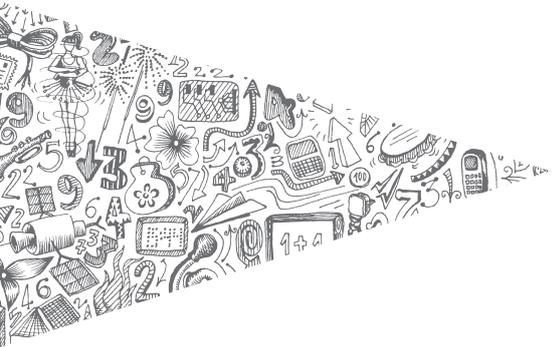


EY Innovation

A series about achieving growth
through innovation



Innovating for growth

Innovation is not a strategy, it's a way of being. For strategic innovation to happen you need to align leadership mindset, organizational culture and new approaches to evaluation and measurement.

External factors, such as technology, regulation, macroeconomic trends and demographic shifts, are increasing complexity and diversifying opportunity. Against such a backdrop, the challenge for organizations of all types is to maintain their relevance in a changing environment. Part of the solution is to capture a variety of ideas and different ways of thinking from as many different sources as possible in order to enrich the DNA of the organization – but this can only be achieved through the right leadership mindset.

Our research shows a widespread consensus that leadership mindset is one of the key enablers of strategic innovation. It is directly linked to an organizational culture that nurtures, guides and supports innovative thinking and practices. Only with the support of the business leader can hierarchical barriers be broken down, career risks be taken and important decisions accepted by those implementing change.

“Having our ‘innovation prosperity program’ sponsored by our Chairman and Group CEO meant that we were able to make decisions and adapt the innovation process according to what we were learning very quickly,” says one of the senior executives we spoke to. “Visible leadership also helped. Our leaders talk about the program very confidently, providing company updates on a regular basis. This means we can take people with us as we make changes. Without their support we would not have been successful.”

An innovation culture

Contributing to innovative thinking and strategic discussion no longer requires the right job title. Company leaders need to nurture an organizational culture that enables the sharing and combining of ideas across the organization, whether from a PhD student, an engineer or a secretary.

Innovation is a people-led endeavor. “It’s all about group dynamics and socializing,” says Bill Jackson, Executive Vice President, Operations and Innovation, Johnson Controls. “There are lots of ways we think about it – converging, diverging, idea formation and so on. It all comes down to people, and if you guide people through a constructive process, you are always stunned at what comes out of it.”

However, employees working on new products or services need to know that they have the backing of the organization when engaging in new forms of commercial risk. This involves evaluating and measuring return on investment in new ways – using different key performance indicators that reflect longer-term strategic objectives.

Brook Porter, a Partner at Kleiner Perkins Caufield & Byers, says, “An innovation culture takes time to develop to encompass the complexities around ideas, execution and tolerance for failure. People don’t want to leave their day jobs and lose their security. Tolerance for risk is hard to find, and it is something that develops over time, usually on the back of success.”

Organizational culture

Organizations at the forefront of innovation turn cultural differences to their advantage. John O’Halloran, President of Technology at Suzlon (which has global R&D operations across Europe, India and China), says, “It is important to understand and leverage the subtle differences in our culture. Being able to combine different mindsets and harness different approaches gives great richness to the final solutions, and that’s what we are all about.”

Alibaba combines different mindsets by rotating executives within the company. Dr. Brian Junling Li, Vice President, says, “We rotate people across different companies and departments, because we believe that the circulation of talent enables communication. Also, people with specific expertise can actually prevent innovation, so we constantly rotate people through finance, marketing, human resources and operations.”

Our research participants concentrate on seven key elements: social networks, cross-functional teams, organization and governance, people and skills, evaluation and measurement, communication, and continuity of funding.

1. Social networks

“At JCI we have created an ‘idea network’ built around a social network, not just a box where you submit ideas,” says Michael Warsaw, Vice President, Global Innovation and Design, Johnson Controls. “Through the network, if someone has an idea they can broadcast it, or if someone has a challenge they can ask for a solution. With proper reward

Case study 1: A regional approach to strategic innovation

One of the companies we spoke to, a global telecoms company, has embedded innovation into the strategic development of its Asian division.

