Innovating On Your Own Terms

Moderator: Betsy Schaefer

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Betsy Schaefer: Hello, and welcome to this IBM and Innosight podcast. This is Betsy Schaefer and today we’re going to talk about a new piece of research called “Innovating on your own terms.” It’s helping companies understand the linkages between how they approach innovation and its impact on the bottom line. I’m here today with the authors of the research, George Pohle, who leads IBM's business strategy and consulting practice, and Steve Wunker, a partner at Innosight. Welcome.

Steve Wunker: Thanks Betsy. Thank you.

Betsy Schaefer: So innovation is just about on everybody's agenda these days. Tell us what sparked this particular line of research.

Steve Wunker: Well, in 2006, IBM did a study with over 700 CEOs specifically focused on the topic of innovation. At that time, one of the things we were trying to understand was how the CEOs were thinking about innovation.

And what we came out with was that there were three dimensions to it: one focused on business model innovation; two, operational innovation; and third, on traditional sense of product and service kinds of innovative ideas that get turned into new product services, revenue streams. So, there was a more expansive innovation that CEOs offered us at that point.

What we wanted to do was go beyond that study and to take a look at how companies can effectively implement innovation in any one of those three domains. And so we embarked on a benchmarking study with an organization called the American Productivity and Quality Council, APQC, who runs an open standards benchmarking collaborative.

The work we've with them is to do two things: one is to define a potentially impactful set of metrics that could be used more broadly to help companies figure out if they're being effective at innovating; and the second thing that we've done now is collect data to determine how it is that those companies have been innovating over time.

Steve Wunker: One of the things we've found with increasing interest in innovation is that people know that innovation is profitable but it's profitable because it's hard. And I don't know if everybody who tries innovation campaigns recognizes how hard it is until they get into the midst of it.

So we hope that this research would help illustrate exactly how companies are innovating and therefore why it's difficult for some to innovate in ways that are different than they've traditionally done.
Betsy Schaefer: So when we looked at these different elements of innovation, the study encompassed about 40 different metrics from time to market to customer retention rates. But you also took a pretty broad view from a global perspective.

George Pohle: Right. And we actually collected over 200 samples from 14 different countries. So we've got a pretty good view of how these different companies are thinking about innovation and the types of metrics that they're either already using or should be using in order to gauge their success.

So you mentioned a couple of the metrics already, but we took a glimpse at what percentage of your revenues comes from products or services launched within the last 18 months to a view that was more expansive.

We looked at issues around the extent to which they collaborate, the extent to which they work with external partners, the extent to which the senior management team plays a lead role, et cetera. So we went outside the traditional boundaries and metrics that are used for gauging innovation.

Betsy Schaefer: So when we began sifting through these results, what did we see?

George Pohle: Well, traditionally, it's always nice to have one answer, if you're a business executive: the one thing you should do to make everything okay. The reality is that the data that we brought back and synthesized indicated that there's actually a different way of looking at innovation...

That in reality there is not only one way to innovate; that there are different ways of innovating, and that your organization may have a particular genetic structure when it comes to innovation.

And we've called those different categories of genetic structure innovation archetypes. Each one represents a different way of innovating. And your company can be part of one of those archetypes and be a successful innovator in any one of those archetypes but there's no single way to be a good innovator.

Betsy Schaefer: So not everybody has to be a Google, is what you're saying.

Steve Wunker: Right. It's ironic that the business press pushes business firms to be a Google or an Apple but those were just representative of two of the archetypes that we have. Companies actually get themselves into a lot of problems if they try to be companies that they're just fundamentally not.

Betsy Schaefer: So Steve can you tell us more about these archetypes.

Steve Wunker: Right. So you mentioned Google, and Google was actually representative of the first archetypes, a marketplace of ideas. Google is really good at generating innovation ideas from the bottom up.

Staff are given an allocation of their time to come up and pursue innovation ideas. There's electronic media for sharing those ideas and collaborating to build out those ideas.
And the ones that get the most support through those media tend to advance into beta trials and ultimately to full scale launch. That works very well for an organization like Google, but there are certainly some preconditions for that.

For instance, the executives need to be content with leading from behind. If they try to dictate their vision to employees, then people are going to basically try to ape what they think executives’ preferences are rather than truly debate things amongst themselves on a merit basis.

They also need to set very clear goals and boundaries around innovation. So Google has a crystal clear portfolio plan in terms of what percentage of efforts will go into extensions on search technology versus adjacencies to that, versus fundamentally new businesses that they’re going to get into.

