

# FIXING THE INNOVATION GAP

*How a systems approach can turn your innovation ambitions into reality*

Stuart Cross, September 2020

## Why innovation efforts are falling short

**W**hen it comes to the measuring the gap between management ambition and performance, nothing generates a bigger chasm than innovation. While over 80% of CEOs link the future success of their organization to its ability to innovate, only 6% are satisfied with what's actually being delivered.

The argument for highlighting innovation's importance is clear. A US Department of Commerce survey in 2011, for instance, showed that the profits of companies with an innovation mindset grew by 96% between 2008 and 2011, compared with growth of just 4% for non-innovators.

Similarly, analysis by *Boston Consulting Group* showed that shareholder returns delivered by the 50 most innovative companies between 2007 and 2012 were 25% greater than other leading companies.

In other words, innovation pays. CEOs know this only too well and, as one put it to me, innovation is no longer a strategic option, it is now a strategic imperative.

So why then, when the benefits are so obvious, are so few CEOs satisfied with their organisation's ability to innovate? Why are highly innovative companies still so rare? Having worked closely on strategy, growth and innovation with more than 50 leading businesses of all shapes and sizes in recent years, I have observed five factors that act as inhibitors to innovation:

1. ***A desire for a magic pill, not a daily exercise regime.*** This is probably the biggest innovation inhibitor. According to research by Professor Bob Sutton of Stanford University, it takes over 4,000 raw ideas to generate just two or three commercial successes. In other words, innovation should be a way of life, rather than as an isolated change programme. In all too many organisations, however, innovation is seen as a one-off solution.

2. **An intolerance of failure.** According to a survey of Silicon Valley's most successful innovators, the most important driver of their success has been their ability to 'experiment fearlessly'. Nothing works first time, so you may as well get it wrong as soon as you can. If you cannot accept failure you are unlikely to see too much innovation, no matter how much money you throw at it.
3. **An unwillingness to cannibalise sales.** The only way to prolong success is, paradoxically, to destroy it and create something even more valuable. Technology companies know that they must consistently add new features at lower prices if they want to stay ahead in the market. The same principles are true in other markets. Gillette, for instance, has consistently strengthened its leadership in razors through its willingness to make its existing ranges redundant and introduce new, higher-performing products.
4. **A reliance on a small cadre of innovators.** Relying on a small development team to identify, create and deliver game-changing innovations is unrealistic. You have to cast your net much wider, both across your organization and outside it. Over the past 15 years Procter & Gamble, for instance, has dramatically increased its willingness to source ideas from, and work with, external organisations. P&G now aims to develop at least half of its new growth ideas through these external networks.
5. **An excessive focus on creating an innovation culture.** A culture that promotes innovation is important, but on its own is not enough to create a highly innovative business. Empowering your people, promoting cross-functional collaboration, tolerating risk and building on ideas are all important characteristics of innovative organisations. Yet, recent research has shown that the culture of innovative companies looks remarkably similar to the culture of innovation laggards.

## The missing ingredient: An Innovation System

**Y**ou wouldn't assume that you could consistently deliver the right products to your customers if you don't have an effective supply chain system. Similarly, you wouldn't expect that your people would get paid the correct salary, on-time every month without first investing in a fully-functioning payroll system.

Yet many CEOs and senior executives assume that their organization will be able to deliver a stream of value-adding innovation even when a recognizable innovation system does not exist.

Such expectations are unrealistic. You will not achieve your innovation ambitions simply by demanding more innovation. You won't even achieve your goals by investing in culture-change or innovation skills programmes if these initiatives are not supported by changes to your organisation's underlying systems and processes.

Instead, you need to stack the odds of success in your favour by building and operating a fully-functioning innovation system. Only then will you encourage, enable and accelerate the delivery of high-quality new ideas and initiatives that will improve your customer proposition, provide your company with fresh competitive advantages and transform your business model.

As with supply chain systems, innovation systems are complex and multidimensional, with a myriad of moving parts. Once successful, your system will impact all elements of your business. It will affect how decisions are made, how resources are prioritized, how performance is managed and how teams work with each other, both within and outside your organization.

Despite its complexity, it is possible to identify five key features of an effective innovation system, as set out in Figure 1. Critically, all five elements are essential if you are to achieve your innovation ambitions.

Figure 1: The five features of an effective innovation system



1. **Strategy and Organization Alignment.** All successful innovation systems demonstrate a strong fit with the strategy of the business and its wider organizational approach. This part of the system ensures that everyone across the company is working to the same objectives. Key elements include:

- *Ambition.* Do you have a clear innovation goal that is integrated with your wider business strategy?
- *Strategic fit.* Have you identified particular areas of focus for your innovation efforts that will most benefit the delivery of your strategy?
- *Resource management.* Do you have processes to allocate scarce financial and other resources to your innovation priorities?
- *Talent.* Do you have people with the right skills and capabilities leading your innovation initiatives?
- *Culture and mindset.* Have you and your fellow leaders consistently demonstrated the behaviours required to innovate successfully?
- *Rewards.* Are your tangible and intangible rewards and incentives enabling entrepreneurial, innovation behaviours and attracting the necessary talent?
- *Ways of working.* Are there clear innovation roles across your business and are the innovation processes enabling effective collaboration, both internally and externally?

