PART

Link Innovation to Business Strategy

CHAPTER 1

Develop a Clear Innovation Intent

In today's dynamic business environment, your business strategies are constantly adapting and evolving. For innovation to be successful, it must be linked to your current strategic intent: a unique direction for the company that will generate specific short-term and long-term value targets (top-line, mid-line, and bottom-line targets).

Here is a challenge for you. For your organization, small or large, for profit or nonprofit, pick up your organization's strategic report, or an executive speech, or an annual report, and look for the word "innovation." You will find it described as the *way to the future*.

Then go back and look at similar material from five or ten years ago. You will find the word "innovation" used by the previous leaders of your company. Most organizational leaders always claim that innovation is the path forward. It is the most natural thing to say to employees, customers, and stakeholders.

Then look around for evidence of innovations and supporting capabilities. You may find pockets of innovation, or none at all. Why does this happen? Why is it that organizational leaders cannot embed innovation as a core capability even when they commit to do so in public?

The Vision

In Eastern philosophy, the human body is considered to be the vehicle by which you live in this world and achieve peace, liberation, enlightenment, realization of God, and so on. This philosophy says the human body is the primary means by which one can discover and experience Universal Truth. The mind and the senses are the primary tools to help along the path to inner knowing and inner being. Mind is believed to be the key that either opens the door to a higher understanding or, if turned in the opposite direction, locks the person into the unending movement of the pendulum swinging between joy and misery. The mind is given a very high premium (mind is the key that if turned one way, it opens the doors to new possibilities and forward progress; alternatively, if turned the other way, it can close doors to new opportunities and happiness in one's life) toward the path of higher consciousness. Eastern wisdom concludes that the body, mind, and five senses, which interact with the physical world, control one's destiny.

Permanent happiness is the primary motivation for most human beings. Many look outside but then, one day, they discover that real joy and happiness have always resided within them and are the most prized possession. Most human beings don't realize that happiness arises from inside. Very often they allow it to be stolen away by others. Why do we do that? It is a mystery we call life.

In the game of life, eventually we collect enough experiences to realize that the quality of our body, mind, and senses are directly linked to our ability to achieve balanced life, meaning, and deep inner joy. This awareness may take a few years, a few decades, or a few lifetimes. Often our path to this discovery accelerates due to personal calamity and tragic events.

Once we awaken to the understanding that deep inner happiness is within and not outside, we start correcting behavior and make more informed daily choices, creating an alignment between the heart's yearning to achieve inner peace and the mind's desire to be successful in the materialistic world. Making such choices requires self-awareness, courage, and conviction. For many, this process is not easy and requires tremendous personal sacrifices.

Ultimately, one day we wake up and realize the universal truth: Permanent peace and joy in life cannot occur along with increased desires to accumulate external possessions. The two missions are on the opposite end of a fragmented reality.

Truly committed people will begin to simplify their lives and create links between both motivations. They become energized to redesign their lives. They become healthier, smile more, and begin to experience the balance they always dreamed of. Looking back, they realize that the change started when they asked questions they had never asked before about themselves and their surroundings: Who am I? Why am I here? What is the purpose of life? What do my relationships mean to me? Why is there so much suffering in the world? Who is God? What is the difference between religion and spirituality?

If we correlate Eastern thinking to the business world, the same applies. Organizations are like human bodies. The leadership mind-set is the mind that controls the senses, and the senses are our employees who interact with all stakeholders, mainly external customers. External customers are like the external world is to a human being. We do everything to serve and seek happiness from the world outside. The organizational mind-set is designed to seek permanent joy—to grow year after year, deliver increased value to all stakeholders, uplift societies, and protect natural resources. Inherently, leaders at the top know this can occur only through strategic alignment of people–profit–planet strategies.

Unfortunately, just like human beings, the organizational "being" is mostly unhappy. The culture is not creative, lacks meaning, contains unfair practices and politics, and is profit focused only, with unclear vision.

Why?

Humans are unhappy because they lack spiritual integrity of thoughts–words–action. Organizations are unhappy because they lack strategic alignment among people, profit, and planet. By only seeing rewards based on satisfying external customers and Wall Street analysts, leaders overemphasize decisions that will mostly satisfy external stakeholders and forget to seek long-term happiness and growth by satisfying internal stakeholders as well: the employees. In other words, we have created a business model that is designed for short-term joy instead of long-term happiness.

When we forget to engage our employees, it is like forgetting to engage our passion and the human spirit within us. Employees are the very source of ideas that can help us create and innovate. When employees become disheartened, how is it possible to grow year after year, decade after decade?

Joy, fear, and sorrow are mostly stimulated from outside—the quality of relationships, customer satisfaction, market analysts, suppliers, and so on. Joy doesn't last. Expectations from external constituents are constantly changing, especially in today's unforgiving markets. Happiness, however, comes from within based on how we see the world and what we value. The universal human values within all of us are compassion, helping others, acting with integrity, peace, and love. When people say life lacks meaning, it means their universal human values are dormant and they are not able to bring out these values in work, life, and play.

Happiness for organizations also comes from within by focusing the entire organization on a vision that is significantly bigger than any one person and engaging each employee to their maximum potential toward that mission. Every organization has vast amounts of unharnessed potential. In other words, every person has ideas that can help improve organizational performance, but there is no clear process and system to unleash such potential. Due to the organization's gravitational pull, most employees learn to shut up and lie low.

Examples of such disconnected cultures were visible at Enron when it filed for bankruptcy in 2001, at Satyam Computers in India in 2009 with its accounting fraud, and at WorldCom in 2002 when its accounting scandal broke. Hundreds of low-integrity scandals occur in every part of the world today; unfortunately, they will continue for a long time into the future.

The best leader innovators in the world have figured out how to achieve joy *and* happiness. These people lead organizations to great heights because they are extremely focused first on being internally happy in their own lives. They have created a bridge between their innermost passions and the organizational vision. They see themselves in a very grand mission at large. They feel they are co-creators of a better future for citizens of this planet.

These innovators know that focusing on running a business that generates new profits from products and services alone is only a third of their job. The satisfaction of their employees (people) and changing the world for the better (planet) are the other main reasons they get up every day. They know that short-term profits are essential and that, without them, they are not performing their duties as leaders. But they also know how to organize for long-term success.

Innovation Engine requires leader innovators who have an exciting, grand vision for the company, a point of view about the future, and who can engage everyone in the company toward making their vision become reality.

I offer this viewpoint in the spirit that you and your organization want to survive and create a joyful future ahead. Embrace such a vision by using innovation as the core competency and by developing a pipeline of innovative leaders from within.

The Seismic Shift

America has finally awakened from what Tyler Cowen calls the *Great Stagnation*. In one of the most influential books of 2011, the *Great Stagnation,* Cowen says that for the past 300 years, America has been eating all the low-hanging fruit (such as abundance of land, technological advances, and basic education for the masses) and now it is all exhausted.[1] He argues that the dominant economic powerhouse is our self-deception in thinking that the fruit would never run out. It did. Even then, America kept pushing ahead as if nothing was wrong for last two decades, until the recent financial crisis. Cowen claims that the leadership mind-set that ran us in the ground was this: "We thought we were richer than we were."

