HURON

Strengthen Your Innovation Capabilities to Drive Performance

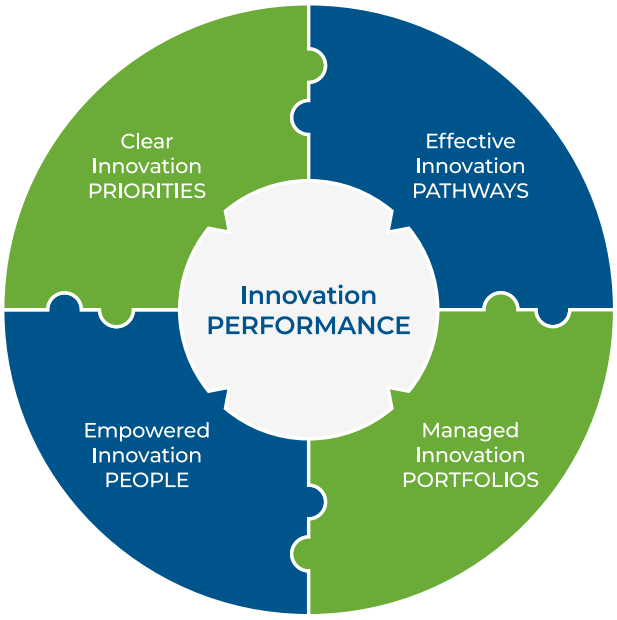
Organizations invest enormous resources to strengthen their capabilities and capacity to innovate but are often disappointed by the results. Organizations can avoid many of the potential traps by taking a systems lens rather than focusing on point solutions.

Companies trying to strengthen their innovation capabilities frequently take steps to establish budgets, build teams or take other logical steps toward an enterprise system approach. Still, many of these initiatives fail. Incubators or new-growth teams frequently stumble because the connection between their innovation priorities and the broader enterprise strategy is unclear or because the process, metrics, funding mechanisms and people involved are better suited to the near-term needs of the core business than to longer-term, more transformational opportunities. Corporate venture capital or innovation funds disappoint because leaders, in the absence of appropriate goals and metrics for success, apply pressure for traditional financial results. Innovation training or coaching programs leave participants with new skills and tools that are simply impractical to use in their daily work because of management resistance or lack of integration with broader company processes. Lean startup sprints hit a brick wall when promising ideas attempt to transition to a business unit (BU) where they can be resourced and scaled. The appointment of a "chief innovation officer" to the corporate center (outside of the profits and losses) leads to organizational confusion around where the decision-making power really sits to resource innovation.

> Building an innovation capability is a systems design challenge that requires a system solution; if instead you try to build it by cobbling together isolated point solutions, each is likely to fail in entirely predictable ways.

The problem is not that these interventions are intrinsically bad ideas. Each can play an important role, but problems arise when they are implemented without full consideration of the broader set of enablers that must be in place for any individual initiative to be successful. In other words, building an innovation capability is a systems design challenge that requires a system solution; if instead you try to build it by cobbling together isolated point solutions, each is likely to fail in entirely predictable ways.

THE INNOVATION PERFORMANCE MODEL



The innovation performance model — which describes the five primary components of a complete innovation system — can be used to map an organization's current approach to innovation, assess what's working well and identify areas for improvement. This, in turn, can help leaders to strengthen their own systems for innovation, building on the foundations already in place.

> To identify appropriate metrics, it is helpful to work backward from the desired performance outcomes and ask the question "What needs to be true to be on track to achieve them?"

Innovation Performance

Innovation should always be a means to an end, not an end in itself. These goals will vary from one organization to the next, but defining them clearly is a precursor to building the right capability and being able to measure its effectiveness.

Regardless of the specific metrics tracked, teams must be careful to focus on the few that matter and avoid the twin traps of metric proliferation (tracking too many metrics simultaneously) and vanity metrics (tracking easily achievable measures that deliver a false sense of progress).

An organization must clarify and align on two types of performance for innovation:

Desired Performance Outcomes

There are a range of business results innovation can support, and organizations typically innovate for more than one reason. Common examples include revenue growth, enhanced efficiency, improved culture, reduced environmental or social impacts, and strengthened brand perceptions.

