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How to do innovation right

Naveen Gupta For The Straits Times

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A bank whose e-statements don't reach who they should. An app that works only on specific phone models. Here are some thoughts on how companies can set up more effective innovation structures.

The most often-used words in the business lexicon of any present-day chief executive officer are catchwords such as innovation, digital strategy, data analytics, machine learning and artificial intelligence (AI).

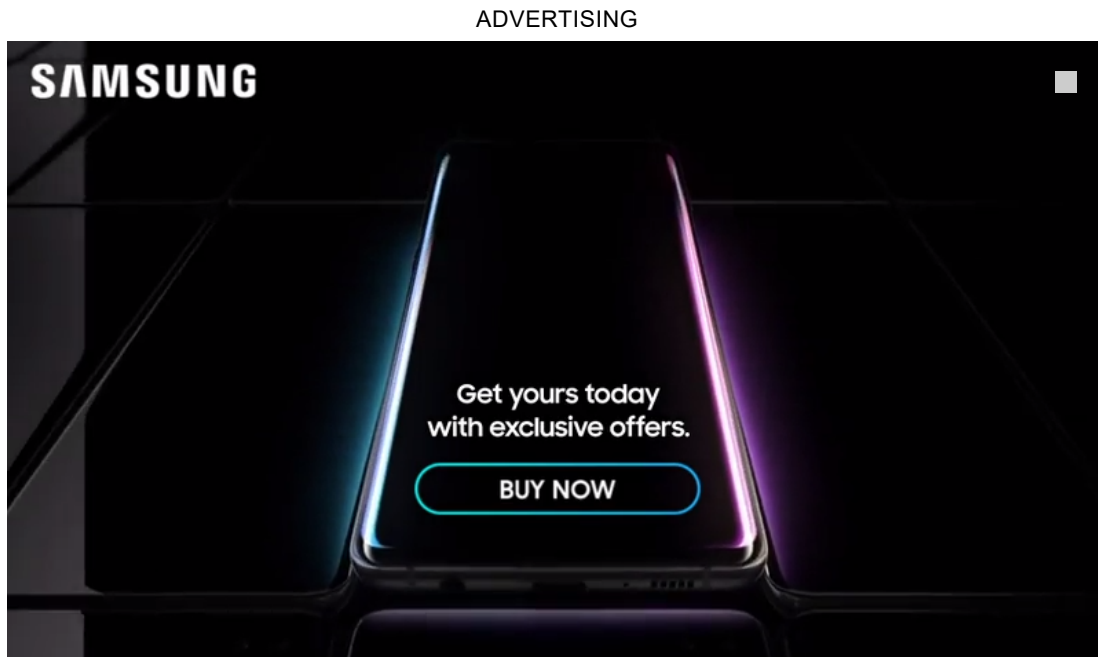
The CEO is, in most circumstances, under pressure from the board - and rightly so - to have an "innovation agenda", responding to investor expectations, as markets are inclined to reward enterprises which have one and penalise those without.

To establish this much sought-after "innovation agenda", the CEO normally ends up creating an "innovation edifice" in the organisation. This includes on-boarding one of the many avatars of a chief innovation/ chief digital/chief technology/ chief data officer, supported by a retinue of subordinates.

This edifice then needs to be vested with financial firepower to undertake activities that can fund the innovation agenda, which then becomes the "anthem" to be reported in the company's reports, used for public relations and to gratify the hunger of the financial markets.

Among the many activities that members of the edifice undertake, one is to make their presence felt at the numerous innovation events that are organised across the world. Loaded with the dollars allocated to them, I have witnessed many of these organisations undertaking "innovation shopping" - sponsoring innovation platforms and scouting for start-ups that they could buy or invest in.

While this has become pretty much a standardised approach, often what is missing is clear objective setting for this sub-organisation and the metrics of performance.



What I have also found missing is how they interact and drive the rest of the organisation on their innovation agenda. Or is it that innovation is to be the exclusive preserve of this edifice?

If the innovation edifice is not managed and monitored appropriately, organisations can achieve only cosmetic and non-transformational outcomes, despite a genuine conviction and provision of significant resources.

I know of a bank which is highly acclaimed in innovation rankings, yet cannot provide monthly e-statements to a particular segment of its clients.