In the 1950s, all business communication was based on analog technologies such as telephone and telegraph. In the 1970s, communication most often was dictatorial (top down and command driven) using fax machines, word-processing and audio conferencing technologies. Recently we have shifted to a conversational style of communication, driven by social networking technologies. Business communication is no longer inside out but is now outside in. Organizations have less control over their brands and markets as customers have more access to insights about brands and offerings from other consumers and bloggers.

Sixty years ago, the main challenge was human survival. In the 1970s, it was the challenge of computing, and now we are being called to address societal challenges. Most educational systems are broken in every country, along with healthcare, retirement funding, and politics. All of this is causing massive gaps between the haves and the have-nots.

During the Industrial Revolution, the world speed was governed by a handful of people in power positions. For the last 30 years, it has been controlled by the just-in-time rules, and now we are in a world where the speed of life is in real-time mode. Everything is starting to be connected to everything, and we are starting to see what IBM calls a Smarter Planet: intelligent infrastructure for every industry where leaders can anticipate, rather than merely react, to business events. A world where business leaders can seize competitive advantage through re-framing the issues—in unexpected, often counterintuitive ways, proactively instead of reactively.

Our experiences are also changing. Fifty years ago, all rich relationships and interactions required physical presence. Now, through video and mobile computing platforms such as Skype and iPhone with FaceTime, we can push a button and *see* anyone, anywhere in the world, instantaneously.

We are now in the era where loose knowledge communities, meaning, intentions, and deep understanding will be in high demand. Technology will become a dominant enabler for values-driven engagements. Intentions, agility, personalization, loyalty, and self-awareness (people and systems) will become the primary levers for human and economic success.

Current and next-generation C-suite leaders need to prepare for values-driven engagement and innovate for the next era of experiential systems (systems that allow real-time interaction with others anywhere, anytime, all the time with both animate and inanimate objects). These shifts will have massive impacts on societal, technological, economic, environmental, and political landscapes.

For real innovators, we have arrived at Nirvana (heaven). Why? Because it is the first time in human history, that abundant new white space is being created at an accelerated speed. These new opportunities are opening up fast and closing just as fast. The emergence of Google, Facebook, and Twitter as powerhouses is just the beginning of what we are about to experience in the near future. These and many new innovators are completely transforming the very nature of communication, connection, commerce, and competence.

Mechanical Engine versus Innovation Engine

In the past quarter century, most organizations have been focused exclusively on financial performance with the mantra of "whatever it takes." To survive in a free market economy, they have learned to adjust, adapt, or redefine themselves. However, the rate at which the companies must transform is accelerating. They have tried every management technique possible—right-sizing, unbundling, reengineering, retrenching, divesting, decentralizing, outsourcing, flattening, self-directed work teams, and forming strategic alliances.

Major companies have done all of this while eliminating thousands of jobs, closing plants, moving operations to low-cost countries, and attempting to become lean and mean. Still, they are struggling. I call such companies *mechanical organizations.*

Mechanical organizations are machinelike and effective when the environmental factors are predictable. But in today's world, it is impossible for such companies to manage the type of change occurring around them. As an example, here are eight types of environmental factors creating friction at all levels:

1. **Technological factors.** Fast new technologies causing rapid product obsolescence
2. **Economic factors.** Unpredictable prices, costs, currency rates, interest rates, taxes
3. **Competitive factors.** Aggressive, global, highly innovative, threats from niche players, competitors who are also customers and partners
4. **Labor factors.** Increased scarcity of skilled professionals, mobile workforce, increased employee benefits expenses, more reliance on contract labor

5. **Resource factors.** Scarcity, increasing specialization, unknown sources of supply, rapid obsolescence
6. **Customer factors.** More demanding, complex, market fragmentation, narrow market segments, increased acquisitions costs
7. **Legal and regulatory factors.** More aggressive, increased costs, unlimited product liability, growing compliance on free and fair trade
8. **Global factors.** Real-time communications, production, distribution, logistics, sophistication of supply chain partners, customers and competitors located anywhere in the world, outsourcing pressures, international strategic alliances

These and many other issues are generating additional pressures for today's employees and managers in an already mechanistic and heartless environment within organizations. Due to these pressures, leaders have focused primarily on survival, with little focus on achieving sustained growth.

Is there a way out? Yes.

The primary way out is to evolve today's strategic operating model based on mechanistic, bureaucratic, and hierarchical practices (*machinelike*) toward an *innovation-driven* execution model.

Machinelike companies focus on bottom-line performance as the primary measurement for most management decisions, at any cost. Focus is on the short-term. These firms are weak because they are inefficient at managing their future.

Experience shows that the companies that build an innovation engine are more adaptable, flexible, fast, aggressive, innovative, and able to adjust to dynamic, threatening, and a complex external environment. These firms do not take the external environment as a given. Instead, they embrace it as a challenge and act as an agent of change, leading customers, creating new markets, and rewriting the rules of the industry they serve.

To better understand the two machines, I'd like to use the metaphor of a bicycle (see Figure 1.1). The bicycle represents an engine. The fuel comes from a human being riding it, instead of gasoline/petrol we use in other machines.

The Tour de France is the most prestigious race in the world for biking experts. It is the World Cup of bike racing. The race covers 2,200 miles (3,600 kilometers) over a three-week period broken into daylong segments, called stages. Each stage has its own unique environmental and physical challenges, which often leads to unique stage winners. The one who wins the last stage of the day wears a yellow jersey the next day. The rider with the lowest aggregate time for all stages is the winner. The course changes every year but always finishes in Paris, France.Similarly, most publicly traded organizations are also in a race—to return the highest value to all stakeholders and dominate the industry in every way possible. Each organization's strategic intent and business strategies define the course. The environmental factors for the athlete are the road conditions, terrain, weather, and other bikers. In today's business race, the environment is volatile. It changes every day, just like the

