organised innovation means formal, end-to-end innovation processes that encompass everything from ideas generation to evaluation and *especially* implementation. It is often a system for ‘technology brokering’ recombining old ideas in new ways and exploiting existing networks in ways that competitors have not yet seen. It also includes work with external partners – such as suppliers, customers, universities and service providers – in the effort to move innovative ideas forward.

Look at your entrenched routines,

boundaries and rewards to see if they truly encourage experimentation and new ideas. Allow small development groups, containing key people with different experiences to form. Properly constructed groups like these have all the ingredients to provide a lateral solution plus the commitment to execute.

How easy is it to improvise and experiment within teams and across teams? Think of the definitive Miles Davis’ *Kind of Blue* album. Each of the famed jazz musicians improvises from a base of an established melody or set of chords to then explore (search, vary, expand) or exploit (refine, repeat, hone). They also respond to each other in a way that, as pianist Bill Evans observed, requires ‘the very human, even social need for sympathy from all members to bend for the common result.’

Think and then think again

Albert Einstein was at the forefront of the innovation formula when he said: ‘We can’t solve today’s problems with the same

kind of thinking we used when we created them.' So question your assumptions and the influence of hidden assumptions – do these assumptions prevent – or drive – new opportunities? Examine unutilised or untapped resources.

Think like a new entrant to the market and follow a different strategic logic to examine ways to create value as if you were starting anew. Einstein believed that the mere formulation of the problem was more essential than its solution. Make sure you understand what is the real cause of the problem or situation – or aim at least to develop several definitions of it from a variety of realities.

Try to reframe and interchange the mindset – 'why yes' for 'why not', problems as opportunities, reactions as actions, risk averse as risk taking, loss for gain, short term for long term, tactics for strategic posture, quantum for incremental, trial for implementation. By thinking about a situation from the opposite response, new perspectives emerge.

Work back from the future

Business performance measures do not

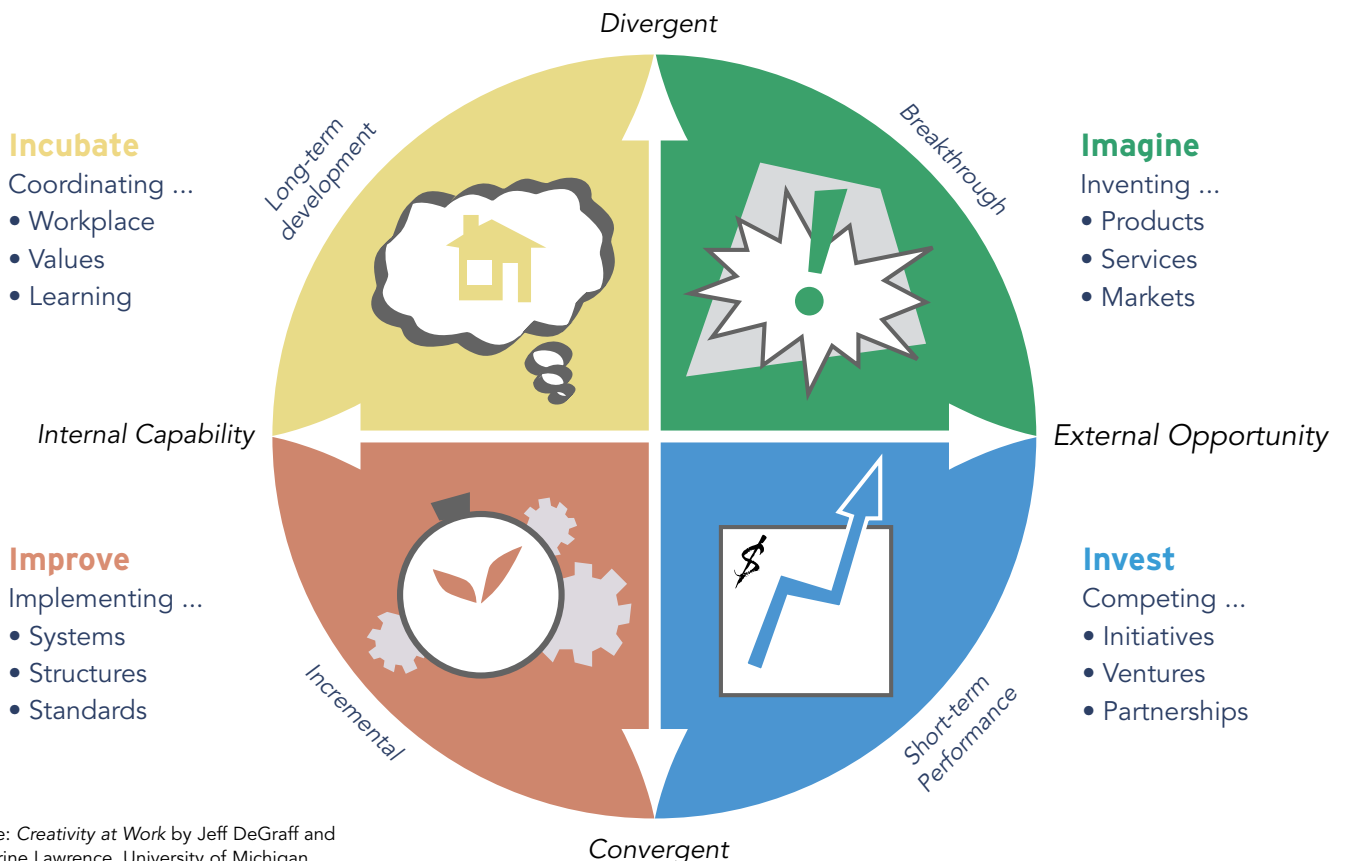
necessarily cascade up into a shared strategic intent – this bottom-up approach on performance is more a collective view of past and present trends, particularly if the measures aim to assess efficiency. What is missing is the disciplined imagination about the future. In one sense, the future has already happened. All we have to do is look for it.

