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Innovation

How to get the most from your best ideas

By Adi Alon and Daniel D. Chow

If organizations are to achieve and sustain high performance, they need to regard innovation as a business discipline, and then manage and execute it accordingly—as an end-to-end process, from insight development to idea generation to development to marketplace launch.

Over the past few decades, the drive to manage with more rigor and more assurance of predictable results has enabled organizations to design and perform virtually every major business process with an eye toward achieving high performance by maximizing productivity and minimizing costs. But when the C-suite turns its attention to business innovation, a usually hard-nosed management team may suddenly go a bit soft. The same executives who arm themselves with spreadsheets and analytical tools when it comes to reengineering a supply chain may suddenly start making plans to send their managers to think-tank retreats, complete with New Age music and beanbag chairs.

Because it is associated with free-spirited creativity, inspiration and even whimsy, innovation is too often seen as being at the mercy of some sort of temperamental muse—a mysterious phenomenon rather than a manageable business process. Not surprisingly, that means executives today are struggling, not in terms of committing to innovation in principle, but in their ability to execute innovation initiatives effectively.

Accenture research supports that conclusion. Executives certainly understand the importance of innovation to their company's success. In fact, 62 percent of respondents to our recent innovation survey, conducted in association with the Economist Intelli-

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gence Unit, say their business strategy is “largely” or “totally” dependent on innovation. And commitment isn’t an issue: Almost 53 percent of those surveyed believe their organization’s commitment to innovation is “stronger” or “much stronger” than that of their competitors.

But significantly lower numbers think their company’s innovation execution is as effective as it needs to be. Only 36 percent believe their organization’s pace and speed of innovation is stronger than their competitors’, and just 40 percent feel they exceed their peers in terms of frequency of innovation.

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Foundation, conversion, consistency

At the heart of the business discipline of innovation is a three-part process.

- **Foundation.** Successful innovators have capabilities, technologies and tools in place to gain insights from diverse sources and to separate value-creating insights from more pedestrian ideas. They also create a culture that values innovation and nurtures leadership that encourages it. With the right capabilities, culture and leadership, organizations have a solid foundation for generating a pipeline of rich and profitable innovations.

Too many companies stumble right out of the gate over their inability to collect insights from customers or even their own workforce and create the conditions

to generate such high-quality innovation initiatives. Little collaboration, lack of diverse sources for insights and ideas, and a risk-averse culture are some of the factors that lead to only a series of narrow, “me-too” ideas. With a solid foundation in place, organizations can not only apply a more open approach to innovation, they can also help winnow the ideas that are generated into practical, profitable products and services.

- **Conversion.** Converting good ideas into profit should not be left only to a Darwinian organizational approach, or to a default stage-gate process. There must be incubation structures in place, as well as clear and customized gate procedures (beyond simply “one size fits all”) for identifying and nurturing good ideas. Resource allocation is critical, as is leadership that is accountable for results.
- **Consistent execution.** Achieving reliable and consistent innovation performance ultimately comes down to executing on the initiatives discussed here. Investments have to be made in tools, programs and dedicated resources to enhance and sustain the organization’s capacity to innovate. Dashboards are needed to track progress. Education and training must occur so that people know what’s expected, and new reward structures should follow to reinforce changed behavior.

If “foundation-conversion-execution” form a sort of process flow for innovation, how can organizations optimize that flow? Based on our ongoing research and experience, we have identified five key success factors that need to be in place to manage innovation as a discipline—as well as how leaders and laggards differ in their approaches.

1. A clear statement of mission and strategic direction

Leaders: Use innovation as a platform to set ambitious (higher than industry average) growth and profitability targets.

Laggards: Task the organization with “being more innovative” with little or no strategic priorities and guidance.

Innovation is about creating and capturing new kinds of value in whatever way is most relevant to a particular industry at a particular point in time.

Creating a business discipline focused on innovation begins with a precise definition of innovation’s role in the overall corporate strategy, based on an organization’s industry, marketplace, consumer and competitive environment. It is also important to specify the types of innovation being sought to build a sustainable competitive position, and the specific value the innovations are expected to generate.

