



An Integrated Approach to Managing Innovation

White Paper

Innovation is the core business competency of the 21st century. In order to not only compete and grow but to survive in a global economy, businesses must innovate. To date innovation has been approached in a piecemeal fashion often linked solely to the New Product Development (NPD) process.

This white paper seeks to illustrate a new comprehensive approach to managing innovation within business and introduces the Integrated Innovation Framework – an all encompassing approach to innovation management ‘beyond new product development’. This is relevant to all businesses irrespective of size or sector.

Project Leaders International (PLI) Ltd is a professional services company offering consulting, training and software to organisations in both the public and private sectors, worldwide. Our focus is on improving the management of projects and programmes within businesses using tools and techniques developed from our work with some of the world's most successful organisations. We deliver results to clients through the use of best practice techniques as well as adding value through thought leadership using our intellectual property.

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Innovation as the key to success & growth

Why is innovation necessary?

Western businesses can no longer guarantee to compete on a world stage on price alone. The costs of doing business, especially in a manufacturing sector, are far greater than those in Eastern Europe and in the Far East.

In terms of economies of scale, which for decades was a differentiating factor for many businesses, the BRIC nations (Brazil, Russia, India, China) possess internal markets far greater than the UK. The lowering costs of transportation and better communication mean that these nations can move into our market places with increased ease.

"If you can't compete on price you have to differentiate, and to differentiate you have to innovate!"

Andy Bruce, *Switched on to Innovation*
Professional Manager Vol16 Issue 3 May 07

A legacy of innovation

In the UK we have historically been great at coming up with ideas, but not so great at exploiting them! This has almost become a truism where businessmen talk wistfully about opportunities missed! Despite the wealth of scientific and management expertise in this country we are lagging further and further behind other nations in the innovation stakes. We have an economy and tax structure which is broadly encouraging of new companies and businesses yet we are not making the most of our opportunities.

What is holding us back?

There are many misunderstandings about what innovation, in a business context, truly is. Innovation should not be restricted to:

- Big ground-breaking ideas or technological leaps forward
- Creative jumps of the imagination which cannot be planned or prepared for
- The R&D department or the "creative types" in marketing!
- Creativity 'workshops'
- Product based companies

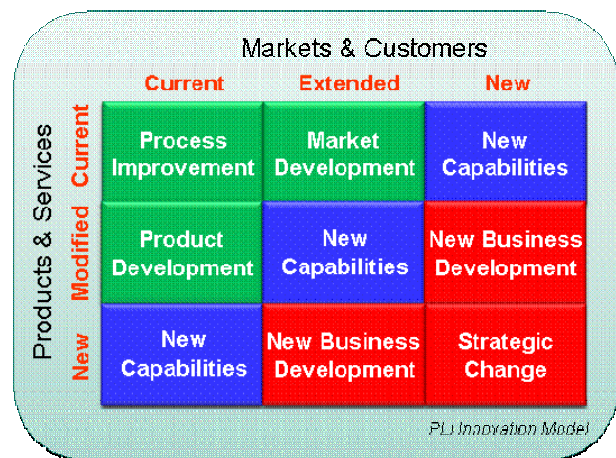
Innovation is often about small, incremental changes to products, services and processes. It involves all managers in every department from Finance to Customer Services. It should be planned and managed as a core business process covering all parts of a business. It needs to be integrated into the business at both strategic and operational levels. It is *THE* core business skill and process for the 21st Century.

"Those that live by the sword will be shot by those that don't"

Gary Hamel, *Strategy as Revolution*

Innovation and Planning

As with all other core business processes innovation needs to be linked to strategy and the business planning process. Innovation separate to business strategy runs the risk of diverting key resources and damaging the focus of an organisation. This 'missile looking for a target' syndrome must be avoided at all costs. Innovation activities **MUST** be driven by strategy and current business imperatives.



The extent and type of innovation should be determined by current business performance and future expectations and by an organisation's tolerance to risk. The diagram below encapsulates the idea that there are essentially 3 types of innovation strategies.