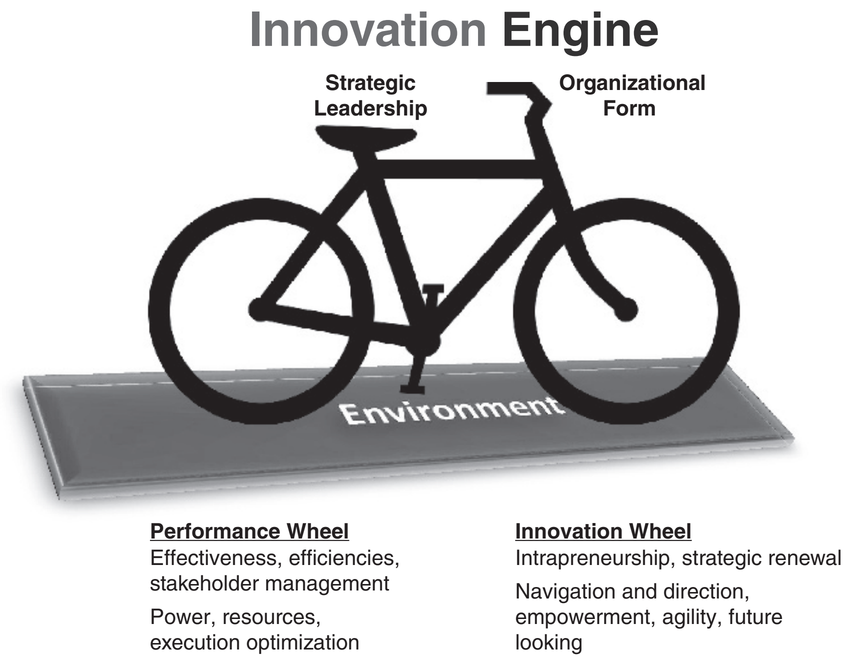

FIGURE 1.1 Linking Performance and Innovation: A Model to Build Your Innovation Engine

stages of the Tour de France. On some days, the roads are straight; other days they are through mountains and valleys or sections with dirt road or gravel. Increasingly, unexpected rain arrives, just as regulatory changes do in business, altering investment and growth strategy.

The athlete riding is similar to the leadership team members who models the values, beliefs, skills, and behavior of the organization. The bike frame represents the organizational form—firm strategy, structure, processes, and culture.

The performance wheel is the back wheel, which represents practices for achieving organizational effectiveness, efficiencies, and stakeholder management and includes customers, suppliers, shareholders, and partners. This wheel is the source of power and acceleration for individuals, teams, and the organization.

The innovation wheel, the front wheel, represents direction and clarity about the future. It is the organization's capacity for two very important competencies: corporate entrepreneuring (intrapreneurship) and strategic renewal. The front wheel is the first to sense new opportunities to maneuver based on the eight (internal and external) environmental factors listed previously. The innovation wheel provides the first *experience* of the environmental factors, the road ahead, and the ability to conduct quick experiments in the turbulent race.

Unfortunately, today's organizations primarily focus on the back wheel to achieve bottom-line optimization, which is why it is called the performance wheel. The values of this wheel calls for power and acceleration, but if the motives of the organizational athletes (leaders at the top) are flawed, results can lead to disaster—we have seen plenty of examples. The company may move in wrong directions, lose focus on what is ahead, not make fast enough decisions to alter the path, not be sensitive to environmental conditions, and watch others pass by.

Without the front wheel of innovation, the organization has little to no strategic lens for what is possible ahead and what directional decisions to make because the front wheel is missing or ill functioning, most teams at the top make the same decisions as their competitors. The goal of this wheel is to turn the highly mechanistic athlete into an innovative competitor who can easily gather new knowledge, experiment fast, and adapt quickly to outmaneuver other competitors in the race.

Most organizations are pretty good at operating the back wheel; they just need to improve management practices and associated discipline. For managers, as practitioners, the back wheel is a safe zone because the artifacts used are metrics, scorecards, and quantitative analysis—hard stuff. For the front wheel, though, the primary values are qualitative, abstractions, and the intuition to make midcourse corrections. Due to emphasis on performance, managers lack experience operating the front wheel—the innovation wheel.

In economics, accounting, and other business-related fields, there is a concept of stocks and flows—two types of measurements. Stock is the hard tangible value measured at a specific point in time. Flow variables are measured over a period of time—the rate of change. For example, the current balance in your bank account is the stock, while the interest rate (x% per year) is the flow that increases the money in your bank account. Population size is stock, while birth rate is flow. Total number of employees in a company is a stock measurement, while rate of attrition is the flow. For a salesperson, total new revenue booking is the stock, while the close ratio (number of proposals written to number of proposals won) is the flow. Every stock measurement has related flow measurement.

Similarly, I'd like to suggest that the performance wheel is the stock and the innovation wheel is the flow for your business. Both are required to create your *Innovation Engine* to survive and for sustainable competitive advantage.

Strategic Alignment for Innovation

Innovation without clear objectives quickly loses organizational momentum and, in many cases, will never take off in the first place. Innovation should not be practiced just occasionally; it should be a repeating process of value creation and organizational adaptation. If you are serious about innovation, your first step is to create a strong strategic alignment.

Here are five critical success factors you must design to begin your innovation journey with the right foundation:

1. **Innovation intent development.** Does everyone know we need to innovate? Is your organization generating what Umair Haque calls "thick value," or is your

organization "extractive"?[2] In other words, does the organization generate more real value (not just profits and return on investment [ROI], but brand loyalty, employee engagement, and many of the facets of a meaningful prosperity: security, fulfillment, connection, humanity, purpose, etc.), or does it consume resources like the ocean-engulfing *Titanic* as it was going down? Our experience shows that world-class innovators have mandates for innovation, sometimes unspoken but clearly understood. Their innovation intent is clear and supports the organization's business strategy. For innovation to stick, this mandate from the top must be localized for each division, department, team, and individual.

2. **Innovation readiness.** How ready is your organization for innovation? Chapter 2 introduces 15 factors that are directly correlated to your organization's propensity to innovate. Assess yourself to gain learn your strengths and weaknesses and benchmark your readiness for innovation. By knowing where you stand across all the factors, you can customize a roadmap for implementation. The goal is to make sure you don't put the cart before the horse. Many organizations have made mistakes by jumping into innovation efforts without measuring leadership, cultural, and systems drivers that might hinder efforts and waste time and resources. Don't make that same mistake for your organization. Assess readiness and then develop a custom roadmap.
3. **Executive leadership program.** Do all of your leaders understand what innovation is and how to sponsor and support it for their business units? I haven't met a C-level executive who does not want her organization to be more innovative. Most often, the problem is that she may not fully understand how to build an innovation engine and enroll other leaders into the process. What the team at the top most often lacks is the knowledge and framework to make informed choices about designing an innovation program that will work for them. Someone has to help them achieve an innovation roadmap. Make sure the executives at the top are educated, ready, and willing to be the top sponsors for their respective areas. For a corporate-wide initiative, the chief executive alone cannot be the sponsor. The CEO's direct reports also must be sponsors for their respective organizations. You can't drive innovation from sideways or bottom up; it has to happen top down. An education program should provide simple frameworks for understanding innovation principles—how to support it, how to build a climate to increase strategic innovation capabilities, and how to cascade it throughout their respective organizations. This topic also is covered in Chapter 2.
4. **Develop an innovation strategy.** An innovation strategy is a strategic statement that describes innovation in the context of your business (or area), the value it promises to generate for growth, and a disciplined execution process by which to get there. It is also used to communicate to all employees answers to these questions:
   - Why innovation?
   - Who is involved, and who will be the beneficiary of our innovations?
   - What will your firm innovate that is difficult to replicate?

- How different is this from everything else you do?
- When will you know existence of the preceding four items?
- How will you know you are moving in the right direction?

