

Business Innovation

Every entrepreneur wants to be Steve Jobs. But the Steve Jobs they want to be is the Steve Jobs on stage introducing the new iPhone at an Apple event. Few entrepreneurs want to learn how to be Steve Jobs in everyday innovation. It is no different for innovators in large companies. Many of them value ideas and creativity more than systematic management processes.

But, as Eric Ries ("The Lean-Startup") rightly emphasizes, entrepreneurship is management. The same applies to innovation. It is not just about fun and games.

In fact, transformational innovation can quickly become a brutal "two steps forward, three steps back" process. Constant monitoring is therefore necessary.

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1. Definition of Business Innovation

The book "The Corporate Startup" (Tendayi Viki, Dan Toma, Esther Gons; Verlag Vahlen) defines innovation as the creation of new products and services that offer added value to the customer in a way that is supported by a sustainable and profitable business model.

What comes to mind when you think of innovation? Maybe it is a flashy new gadget but make no mistake. The world of innovation encompasses much more than just new products and things on the shelves. If products and services alone are not the whole story, then what is innovation?

In a business context, innovation is the ability to design, develop, deliver, and expand new products, services, processes, and business models for customers. Successful innovation creates significant growth.

McKinsey emphasizes: “However you measure it, innovation must increase the value of a company and promote its growth.” In addition, more than 80% of executives said that innovation was one of their top three priorities, but less than 10% were satisfied with their company’s innovation performance. Many established companies are better at operating than innovating and produce little creative change. Most are successful by optimizing their own activities. In other words, they improve what already exists, but not innovating.

We need to start distinguishing between genuine innovation and “innovation theater.” The crucial question for any innovation program is whether it creates added value for the company. Just because a company has an innovation lab with drip coffee bags, post-it notes, smoothie machines, and Sherpas organizing hackathons does not mean it is innovation. This is known as “innovation theater”: they perform and look innovative, but there is no tangible, demonstrable value for the company and customer behind it.

2. Battle with Innovation

There is a perception in the business world that large companies can be disrupted by start-ups in ways they did not expect. Disruption can come from unexpected quarters. An example of this is the upheaval in the hotel industry caused by Airbnb.

On the other hand, Xerox invented most of the technologies we use today in personal computing. Xerox is no longer one of the largest computer companies in the world.

Kodak invented the digital camera and filed for bankruptcy in 2012.

Nokia was one of the pioneers in the field of smartphones and yet has lost considerable market share to the iPhone.

These companies not only saw the future coming, but in some cases even invented it. Why haven’t they managed to harness the imagination of their customers?

When a company has found a successful business model, the management sets itself the goal of exploiting this advantage. This means that most companies are structurally organized to manage their current successful business model. All

corporate structures, procedures, processes, tools, and culture are geared towards doing what they have always done.

This is not necessarily a bad decision. Companies need to capitalize on their current advantages. After all, this is how they generate their sales and profits.

The mistake these companies make is that they focus exclusively on exploitation. But every business model has a life cycle. The demise of every business model is inevitable. In fact, the life cycles of business models are getting shorter and shorter.

So, if a company is structurally aligned with its current business model, this means that the life cycle of the company is linked to the life cycle of its business model. If the business model eventually goes under, the company will also go under. The task of today's managers is to decouple the life cycle of their company from the life cycle of their business model.

3. Innovative Leadership

Without management support, most innovation programs die as soon as they are introduced. Changes at the operation level may have some initial success. However, if they remain at this level, their long-term prospects are slim, if not nil. The antibodies of companies attacking innovation programs are too strong.

In established companies, the long-term success of innovation is highly dependent on the level of support innovation teams receive from top leaders.

The role of the CEO is particularly important in this context. CEOs have the power to influence organizational changes necessary to successfully drive innovation programs forward.

Today's leaders see innovation as one of the key drivers of growth. Many CEOs are actively engaged in innovation and are willing to drive it within their organizations. This is a unique opportunity for innovators to leverage leadership support and build long-term innovation capabilities within their organizations. But not all leadership support for innovation is good.

Sometimes CEOs unintentionally get in their own way. This happens when they create myths about innovation. One example of such a myth is the belief that innovation can be managed with the same tools and processes that are used for the core business. This belief can make it difficult for innovators to be honest about

the uncertainty that underlies their ideas. With the focus on execution, there is a risk that CEOs will invest resources in launching and scaling up untested ideas. Companies need world-class innovative leadership. And they need CEOs who understand this. Companies with world-class innovation leaders will have a competitive advantage in the future. It is no longer enough to be leaders in managing the existing business. CEOs and their leadership teams must also prepare their organizations for the – possibly uncertain – future and manage innovation appropriately.