For a utility, innovation might be primarily operational—finding innovations that make the enterprise more efficient. For a biotech company, innovation could mean finding new ways to source molecules or manage the overall R&D process. A high-tech company’s innovative energies will probably be directed toward creating a new gadget whose breakthrough capabilities make it a must-have item.

To be effective, this definitional approach to innovation must be broad enough that no one is let off the hook. If innovation is defined too narrowly—as early-stage technology, for example—executives can always say that it’s not relevant to the business, or that it’s the responsibility of the advanced research team. Or if innovation is defined as something that is only about long-term market forces, the ready excuse is that shareholders want results right now.

But if innovation is about continuously finding new sources of value, defined in whatever terms are appropriate for a particular industry, then

executive teams have no choice but to look at the processes they currently have in place for identifying new sources of value, setting up teams to explore and execute around those sources, managing the teams and then measuring results. Innovation can be lurking in many areas of a company, even in places most companies ignore (see sidebar, page 9).

With the right context, definition and goals in place, it is then equally important to position innovation within the larger strategy of the organization.

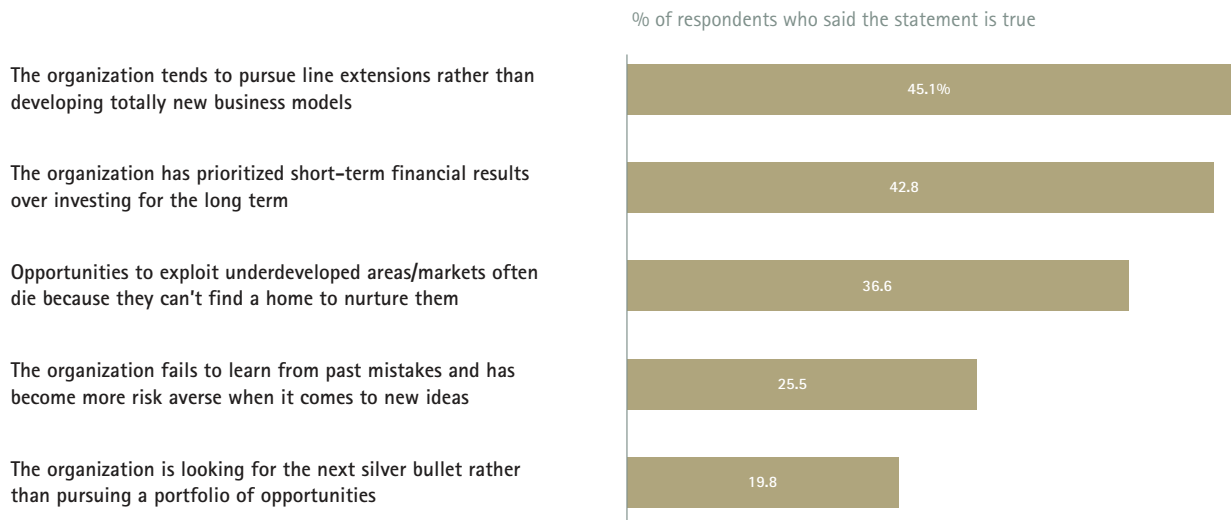
Marriott International, one of the world’s leading lodging companies, is especially adept and explicit in this regard. In 1995, Marriott formally designated brand management and innovation as a function within its global business, the first hotel company to adopt an approach to this function patterned after the packaged goods and consumer products industry.

According to Mike Jannini, executive vice president and general manager of global brand strategy and innovation for Marriott, the importance of innovation to the company’s business strategy can be seen in the long-term commitment that management made at that time.

“In 1995,” recalls Jannini, “in an effort to ensure we could continuously generate innovations in the hospitality industry, we launched a 20-year journey, broken down into a series of five-year strategic missions.” The first mission focused on operational excellence; the second, about loyalty, was introduced in 2000, and the third, which focused on the customer experience, was launched in 2005. Adds Jannini: “Already we are looking

Barriers to innovation

According to an Accenture/Economist Intelligence Unit survey of 600 senior executives in North America and Europe, two mindsets in particular are preventing companies from more consistently converting innovation into business value: (1) confining innovation to smaller-scale extensions of product lines at the expense of potential market-making breakthroughs; and (2) a focus on short-term, quarterly performance at the expense of long-term value creation.



