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BUSINESS INNOVATION: WHAT IT BRINGS. WHAT IT TAKES

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Abstract

Once innovation meant technological leadership, now it suggests a fundamental quest of any firm, not just a technology-based one, for success. Sources of firm prosperity change in today's dynamic markets. Top managers demand an approach which can ensure that all required streams of innovation flow in the right direction, fueling strategy thrust. This calls for a re-appraisal of what innovation is, and how it is managed. How do we need to revise our approach to innovation and what are the key management challenges to translate it into business success? The authors attempt to shed light on this question, arguing that innovation should be systematic, continuous and broad.

Keywords: Management Innovation, Broad approach to innovation, Systematic approach to innovation, Oslo Manual on Innovation (OECD).

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"The Cave" is a revolutionary marketing tool that is saving Procter & Gamble years of traditional research. It consists of a 3D room that projects the visitor into a virtual world, in which P&G are able to observe first-hand the reactions, behavior and experiences of consumers in stores such as Tesco, J. Sainsbury, Asda and Boots.

The Cave recreates, in every detail, the interior of these high–traffic stores and visitors can walk through and explore the aisles, select products that catch their eyes, or turn them round to read labels or sell-by dates before they proceed to the checkout. Using this tool, P&G are re-designing store layouts, displays, product design and packaging. P&G's general manager for United Kingdom and Ireland, Gianni Ciserani, states that, "In three months we have done work that would previously have taken us two years." Before the virtual cave, the company would need to persuade one of their retail clients to overturn one of their stores for a pilot – a costly and time-consuming operation for all concerned.

So, is this innovation? It certainly produces unprecedented levels of value. What kind of innovation is it? P&G are not offering anything new to the end consumer, at least not directly. So perhaps process innovation. Technology? No. Technology is used, of course, to generate the 3D environment and, without it, there would be no Cave, yet we would argue it is still not the focus. Think marketing innovation then, or experience. It's not easy to define, yet it's certainly much more than technological or product innovation which has come to dominate the innovation agendas of industrialists and academics alike in recent years.

Beyond Technological Innovation

As can be seen from the P&G Cave and countless other examples, the nature of innovation is changing, as is the approach used to successfully innovate. Innovation means different things to different people, yet it always implies transforming new ideas into renewed sources of value. This is much more than just new products or technology – a common misconception. Products and technology often lead to relatively short-lived benefits, with the results open to quick imitation and the loss of competitive advantage (Keeley, 2002).

Many of the most well-known innovations in recent years – the Starbucks customer experience around coffee, Amazon's broad offerings, the Cirque du Soleil concept, nimble and fast organizations built on the network and federal forms, low-cost air travel, flexible supply chains

or total customer solutions – have had little to do with technology or new products in the traditional sense, and more to do with the actual delivery of new sources of customer value. Furthermore, by looking closely at one of the most successful new products of recent times, the Apple iPod, it is clear that the overall value emanated from much more than just core MP3 technology, or even good product design. These were the foundations from which other types of innovation, including service, experience, and marketing, reinforced their strength and ultimate dominance in the market, moving beyond the MP3 player sector to the online music industry in general.

By overly focusing on technology inside the business, companies will be unable to produce their own iPod success story. Muller, Valikangas, and Merlyn (2005) state that poor innovation management and performance have resulted from metrics overly focused on technology, stating that such metrics, although useful, offer a limited view of a company's innovativeness.

"They don't measure the company's overall innovation capability. In emphasizing technology development, they neglect business-concept innovation," the authors state. "And their focus on R&D and products makes them less suitable for service companies and companies outside the high-tech sector." In sum, product and technology innovation can be viewed as important elements within a family of innovation types – from innovation in any business process or activity to the transformation of the business model.