2. **Discover.** The first phase of the core innovation process is to discover new ideas. The more ideas you develop, the better chance you have of delivering commercial successes. Key elements include:

- *Insights.* Are you actively developing insights – customer, market and technology – that can act as stimuli to spark high-value innovation?
- *Involvement.* Is there a diverse mix of people from across and outside your business involved in identifying, defining and creating new ideas and potential initiatives?
- *Capacity.* Are you set up to generate a high number of potential ideas to develop and drive your innovation performance?
- *Picking winners.* Do you operate a consistent approach to reviewing and testing initial ideas, concepts and prototypes so that you can focus your development efforts on those with the greatest potential?

3. **Develop.** The second phase of the process is to develop and road-test higher-potential ideas. Speed and responsiveness are critical to the success of this part of the system. Key elements include:

- *Concept development.* Are you able to rapidly and cost-effectively develop ideas and turn them into prototypes that can be tested, reviewed and improved?

- *Learning and improving.* Are you able to quickly and cost-effectively learn from initial prototypes, problem-solve key issues and improve the idea for further development and testing?
  - *Picking winners.* Do you operate a consistent approach to reviewing and testing your development ideas so that you can focus your delivery efforts on those with the greatest potential?
4. **Deliver.** The final phase of the core process is the implementation of your best initiatives, whether they are new products or services, or new organizational approaches. The key to success is realizing that the launch of a new innovation is not the end of the process; you must also continue to refine and improve – and sometimes cull – an idea after launch. Key elements include:
- *Launch planning.* Is your organisation able to integrate the operational, marketing and organizational elements into a coherent, commercial plan?
  - *Launch management.* Is your organisation able to deliver new ideas effectively in line with your plans?
  - *Post-launch improvement.* Is your organization able to respond to customer and other feedback and rapidly improve new ideas even after they've launched?
5. **Governance and Performance Management.** Any innovation system will wither on the vine if it is not actively led and managed by the organisation's top team. If innovation is not seen as important to the CEO and the executive team, it won't be important to anyone else. Key elements include:
- *Senior governance.* Is the senior team actively overseeing the innovation system, and ensuring that is operating effectively, in line with your ambition and strategy?
  - *Portfolio management.* Do your innovation initiatives reflect your strategic priorities? Do the initiatives include both incremental and step-change innovations?
  - *Performance management.* Do your key performance measures and metrics encourage and reward innovation?
  - *Systems improvement.* Are you actively reviewing your innovation system's performance and finding new ways to improve its speed, cost and effectiveness?

## Moving Forward

As with any other strategic initiative, it is essential that the organizational leader takes the time to make the case for action, highlighting the shortfalls of the current situation, as well as the future opportunities and potential prizes for the organization and its customers.

Successful innovation is always cross-functional and so it is only the CEO who can effectively make this case. By working with your executive team – and then through the organization – you will need to judge when the level of support is sufficient to move forward. Once you reach that stage, you can then take these three actions and begin the process of developing an innovation system that can fill your innovation gap:

1. **Establish and communicate an outline innovation strategy.** Your initial task is to define and agree your innovation ambition and agree some initial priorities for new ideas and initiatives. The aim is to answer the question: *Why are we choosing to improve our innovation capabilities?* You may, for example, wish to accelerate growth, or access new markets, or have more, higher-value patents and trademarks, or shift the culture of your organization, or improve customer loyalty, or have a stronger brand, or have more sales from new products and services. Each of these objectives are valid, but each will lead to different goals and, as a result, require different areas of focus for your innovation activities. *What is your innovation objective and what are your related performance goals?*
2. **Create a fit-for-purpose innovation system.** At this stage, you do not need to over-engineer the development of your system; you just need something that is fit-for-purpose, that encourages and enables cross-functional participation and involvement and that provides you with a framework for focusing your efforts on those ideas with the most potential.

For example, at the Define stage, you should determine how you will collect and share insights that will act as stimulus for new idea generation, agree how you will bring cross-functional groups together to collaborate on projects and set out how you will choose between higher- and lower-potential ideas. *What are the key steps and processes you need in place now to start to drive more and better innovative solutions?*

3. **Launch a handful of innovation initiatives.** The most important step is, of course, to get going, but to do so in a way that allows your organization to learn and improve. Rather than trying to respond to every issue facing the business, start by focusing on just two or three of your most important issues. *What are the top three priorities across your organization today that most need new, innovative ideas?*

**T**hese three steps will enable you to begin the process of building an effective innovation system. Like other complex systems, however, creating a successful innovation system takes time, experience and persistence.

The key is to start the process, while recognizing that innovation, and the system that delivers it, will need to be a critical area of your focus for years to come.

Given the time it takes to develop a truly innovative business, many CEOs who begin the process of creating an effective innovation system for their business may not always be there at the end to reap the full benefits of their efforts.

Even so, there can be no greater CEO legacy than building an organisation that can develop, launch and offer meaningfully unique products, services and solutions faster and more effectively than its rivals. That, after all, is how you make the world a better place.

## About Stuart Cross



**Stuart Cross** is a consultant and coach who helps market-leading companies accelerate growth. Since its launch in 2006 his firm, Morgan Cross Consulting, has attracted clients including Walgreens Boots Alliance, Green King, Dunelm, GSK, DFS, Morrisons and TD Ameritrade.

*"I have worked with Stuart Cross for over a decade. Stuart has always helped me to think and act differently, and that is the key to innovation in any leadership role."* **Alex Gourlay, Chief Operating Officer, Walgreens Boots Alliance**

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