High-Performance Business

Innovation unbound

By John F. Engel, Anita M. Thompson, Paul F. Nunes and Jane C. Linder

A long list of constraints stands in the way of the kind of successful innovation necessary for high performance. Attempting to micromanage away the problem isn't the solution, however. Instead, company leaders must actively choose a philosophy of innovation that helps everyone in the organization understand how to get beyond the obstacles to success.

Apple Computer, Google, Samsung, 3M, Virgin Group, Nokia, Procter & Gamble. For these top performers, the winning equation is unassailable: Innovation equals growth.

The proposition is a bit more complex than that, of course. To make profitable innovation happen consistently, companies must turn penetrating insights into products, services and experiences that appeal to customers, and then combine them with sophisticated development and commercialization capabilities. In addition, successful innovation requires the ability to break into new business arenas that are ripe for growth and to manage a changing enterprise ever more effectively. Moreover, our concept of innovation extends beyond new offerings and new businesses to include new management methods, approaches to selling and other aspects of business.

Certain companies clearly are better than others at consistently using innovation to achieve high performance and generate profitable growth while continuing to support existing businesses. To find out why, Accenture spoke to more than 50 senior executives with significant responsibility for innovation within their organizations and asked them what they saw as the keys to long-term success in innovation.[1]

What we found surprised us. Rather than singling out any particular methodology as the magic formula for successful innovation—as many of today's innovation experts do—these executives take a deliberate two-step approach. First they identify the critical constraints within their companies that compromise innovation; then they employ one of a set of approaches to relieve the most significant bottlenecks in their existing processes, wherever the obstructions to innovation happen to be. By carefully identifying the root causes of their failure to innovate, and intervening specifically to remove the blockages, these senior executives find successful ways to foster innovation by unchaining it. If these interventions were heart surgery, most would be successful by virtue of inserting a stent rather than transplanting a heart.

An innovation philosophy

Innovation challenges abound, but certain obstacles were mentioned time and again by our survey respondents, including a shortage of good ideas and ideas with too little potential; an inability to select the best ideas to pursue; quitting too soon on ideas that competitors later make work; and disappointing sales. We consolidated the list of constraints (see chart, page 36), and have found it to be

[1] In early 2005, the Accenture Institute for High Performance Business interviewed 54 senior executives from 46 organizations in industries ranging from semiconductors and consumer electronics to pharmaceuticals and retailing. Public-sector organizations accounted for 15 percent of the respondents; 22 percent of respondents were headquartered outside the United States.

extremely useful as a diagnostic tool in helping to quickly identify the impediments that prevent companies from innovating.

For companies seeking to improve their innovation capabilities, we found the critical first step is determining their unique constraints. To do this well, companies must undertake systematic research to get beyond management by anecdote.

As an example, take Cargill, a global agricultural, food, finance and industrial products company. Carol Pletcher, the company's chief innovation officer, recognized that she could provide some pull by turning an exercise into a contest. She invited everyone in the company to vie for an award for the most innovative accomplishments, whether in new products, management methods, approaches to selling or other areas. When the results were tallied, Pletcher could show that the company had its share of stunning successes, and the CEO personally congratulated the winners. But in addition, Pletcher had identified an impressive network of people who could tell her the exact constraints they were meeting along the way. She is now using this information to craft enterprise-level interventions.

Once executives ascertain their constraints, they need to determine what to do: confront them head-on, devise means to work around them or revamp the overall approach to innovation. Most of the executives we interviewed have a healthy skepticism for quick fixes and one-size-fits-all methodologies. No one we interviewed believes that trying to enforce a single innovation model will drive great results. They recognize that high-performance businesses cultivate many approaches to innovation.

At the same time, however, leaders recognize their unique opportunity—perhaps obligation—to choose what Accenture calls an overall *innovation philosophy* to frame their efforts to overcome specific constraints on innovation. (In choosing the term, we used the dictionary definition of philosophy as "a theory underlying or regarding a sphere of activity or thought.")

Focusing energy

In the course of our research, we identified seven innovation philosophies, ranging from a highly centralized, top-management approach that draws heavily on executive clout, to a highly distributed approach that relies extensively on contributions from throughout the organization. These philosophies have a number of elements in common with many of the popular innovation approaches that have been developed over time, yet they are distinct in that they serve as core beliefs for senior executive-led change, not as specific approaches to innovation.