Table 1

Summary of Perspectives of Business Innovation

Name of approach	Stated definition	Main points
Approaches closer to the core of Business Innovation		
Business Innovation by Sawhney, Wolcott and Arroniz (2006)	*The creation of substantial or radical new value for customers and the firm by dramatically changing one or more dimensions of the existing business system, or by creating entirely new business systems.*	Companies should address the holistic business system for innovation. This can include 12 types of innovation. Companies are shown to differ according to their innovation orientation (outward-in versus inward-out) and governance (organic versus structured), to create four archetypes – Explorers, Architects, Moonlighters and Miners.
Management Innovation by Gary Hamel (2006)	*A marked departure from traditional management principles, processes and practices or a departure from customary organizational forms that significantly alters the way the work of management is performed. Put simply, Management Innovation changes how managers do what they do.*	Companies should choose between operational efficiency (the business processes) and management innovation. Four key elements include commitment to a big management problem, a search for novel principles that illuminate new approaches, a deconstruction of management orthodoxies, and analogies from atypical organizations that define what is possible. A key point is the re-invention of core management principles that were originally created for a very different world and with more focus on people within the organization, to build empowered, motivated communities.
Approaches focusing on one aspect of our view of Business Innovation		
Value Innovation by Chan Kim and Renee Mauborgne (2005)	*Value innovation is about offering unprecedented value, not technology or competences. It is not the same as being first to market. Value innovation takes place on three platforms – product, service and delivery.*	Companies should challenge conventional strategic logic. A key goal is to achieve value differentiation from the competition, through eliminating, reducing, raising or creating industry factors. This will lead to operation within uncontested market space.
Strategy/ Business Model Innovation by Costas Markides and Charitou (2004)	*Strategic (more recently Business Model) Innovation is the discovery of a fundamentally different business model in an existing business – the new business model must enlarge the existing economic 'pie', either by attracting new customers into the market or by encouraging existing customers to consume more.*	A new business model in an existing business that enlarges the existing economic 'pie', discovery should be based on Who (new customer segment), What (new value proposition) and How (new value chain). Conflicts with existing business should be carefully managed.
Strategic Innovation by Vijay Govindarajan and Chris Trimble (2005)	*Strategic innovation refers to the process of reinventing strategies. Despite some commonalities, strategic innovation is not synonymous with technological or product innovation. New technologies do not always yield successful products. Similarly, new products are not always strategically salient. Strategic innovation is innovation in the strategy itself.*	To test new, significantly different answers to: Who is the customer, What is the value offered to that customer, and How is that value delivered? A company should address three different challenges – forgetting assumptions, mind sets and biases that may no longer be valid, borrowing assets and resources with concrete value, and learning how to improve predictions of business performance.

Successful Innovation: Broad, Continuous and Systematic

What is required is an approach to innovation free from the constraints of a narrow specialist view; a tool that managers at different levels can shape and direct to implement innovation initiatives in any business area and ensure that all required streams of innovation reinforce each other and serve the purposes of the overall strategy. Common, component-level approaches to innovation, such as technology and product, are largely inadequate for fuelling the fully-fledged sources of competitive advantage that markets now demand. Innovation normally requires transformation of values, principles and practices across the board within firms, far beyond the realms of any technology or marketing head. Innovation thrust has to stem from the very top, and be ingrained in everyone's attitudes and competences.

Of course, technology- and product-based innovation are critical elements in a company's innovation activities, yet they should be viewed more as innovation options within a family of types available to the company. A research line at IESE Business School aims to shed light on challenges and implications for the effective implementation of Business Innovation (BI). In our view, successful business innovators are firms capable of implementing aspects of *broad*, *continuous* and *systematic* innovation.

Broad

Moore (2006) shows the need to change innovation focus over time, depending on market performance and competitor behavior – which may be linked to the stage of the business life-cycle. Renewing a firm's competitive advantage and prospects for success require aligning efforts at the individual level, working groups, project teams, and larger collectives within the firm. Yet several different roles will be played throughout the process. Coordination of activities and integration of goals in different business areas are key to the well-being of the innovation outcome. As stated by Moore, if many types of innovation are implemented without a common thrust, the net benefit will be zero. Strategy becomes a common ground, an indispensable glue that will hold the pieces together.

Continuous

Muller, Valikangas and Merlyn (2005) discuss the importance of innovation metrics for improving the management of innovation in organizations. They highlight the degree of change at the top of every industry, contrasting the range of companies cited as best practice in seminal publications in 1982 and then again 12 years later, different again from the present day innovation "leaders." They state: "Such high turnover at the top suggests that the real problem isn't a lack of innovation – it's sustained innovation. Companies may seize upon a good idea that gives them an advantage for a while, but sooner or later, they cede this advantage to a competitor who has found an even better idea."

From time to time, companies will manage to put in place all pieces of the puzzle necessary to successfully innovate. In the past, such a one-shot success, especially for smaller companies, was enough to sustain a competitive position, but this is no longer the case. Companies now need to pursue a portfolio of initiatives to provide a continuous flow of innovations. A consistent stream is needed to become a regular innovator, to sustain the business in the short, medium and longer terms.