These answers should fully support the business strategy or should be debated further until both are linked, as discussed in Chapter 3.

5. **Selecting and developing talent for innovation.** Where are the innovators in your company? Innovation requires innovators. The very best corporate innovators are called *intrapreneurs*, a term coined by Gifford Pinchot III. Every organization has many intrapreneurs, but they are most likely hiding. Some are easy to spot, but most are never given an opportunity to bring their best game to work every day. They used to be ready, but the organization's mechanical culture has beaten them down. How do we identify, engage, and support them? Everyone in your organization has ideas worth considering, but intrapreneurs have the DNA to build new service lines, new products, and new offerings. Innovation success is directly correlated to your organization's ability to build intrapreneurs and entrepreneurial spirit in the culture. At the end of the day, it's all about people. These great innovators have both visible and invisible traits that need to be nurtured and supported. Find them, challenge them, motivate them, and get the organization out of their way. Then watch what happens. (Chapter 8 focuses on building intrapreneurs.)

Why Innovation?

One of the most important questions that must be asked is: *Why focus on innovation now?* Or: *What is the compelling driver to change the status quo?*

For most organizations the answer will depend on a combination of these four reasons: profit, people, prosperity, and planet:

1. **Profit.** New value creation—how important is it to continuously generate differentiated new value and growth?
2. **People.** Climate and culture—how critical is it to build a culture with maximum employee engagement that allows every employee to contribute to new organizational innovations?
3. **Prosperity.** Clarity and strategy—how much are you willing to invest to improve clarity about the future and reduce uncertainty of market fluctuations?
4. **Planet.** Citizenship—how committed is the organization to help uplift society and build a corporate legacy based on ethical business practices?

New Value Creation: Innovate to Generate Differentiated New Value and Profit

The first reason executives may want innovation is to generate differentiated new value and profits. Notice the term "differentiated." Between 2008 and 2010, we interviewed many senior executives. They told us that many elements of their business strategies were not working as well as they hoped. We also discussed the desire to achieve continuous competitive advantage through innovation. "Different" implies a need to switch the business mind-set from old to the new. "New" means that managers must shift the mind-set from the current game of beating the competition to making them irrelevant and challenging industry assumptions. This mind shift implies they don't need to react to the moves of the rivals and instead learn to free up resources to identify and deliver completely new sources of value. By challenging sector boundaries, managers can look at substitute industries for new white space, just as Apple (computer manufacturer) did to Sony (consumer electronics).

DIFFERENTIATION Differentiation in products and services means providing unique or superior functionality that generates a premium price and profit and may significantly increase market share. As shown in Figure 1.2, highly differentiated products and services have an 82% success rate compared with 18% for me-too offerings. Since most companies are incrementally competing against rivals, this may explain why so few companies are able to produce above-average shareholder returns.[3]

It is empirical fact that companies that excel at innovation generate more profit than their competition.[4] Top companies almost always lead their industries in return on equity (ROE), total returns to investors, and profit margins. There is a self-evident correlation between successful innovation programs and profitability. As shown in Figure 1.3, innovation is the best path to increase market share. Market share on an average of 40% or more is associated with pretax return in investments exceeding 20%.[5]

Since most executives sense this, why do organizations still not employ innovation as a core capability?

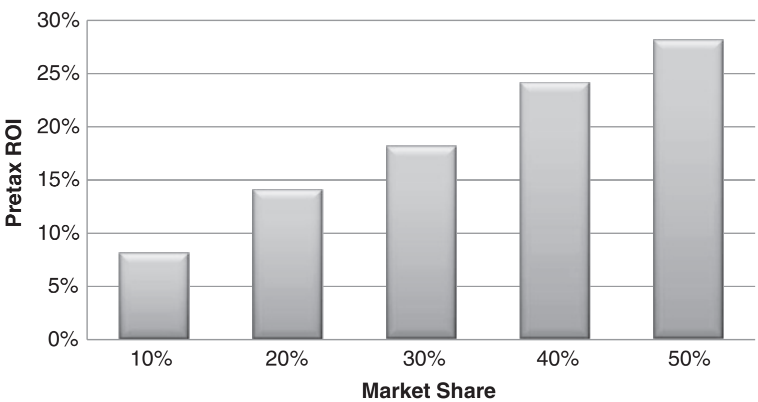

FIGURE 1.2 Strategic Choice: Impact of Differentiation

Adapted from Michael L. George, James Works, and Kimberly Watson-Hemphill, *Fast Innovation* (New York: McGraw-Hill, 2005), p. 16.

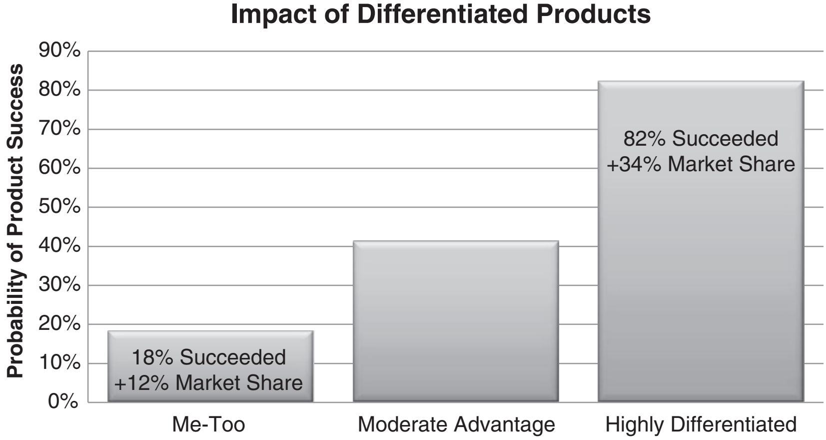

FIGURE 1.3 Market Share and Pretax Return on Investment

Adapted from Bruce Henderson's report, "Strategy Alternatives for the British Motorcycle Industry," Boston Consulting Group, 1975.

The main reason is the senior leaders at the top do not understand the fundamental contradiction that lies between a *mechanical engine* and an *innovation engine*. Mechanical engines give you scale. Innovation engines give you empowered employees.

SCALE AND INNOVATION There are built-in trade-offs between scale and innovation and between scale and market-specific execution. As organizations get larger and achieve scale, empowerment decreases. However, innovation comes from empowered individuals and teams who break rules. To tap into their creativity, leaders must allow them to produce, market, sell, distribute, and service their innovations globally . . . often. Trying to embed innovation after scale has been achieved is much harder to do. Most large organizations are in this situation, so they don't pursue innovation. Over time as they scale, they destroy entrepreneurial spirit. Creative innovators feel lost in such environments, since scale implies following the rules, discipline, and bureaucracy. Most managers at ease with the principles of a mechanical engine. They do not have personal experience operating an innovation engine. Table 1.1 shows nine specific distinctions between the two types of engines.