Each innovation philosophy addresses a different set of specific constraints. Depending on what's standing in the way, some approaches will work better than others. For example, innovation driven by top management cuts through internal politics and nails down resource priorities, but it doesn't provide much help in identifying profit-oriented new ideas that may reside on the fringes of the organization or in the minds of customers.

Executives will readily recognize that no innovation philosophy can solve all of their problems. However, embracing the right one, and then focusing the company's energy around it, can have a significant impact by helping clear away the organizational debris that is obstructing innovation.

Again, most executives we interviewed didn't advocate for a single model or method of innovation; indeed, they were simply using the power and focus of the C-suite to do what's required to break through major roadblocks. To enhance the chances of successful innovation, they match a philosophy against the organization's unique constraints and then build a change program grounded in that philosophy to disseminate it throughout the business.[2]

Top management-led: Cutting through red tape

It's quite simple: When the chief executive takes responsibility for innovation, constraints such as funding shortfalls and bureaucratic red tape fall away. Senior executives base programs on this approach when they have adequate resources available but need to push essential innovations through the company with a minimum of organizational resistance. For example, in extending the range of its branded hotel chains that include Westin and Sheraton, Starwood chairman and CEO Barry Sternlicht took the lead in the creation of W Hotels, and was personally involved from the beginning in shaping its unique design and guest experience.

However, there's a limit to how far organizations can go with this approach. Among other things, it can place major demands on an extremely limited resource: top management's time. It can also unwittingly send the message that bottom-up initiatives are not welcomed. As a result, executives tend to employ this philosophy when it is the highest and best use of their energy—when no other philosophy will get the job done.

Distributed: Drawing on everyone's talent

In this philosophy, there's no central think tank from which new wisdom pours. Everyone is accountable for ideas that work. Executives embrace this philosophy when current decisions need to be made at numerous points in the organization and when there is inadequate time for coordination or management oversight. To make this model work, companies staff up with innovators and give them the responsibility to make major decisions.

For example, when Jim Schaefer took over BP's Ohio refineries in late 1993, his bosses demanded a $7 million annual earnings increase within three years. Recognizing that the employees hadn't been trained and enabled to quickly implement ideas on their own, he decided to drive a philosophy of decentralized innovation that tapped brainpower throughout the organization—from the engineers and operators to the office staff—to build the components of his change program. In the end, by implementing a wide range of good ideas, the refineries increased earnings by nearly eight times the target Schaefer had been given.

One benefit to this approach is that it makes good use of the talents of individuals and small groups. In doing so, the organization does not have to slow down to coordinate with or take advantage of what

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[2] Accenture's proprietary approach to designing innovation philosophy-based change programs to overcome identified and measured innovation constraints is patent pending.

Seven philosophies of innovation

To overcome constraints on innovation, executives must embrace one of the seven philosophies outlined below. An understanding of these ways of thinking gives executives a comprehensive view of their options and puts the focused solutions that are prevalent today into a broader perspective.

	Philosophy	Core belief	Related thinking
Organization-based philosophies	Top management-led	Speed to market and overall business effectiveness are improved when senior executives use their power and resources to lead innovation initiatives	*Blue Ocean Strategy*, Kim and Mauborgne
	Internally networked	Innovation flourishes when better linkages across teams and parts of the organization provide greater access to organization resources (e.g., skills, processes, customer channels and funding)	*Medici Effect*, Johansson; *How Breakthroughs Happen*, Hargadon
	Distributed	Innovation opportunities are maximized when responsibility for innovation is driven down into the components of the organization, and ultimately to each individual employee	*The Innovator's Solution*, Raynor and Christensen; *Weird Ideas That Work*, Sutton
Value chain-based philosophies	Supplier-driven	Suppliers are a very important but relatively undervalued and untapped source of rapid, low-cost innovation	"Innovation Sourcing Strategy Matters," *MIT Sloan Management Review*, Linder, Jarvenpaa and Davenport
	Partner-intensive	Innovation processes yield better results when they are opened to external organizations that act as partners in the end results	*Open Innovation*, Chesbrough
	Competitor-driven	Enviable business returns can be achieved by innovating on what first-to-market competitors provide, versus taking the lead	*Fast Second*, Markides and Geroski
	Customer-driven	The most profitable innovation is driven by a close connection to customers that provides a deep understanding of their true wants and needs	*Democratizing Innovation*, Von Hippel; *The Future of Competition: Co-Creating Unique Value With Customers*, Prahalad and Ramaswamy

other business units are doing. However, the distributed philosophy has its limitations. For example, it may not be well suited to delivering consistent services globally, which requires a high degree of coordination across business units.