“The primary objective for our prosperity program for the next three years is to double our business in Asia,” says its Head of Global Propositions & Marketing. “In this region, we have found we can achieve a greater impact and be more effective if we cluster changes that together are greater than the sum of the parts.”

The Asian division therefore combines three main elements for strategic innovation:

1. Product innovation and launching new products into new geographies;
2. Business model innovation, involving a new matrix structure.
3. Innovation of the delivery model through people, growing the headcount for new roles in professional services to customers. This involves a number of process innovations such as shared services, integrating professional services with the company’s data market approach and strengthening specific functions.

The senior executive explains, “The main driver for our innovative growth program in Asia was our customers. Eighty-two percent were planning to expand into Asia, presenting us with an opportunity to innovate our products, services and how we go to market in the region to ensure real competitive differentiation.

“As an organization, we have embedded innovation by aligning it with HR and our corporation communications function. Innovation is built into people’s career objectives, so they are ultimately incentivized on innovation growth.

We also spend a lot of time on internal communications. When a new, big deal is won as a result of the innovation prosperity program, it is communicated extensively internally, so that people really understand the impact our strategic innovation can have.”

and recognition for participating in the network, you have a lot of powerful opportunities.”

One research participant comments, “It’s all based on this idea of social capital, which is, essentially, how good your networks are internally and externally. Internally, it’s about people forming relationships, sharing old ideas together in an intellectual ferment, which then creates something new.”

Social networks are an important part of learning. As Andreas Eppinger, Vice President, Technology Management, Johnson Controls, says, “In making the most of social innovation, I would point to two important lessons. First, it is essential

that people learn from their experience – that’s your number one asset. Secondly, cross-functional approaches are a key success factor. We support this via a technology domain, and in our processes we make sure we foster collaboration between the teams.”

2. Cross-functional teams

Cross-functional teams are highly valued, not only in the home base of the organization, but in global markets too. There is no longer a reliance on “our man in China.” What is worth doing at headquarters is worth doing elsewhere.

One of our respondents, a senior executive at a global network provider, says, “In China we have cross-functional representation,



Case study 2: Innovation in large organizations requires dedicated resources

For the leaders of mature, global companies, making innovation part of the strategic development of the organization requires careful planning in order to preserve the core business while investing in innovation for the future. This is particularly important in industries such as automotive, where the scale of investment and resources is too high to risk disruption to the core business.

Renault-Nissan addressed this by setting up a separate company with a dedicated project team to develop the electric vehicle, bringing in different skills to those in the core business.

Philippe Klein, Executive Vice President of Corporate Planning, Product Planning and Programs at Renault-Nissan, explains, "We hired a program director with a skills profile that included innovation capabilities. We also hired a senior executive who was not afraid of the newness of the technology and a third expert in downstream innovation to cover marketing and sales, who was unusual because he was not an engineer."

This separate company enabled the team to explore pull factors within customer needs - rather than continuing to push technology into the market - which was central to the development of different customer projections.

"When you replace an existing car, your organization uses a certain spread of projections that are either conservative or aggressive, but with a low level of uncertainty. A car using new technology, with no equivalent in the market, required a completely different set of analytics. Otherwise the risk would have seemed too high, in relation to the conservative figures we had to use, and the initiative would not have gone ahead."

in effect creating a mini company. Our corporate development team scans the local market, paying great attention to the potential fit of Chinese- headquartered companies for investment or acquisition by other parts of our enterprise."

3. Organization and governance

Another participating company has a China Board, which meets regularly with senior executives and counterparts in other headquarter locations. One of its business leaders says, "This board has a governance process that provides the China entity with timely access to funding and support for change. It also has steering committees on talent, portfolio, go to market and other key areas, providing a structure to access the right input and secure timely support from senior leaders to drive growth in Asia."