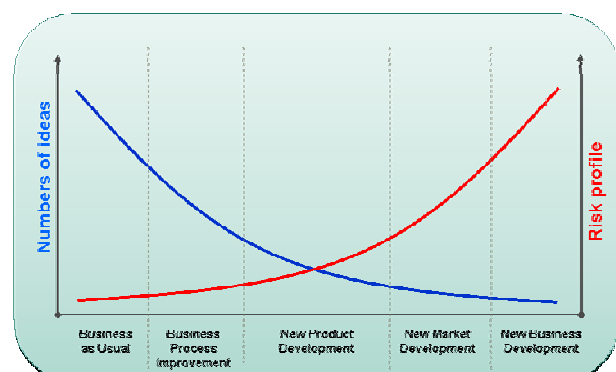
For those organisations operating in the green areas (top left of matrix) they can probably innovate to a greater degree with existing resources and skills. New product ideas tend to be focused on extending the existing range of products rather than being truly innovative. For example, a vacuum cleaner manufacturer that produces 28 variants of its existing design and technology is carrying out a product modification strategy, and will probably not need new technology or skills to implement this.

Even for organisations wishing to pursue a consolidation strategy (current products in current markets) innovation can be focused on process improvement work. In the green area businesses can operate quite successfully, however ***"businesses cannot continuously improve out of a crisis"***.

In situations where businesses must address a key issue or 'crisis', new capabilities and resources might be necessary (blue, central areas in the matrix). A company breaking into a new market (say Japan) with its current product range might need to acquire new manufacturing or sales capabilities.

For truly innovative strategies the red areas (bottom right of the matrix) are areas of higher risk – because either one or both axes are new to the business. They will necessitate the acquisition of new resources, capabilities, ideas and possibly even leadership?

These are commonly called *diversification strategies*. A strategic change in the business might even require a new business operating model and could best be effected by mergers, acquisitions or licensing.



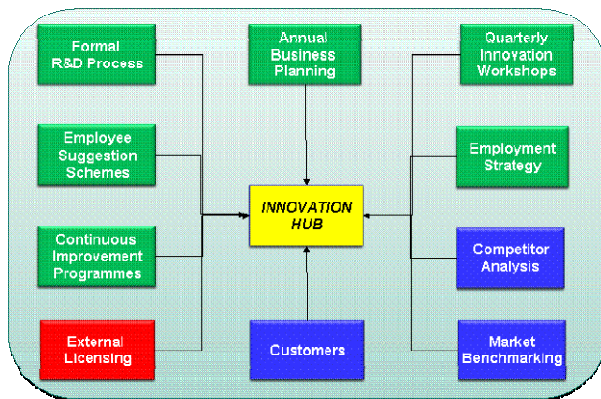
How far innovation is integrated with a business' strategy is also dependant upon a business' appetite for risk and its risk profile. Differing types of innovation strategies and projects have different



risks. A balanced portfolio of innovation projects should be adopted when assessing the risk factors involved and the numbers of ideas or innovations being managed at any one time.

The Innovation Pipeline

Once innovation, as a concept, as been accepted at a strategic level; the practical implications of having an integrated innovation process or system have to be addressed. An effective starting point is to understand from where innovations originate and how they can be collated and screened.



Innovations and ideas can come from any part of an organisation. It is not the preserve of the R&D department or Marketing. Nor is it merely limited to an employee or customer 'suggestion scheme'. The green cells represent sources internal to the organisation, blue external and red via third parties.

The sources of innovation are many and varied but they need to be collated, coordinated and managed as a source of valuable information and are core to the future of an innovative business.

A successful innovation culture embraces all aspects of a business and should be managed as effectively and efficiently as any other core business process. To that end, successful innovation companies operate an 'Innovation Hub' where all ideas and innovations are collated and coordinated.

Creative processes and analysis can be used to stimulate new ideas in four basic areas:

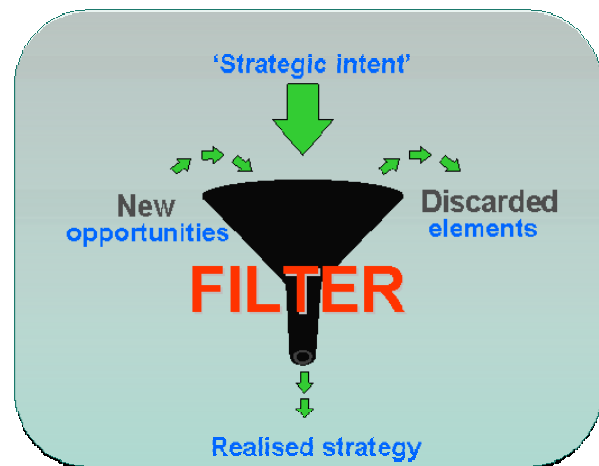
- **Business Innovation** – new business or supply chain models, for example
- **Product or service Innovation** – new or modified products or ways of providing a service
- **Market Innovation** – opening a new market or creating a new customer base
- **Process Innovation** – improving or changing internal processes