Systematic

If innovation is to be broad and continuous, it cannot be left to natural, emergent processes or people's heroic efforts. There must be a systematic approach in place, one that fits the current state of the company. Innovation becomes a change program for many companies, and change needs to be guided, directed, focused, well thought-out and pro-active. It follows that firms need a system in place to transform the underlying processes, mindsets, attitudes and competences that support innovation (Muñoz-Nájar and Vilà, 2002). This may result in some form of framework, structure or process suitable for the specific company needs. Talented individuals may be able to pull it off every now and then, yet in order to be consistently innovative, there has to be a system in place built around an innovative process.

So, broad-based, continuous and systematic innovation is a new requirement for business excellence. We call this "Business Innovation".

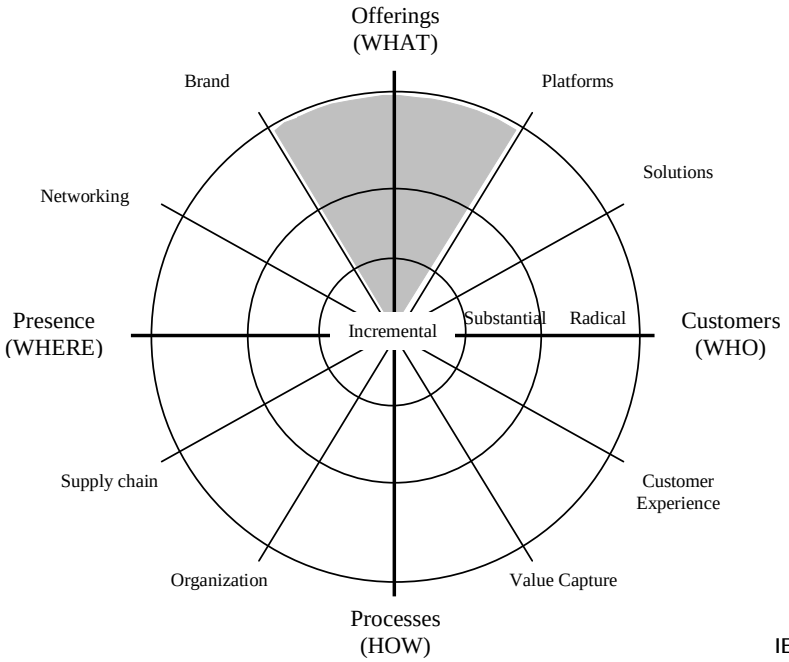
Mapping Business Innovation

Business innovation (BI) demands a completely different approach to innovation thinking as compared to traditional product and technology considerations. Sawhney, Wolcott, and Arroniz (2006) define the narrow focus on product, R&D and platforms as *directional myopia,* an "innovation pathology".

The same authors go on to detail, as shown in Figure 1 below, the "innovation radar". It displays 12 dimensions of business innovation, encompassing all aspects of a business system: the offerings a company creates, the customers it serves, the processes it employs and the channels, or presences it uses to take its offerings to market. They present the innovation radar as a diagnosis tool to identify and pursue neglected dimensions. Yet whether a company needs to excel in all dimensions is open to question. Also, some preliminary insights into the management challenge of tying the various elements in the business "system" are provided – how various elements fit together to produce the continuous flow of innovations in different areas to maintain competitiveness.

Figure 1

Innovation radar (Source: Sawhney, Wolcott, and Arroniz, 2006)



Key Pillars: What Business Innovation Takes

A number of management challenges emerge in the attempt to implement broad, continuous and systematic innovation. The pillars of Business Innovation are as follows:

1. A holistic view of business innovation capacity drivers. The right approach is an overall management system – including management drivers (such as leadership, strategy or organizing practices), enabling factors (such as culture), and propelling factors (such as a process for managing strategic initiatives and individual contributions).

2. An innovative culture. One which is continuously shaped by introducing evolutionary changes into management principles and practices, specifically designed to foster innovation. This cultural change builds on several levels: high levels of ambition and even stretch in selected areas or strategic issues. New sources of support for entrepreneurs and innovation leaders. And, finally, management commitment to developing trust and discipline throughout the innovation process. This entails an appreciation of the softer side of innovation – from values to emotions and relationships, in addition to management practices, which jointly shape culture.

3. A systematic innovation process; one which translates ideas into strategic initiatives and turns them into results. The three building blocks of the process are: first, an initial strategic thinking effort to provide guidelines for creativity; second, focused idea generation; and, third, the implementation of a balanced portfolio of projects and initiatives in a broad set of business areas in support of the goals and aspiration set upfront (Vilà and Muñoz-Nájar, 2004). This is a general management approach to the innovation process, linking strategic thinking and action.