Internally networked: Breaking down silos

Senior executives employ this philosophy when organizational silos keep them from combining their company's existing talents and expertise in valuable new ways. At some companies, senior managements bring business leaders from different parts of the company together to share information and insights. For example, at one Canadian retail chain, store managers from across the company regularly interact by phone and e-mail to swap ideas for boosting revenues and reducing costs.

At other companies, the degree of top-level management's direct involvement in internal networking is relatively low. Though top managers set the stage, they push the increased connectivity further down in the organization.

For example, Herman Miller, well known for its innovative office furniture, recognized that its customers wanted more than new chairs and desks; senior management wanted a comprehensive approach to workplace design. This meant that the company required a much deeper understanding of its clients' wants

Internal networking at Air Products

As they approached the new millennium, executives at Air Products—the world's only gases and chemicals company providing atmospheric gases, process and specialty gases, performance materials and chemical intermediates—were seeking to change the growth profile of the company. Within the decentralized company, different business units were planning their own new products and their own growth agendas. In the aggregate, however, it wasn't enough.

In 1999, in an effort to close its growth gap, management pursued a major acquisition. In preparing for the post-merger integration, a high-level team of managers put together a detailed map of all the assets, expertise and relationships that would support the new company. Although regulatory problems eventually derailed the merger, management's investment in understanding what the future company might look like has paid off handsomely.

With that new understanding, as well as recognition that a major acquisition was unlikely in the medium term, Air Products focused capital and research investment on four growth platforms and crystallized a new mechanism for enabling the individual business units to take better advantage of the company's entire portfolio of intellectual property. They created a new position—called business technology manager—in each Air Products business unit. These technically accomplished and people-savvy individuals were asked to function as boundary spanners. The company assigned these heavyweight networkers both the budget and the responsibility to pull together the new product and process portfolios for their respective businesses, drawing on Air Products' extensive market expertise and technical know-how to bring in new revenue opportunities.

and needs and had to design effective solutions accordingly. In response, Herman Miller launched a new workplace productivity research service. But this created a new problem: Now people from several parts of the organization had reason to talk to the same client. To coordinate the various inputs, Herman Miller now convenes an all-hands meeting every quarter for each client.

Clearly, spreading this philosophy throughout a company requires a specific set of capabilities, most notably, expert organizational navigation and speed. The more people consulted, the slower the decision making. The danger is that without effective processes, a point comes at which no one can say "yes." Also, employees must know how to identify the proper contact person. If the connections are not obvious, silos can quickly reappear.

Supplier-driven: Begging, borrowing and stealing

A major advantage of promoting supplier-driven innovation is that it allows companies to develop important new capabilities and products without having to make all the investments or generate all the ideas themselves. By off-loading much of the capital-investment requirement to suppliers (in effect, replacing fixed costs with variable costs), organizations gain tremendous flexibility.

Retailers unapologetically use this approach to reinvigorate their product selection and even their store set-ups, including novel supplier-branded offerings and store-in-store formats. When asked about innovation, they proudly boast that they beg, borrow and steal whatever they can.

Consider UK-based Tesco, one of Europe's largest retail hypermarket chains. One way the company maintains its ability to innovate without overinvesting in new product development—critical in a low-margin industry—is by relying on the R&D capabilities of its suppliers. Recently, for example, Tesco's purchasing rep told suppliers that the shelf life on potatoes stored in plastic bags was too short. What could they do to extend it? The supplier with the best new packaging solution was rewarded with a purchase order.[3]

A heavy reliance on external sources imposes certain costs, however, including a diminished ability to remain differentiated. To prevent a supplier from selling the same product or solution to several competitors, a company will likely have to pay for exclusive rights. Still, the opportunity to overcome internal constraints while leveraging internal capacity and reducing fixed costs can frequently compensate for the downsides.