Source: Accenture/Economist Intelligence Unit analysis

ahead to 2010 with a new mission focused on what we are calling ‘authenticity’—a quality that speaks of being global and dynamic, while at the same time reflective of local cultures and preferences.”

With each mission, Marriott leadership identifies three “pillars”—critical supporting components that help unify leadership and the corporate culture and keep them working together. For operational excellence, the pillars were Customer Metrics, Balanced Scorecard and Quality Assurance. For the customer experience mission, the pillars were identified as Personal Luxury, Smart Style and Leading Edge. “So the mission statement of developing compelling services in the five-year strategic platforms, supported by the three pillars, has been a cornerstone of our new innovation capability,” says Jannini.

For example, the Leading Edge pillar inspired one of the most distinctive innovations from Marriott in recent years, the “Great Room.” This is a reinvention of the full-service hotel experience that blends formerly separate customer touchpoints, such as the registration desk, concierge station, business center, retail shop, bar and restaurant, into one vibrant space. The Great Room offers virtual service, leading-edge designs and technology connectivity using innovative space planning approaches. Different sensory elements are also taken into account, with lighting, scent, music and artifacts that can change by time of day and are customized for each hotel.

Concludes Jannini, “The Great Room idea personifies something we believe to be central to innovation: the drive to accomplish leading-edge change, rather than just incremental improvement.”

2. A formal, accountability-based innovation infrastructure

Leaders: Hold an executive-level person accountable for enabling and driving the organization's innovation capabilities, with outcome-based metrics in place to gauge performance.

Laggards: Hold everyone accountable for innovation but provide no clear responsibilities tied to metrics.

A clear definition of innovation's mission must be mirrored by similar clarity about accountability for innovation initiatives. If innovation is "everybody's job," as a well-intentioned CEO might say, then in fact it is no one's job. Everyone must contribute to innovation, to be sure, but unless organizational structures are put in place with clear job titles, roles and accountabilities, innovation will remain only a lofty ideal.

One marketplace trend Accenture is watching is the appointment of a senior-level executive to coordinate and drive innovation efforts across an organization. In fact, in the Accenture-EIU survey on innovation, organizations with a designated executive in charge of driving innovation execution reported dramatically higher satisfaction levels across all aspects of their innovation performance, including developing a pipeline of initiatives and extracting value from innovation programs.

The point of this executive-level innovation position—call it a "chief innovative executive"—is not to centralize innovation itself but to define accountability and put in place the required innovation infrastructure so that all of the other elements of innovation as a business process can take shape within the organization.

At Otis Elevator Company, for example, Sandy Diehl—whose official job title is senior vice president for strategy, development and communications—in fact has implicit responsibility for, as he puts it, "creating an environment in the company where the best new ideas can take root."

As Diehl puts it, he is "not 'in charge of new ideas.'" But his primary mission is to foster new idea creation, to evaluate those ideas once they are proposed, and then to help the best idea seeds take root in the organization and nurture them to the point where they can stand on their own.