4. Removing obstacles to change. At the core of implementation is the need to re-invent core management processes and principles that are often taken for granted. To Govindarajan and Trimble (2005) there are three different challenges within the 'dual purpose' of organizations to exploit existing business and to simultaneously explore a related new business; these are *forgetting* assumptions, mind sets and biases that may no longer be valid or relevant; *borrowing* assets and resources with concrete value; and *learning* how to improve predictions of business performance.

5. A people-based approach. This includes recognition of the critical value of people's willingness to contribute. Commitment by people in different positions will make a difference to the quality of ideas provided, levels of participation in project teams, and the support and resources offered to innovation activities that differ from daily tasks.

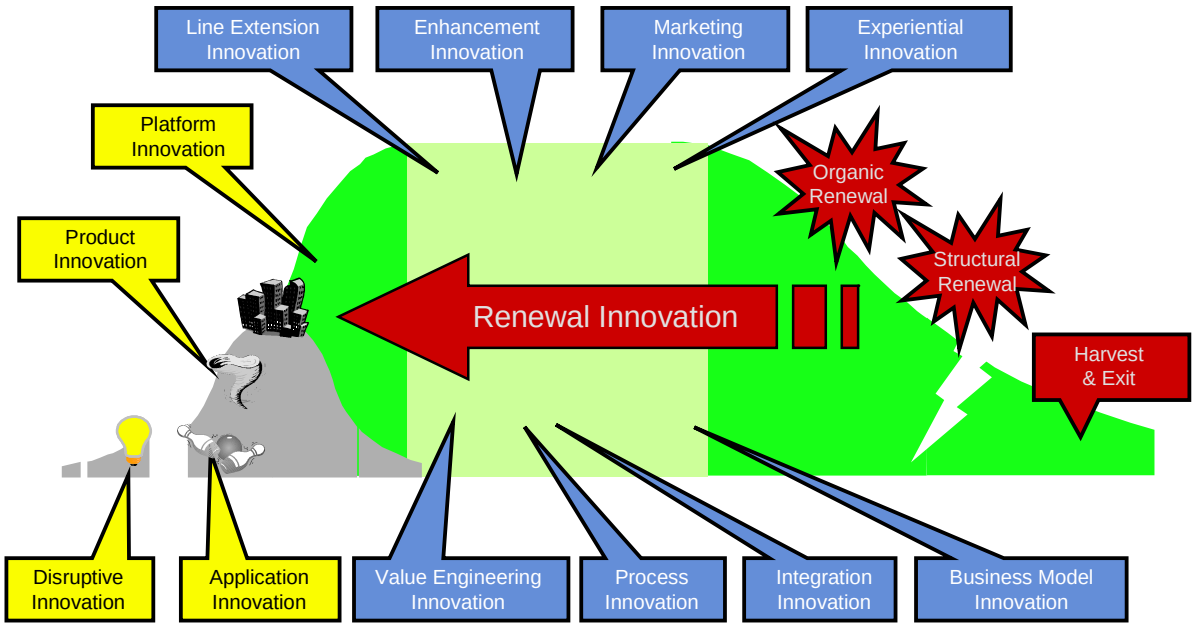
6. The involvement of the wider community in the innovation ecosystem. This includes stakeholders within the value chain, and even the involvement of external players (co-innovation) may help to foster broad and regular innovation.

In sum, if a company wants to innovate broadly and continuously, it needs a comprehensive, systematic effort to align a number of innovation capacity drivers. It also needs to nurture a culture of innovation and overcome major obstacles to change. Furthermore, these endeavors have to balance the demands of daily execution and innovation development. This is a major reason why a general management view is much needed, and a narrower approach will fall short. The task of managing the trade-offs of implanting business innovation is receiving higher priority in top management agendas. The challenges are great, yet the payoff may be

tied to a firm's prospects for prosperity. Those who claim it is not possible should not interfere with those who try to make it happen.

Figure 2

Broad universe of innovation types – different types get traction at different points (adapted from Moore 2006)



Conclusion

Given these contextual considerations, the emphasis should be on developing a specific approach to fostering business innovation; this deviates from the more traditional way of fostering new product or service innovation. In summary, managers need to approach innovation from a comprehensive, general management angle, and through deploying both a 'hard change' program (designing new processes, responsibilities, practices) and a 'soft change' program (mindsets, emotions, values, etc.). Companies will also need to take an evolutionary approach, as competences, relationships and concepts develop over time. Most importantly, leadership from the top and at all levels is needed to manage the disparate requirements and foster broad, continuous and systematic innovation.

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