What exactly are the characteristics of world-class innovative leadership? What does a CEO who understands this look like? Three main categories that can make up world-class innovative leadership can be identified:

3.1 Strategic Orientation

A CEO who understands what at stake here is knows that he has two equally important tasks: moving into the future and capitalizing on current success. She/He also knows that she/he cannot use the same strategy and processes for exploring the future that she/he uses for his core business. In addition to defining a clear strategy for the core business, she/he also develops her/his own innovation strategy that is aligned with the company's goals.

3.2 Resource Allocation

A CEO who understands this devotes her/his time personally to innovation. Time is the first and most important resource dedicated to innovation. When a CEO dedicates at least 30% of her/his time to innovation, she/he sends a clear message to the company that innovation is an important part of the business. Other leaders in the company are then likely to follow suit.

3.3 Portfolio Management

A top innovation leader knows that she/he cannot choose the best idea for innovation initiatives on the first day. The CEO cannot put her/his own favorite innovation initiatives first, which could lead to problems for the teams involved. They are doomed to succeed. Failure

is not an option, because nobody wants to tell the CEO that her/his baby is ugly.

4. Innovation is Management

I have often encountered entrepreneurs in established companies who reject the innovation process because they prefer to move forward in peace. If they participate in an innovation process, it is only when light, easy-to-use tools are used. They see innovation as a process designed for creative visionaries, with no room for managers. They are interested in the fun moments of innovation, which usually involve ideation, brainstorming, and canvases with post-it notes and markers... Innovation Theater.

This view is not correct. Innovation has never been limited to the creation of ideas. There are many ideas. This is not to deny the value of visions and ideas. Ideas are still at the heart of innovation. Without ideas and visions, there would be no new products or services to manage.

Successful innovation is the combination of creative ideas and profitable and sustainable business models. The choice is not between vision **or** management. Innovation is both inspiration and a systematic process.

In addition to brainstorming, there is the systematic process of searching for the right business model to support the new product or service. This systematic search includes:

- Understanding customer needs.
- Finding the right solution, channels, and relationships for customers.
- Determining the right pricing and cost structures for profitability.

The initial process of brainstorming and designing the business model is one way to capture our hypotheses. These hypotheses should be prioritized and tested with customers in the real world. The insights gained should be captured and used as the basis for iterations and pivots. An innovation team must think and act cross-functionally.

The entire process must be systematically managed so that the innovation teams can track progress. In other words: innovation has something to do with accounting, with innovation accounting. I have always found it unreasonable that some entrepreneurs expect their progress not to be monitored and managed. Investments in innovation must pay off, you can't expect managers to keep investing money in initiatives that might fail.

5. Continuous Explore-Exploit

Managers typically want to know how to create an environment in which innovation can flourish. First, they need to recognize that business operates on a continuum of uncertainty, the so-called "explore-exploit continuum," and that creating a new engine of growth and managing existing business lie at opposite ends of that continuum.

A good understanding of this continuum helps leaders and innovation teams to create the right investment and management processes, skills, and culture required to develop new business ideas as successfully as they leverage the existing business.

To build a company that can successfully deal with digital disruption, you need to be able to operate in two very different modes with different levels of uncertainty.

Existing business models – Exploitation – operate with a relatively high degree of certainty and it is possible to make accurate sales and growth forecasts. These business models can be managed and improved through detailed planning and proper execution.

In contrast to Exploitation, Exploration consists of the search for new value propositions and business models in an environment characterized by great uncertainty. Forecasts and plans make little sense in this uncertain environment and require a different financial approach, different skills, and a different culture.

Exploration culture cultivates creation, discovery, validation, and acceleration of entirely new ideas that are still foreign to an organization.

Exploitation culture emphasizes the management, systematic improvement, and growth of existing businesses.

This means that companies must create, manage, and harmonize two antagonistic cultures under one roof, a strong exploration culture and a strong exploitation culture at the same time.

These companies value operation excellence, planning, and continuous improvement when it comes to managing the present. At the same time, they embrace a culture of rapid experimentation, success, and failure, learning and adapting to develop ideas for the years and decades to come, and they know they won't be saving any money here. However successful they may be today, they are not resting on their laurels, but are already working on the future.