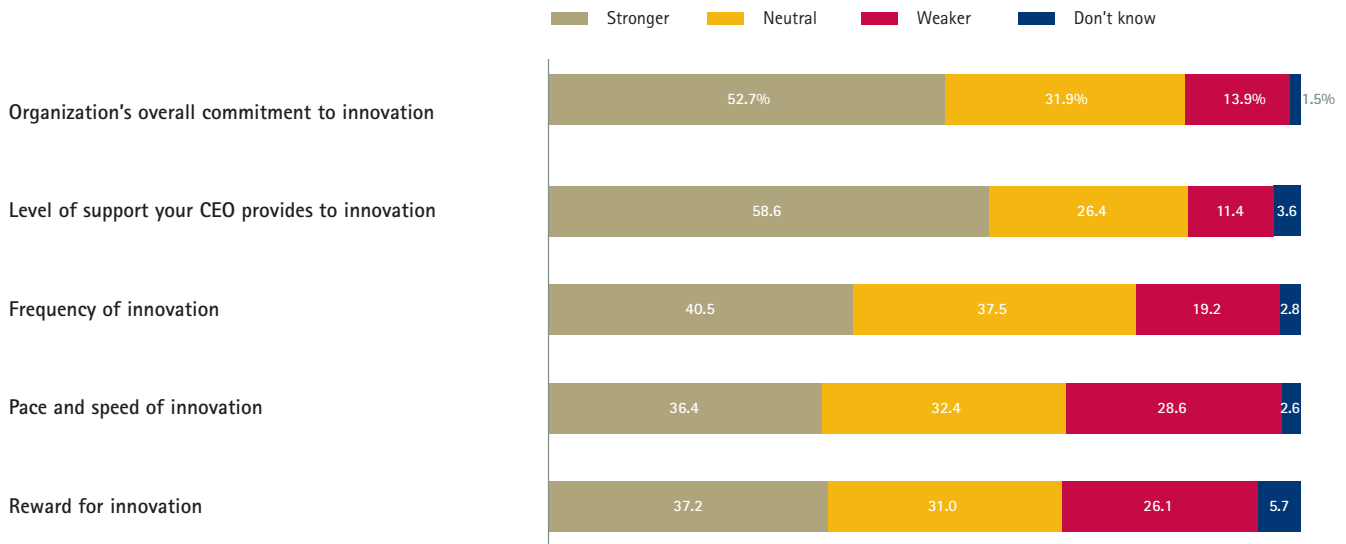
Diehl credits the success of the Otis Gen2 elevator system, introduced in 2000, to the company's disciplined approach to innovation. Among its several technology breakthroughs, Gen 2 uses flat, polyurethane-coated steel belts to lift the elevator car instead of the traditional steel cables, saving costs while enhancing performance and space utilization in buildings. The Gen2 system, which uses an energy-efficient gearless machine and doesn't require a separate machine room, is about 50 percent more energy efficient than a conventional elevator.

Several structural, leadership and organizational elements figured into Gen2's success. First, there was a sense of urgency clearly communicated throughout the company about how important the innovative project was to Otis's market position. Second, the company's CEO and executive team demonstrated unwavering commitment and support, which created a cooperative and action-oriented environment. Finally, the company established clear roles and responsibilities for the various aspects of the development process, and set up accountability structures monitored by frequent reports.

A company's corporate structure will affect how its innovation executive

Confidence gap

When asked to compare their performance as innovators to that of their closest competitors, executives tended to believe that although their companies' commitment was stronger, this didn't always translate into results.



Source: Accenture/Economist Intelligence Unit analysis

will define and function in the position. Consumer products giant Kellogg Company, for example, is entirely business-unit-driven, and each unit has a great deal of autonomy. The design of the units' innovation structure reflects that autonomy.

Graham Petersen, senior vice president for innovation for Kellogg North America, explains that the company has created an organizational design where every business unit and business function that touches innovation has its own designated leader. So accountability rests at the business-unit level, as well as in sales, finance, marketing and so on.

That kind of pinpoint focus is essential, given Kellogg's culture. Says Petersen, "People who have a significant responsibility in terms of innovation—whether they're engineers, finance people or in

market research—need to be dedicated to that function of innovation. We don't share jobs; you're not doing something else, and you shouldn't be doing someone else's job."

Kellogg also ensures that effective communication and coordination takes place to eliminate the duplication of responsibilities while creating greater potential for the cross-pollination of ideas. At Kellogg, this happens through what the company calls the MMC, or "Monday Morning Coffee."

Petersen explains: "Every Monday morning, the eight people who are decision makers from our key functions—finance, sales, market research, supply chain and so forth—come together to talk about what happened last week and what's going to happen next week. This is real-time decision making with explicit accountability in place. It's a fluid, iterative, ongoing

work stream that is hugely important to our success.”

A recent example of this team in action: how the company has responded to calls from consumers for more sustainably sourced and environmentally friendly packaging. Sustainability issues are cross-functional, requiring input from many different parts of the organization. The MMC has helped generate

excellent ideas, but it has also done something else—it has made sure things actually happen.

“We have very healthy, ‘in your face’ cross-functional behaviors that have been a part of our culture for many years,” Petersen says. “So sure, we gather good ideas. But even more important is the accountability of being among your peer decision makers.”

3. Dedicated budgets and resources

Leaders: Invest in innovation with the expectation of measurable results.

Laggards: Let innovation beg for money in the belief that in a “free market” system, good ideas will inevitably rise to the top and receive funding.