To help make a case for your innovation engine, develop a dialog with the senior team or a potential sponsor(s) using Table 1.1, which shows the difference between the mechanical engine and the innovation engine management style. Are the executives in your company ready to mandate an innovation engine, or are they most comfortable with the mechanical engine alone?

TABLE 1.1 Management Style, Mechanical Engine versus. Innovation Engine

Managers	Mechanical Engine	Innovation Engine
Driven by	Seek promotion. Reward system favors conservative decision making and risk aversion. Managers seek power and upward hierarchical positions.	Highly self-motivated and seek to achieve vision, goals, and action plans with freedom and access to corporate resources. They know rewards will come.
Action	Majority of time allocated to supervise and manage downward and delegate as much as possible.	Love to roll up their sleeves, get their hands dirty, and personally dive in to get the job done.
Planning	Cyclic time management—weekly, monthly, quarterly, and yearly planning and review processes. Organize for next job.	Three- to five-year self-imposed timetables to achieve personal and corporate goals, which must include *new* ventures and projects.
Skills	Emphasis on large amounts of data for rational decision making. Pursue professional management and business school methods for analytics and people and organization management.	Would rather be entrepreneurs but realize they can achieve greater success with corporate resources to commercialize their ideas faster. Know they need help in fitting in the corporate environment, and seek it.
Failure and mistakes	Generally avoid anything that might cause failure. Avoid surprises.	Often careful at making sure the project risk being taken is controlled and does not generate political suicide. Often push the envelope for sake of learning or testing their hypothesis, knowing they might fail.
Decisions	Risky decisions are often postponed until hard facts can be gathered. Will make only those decisions the boss (or boss's boss) might want. No individual feels personally responsible.	Experimenting is more important than waiting for the numbers to line up. Very good at enrolling others into their idea at a very early stage of idea development. Often patient and willing to compromise with others if the idea can be improved and executed faster. Love to take responsibility and ownership.
Market research	Rely heavily on data from market research experts within or outside the company to help conceptualize new offerings.	Generally conduct their own market research. Rely mostly on their gut and intuition and will use formal market research surveys to validate what they feel.
Outlook	Seek approval and support from others.	Look to make a positive difference for customers and their sponsor.
Relationships with others	Hierarchy as the basis of relationship.	Intense engagement within hierarchy.

BUILDING THE NEXT S-CURVE One clear trait of high-performance companies is how they are launch new businesses— a process of building the next S-Curve.

In 2009, Tokyo Shoko Research conducted a study of almost 2,000 of the world's oldest companies. In Japan, about 3,100 are over 200 years old. For example, the Sumitomo Group planted its roots circa 1615, when Buddhist priest Masatomo Sumitomo opened the first book and medicine shop in Kyoto. Since then, the family business has continued through the reigns of numerous shoguns and emperors as well as two major world wars. During that time it has continually grown and thrived, entering one new market after another, including electric cable manufacturing, forestry, financial services, copper smelting, sugar, trading in textiles, mining, and warehousing.

Sumitomo has achieved what most can never do: launched new discontinuous ventures while building a global brand and a sustainable fortune for shareholders year after year. Many organizations can build one brand, but the vast majority stumble badly when that business begins to mature—at the top of the bell curve. In fact, one of the main reasons so many companies—even large corporations—are here today and gone tomorrow is because they couldn't make the jump to a new, growing business from an existing, slowing one before revenues from that core market stalled.

Let's look closely at Figure 1.4.

Between T1 and T2, the mind-set required for growth is *experimentation and evangelism*. Between T2 and T3, *execution and expansion* should be the focus for

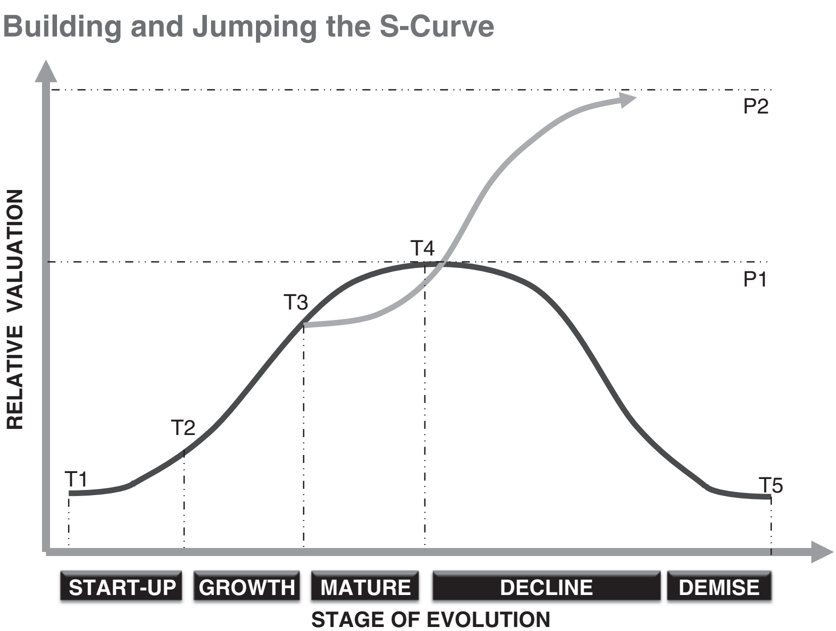

FIGURE 1.4 Building the Next S-Curve

managers, and between T3 and T4, leaders must use *evaluation and extraction* skills to protect the business. Managers who love to work in start-ups love to take risks and possibly fail, but most don't like to run or manage the business between T2 and T4. Managers who love to manage T3–T4 generally don't like the uncertainty of the start-up conditions. Most companies take their best innovators who started a new venture and turn them into managers. Soon they both realize the obvious mistake and suffer the consequences.

P1 is the physical limit every company operates in for each of its products. If you are an agriculture fertilizer company, the physical limit is the amount of land available for fertilizing crops. If you were in an electronics industry in the 1950s, you made vacuum tubes for televisions. At the time, the physical limit (P1) was maximum heat allowed inside televisions. Innovators broke through the P1 barrier by engineering transistors. Engineers soon figured out that there are only so many transistors you can put on a circuit board, which limited functionality of televisions. In order to break through that barrier, they invented integrated circuit boards (large-scale integration and very large-scale integration), which have given us innovations such as personal computers, watches, iPhones, and iPads.

If you understand the current physical limit of the raw technology in your product offerings, you can predict the next S-Curve, when to invest into building it and when to jump on it before the rivals do.

Research shows that once a company reaches the mature state (between T3 and T4), where revenues are starting to decline, margins flatten, and customers are starting to leave, chances for recovery in the current business model are anything but promising. According to one report, two-thirds of stalled companies end up being acquired, taken private, or forced into bankruptcy. Also, once the annual sales growth slows down to less than 2%, the company has less than a 10% chance of ever fully recovering.[6]

The average life span of companies on the Standard & Poor's 500 has shrunk drastically, from 75 years in the 1930s to just 15 years in the 2000s.[7]

It is important to note that the last point in time a company can build and successfully jump on to the next S-Curve is at T3. After T3, the management will not have the capital and other resources to invest into starting a new S-Curve. Remember, starting a new S-Curve requires a mind-set of experimentation. Typically, after T3, the business needs a very conservative CEO running the operation, not a risk-friendly leader who might overconsume resources.