Partner-oriented: Sharing the burden

The partner-oriented philosophy also draws on external capabilities and resources. It is best suited to circumstances in which executives want their companies to be able to leverage ideas, expertise, talent and resources that are in short supply or unavailable in their own organizations. In many cases, this approach allows executives to take advantage of opportunities to innovate without the need to shoulder all the risk. While similar to the supplier-driven approach in its reliance

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[3] Jane Linder, Sirkka Jarvenpaa and Thomas Davenport, "Innovation Sourcing Strategy Matters," *MIT Sloan Management Review,* Summer 2003.

on other companies, the partner-oriented philosophy stresses co-innovation rather than purchasing ready-made solutions.

In industries such as high tech and pharmaceuticals, this approach enables management to enter new markets months or even years sooner than they could if they were operating on their own. For example, Denmark's Statens Serum Institute has developed a new vaccine for tuberculosis—one of its areas of unique expertise. To be utilized, however, the new vaccine required a companion delivery system—not an area of expertise for the company. Instead of building a new development team from scratch, SSI partnered with a company that had experienced people ready to begin work on a delivery system, shortening time to clinical trials by an estimated full year.

Despite the advantages, a partner-oriented philosophy presents some unique challenges to executives. One significant issue is control. In many organizations, the not-invented-here syndrome is so prevalent that it is difficult to get internal support for externally based projects. In light of this constraint, executives need to frame incentives around outcomes and give the teams aggressive deadlines—thus pushing them to bring in outsiders.

In addition, since key people and other resources are typically controlled by an outside entity when this philosophy is pursued, executives need to develop new skills that help them manage important exter-

Intensive partnering at National Savings & Investments

Despite its important role as a source of funds, the UK government's retail savings bank, National Savings & Investments, traditionally had a difficult time keeping up in the competitive financial services market. As recently as 1995, NS&I had no central call center, forcing customers with questions about different products in their accounts to contact separate offices—often by mailing in written queries.

In 1996, when Peter Bareau came aboard as CEO, he quickly acknowledged that the organization was seriously undercapitalized, technologically constrained and lacking the internal wherewithal to right itself. Recognizing that there was only so much modernization that NS&I could finance itself, the company pursued partnerships with a vengeance. In 1999, the organization transferred more than 4,000 of its nearly 4,300 employees to an outside company charged with helping NS&I execute a sweeping transformation of its operations.

This partnership has helped NS&I upgrade the quality of its customer service and capture significant cost efficiencies. In the eight years before it began outsourcing, NS&I introduced just three new products; in the first three years after outsourcing, it introduced eight products, including one—the Guaranteed Equity Bond—that was the first of its kind in the industry. In effect, management's partnering strategy turned a forgotten asset into a nimble, low-cost organization.[4]

[4] Jane Linder, *Outsourcing for Radical Change: A Bold Strategy for Enterprise Transformation*, Amacom, 2004.

nal projects. Some companies, such as Eli Lilly and Company, establish partner-management organizations that coach teams and provide additional relationship-management expertise to draw on. For example, they provide an annual "relationship physical" to help teams identify and correct interpersonal conflicts that can interfere with the projects.

Competitor-driven: Finding inspiration in others

Fast-follower organizations specialize in starting the innovation process at the development stage. They let others come up with the initial ideas, then reverse engineer them, improve them or implement them so that their offerings are of a higher quality at a more competitive price.

That's how Japanese companies took the US electronics and automobile markets by storm in the 1980s. The early IBM PC clones used this approach as well. And some years back, P&G used it with disposable diapers, coming in late and grabbing the lion's share of the market the innovator had staked out.

The competitor-driven philosophy focuses attention on the power and importance of development and commercialization in the innovation chain. Executives take this approach when they don't have the slack to experiment, when their companies lack the human capital and creativity to come up with new ideas that work, and when they are just simply behind in an attractive market.