You can plan, but events will occur that you cannot predict. You need to give yourself the capacity to respond. Strategy is more and more a series of options along a continuum. It is determining responses, which position you to act – when you choose, when the opportunity presents or the future becomes clearer.

Intel's Chairman Andy Grove in his book *Only the Paranoid Survive* (Time Warner 1999) warns about managerial complacency. By adopting a state of watchfulness an organisation can be in a better position to pick up unplanned and unexpected change. He sees change in the business environment as a series of 'strategic inflection points' when the fundamentals by which a company operates change suddenly and without warning.

But how can you distinguish the signals from the noise? Grove suggests engaging in continuous debate and analysis, sharing information and generating new ideas.

CREATIVITY MAP



Source: *Creativity at Work* by Jeff DeGraff and Katherine Lawrence. University of Michigan Business School – *Dividend Magazine*, Spring 2003

Look at trigger events or 'what if' type actions or other critical scenarios before they happen. This approach helped Shell to foresee the potential impact of the two oil crises in the 1970s and reduce the damage to its business – and is continually used by them and others to link the uncertainties or inevitable surprises of the next 30 years to the decisions they must make today. Also examine different strategic postures; that is, if you had to defend your current franchise or capture new business, would this highlight opportunities or issues?

Examine the marketplace

Innovation is about being proactive, about anticipating change in an ever-changing world, about developing ideas and solutions ahead of the competition. In fact, down markets offer a great opportunity to fill gaps and take the lead.

Keep a watch on the periphery of the industry, for this is where the newest ideas may emerge.

Monitor competitors, but don't use them to limit the parameters of your thinking. Examine non-traditional competitors. Look at the 'best of the best' across different

and related industries to learn how they do what they do. Great firms doing interesting things may give you ideas that will impact on your business or give you a concept that you can adapt or combine with your existing knowledge.

Also look at geographic concentrations of interconnected companies, services or resources to determine if a pattern or trend is developing.