The need for adequate innovation funding might seem obvious. However, many companies falter in this regard, often in the misplaced belief in a sort of survival-of-the-fittest process whereby the best ideas will inevitably win the battle of the budgets.

In fact, for the same reason that HR or marketing cannot accomplish their respective missions without access to the full menu of corporate resources—including personnel, budgets and senior executive time—innovation will not have the needed impact on business performance if it is not supported financially and organizationally, and if such support is not clearly spelled out as a long-term commitment.

In other words, simply appointing a chief innovation officer isn’t enough. We have seen many instances where organizations appointed someone to lead the innovation charge but then ran up against the crippling “who owns the budget?” problem. A dedicated budget is a critical component of success in innovation. This doesn’t mean that all the innovation efforts should be centralized, but there

does need to be an adequate level of resources to fund the innovation infrastructure.

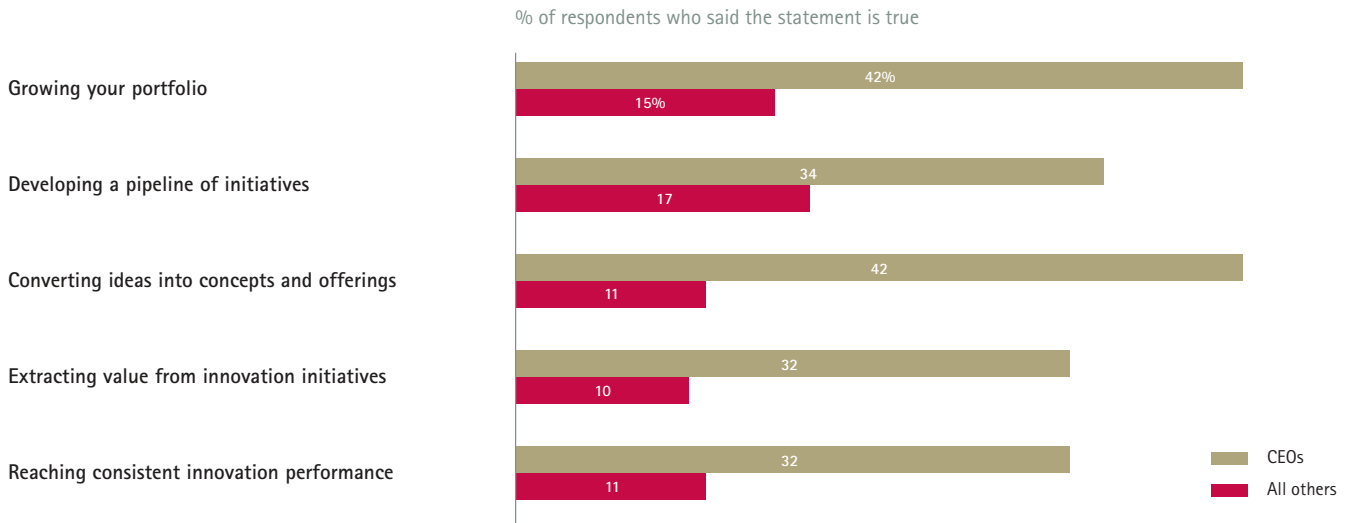
When executive teams commit to innovation but don’t fund it, one might expect to see a disparity between the way senior management and mid-level management perceive successful innovation. In fact, our research data bears this out. Mid- and high-level managers reported significantly lower satisfaction with their organization’s innovation performance and capabilities than the CEOs in the survey.

Again, this is a deficiency in what we have referred to as “consistent execution.” CEOs risk creating a misalignment between their vision and objectives for innovation and their organization’s ability and trust in realizing the objectives.

This misalignment can be overcome, however. Marriott’s Jannini notes that the recent realization of the need for dedicated budgets to support innovation has made a discernible difference in the company’s ongoing commitment to innovation.

Reality check

CEOs tend to express higher levels of satisfaction with their companies' innovation capability than do those with the responsibility for executing the innovation.



Source: Accenture/Economist Intelligence Unit analysis

“We reached this point,” Jannini admits, “the hard way.” When Marriott launched its most recent innovation mission, focused on the guest experience, the company “had a tremendous outpouring of aspirations, ideas and strategies,” says Jannini. “But we did not have the capabilities and resources in place to bring those ideas to life as quickly as we wanted.”