The second archetype is the visionary leader. I believe you mentioned Apple. Apple is another example of a company in an archetype. So Apple’s CEO is truly a visionary.

If you think of what Steve Jobs has come up whether it's the graphical user interface used on the Macintosh or the design concept on iMac or the iPod, he's certainly been able to, not necessarily invent these ideas on his own, but to spot opportunities elsewhere and then rapidly act to commercialize them.

So, to be in the visionary leader archetype, the first thing you need is a visionary leader. And perhaps fewer people can actually be those visionaries than think they can be. But the track record really tends to speak for itself, where the people can anticipate market needs or not.

George Pohle: One factor I'd like to add to that conversation was that you tend to think of the visionary leader as needing to be the CEO. The reality is that what you find in many organizations is that there is a visionary leader that happens to be maybe a team member, maybe the head of a business unit, the head of a function. But that leadership can actually come from many different parts of the organization. But in terms of how we wanted to characterize the archetype here, Apple was an obvious choice.

Steve Wunker: That's absolutely right. And sometimes I think you can find as well visionary leaders tend to be idea generators some of the ideas are great. Some are not so great. So there needs to be some editing function for those ideas.

The third archetype is innovation through rigor.

Now, in the innovation through rigor archetype, you might conceive of that as being endless meetings and a lot of bureaucracy. And certainly some firms can attend to that. But you can also create real break through innovation in that archetype as well.

So if you think about what Samsung has done over the past 15 years, totally redefined how it leads electronic marketplace. Or Procter & Gamble, an extremely well organized rigorous company, that in the past seven years has totally transformed its innovation prospects. Or even a company like Goldman Sachs.
These are all extremely rigorous firms that use very well defined processes or responsibilities for staff and are able to come up with quite innovative results.

And the way they do that is through having a strong executive leadership that sets priorities very clearly, raises urgency and gets people to think differently. And they have staffing policies that dedicate small numbers of empowered people to problems until they're resolved, oftentimes in cross functional teams.

Innovation through rigor doesn't work through telling everybody, well, you have one day a month to create an innovative idea. You really need to dedicate people to it and enable them to work across these silos that traditionally stymied innovation attempts.

And then the fourth archetype is innovation through collaboration. And I think this is sort of an end state of evolution for some companies, that ultimately the world is going to be a lot more innovative than your individual company.

And if you can reach out and source those innovations elsewhere, bring it into your commercialization engine and get it out to market, then you have a very vast scope for innovation.

But what you need to do that are employees who are empowered to make those partnership decisions fairly rapidly and without a whole lot of supervision. You need humility to outsource key capabilities to other firms. You really need to understand the customer, so if a company is going to be really investing in a capability there, it's to understand what that end customer needs.

And finally you need something that retains a proprietary advantage to the corporation. So it might be scale, it could be a brand, proprietary channel; it could be many other factors. But something that even though you're sourcing things from the outside, enables the company to make it truly its own.

**Betsy Schaefer:** The first phase of this research involves developing the archetypes. Now that we have the archetypes what’s the next step?

**George Pohle:** Yes, I think now that we've discovered that there are certain innovation metrics that are good at explaining the different archetypes, we are going to continue to work with APQC to refine our list of innovation metrics so that we come up with a much more robust set of metrics and measures that we can continue to apply to businesses to get more insight as to how successful they are being at operationalizing their innovation strategy.

**Betsy Schaefer:** So I as a company could take the survey, and be diagnosed of my innovation archetype.

**George Pohle:** Exactly. And you know, over time, since we are conducting this in a very open and collaborative way, the amount of data in the database that will be supportive of this will continue to grow.

And certainly since it's a collaborative effort, if companies are willing to open themselves up to give the data out to the collaborative, then certainly they'll be able to reach into the
collaborative to get insight about what other firms are doing, whether they’re in their same industry or outside their industry.

There’s actually quite a bit of insight in terms of how companies are addressing the innovation challenge that’s resident in that database.

**Betsy Schaefer:** You might say today that many companies are focused merely on how they innovate compared to others within their industry, but this research provides an opportunity for them to go far beyond that.

**George Pohle:** Well, exactly. And what a company may decide is that if they happen to be of a particular genetic makeup and belong to one of these archetypes, they may discover that many other firms in their industry are in the same archetype. And that as much as anything else may offer a new strategy for differentiation and a way of changing the game.

**Betsy Schaefer:** Thank you both very much for joining us today.

**George Pohle:** A pleasure, thanks.

**Betsy Schaefer:** Thanks George, thanks Steve.

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