6. Innovation Ecosystem

Developing innovation capability within a large organization can be a daunting process. In the past, many have tried, but few have succeeded. With our clients, we use the term Innovation Ecosystem, coined by Strategyzer. This is designed to help leaders take a broader, systemic approach to building an innovation capability.

An innovation ecosystem is the framework that companies should use to develop their innovation capabilities. Three elements are required to build this in your organization:

Exploration Portfolio

This is the portfolio of innovation initiatives, new business models, new value propositions, and new products and services, all of which are mapped in terms of expected return and innovation risk.

For a better understanding of an organization's exploration portfolio, the initiatives in the portfolio are also classified according to three types of innovation: Efficiency, Sustainability, and Transformative innovation.

In this way, it is possible to assess whether the portfolio is in line with the organization's strategic goals or whether adjustments to the innovation ecosystem are required.

Innovation Programs

These are all innovation-related programs that take place within the company and are aimed at creating value (i.e., sales/profit) and/or changing the culture (i.e., structures/processes).

Exploration Culture

Exploration culture prepares the ground for the development, discovery, validation, and acceleration of entirely new ideas that are foreign to an

organization. In this way, we can quickly identify the obstacles that could derail innovation efforts, develop cultural interventions to overcome them and create the conditions for a sustainable and thriving innovation ecosystem.

In our work with clients we use Strategyzer's Innovation Ecosystem Map to assess the performance of innovation programs. We plot a company's existing innovation programs on this map to determine if the programs and the resources allocated to them are aligned with the company's strategic goals or if adjustments are needed to improve the overall innovation ecosystem. We use Strategyzer's Culture Map to visualize exploration culture and assess advancements and disruption in key categories of leadership support, organizational design, and innovation practice.

When creating an ecosystem for corporate innovation, we recommend applying the five principles from the book "the Corporate Startup":

- **Innovation Thesis:** Innovation should be part of the company's strategic goals and aligned with them. An innovation thesis clearly sets out a company's vision for the future and the strategic goals of innovation.
- **Innovation Portfolio:** To achieve its innovation thesis, an organization must establish a portfolio of products and services. This portfolio should contain offerings that cover the entire innovation spectrum.
- **Innovation Framework:** To execute its thesis and manage its portfolio, the organization needs a framework to manage the journey from search to execution. There are many frameworks that can be summarized as: create ideas, test ideas, and scale ideas.
- **Innovation Accounting:** With an innovation framework, the organization must use sound investment practices and metrics to measure success. There are three sets of innovation KPIs: reporting, governance, and global.
- **Innovation Practice:** The way teams develop their products and services must be aligned with the innovation framework. The innovation practice ensures that no product or services scales until it has a validated business model.

Together, these five principles contribute to the creation of an innovation ecosystem. The first two principles (thesis and portfolio) focus on innovation strategy. The next two (framework and accounting) focus on innovation management. And the last one is the principle where the company starts to interact with customers and validate business models. Ultimately, it is up to

each organization to adapt the principles and apply them to their business, strategic goals, and context.

7. Importance of Innovation Ecosystem

It is the unique combination of a properly managed exploration portfolio and your company's innovation programs and culture. Like any complex living system, it does not mature overnight. It will constantly change, adapting to changes in your business environment, and evolving in line with your business strategy to respond to new threats and opportunities.

8. Conclusion

It could be so simple...

The reason why companies end up in innovation theater, despite their best intentions, is that the process of turning ideas into profitable business models requires a level of executive commitment that is often difficult to achieve.

When managers focus on driving the success of their current business, innovation can be pushed to the margins of the company. These fringe areas may have fancy names like "lab", "accelerator" or "incubator". But if nothing of value is ever created in these places, they might as well not exist. This is an innovation theater that should be avoided at all costs.

Aligning the organization with innovation is critical, as is establishing principles that guide how the organization deals with the complexity of innovation. We believe that principles will trump tactics, that innovation will be brought to life and not just a temporary task.

Successful innovation requires interaction between numerous stakeholders from different areas of an organization.

About advisio

The advisio GmbH team consists of competent employees with many years of experience in the fields of business innovation and transformation, organizational project management, and governance of information and technology.

The use of frameworks and practices to innovate and transform organizations is one of our core competencies. Our specialists perform, upon request, advisory, consulting, and training services in business transformation, customer experience, business innovation, product management, value management, and change management. Together with its knowledge and experience, advisio accompanies its clients on their innovation and transformation journey for the digital era.

If you are not sure how to start the innovation and transformation process in your organization, advisio will help you determine it. Do not hesitate to make an appointment for a no-obligation consultation.

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