Amazon's fulfilment centre in Staten Island, New York. The writer says his finest moments of customer experience have been in dealing with Amazon staff who are empowered to take significant decisions relating to customer purchases and hence transport the full impact of the firm's innovation agenda into the customer's life. PHOTO: AGENCE FRANCE-PRESSE

Another enterprise's mobile application works only on certain specified models of smartphones, even though the digitisation initiative is an extremely potent one.

Here are three key issues to consider for any company that wants to drive innovation.

SHOULD INNOVATION BE OUTSIDE-IN OR INSIDE-OUT?

Should the innovation agenda be the exclusive preserve of a sub-organisation within the organisation? If not, how does the innovation edifice function within the larger organisation?

I believe the innovation mindset needs to be internalised within the DNA of the organisation.

It should empower each employee and stakeholder, irrespective of their position in the hierarchy, to question the status quo in order to explore improved options.

It should be an essential ingredient of the organisation culture; not an outside-in, but an inside-out, phenomenon.

Foisted innovation has the potential to have an adverse impact on the larger organisation, as it is seen to be an agenda being driven by a group of people who "do not know my business".

HOW MEASURABLE SHOULD THE INNOVATION AGENDA BE?

A key challenge is whether the innovation budget should be accepted as the cost of indulgence to be seen as being at the forefront of market trends, or should be assessed on tangible measurable outcomes.

I believe that the resources being allocated to innovation also need to result in tangible benefits and outcomes.

These should be either in the form of an improved financial metric as determined by the organisation, or a non-financial metric like customer experience and loyalty. This should be clearly spelt out so that the innovation team can function with a clear direction and goals.

Unless assessed on clear metrics at periodic intervals, the initiative has the potential to become nebulous in direction and uncertain in outcomes.

I refer to an insightful paper titled The Eight Essentials Of Innovation, by McKinsey & Co employees Marc de Jong, Nathan Marston and Erik Roth. It gives an excellent example of how the CEO of a Norwegian enterprise quantified the target for innovation and ensured that it permeated right to the bottom of the organisation.

"Lantmannen, a big Nordic agricultural cooperative, was challenged by flat organic growth and directionless innovation. Top executives created an aspirational vision and strategic plan linked to financial targets: 6 per cent growth in the core business and 2 per cent growth in new organic ventures.

"To encourage innovation projects, these quantitative targets were cascaded down to business units and, ultimately, to product groups. During the development of each innovation project, it had to show how it was helping to achieve the growth targets for its category and markets. As a result, Lantmannen went from 4 per cent to 13 per cent annual growth, underpinned by the successful launch of several new brands. Indeed, it became the market leader in pre-made food only four years after entry and created a new premium segment in this market."

IS INNOVATION ONLY IN TECHNOLOGY?

Innovation is not just technological, but pervades every aspect of an organisation's functions - product, process and people.

The mindset of innovation-driven organisations is of entrepreneurship, where each employee views his or her job as a mini-and micro-enterprise.

However, since they are intimately connected with the other parts of the ecosystem, there are inter-dependencies. For one function to be efficient, the others need to gear up as well. They need to possess common goals and a very transparent transfer pricing mechanism.

An organisation that has an innovation edifice, but lacks an organisation culture which is open to disruption, can only make superficial inroads into innovation, manifesting itself in less material products like a more efficient website or a mobile app.

Deep innovation, on the other hand, is rooted in creating a culture and environment in which each employee believes that he or she is a stakeholder in the success of the business and sees it as one's duty to improve the existing state - however perfect it may already seem.

One example of deep innovation is Amazon, which has disrupted the global retail model through what I term "360-degree innovation".

Whether it is the ease of purchase, promptness of delivery, returns policy, ease of payment, the dimension of services, the technology or any other area which touches the customer, it has redefined the model in each area of its operation.

Each aspect has been deliberated and delivered from a "customer first" perspective to completely transform the global shopping model across all products and services - whether retail, movies or music.

My finest moments of customer experience have been in dealing with Amazon customer service staff who are empowered to take significant decisions relating to customer purchases and hence transport the full impact of the organisation's innovation agenda into the customer's life.

This kind of innovation is innate and results in hugely impactful outcomes for all stakeholders.

The innovation edifice then becomes a facilitator, and not the driver, of change.

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