Leading Systems Metrics

Leading system indicators can be used to evaluate, on an ongoing basis, if the system is running effectively. To identify appropriate metrics, it is helpful to work backward from the desired performance outcomes and ask the question "What needs to be true to be on track to achieve them?"

Clear Innovation Priorities

Once innovation performance has been clearly defined, the next step is to clarify the organization's innovation priorities. Placing constraints on innovation might seem counterintuitive, and indeed there has always existed a natural tension between innovation and focus; one seeks to go beyond boundaries, the other to establish them. Tuning this tension to the right level is the key to innovation productivity.

Managers often assert they do not want to constrain their innovation teams. However, the highest-performing teams are those that are given "just enough focus" to ensure they work on the most valuable ideas, while still giving them ample flexibility to explore creative new approaches to achieving that impact.

> The word "innovation" means different things to different people, so the first step in defining organizational priorities is to clarify the types of innovation the system should produce.

Clear innovation priorities require:

Common Language

The word "innovation" means different things to different people. New sources of revenue, new markets, new processes or just more creativity — these are all types of innovation that might connect to an enterprise strategy.

The first step in defining organizational priorities is to clarify the distinct innovation types that are important to the organization.

Strategic Focus Areas

Too often, an organization's innovation pursuits are not aligned with its enterprise strategy. To address this, it's helpful to define strategic focus areas (SFAs) that provide the right balance of focus and flexibility. Well-constructed SFAs align with the organization's strategy, focus on consumer needs and are large enough to contribute meaningfully to future growth.

Clear Boundaries

Organizations should establish upfront the types of innovation that are desirable (i.e., strategic), discussable and out of bounds. The establishment of these parameters helps to ensure that innovators stay focused on the right priorities rather than investing time and effort into opportunities that are likely to get shut down or deprioritized once senior leadership becomes aware of them.

Priority Management

An organization's innovation priorities should be grounded in a long-term point of view about where the organization can create value. However, as customers change, technologies evolve and new competitors emerge, an organization's innovation priorities must also evolve to reflect the market opportunity. Organizations must develop the mechanisms to ensure innovation priorities are tightly integrated with long-term strategy development and the early-warning radar systems to rapidly identify and respond to emerging threats or opportunities.

Effective Innovation Pathways

An innovation pathway is the set of steps an innovation takes from initial idea to implementation. Innovation pathways exist in all organizations and can be formal, informal or somewhere in between. The key is to ensure all pathways are intentional, explicit and optimized to the type of innovation they are intended to produce.

> It is not uncommon to discover that high-value innovations resulted from ad hoc, informal and even hidden pathways that succeeded in spite of the organization's best attempts to bring discipline and repeatability to the process.

Effective innovation pathways require:

Explicit Architecture

Many organizations design explicit pathways for different types of innovation. Pathways can extend to include open innovation and customer cocreation models as well as corporate venture capital and new growth incubators. Any time there is a desire to invest resources in bringing an innovation to market, a pathway will emerge to make it happen. Pathways should be made explicit by documenting the desired set of steps that an innovation should take from initial idea to implementation.

Optimized Operations

While formal processes are usually what organizations point to when asked why they are successful, it is not uncommon to discover that high-value innovations resulted from ad hoc, informal and even hidden pathways that succeeded in spite of the organization's best attempts to bring discipline and repeatability to the process. To be successful with innovation, businesses must develop a comprehensive understanding of how innovation actually gets done, inclusive of both formal and informal mechanisms. At the same time, they should also focus on optimizing pathway operations to reduce time to market, eliminate time wasted on low-value activities and more quickly shut down efforts that are unlikely to bear fruit.

Constructive Governance

Even the best-designed pathways can fail to get results. When this happens, the cause is often related to ineffective pathway governance. Constructive pathway governance requires senior leaders to recognize that many existing processes designed to manage risk or create efficiencies in the core business are wholly inappropriate when applied to higher-risk opportunities. Even if well intentioned, they often increase the burden (and slow down the pace) of the innovation team to the point that the strategic risk of inaction (or slow action) far outweighs any risks inherent in the proposed action.