Ideas should be effectively screened and 'bad' ideas killed off quickly but sympathetically. The number and type of ideas will be determined by the 'performance gap' and available resources. Many organisations find that an effective screening or filtering process prevents 'innovation overload' whereby a company is almost paralysed by the sheer volume of innovations and ideas generated from the multiplicity of sources previously mentioned. If new ideas and innovations are to make a difference, they must satisfy five basic criteria captured in the **V-SAFE™** screening process:

- **Value** – does the idea deliver tangible benefits to the organisation? This questions helps eliminate those ideas and innovations that are good in principle but add little or no value to the bottom line, now or in the future. 'Tangible' means that

proponents of the idea or innovation will have to estimate or calculate the specific benefits that will arise.

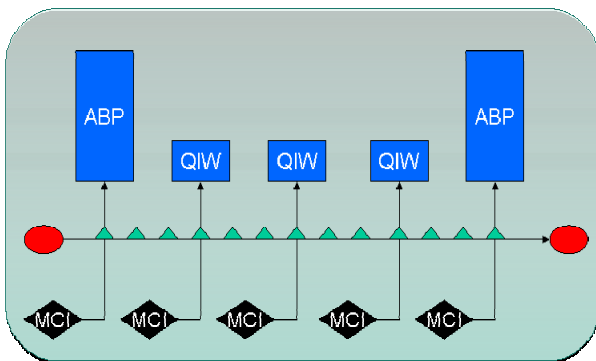
- **Suitable** – is it consistent with strategy and the current situation? This helps eliminate those ideas that are potential distractions and move the business needlessly away from its core business focus. If an idea or innovation is not 'suitable' it still may have value, but in other ways – such as outsourcing it under licence to third parties or even spinning it off as a separate product within a separate business entity!
- **Acceptable** – will all stakeholders support it? Often innovations fail in large companies because of the 'not invented here' syndrome. It is crucial that proponents of an idea or innovation spend time and effort on selling the idea internally and gauging the level of support for it. This is often overlooked and failures are often attributed to 'office politics'. Stakeholders are an internal barrier that must be negotiated as if they were a formal process.
- **Feasible** – are there sufficient resources and time? Can the innovation be managed within existing budgets or will additional funding be required? Do new skills need to be acquired to implement this idea effectively? The answers to these questions will affect the timeline for implementation and the potential return on investment calculation. It is often seen as a reality check.
- **Enduring** – will the idea deliver value in both the long and short term? If a new idea or innovation is to be truly strategic will it survive the rigours of time? Is the long term gain worth the short term pain of bringing a new idea to market? Again this highlights the return on the investment to be made.



The Innovation Process

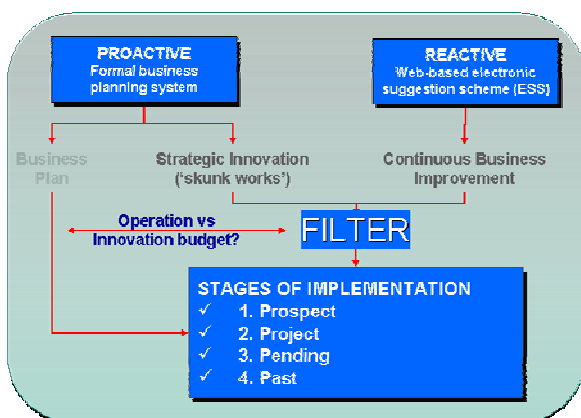
Innovation should be built into business routines at three distinct levels – at the Annual Business Planning (ABP) process, through structured 'themed' Quarterly Innovation Workshops (QIWs), and ad hoc day to day activities. Some of the routines are 'proactive' by nature – a conscious focus on bringing ideas and concepts forward into the innovation process – such as ABP meetings and QIWs. Some routines are 'passive' or 'reactive', such as creating a culture of innovation where day to day activities and management seek to enable innovations to flourish.