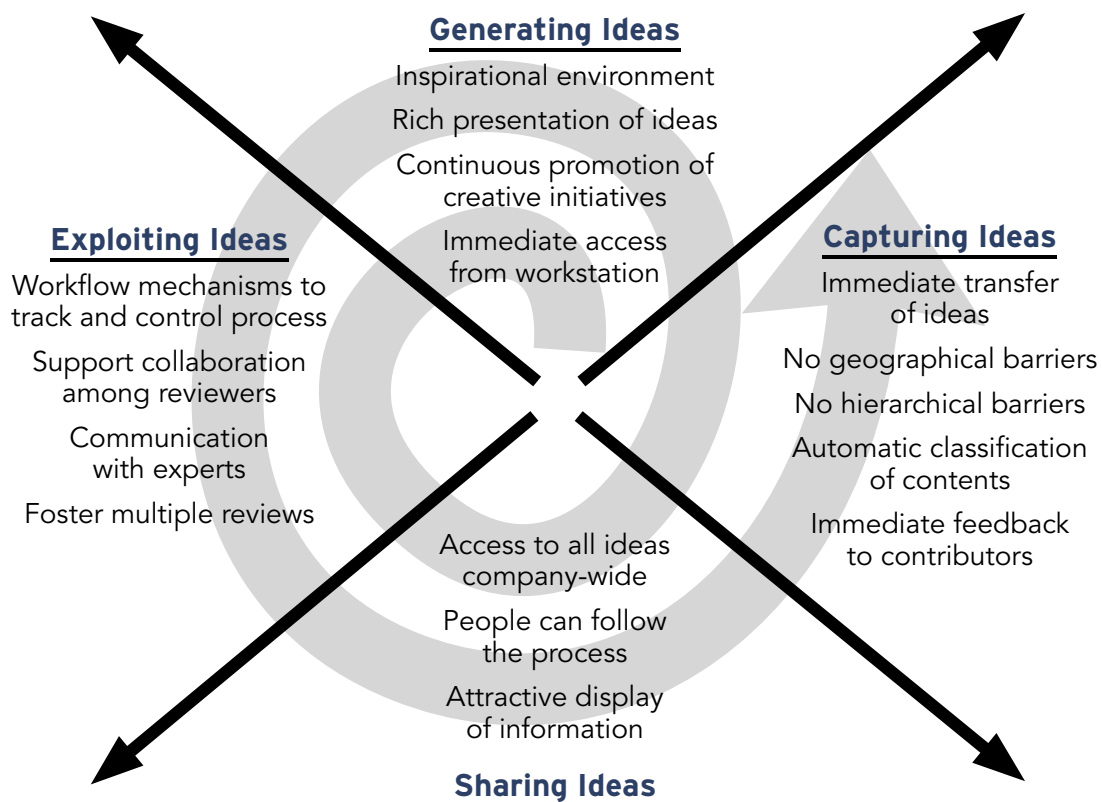
Broaden thinking and networks

Conventional thinking reflects rationality. It gives exclusive attention to here, now and us – but overlooks there, the future and them.

It is information-rich, ambiguous environments that are often the source of surprising new insights. Ideas spring from information that comes from open, fluid and collegial relationships, from ongoing circles of exchange where information is not just accumulated, but is willingly shared.

Be curious. Read widely – and not only in subjects directly related to your profession, but those outside of your discipline. Expand cross-industry contacts and networks to which you can talk fairly regularly and have a good exchange of ideas. Also

VIRTUOUS CYCLE OF NEW IDEA MANAGEMENT



Source: Imaginatik – Research White Paper August 2001
New Approach to Idea Management: Idea Central.

INNOVATION NEEDS COMMITTED RESOURCES

If innovation is so critical to competitiveness, why do companies fail to allocate the resources necessary to make it happen? Is it the lack of a compelling business case or is it that technology makes too many ideas obsolete too quickly? Is it cheaper to be a close follower or is there a reluctance to change? Does there need to be a fundamental shift in business thinking to lift the constraints that prevent providing people, time, tools, and funding to come up with ideas that produce income?

Australia's Research and Development performance continues to fall well below the OECD average and R&D investment levels are well below the countries with which Australia traditionally compares itself. This is exacerbated by the fact that Australia continues to perform strongly in gross domestic product (GDP) growth, but fails to invest a proportionate amount in R&D.

In the US a CEO Survey of 350 Chief Executive magazine readers from a variety of industries found that three-quarters of companies spend less than 6% of revenue on R&D, and more than half spend less than 3%. For most companies, R&D is less than 10% of overall spending on innovation. In general, the survey found that budgeting for innovation tends to be flexible, with four out of five companies basing budgets on the opportunities that are available or the economic environment, as opposed to having a fixed amount or percentage of revenue as the basis.


Another barrier is the lack of available people or people with the right skills who can be freed up for innovation efforts. There is a conflict in that most companies use cross-functional teams for implementation, yet these same people also continue to be responsible for their existing roles and have their performance rewarded accordingly.

So choices and trade-offs have to be made. Choices about risk, choices about value and choices about return. And decisions need to be made, with optimism and willingness, as to what is needed for the long term.

Risk management and capex allocation is a normal part of doing business. Innovation is an investment for the future – it needs realistic ROI expectations. The answer may be having a portfolio of ideas that are constantly being executed through different cycles and time horizons.

Companies that excel at innovation have a clear innovation strategy and a culture that encourages innovation, spend more on R&D, and have formal processes to evaluate ideas; measure innovation, and use external resources for both idea generation and implementation.