That led Marriott leadership to create a new function, called global brand management, and to dedicate several new staff and managerial positions to that function. Says Jannini: “Our dedicated budgets and resources have been a recent development without which we really couldn’t have been as successful as we’ve been.”

4. Repeatable, accessible tools and capabilities

Leaders: Provide the processes, structures, tools and training necessary to deliver innovation.

Laggards: Trust that the innovation will result from pure creativity and chaos.

If senior executives expect to achieve repeatable and ongoing improvements in business performance, the innovation discipline needs to be supported by tools, capabilities and resources that are

accessible across the organization. These tools and resources should support the broader organization through the many aspects of the

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Staples: Innovation as a mindset

If you think building a better mousetrap is hard, consider applying innovation to binders—those ubiquitous three-ring folders that, despite the rise in electronic communications and publishing, are still found in offices and on student bookshelves.

Just ask Don LeBlanc, senior vice president of customer marketing for Staples, the Massachusetts-headquartered office supplies superstore. The company set out in 2005 to discover if it could, in fact, invent a binder that was truly a value-added product, one worth a premium to customers.

"Binders have been around for 100 years," notes LeBlanc, "and in recent years have become a commodity item—one that most retailers simply want to produce as cheaply as possible by taking cost out of the supply chain.

"One day, however, the executive responsible for that product category announced at a management meeting that he wanted to approach binders in a different way. Instead of focusing only on cost reduction, he wanted to focus on innovation within the category."

So Staples launched a project, with dedicated leadership and budgets, focused on "things like understanding customer needs," LeBlanc continues, "working with some outside design firms on developing different solutions and then bringing to market our own brand of premium binders."

The eventual result was what Staples calls the Better Binder. It is far more durable than run-of-the-mill binders, and features an improved ring system with an easy-open button design as well as a reinforced, rubberized edge and spine.

The Better Binder project at Staples exemplifies several of the success factors of the innovation discipline (see story).

Accountability structures

Staples puts metrics in place that are as specific as possible to the particular function or category to which innovation is being directed. "For someone in charge of innovation in a particular category, we try to set goals that are so specific that it's possible no one else in the entire organization has that responsibility," says LeBlanc. "So we might tell someone that as part of their goals we need to innovate around distribution strategy. We try to articulate goals quite specifically, and the result is that someone then is really

on the hook for that one thing, instead of just making a vague and generic plea to try to come up with two innovations this year."

Processes and tools

On a weekly basis, Staples holds executive-level sessions, called "roadmap" meetings, where discussion focuses on what's in the pipeline—near term, medium term and long term—and what's happening specifically in various product categories to bring innovation to market. In preparation for these meetings, the product development teams do extensive customer research—including surveys, usability studies and customer interviews—to identify customer frustrations and needs. This research then forms the basis for new-concept development.

Notes LeBlanc: "Data is presented in the roadmap meeting that tells us where we're on track and where we might currently not be optimized. We have data collection tools in place to capture customer input and insights, and that feeds into our roadmap for innovation."

Metrics and indicators, tied to budget allocation

Staples has a general budget for supporting innovations in their early stages, and then processes in place for allocating additional funds for ideas like the Better Binder that begin to look more promising. Funds are used to conduct research, work with design firms and develop product prototypes.

A clear mission, influencing the entire culture

"Innovation is such a part of our culture," says LeBlanc, "that whether or not we are considered by outsiders to be an innovative company would probably not even matter to most of our employees."

CEO Ron Sargent sets the tone for the rest of the company by clearly making innovation a priority for the organization and part of its overall companywide objectives. It's then up to the functional heads to decide how to execute that mission. "But it's clear that management's expectation for every group is to foster innovation," emphasizes LeBlanc. "This is about innovation as a mindset, and it's about bold rather than incremental thinking."

"The Better Binder," LeBlanc concludes, "was a great example of what happens when a company is given the freedom to innovate, and then the budgets and processes to support it."

(Continued from page 8)

innovation process—from insight generation to idea conception, idea development, resource allocation, program management, performance tracking, training and others.

Tools and retraining opportunities should make the innovation process transparent and accessible across the company, rather than the purview of a small group of specialists in an internal incubator organization.