In all cases ideas and innovations should be driven by market, customer or competitor insights (MCIs) and progress reviewed on a monthly basis. A robust project management process is often a prerequisite for effective implementation and communication.



There are a few critical success factors when installing and running an innovation process within any organisation:

- **A focus on opportunities of high value** – and lesser ideas are discarded quickly. This is done through a robust and widely known filtering process using the V-SAFE process, or similar.
- **Active commitment of top management** – through visible leadership and use of the process by senior management. As soon as an ‘informal’ process to fast track ideas from senior management is used the innovation process breaks down.
- **Build techniques into business processes** – the most successful innovation cultures are those where the core innovation process is as natural as all other business processes such as budgeting and planning. Easy to state – difficult to do!
- **Develop innovation as a core skill** – in all staff and especially in managers! It can be done and managers can be encouraged to put forward their and their staff’s ideas. Thinking innovatively is a skill that can be acquired.
- **Tools to support the application of concepts** – using the internet and some tracking software ideas can be tracked and innovations planned. You would not think of running any other core business process without a tool or system of some sort – so why should innovation be different?
- **Reward people for sharing ideas & knowledge** – and this does not just mean a cash bonus! Performance can be improved through good management and a reward system that recognises group effort and sharing ideas rather than just the individual.



- **Communicate successes** – though all means possible. Let people know how innovative their colleagues are. Communication is the lifeblood of the process and is essential for positive reinforcement of good practice.

The ‘skunk works’ concept – as an alternative to the ‘Innovation Hub’, suggested earlier in the paper, very innovative companies have, instead of a formal process by which ideas and innovations are pooled and then communicated to other business areas, a ‘internal

ideas market’ culture by which heads of business or departments have established budgets for innovations and get together to fund ideas, irrespective of where they originated – this is an internal market for ideas, innovations and people. Getting to this point may take a major culture change and is unlikely to be a quick fix.

The Innovation Platform

Like all other core processes, innovation is best managed through some sort of platform or application. A web-based tool should be available anywhere, anytime and should be quick and easy to use. Innovation tools can be thought of as two distinct types; an electronic suggestion scheme (ideas tracker) and a management system controlling the overall innovation process – from ‘ideas to implementation’.

Any innovation management system must give senior management visibility and control over the innovation process and confidence that best practice tools and techniques are being used appropriately and applied consistently across the organisation. Any platform should facilitate effective cross functional learning as a core feature.

Innovation and People

Research has indicated that one of the most important factors in installing an innovation culture within any company is having leaders and teams with ability and commitment. Senior managers need to understand the strategic direction and how innovation can help. They also need to be able to motivate others.

Creating a culture of continuous innovation requires leadership and commitment from the Board and senior management teams (SMTs). This is a ‘must’ – a necessary prerequisite for success. It also requires agents of innovation and innovation teams across the organisation, champions who will assist a project manager with the implementation and tracking of ideas, innovations and changes.

Managers need to constantly look at their part of the business and ask themselves “what are the barriers to being innovative and creative?” They need to ask themselves and others questions, such as:

- Is anybody being asked about their ideas?
- Do staff know about the need for ideas and innovation?
- Are people rewarded for their ideas and contributions?

If there are no boundaries and structure to the innovation process then staff confidence is often affected. If there is no method then the chance of success is reduced. Organisations that truly invest in their people and understand the value of their ideas ensure that facilities, equipment, time and resources are organised to help foster ideas and innovations. This might be, for example, using facilitators to help engender innovation in business meetings, or setting aside ‘quiet areas’ for people to think through ideas, or even having informal ‘coffee breaks’ where people in different departments who would not normally meet or socialise get together for a quick break and to chat.

There are thousands of ways in which staff and management can do things differently and be encouraged to voice their ideas. However, this often runs contrary to the way in which organisations are usually run and jobs designed. It is a key management responsibility, then, for managers to ‘audit’ the organisation in terms of how friendly it is towards being innovative.