Managed Innovation Portfolios

One of the biggest challenges in a large organization is the need to manage not just individual innovation projects but also the aggregate portfolio of projects. After all, it is this collective set of projects, drawing from the same pool of resources, that

together will achieve the organization's desired performance outcomes. This means leaders need visibility into these portfolios so they can answer management questions about them, strategically balance resources across them and manage them dynamically over time.

> The real value in portfolio management comes from integrating portfolio views with the existing strategy and resource allocation functions of the business.

Managed innovation portfolios require:

Strategic Plans

Before organizations can manage innovation as a portfolio, leaders must first clarify which innovation projects and portfolios are strategic to track and manage. This will depend on the specific industry and company context. In most cases, a portfolio typically includes no more than 20 to 30 initiatives, each significant enough to contribute to the achievement of the strategic objective it supports. Leaders should align on inclusion criteria for each portfolio and determine the metrics against which the portfolio will be managed in order to deliver against performance objectives.

Actionable Insights

Once defined, leadership teams should regularly review their strategic portfolios and use the insights to make decisions about portfolio composition and resource allocation. To support these conversations, it is helpful to develop multiple "portfolio views" that provide insights from different vantage points. In many organizations, the simple act of creating visibility into the pipeline creates value by helping executives understand where projects and investments are focused so they can start to connect the dots to broader strategic priorities and figure out where to cut or double down in order to get the overall portfolio back on track.

Integrated Management

When leaders conduct a one-time analysis of an innovation portfolio, it can be an incredibly powerful tool to drive discussions about long-term growth and resource (re)allocation to support strategic goals. However, the real value in portfolio management comes from integrating portfolio views with the existing strategy and resource allocation functions of the business. Without this integration, innovation will always be an afterthought rather than a critical enabler of the strategy.

Empowered Innovation People

Most discussions of the human side of innovation focus on the specific skills, mindsets or behaviors individuals need to be innovative or the corresponding features of an innovative culture. These are certainly important to understand, but if an organization fails to implement all the other components of the innovation performance model, even the most talented innovators can experience frustration.

Strong talent can often compensate for failures within the rest of the innovation system, but this is not a long-term solution as it can lead to burnout as well as morale and retention issues.

Organizations can sustainably empower their innovation people by investing in:

Effective Talent

Organizations often do not fully understand the experiences and skills that best serve people in innovation roles, leading to inconsistent hiring practices and capability "blind spots." They also often lack appropriate recruiting mechanisms to find the right types of people to address capability gaps within the organization, leading to systemic biases that inhibit innovation. Organizations that are successful at attracting and nurturing innovators are explicit about how they support them at every stage of the employment life cycle.

Inspiring Leaders

The research shows that inspiring leaders are made, not born, and organizations must work carefully to ensure that leaders in the most critical positions are empowered to inspire their teams. While there are many traits often attributed to inspiring leaders, there is one that rises to the top — the most inspirational leaders model the behaviors they expect of their teams. They also clearly communicate innovation priorities to their teams and commit resources to those priorities because they have conviction in those priorities.

Supportive Culture

A supportive innovation culture helps to reinforce priorities, encourage effective pathways and ensure healthy portfolios. Developing a community of practice around innovation can be a powerful supplement to formal training programs, and many organizations have found success in nurturing these vehicles to disseminate best practices, share stories, manage informal rewards programs (e.g., prizes for interesting ideas, novel customer insights, creative prototypes, projects that "failed fast," etc.) and create opportunities for people to stretch into leadership positions.

Strengthening the Innovation System

Every large organization has, at some time, demonstrated its capacity to innovate successfully (or it would never have achieved success). However, in the inevitable and relentless pursuit of growth and efficiency, structures and processes can calcify and shift focus away from customer understanding

and toward product or operational excellence. While innovation systems in smaller organizations often revolve around the persona and actions of a single leader, larger organizations must explicitly build and nurture their innovation systems to ensure they remain nimble and adaptive to the ever-changing environment — in short, that they balance the need to both deliver and discover.

Leaders who seek to understand their system today and take steps to strengthen it across the five dimensions of innovation performance are investing in the engine that will help their organizations own the future.

Want to learn more about the innovation performance model and get tips for implementing it in your organization?

READ THE FULL E-BOOK

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