Companies that use this philosophy require effective engineering and sleek delivery processes. Market position helps, too, as in the P&G case. On the downside, as a follower, companies have very little ability to control pricing or the pace of new product introductions—both of which are established by earlier movers. When markets are changing quickly, competitor-driven innovators struggle to keep up; they are, in effect, playing someone else's game. But as many banks, credit unions and insurance companies will attest, being second to market does not mean being second-rate. Fast followers may lag in invention, but they lead in commercialization, offering products and services that are truly differentiated in convenience, reliability and price.

Customer-driven: Removing the guesswork

This approach addresses more constraints than any other philosophy. In essence, it encourages companies to work with customers to identify unmet needs and test new solutions. Along the way, they can lay out a value proposition that will attract others, provide testimonials and even help fund development. In short, this philosophy takes some of the guesswork out of innovation.

To the extent that customers have already expressed an interest in buying, this philosophy also allows for the rapid commercialization of innovative ideas. What's more, it reduces risk.

For example, Verizon Wireless was looking for ways to expand its offerings beyond basic cellular service. As a starting point, it sent an innovation team on a field trip to Korea—whose leading wireless companies had faster networks and were delivering sophisticated services like broadband—to see how customers there were responding. Marketing experts then ran market tests and pilots in the United States to determine if similar services would appeal to American customers. As

Breaking the constraints on innovation

Every organization faces constraints on its ability to innovate. The chart below shows which of the seven philosophies of innovation (indicated with checkmarks) should be advanced by senior executives to overcome specific obstacles encountered at each stage of the innovation process.

		Innovation philosophy						
Stage of innovation	**Specific constraint**	Top management-led	Distributed	Internally networked	Supplier-driven	Partner-intensive	Competitor-driven	Customer-driven
Ideation	Too few ideas		✓	✓	✓	✓		✓
	Ideas have too little potential value	✓		✓				✓
	Ideas are for things customers don't want or need		✓	✓	✓		✓	✓
Selection	Not able to select the best ideas to pursue	✓						✓
	Timing wrong; either too early or too late							✓
	Too many initiatives get through screen	✓					✓	
	Too few initiatives get through screen		✓			✓	✓	
Development	Can't afford to fully develop ideas				✓	✓		✓
	Quit too soon; lack the will to complete tough projects	✓	✓	✓				✓
	Don't have enough capability (talent and processes) to develop ideas			✓	✓	✓		
	Have good ideas, but competitors come to market first				✓	✓		
Commer-cialization	Customer adoption rates are poor	✓			✓		✓	✓
	Organizational design inhibits effective execution	✓		✓			✓	✓
	Lack credibility in target marketplaces	✓				✓		✓
Cycle-wide	Nature of innovation changing in specific industry; not well positioned	✓	✓			✓		✓
	Don't have enough growth in current domains	✓				✓		✓
	Idea-to-profit cycle too slow	✓	✓	✓	✓	✓	✓	✓

SOURCE: ACCENTURE ANALYSIS

Jim Straight, Verizon Wireless's vice president of wireless Internet services, explains, "Korean providers were a year ahead of us. We're now closing the gap, but we continue to look around the world for what people like and what's cool."

Despite its appeal, customer-driven innovation is not a panacea. To begin with, companies that are tied closely to existing customers frequently fail to take adequate notice of disruptive technologies—at their peril. Further, being customer-driven is not the same as being market-driven. Indeed, the danger of becoming overly exposed to your direct customer's view of the market is that you could lose sight of other important growth opportunities.

Evolving viewpoints

The more effectively senior executives pursue a constraint-based approach to innovation, the more closely they will want to pay attention to changing conditions in their business environments and to the potential need to change models. As an organization absorbs the mindsets and routines of new innovation models, leaders need to be ready to turn their attention to new constraints.

For example, one well-regarded consumer electronics company built its reputation initially with imaginative must-have products. Its key constraint during this time was the pace of development, which it addressed with a distributed philosophy of innovation. As its existing markets matured, however, the company found incremental sales were becoming ever harder to achieve. Management responded by shifting to a partner-intensive philosophy, which would help it break into new market spaces. By opening itself to working with new business allies that helped it penetrate new markets, the company was able to continue its long history of innovation.

For senior executives, one of the important aspects of managing innovation successfully is to understand that there is no single approach that will work in all cases, or forever. The executive's role is to recognize when one philosophy is faltering and when it's time to choose a different one. To create continuous innovation, successful executives must become students of its philosophy.

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