Therefore, the best time to start building the next S-Curve is between T2 and T3, and the *last* opportunity to start a new S-Curve is at T3. This period is one of the greatest times for a company. Its performance is being strengthened for high-precision execution, expansion, and customer acquisition. Plenty of capital is being invested for the growth strategy in place. During this stage, assuming the *chasm* was crossed at T2, the business is growing very fast and everyone is happy—possibly burned out, but happy, generating personal and organizational success.[8] Paradoxically, since everyone is extremely busy executing and growing market share, leaders are ill equipped to help create extra capacity. They have no time to take on anything new, such as incubating new innovations that might pay off in a few years. Leaders become focused on putting in everything possible to manage the growth and forget to innovate. Over time, the culture and systems lose any memory of what it was like during the T1 and T2 stages, necessary for creatively building the next businesses.

An innovation engine can solidify the path of a world-class innovator (WCI) shown in Figure 1.5. The very best WCI companies are committed to maintaining their distinctive capabilities. They purposefully refuse to scale too quickly; they replicate their business in a repeatable way; and from the start they remain focused on mastering access to customer and market channels.

Innovation can help build continuous new S-Curves for your organizations.

People Express and Southwest Airlines were founded as discount airlines, but Southwest has grown its business in a decidedly different manner. It has, for example, maintained its point-to-point route system (compared to the traditional hub-and-spoke model of the legacy airlines such as American and Delta), relying more on secondary airports, such as Fort Lauderdale–Hollywood International Airport, than on primary hubs, such as Miami International Airport. And Southwest has never wavered from its high standards of hiring only those employees with certain qualities, such as a commitment to customer service and a fundamental belief that everyone should be treated with dignity and respect. People Express, however, was quickly

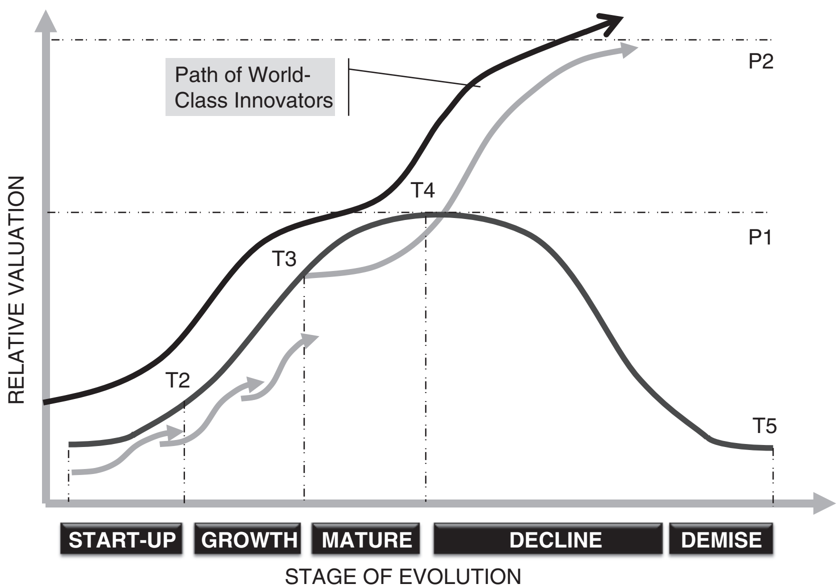

FIGURE 1.5 Path of World-Class Innovators

sold after only six years in operation as soon as it reached the top of the S-Curve at T4. It lacked an innovation engine and a clear distinctive value proposition—unlike Southwest, which had differentiated in customer service.

Climate and Culture: Improve Employee Engagement and Build a Culture of Innovation (People)

The second reason why leaders may want innovation is to build world-class employee engagement that leads to a unique corporate culture. Some organizations, such as Southwest, have figured out that by putting people first, they will retain and attract the best talent for sustainable growth.

For leaders in an environment where is a high number of disengaged employees, committing to an innovation journey is a risky proposition. Research shows that committing to innovation will increase employee engagement. Increased employee engagement drives creativity; with creativity comes ideas; and with ideas come innovation.

Without engaged employees, sustainable innovation is not possible.

Risk tolerance and employee engagement are two sides of the same coin. Intelligent failures require employees to take risks. When they do, engagement and productivity can improve. Also, it is important to remember that employee engagement arises from corporate culture. Engagement cannot be cultivated or rooted in a corporate program. It happens only when you remove barriers to work, and those barriers are unique to every work group.

According to a Gallup Group finding, when companies emphasize strengths developed through organized learning and talent management strategies, the chances are greater that a culture of innovation and creativity will exist.[9] Innovation efforts build individual strengths and bring out the very best in employees. In the 2007 report, 30% of respondents strongly agreed that their organization is committed to building the strengths of each associate. Of those, a majority (54%) strongly agreed that their current job brings out their most creative ideas. In contrast, of the nearly 50% of respondents who disagreed that their organization is committed to building the strengths of each associate, only one in ten strongly agreed that their current job brings out their most creative ideas.

When we look through the employee engagement lens, the impact of focusing on strengths and encouraging new ideas for innovation is even more evident. Sixty-five percent of all engaged employees stated that their organization is committed to building employee strengths and encouraging new ideas that defy conventional wisdom. Among actively disengaged employees, this number plummeted to a mere 2%.

It is also a well-known fact that managers play a significant role in the talent development + engagement = innovation equation. Fifty-two percent of workers who said their supervisor "focuses on my strengths or positive characteristics" also said that "my current job brings out my most creative ideas." Previous Gallup research has shown that higher levels of engagement are strongly related to higher levels of innovation.

Clarity and Uncertainty: Improve Clarity about the Future and Reduce Uncertainty (Prosperity)

The third reason why leaders should want innovation is to improve clarity and reduce the uncertainty about the future.

Most organizations have all sorts of dashboards, formulas, and metrics to monitor how the business is doing. But very few have a metric called *rate of failure*. Why is that?

FAILURE RATE When setting a business goal and not achieving intended results, implies some level of failure. Most company cultures and systems do not tolerate even a small management failure. Although, all “failures” identify what does not work and what needs to change next time. By definition, the company has gained new knowledge regarding the original problem and process of finding the solution. In today’s world, when one of the primary tool to success is access to new knowledge, shouldn’t we break things that are most fragile fast? Doesn’t failure increase clarity about issues and ultimately speed up outcomes?

If speed is a critical component for growth and expansion, the faster you fail, the faster you can learn what is fragile and therefore remove contradictions as you build out your solutions. The faster you remove contradictions, the faster you can implement and commercialize your ideas.

The main reason we don’t use a metric such as failure rate is because it is the dark side of what we call success. Human beings don’t like to fail. It hurts the self-ego.