- Dianne Jacobs.



communicate broadly, seeking input from related functional areas, mentors or different stakeholders for a more dynamic view.

The power of diversity

Innovation is, in reality, a group effort. The best ideas will come from teamwork, drawing on the diverse talent of many. Think of the divergent thinking needed by the team of NASA scientists working with the unfamiliar to rescue Apollo XIII.

Solid research is emerging about the link between diversity and creative thinking, supporting the view that a varied group of people will outperform in tasks of creative thinking. This means diversity of thinking, style and experiences.

People are your innovation channel – they connect a company to its customers and the marketplace. So encourage collaboration and cross-functional teams. Good ideas can come from anywhere in an organisation, and turning them into results typically involves many people from different areas.

The thriving ancient trading ports were as vibrant, diverse and rich as their aromatic spices. In periods of 'renaissance' and 'enlightenment' artistic and scientific thinking flourished with support of patrons. Today, globalisation gives us a modern 'trading port' where knowledge and knowledge workers are highly mobile coming together to provide a strong impetus for fresh perspectives and innovative practices. Our 'world in common' values and needs capabilities that travel well and intact across cultural boundaries.

Some ideas fail, so learn from the feedback

Thomas Edison was once asked 'how many ideas do you need before you find one that works?' He replied, 'all of them!' Embrace failures that occur early in the development process as they help to gain knowledge and learning. Judgement and insight are also as important as hard data as the aim is to fuse these two sets of capabilities to achieve a deeper level of understanding.

Edison is said to have failed thousands of times before he invented the first incandescent light bulb, but to him, those weren't failures. Each one taught him something new that led him to the next experiment, and the next and the next, until he succeeded. It's not failure – it's feedback.

Think of setbacks as investments in the future. Clearly executives always need to manage risks – and they need to be right a lot more than they are wrong – but the most innovative ones learn to trust the idea of ‘intelligent failure.’

Sow and incubate plenty of seeds

Within the right innovation management system, you should keep the pipeline of ideas flowing through the processes.

Think big, but implement in little pieces. Use small pilot projects to build support for ideas. Try to anchor the idea in as many places inside the company and with as many customers that are important to the company as possible.

Does the idea suit the context? Is the timing right? Sometimes you come across a perfectly good idea but there’s no situation at the moment that lends itself to realisation. So incubate the idea until the right opportunity comes along.

Peter Drucker, the prominent management consultant, states it clearly when he says ‘results are obtained by exploiting opportunities, not by solving problems.’

Often it requires perspective. Like the navigators during the age of exploration, good managers always have one eye fixed on the horizon and the other on the current position. It is like viewing the dance from both the balcony and the dance floor.

The distinction between a dreamer and a visionary may just be a matter of time

– a matter of the right temporal dimension within the realm of possibility.

Evaluate, but have a bias for action

Any scheme or idea without execution is merely a mirage. Once you find an idea that has potential, then begin the process of evaluation, design and most importantly, action.

Evaluation is critical. Michael Porter, Professor at Harvard Business School known for his work on competitive strategy, says ‘the essence of strategy is choosing what not to do.’ The same applies to innovation.

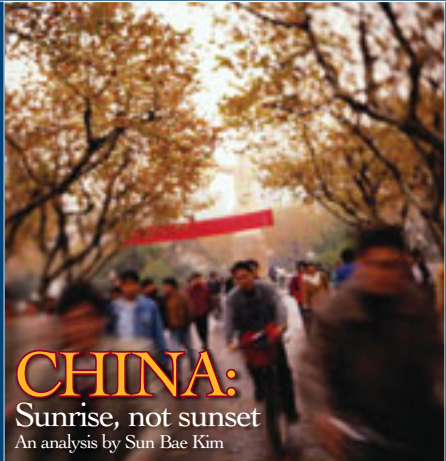
Innovation must be ‘delivered’ and this means translating good ideas into results that improve business performance. There also needs to be a balance between operational efficiency and innovative thinking. This means supporting people with the funding, tools and freedom to pursue good ideas.

More benefit may be derived from focussing initiatives on specific critical business issues, where there is the motivation to dedicate the resources for successful execution and results.

The end or the beginning?

A discussion on innovation cannot end with a conclusion, because the thinking never stops. What is learned today triggers ideas, decisions and the desire to learn more. As Le Beau says in Shakespeare’s *As You Like It*, ‘I will tell you the beginning: and if it please ... you may see the end, for the best is yet to do.’ ♦

GOLDMAN SACHS JBWERE
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