Today's networking and collaboration technologies are well suited, for example, to the idea-generation process. One pitfall here, however, is that the ability to engage more people in ideation can result in a flood of proposals that are difficult to process and sift through.

A large financial services company recently began using a collaboration and “wiki” tool, the Accenture Innovation Solutions Network, which engages a company's workforce in generating ideas based on a particular question or strategic inquiry,

collecting input into a central database. The tool then uses wiki technology to bring the collective brainpower of the organization to bear on the ideas generated, helping sift through and evaluate all the proposals generated based on the specific goals of the original idea request.

Support structures for the innovation discipline should also include a skill-building element. Depending on an organization's or industry's particular contextualization and understanding of innovation, the workforce needs education and training about what they should be attentive to.

If, for example, innovation in customer service is the strategic need, staff should be given guidance in how to listen or what to look for during customer interactions. If employees learn new ways of thinking about or observing what customers' pain points are, they have a better chance of generating practical ideas that will make a difference to the business. Executives need retraining, too, if they are to be effective advocates and innovation managers.

5. Clear performance indicators and milestones

Leaders: Measure and monitor progress, applying a combination of forward- and backward-looking indicators.

Laggards: Focus measurement initiatives on poor predictors of success such as the number of ideas generated.

As with other business disciplines, innovation must be represented by well-defined processes supported by performance targets and indicators. Too many organizations see such process guidance as a potential stifling of creativity. On the contrary, such rigor ensures that monitoring, improvement and alignment of the innovation process with the organization's strategy and performance

objectives are accomplished in an ongoing manner.

Without clear demonstration of value creation (or creating the drivers that will ultimately result in value for the organization), innovation will fail because it lacks the support and commitment that more “mainstream” business disciplines take for granted.

Two kinds of measures must be considered when it comes to innovation. One is a reporting-oriented or backward-looking set of metrics: How much revenue has a company generated from new products or services, how has time to market been reduced by process improvements, and so forth.

Those are important metrics, to be sure. However, for the innovation process to be truly effective, organizations also need to implement a set of forward-looking measures. For example, executives can look at their project or idea pipeline to determine if the sources of ideas are diverse enough. By looking forward and making sure the innovation pipeline truly reflects the diversity of the organization, a company can avoid the risks of taking too narrow a marketplace focus.

Another essential aspect of the innovation process is managing the pipeline of ideas. A starting point here is with traditional product development processes, which generally use a stage-gate system to ensure that quality benchmarks are met and market relevance is proven every step of the way.

Otis Elevator Company has become particularly adept at this aspect of the product development discipline. The company uses the PASSPORT stage-gate process system to manage its development pipeline. The system uses checkpoints, from planning and development through manufacturing and delivery, involving project managers and senior executives from around the world throughout the process.

However, such a system needs to be adapted when a company turns from the more stable processes and ideas of the core business to untested ideas, where there is more uncertainty and variability. With innovation, a company has to focus more on prototypes of products, concepts or processes and then put in place a way to test them quickly

before moving them into the traditional product development pipeline.

Otis, in fact, has done exactly that, adapting its PASSPORT process to support more rapid innovation. With a process the company calls “technology readiness,” Otis can take ideas that may not quite be ready for primetime and put them through a gated process before they enter the PASSPORT system.

Clear processes are also essential for dealing with one of the hard realities of innovation: failure. In this context, innovation can be seen as analogous to baseball—a star player on offense is one who fails about 70 percent of the time.

As Otis’s Diehl puts it, “What’s important sometimes is not how a company deals with success but how it deals with failure. There is a sense in which the best innovators know how to reward failure, as oxymoronic as that may seem. An initiative that stretches an organization, that results in pushing back the boundaries of knowledge and of products—that’s something that companies have to find a way to acknowledge, even if it does not result in a breakthrough product or process.”

Indeed, the risk of failure may be the most frequent killer of innovation. As a consequence, companies are often guilty of dreaming too small. Our survey research shows that the majority of innovation investments today are targeted only at extensions of existing products and services, not at game-changing ideas or business models.

In the end, creating a disciplined process for innovation can enable a company to take bigger leaps with less risk. Certainly there is room at the innovation table for many kinds of initiatives, even small improvements. But organizations looking to drive high performance in the long term through innovation should remember the old saying: “Nothing ventured, nothing gained.”

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