Let me suggest that without continuous failure, there is no continuous innovation or evolution. All business growth occurs through testing an idea where most ideas don’t work the first time. Just look at the beginnings of all the product and service offerings in your firm. All of them were conceived to be different from how they have been commercialized. An organization adapts quickly as it learns what is working and what is not working. The problem is that most managers spend all their time talking about what is working and only incrementally improving on the previous state.

We must challenge the organizational mind-set that primarily measures progress and growth and does not allow measuring failures. That is like saying darkness does not exist because we only have methods to measure the existence of light in lumens (we have no methods to measure degree of darkness).

Great innovators understand that increasing the failure rate actually reduces uncertainty about the future. In other words, experimentation through innovation can actually reduce uncertainty and derisk the future.

STRATEGIC CLARITY Clarity is an important driver for strategic innovation. Strategic clarity gives access to new opportunities faster. As shown in Figure 1.6, when managers have access to clarity about opportunities more quickly than current methods of decision making, they will respond faster than by using the status quo method only.

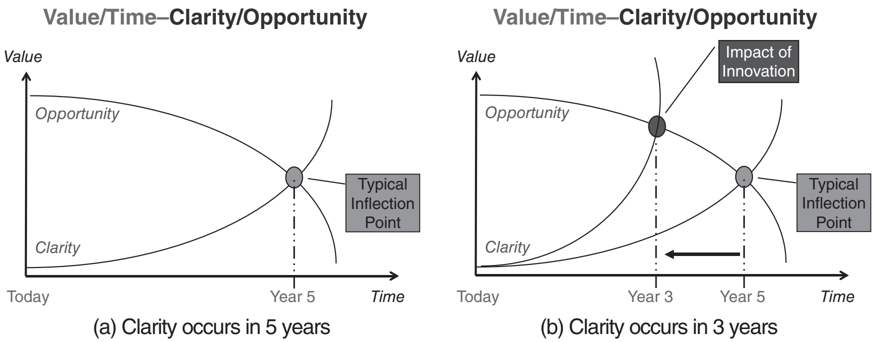

FIGURE 1.6 Opportunity/Clarity Management

In our experience, most managers are very likely to mobilize an idea if they have 80% clarity about it. No organizational system provides absolute clarity regarding what is possible. If such a discipline were available, most managers could make even faster decisions—right or wrong. There is plenty of historical data in organizations but not enough clarity regarding what is possible about future opportunities.

Clarity means deeply understanding and empathizing with what the end customers' unmet needs are today and what might be emerging as a need in the near future. It is not just about finding ideas to solve today's problems but having the insight to define new problems before others do. Do your managers do this today, consistently? Innovation can deliver this capability. Strategic clarity is about asking the right questions and finding the right answers before others do.

In Figure 1.6, our hypothesis is that every organization already has many significant opportunities. In other words, finding ideas (big and small) is not the primary obstacle. The real issue is access to the clarity about those ideas and their explicit value (before the competitors have it). No one is in charge of crystallizing and debating worthy ideas with rigor. At some point, as shown in part A—say five years from now (it could be three years, time doesn't matter)— the business will gain maximum clarity and, we hope, take an action as a response. The problem is, by that time, the size of the opportunity may be reduced by 50% or more (faster today than in previous life cycles). In the figure, the opportunity curve is controlled by external environmental factors while the clarity curve is controlled by the organizational capabilities and courage.

By embedding innovation as a core capability, companies can build a muscle that can reshape the clarity curve (part B) such that the inflection point for clarity and opportunity becomes visible much more quickly. The result, of course, is higher possible valuation of investments and faster market capture/entry.

Does your company capture the cost of being late to market? Using historical data, you can estimate the growth and margin numbers if the innovation lead times had been twice as fast. In our experience, a slow and ineffective innovation process costs companies between 20% and 50% of their potential shareholder value.

Have a conversation about failure rate, clarity, and opportunity with your management team. Do they agree that innovation actually reduces business risk? Does this create a burning platform for you and them? If so, you now have a good *innovation intent* in your hands to proceed. If not, help create urgency with the executives at the top before proceeding.

Citizenship: Uplift Society and Build a Legacy (Planet)

The fourth reason why leaders may want innovation is to demonstrate lasting impact by leaving their mark on the communities they serve. These leaders have realized that today's challenges are too great for current bureaucracy and can be met only with self-organizing systems, such as free markets, self-awareness, self-rule, and effective communities of the future. They are deeply invested in the principles that can greatly improve the intelligence, ethics, and competitive capacity of business organizations.

Free markets have provided the systems and tools to exploit our environment with extraordinary productivity and efficiency, but humans have not used wisdom to establish a balanced relationship with nature.

In the last decade, our global civilization has been experiencing nature's wrath in the form of earthquakes, tsunamis, hurricanes, snowstorms, and other natural disasters at an unprecedented rate. Mother Earth is being abused, and humans are racing toward a possible extinction by using natural resources at an unsustainable rate. Overcrowding, violence, and inhumane acts seem to be on the rise. Unfortunately, the free markets will not automatically provide the wisdom to deal with these issues, because markets love consumption growth, the very cause of these problems.

In recent years, the sustainability movement was begun by wise leaders to help respond to this urgent problem. Organizations that have mature innovation capabilities are now expanding their innovation programs to help resolve these conflicts—in effect, creating a conscious organization.

Innovation efforts to heal the planet and natural resources are not just about corporate giving but are about dealing with radical discontinuities in our way of living, playing, and working. These intelligent organizations are now merging their innovation programs with their sustainability programs. Together they are driving toward triple-bottom-line success: profit, people, and planet.

How does this actually show up in a typical business?

Businesses committing to innovation in this manner are achieving disproportionate growth increases in customer satisfaction, quality and quantity of new knowledge, new skills and capability, and improved commitment to sustainability of resources. These organizations are transforming to low-resource, high-satisfaction business models. They pay close attention to every detail to deliver exquisite customer service while staying nimble and using available inputs to produce the specific satisfaction their customers demand in products and services. To these businesses, every pound of material and each calorie of energy carries more meaning, delivers more human satisfaction, and is designed to last longer and do more.

These organizations are embedding this thinking into their culture by helping each employee understand the importance of moving away from valuing only the material success and toward valuing the quality of meaning and relationships and developing greater heart and wisdom along with technical capabilities to produce greater value per unit of resources used. Corporate Knights Research publishes some examples of such companies in its "Global 100 Most Sustainable" list each year. The 2012 report lists companies such as Novo Nordisk, Toyota, Intel, IBM, Proctor & Gamble, Hitachi, Allianz, and many others.[10]

One widely used definition of sustainability is corporate development that meets the needs of the present without compromising the ability of future generations to meet their own needs. If your organization already has an innovation program started or if innovation is a way of life, check to see if the leadership mind-set is ready for planet innovation–commitment to reaching profit goals while improving health and wellness of each citizen on Earth. If not, help create an awareness of the need to integrate the innovation efforts with the sustainability efforts—you may become a pioneer in this new movement.