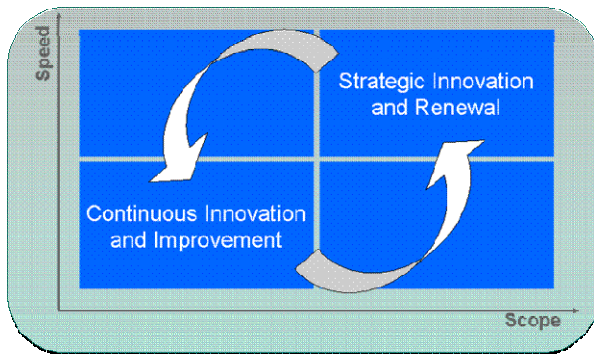
Innovation and Performance

Finally, like any other core discipline, creating an innovation process and installing an innovation culture must be managed and measured on an ongoing basis. Monthly and weekly meetings should focus on the progress and performance of both new ideas and the



implementation projects. Issues should have a process by which they are escalated and associated risks managed where appropriate. The performance of the innovation process and the issues raised should drive and inform the next planning process and review of strategy.

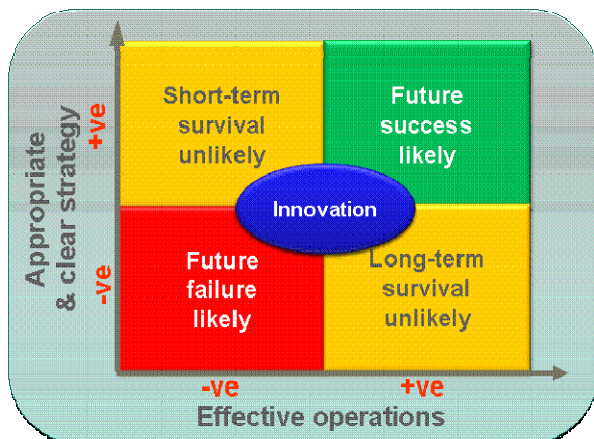
Performance has to be linked to strategy and measures and key performance indicators (KPIs) set.



The frequency of performance measurement is often dependant upon how critical the innovations are to the overall business performance. Performance measurement is intimately linked to the innovation Platform used by the organisation. It should give managers real time information on how innovations are progressing and their performance against the selected KPIs.

The Integrated Innovation Framework

If innovation, therefore, is a core business process and discipline vital to the success and growth of businesses and organisations in the 21st century, companies should adopt an integrated approach to managing innovation. The alternative is a piecemeal approach which has less chance of generating the returns expected and required by business.

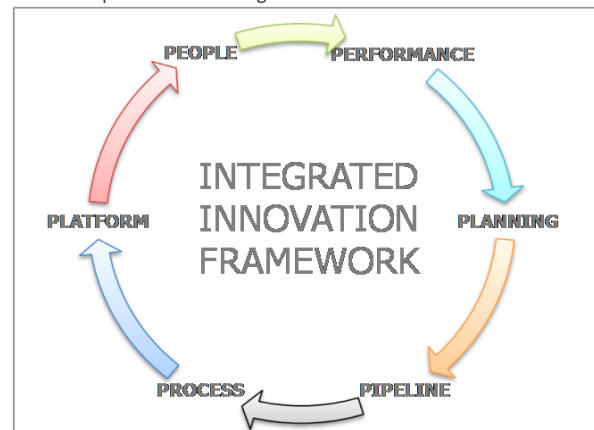


A clear business strategy that integrates innovation appropriately at its very heart combined with effective and efficient operations which allow innovation to flourish will stand a greater chance of succeeding.

An integrated approach means that someone should take responsibility for the innovation process within an organisation. In the last two decades we have seen the growth of Chief Information Officers (CIOs) within large organisations to manage and control the multiplicity of systems and software that businesses use. The role is seen as core to how a business functions and operates and is represented on the board.

In the 21st century, in a global economy, there should be a Chief Innovation Officer or Director of Ideas who should lead and manage the innovations process within a business. For large organisations this would be an indicator of whether a business is truly innovative and has taken an innovation culture.

For other organisations, how will you know whether innovations are truly encouraged and that your organisation is benefiting from an innovation process? Only by using best practice tools and techniques and the continuous monitoring of inputs and outputs to the innovation process will management understand the benefits.



With so many variables, and with innovation touching every part of the business, how can this be affected? Only through the use of an integrated innovation framework! The piecemeal approach to innovation management needs to be cast aside and organisations begin to understand that innovation stretches beyond new product development (NPD).

Only by embracing an integrated innovation framework will organisations be able to compete on a world stage and be successful in a truly global economy.

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