Innovation Execution: Embedding Innovation

After you have clarified the role of innovation for the future of your organization, you will need a systematic process to embed it in the organization. The three broad steps of activities to imbed innovation as a core capability in your organization are shown in Figure 1.7.

1. Envision and articulate innovation intent (Chapter 1).
2. Develop an innovation strategy (Chapter 3).
3. Design your innovation program (Chapters 4–5).

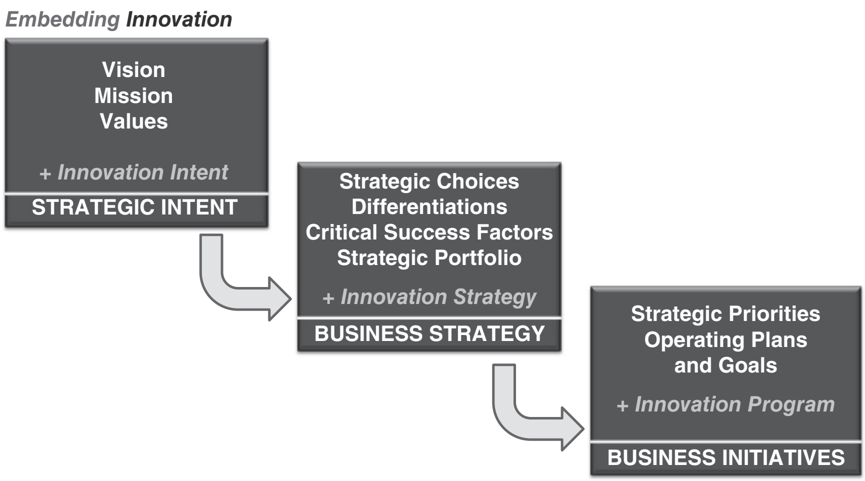

FIGURE 1.7 Embedding Innovation

There should be evidence for innovation from the top leaders. Innovation intent is articulated by the senior executive team (and sometimes the board) as part of the strategic intent. Innovation intent is top management's directional mandate on how the firm is going to win using innovation.

In our view, innovation intent is easier to identify if the senior team has already declared its strategic intent—a compelling statement about where the organization is going and defining what it wants to achieve long-term.

Yes, it is possible that, in your firm, the word "innovation" gets used a lot by the senior team and in all business reports to shareholders, but very few leaders are truly committed to actually *wanting* innovation badly enough. In other words, it is just lip service.

How do you know when there is authentic innovation intent from the top?

After working with some of the best brands over the last 25 years, we have found there are five indicators of strategic innovation intent:

1. It is being spoken about as a clear differentiator for long-term growth and success.
2. It is already part of the strategic vision and value defined, and there is a strong desire to make it part of everyone's job.
3. There is clear, authentic sponsorship from the C suite.
4. There is little evidence of resistance from top team members.
5. Senior leaders are spirited to role-model it, in spite of the guns pointed at them to stay focused on the mechanical engine.

Walt Disney, the founder of one of the most legendary brands in the world, lived his innovation intent from day 1. He launched the first theme park, Disneyland, in July 1955. Originally the project was budgeted for $4.5 million, but it ended up costing near $17 million to complete. His strategic intent was to build a theme park that would unleash the imagination and joy of children around the world. Disneyland became the most visited tourist attraction in the United States and became the foundation of one of the most enduring entertainment brands in history.

While being built, financiers exerted tremendous pressure on this massively over-budget ambition and forced Disney to shut it down. He ended up selling his Palm Springs home to finance it and sacrificed everything he had to stay true to his strategic and innovation intent. When opened, only one-third of the park was fully operational. Later Disney said, "I could never convince the financiers that Disneyland was feasible, because dreams offer too little collateral."

Walt Disney was a visionary leader. He understood the power of imagination and ideas in the face of numbers—the guns pointed at him every day. He was willing to chase a dream that had no precedent, no market data, no corporate ROI, no focus group to validate.

Disney deeply believed in his father's values of being a hardworking carpenter, farmer, railroad machinist, postal carrier, and a hotel manager. Later he would bring all of those jobs to help build Disneyland.

Disney died when he was just 66. But before then, he reflected back at the grand success of his life's accomplishments and specifically the cultural impact of Disneyland on the nation. He explained the kind of energy he brought to his new vision: "In the lexicon of youth, there is no such word as 'fail.' Certainly we have all had this confidence at one time in our lives, though most lose it as we grow older. Perhaps, because of my work, I've been lucky enough to retain a shred of this youthful quality."[11]

Very few leaders impacted society and the transcended societal cultures like Walt Disney did.

Strategic intent and innovation intent require unwavering clarity, focus, and perseverance to realize the value of installing an innovation engine in your firm. If you are lucky enough to work at an organization that already exhibits such intent, leadership, and values, you are already 60% done with the core message of this book.

Conclusion

Competition in the global market in every sector, product, service, and market segments is fierce, and that is the new status quo. In order not only to endure but to prevail, global organizations need to deliver innovative differentiated offerings that create substantial additional value, relative to what customers can already buy. Most organizations will fail unless they have an innovation engine that is looking at the future while delivering near-term value and profits.

In our experience, most executives want innovation in order to create differentiation in the marketplace, but they lack the education, knowledge, and skills regarding the innovation engine—they are stuck operating the mechanical engine. Don't minimize this issue. When a program manager is given a charter to "go innovate" by the CEO, the most important first step should be to educate the leadership team about the game of corporate innovation and engage them in a professional debate that can lead to clarity and decision on why they should implement innovation.

The innovation engine will work only when there is informed decision making and unwavering sponsorship—your first and most important step before you journey too far.

The second step is to assess the readiness of the organization for innovation (see Chapter 2 for details). The third and final step required to build a solid foundation for your innovation journey (Chapter 3) is to link innovation to the business strategy—not an easy task. If done correctly, the output should be a clear, articulated innovation strategy linked to the business strategy.

The innovation strategy communicates clear directional statement(s) from the CEO to everyone answering the question: *What will innovation give that nothing else can?* It should always be aligned to the appropriate business strategy. When it is working, it will inform the business strategy in the long run.

After the innovation strategy is in place, you are ready to build your innovation roadmap (see Chapters 4 and 5).

Key Questions about Innovation Intent

To help clarify strategic innovation intent, here are some questions worth posing to your seniormost leaders:

1. How much more cost savings can we squeeze out of our current business? Are the incremental savings worth the time spent by managers?
2. How much more top-line growth can we achieve out of our current business? Is the cost of new-customer acquisition going up?
3. To generate real wealth, how many share-increasing tactics are remaining to be tested beyond the ones already tried by the leadership team, such as buy-backs, spin-offs, and other forms of financial engineering?
4. For achieving scale, how many more mergers and acquisitions can be absorbed before altering the business model and losing strategic focus?
5. How different is our business model and the value proposition it offers in comparison to others in the marketplace?

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