"Organization and governance are key enablers to innovation," says Andreas Eppinger. "If you want to be successful in a high-tech area, you have to make a significant investment in technology. But you have to balance this with day-to-day commitments to product development in your customer organization. As a company, therefore, you can only be successful if you separate out long-term investment from short-term delivery commitments."

4. People and skills

"Our strategy of investing in key technology areas depends on hiring top technology experts" says Andreas Eppinger. "I am convinced that it is only through these people, their skills and the network they bring with them that we are really going to be successful."

5. Evaluation and measurement

The most innovative companies, including those with traditional roots, know that new ways of evaluating return on investment are essential to the long-term viability of the business. One participant says, "Companies that use traditional KPIs can miss the only growth opportunities they have. You need a different structure and different measures within a corporate environment to enable new products continuously to come into the market within the customer base, be tested, improved and scaled for future growth."

Once you have done that, when it comes to rewarding innovation, what do people want?

With the right incentive, reward and recognition, the whole ecosystem can start to grow.

While financial incentives have a definite role to play, there are three main factors that energize and empower those engaging in innovation: first, interesting work; secondly, recognition; and thirdly, making a difference and being able to influence the outcome.

6. A fresh look at communication

"In any transformation, one of the most important elements is a fantastic HR person and a fantastic communications person, because ultimately transformation is about people and all about communication" says VR Ferose, Managing Director of SAP India.

This includes communicating with external audiences. Ferose says, "Real innovation happens when the lab, the data section, science, art, literature, sports, humanities and all these different areas come together. We have created a lot of things inside the company as a result of getting thought leaders in from different backgrounds to speak to our employees as often as once a week. We have 27 different interest groups within SAP, and they are all very active."



7. Continuity in funding

Michael Warsaw, Vice President, Global Innovation and Design at Johnson Controls, articulates a consensus on funding, saying, "Continuity in funding is a major success factor, and those companies that have to discontinue their funding often fail."

In the economic turbulence of the last few years, continuity has been a challenge but is still a priority. As John O'Halloran says, "A commitment to investing in technological advance and other innovations is critical. Despite a drop in sales volume during the economic crisis, we continued to drive advancements in technology funding because it is key to success. In good times and bad, you need to continue to leverage technological advance because that is what separates one competitor from the next. For our employees, this bullishness on technology, when other companies were scaling back, enabled them to focus on their work, knowing that investment remained a priority for Suzlon."

It is a tough balance that requires putting in measurements to make sure companies don't spend too much on innovation without adequate measures of ROI. Michael Warsaw counsels, "At a certain point you have to simply set a benchmark level for how much financial investment you can make in technology innovation. Then you make sure you manage it carefully with the right leadership, the right concept and the right people."

What insights can we draw?

1. The leadership mindset is one of the key enablers of strategic innovation. A savvy business leader makes everyone part of the growth of the company, irrespective of job title or status.
2. Talk in terms of learning, not failure. Failure is part of the old linear process of development. The spiral approach to innovation allows for incremental learning that adds to the whole process of comprehending what works and what doesn't.
3. Social networks are an important part of learning and internal collaboration. Live socialization is just as important as online engagement because it increases the value of diverse perspectives from different nationalities and cultures.
4. Traditional methods of assessing financial viability are one of the biggest barriers to innovation.
5. Reinventing your risk management approach is essential to achieve innovation.



Why is this relevant?

In today's complex environment, it is more important than ever for organizations to achieve a cohesive sense of purpose. This not only breaks down functional and seniority silos. As corporate roles become more specialized, a cohesive sense of purpose enables the sharing of knowledge, expertise and the intuition that comes from being able to understand different perspectives.

In order to understand new opportunities, we need to understand new forms of risk and measure the return in much broader ways. The model of quarterly reporting needs to accommodate ROI in different time frames and allow for investment in unusual and unexpected developments emanating from technological, scientific or other breakthroughs.



To learn more and join the global business innovation debate, please visit www.ey.com/innovatingforgrowth

Our recommendations:

- ▶ Change perceptions of innovation from a specialist activity to a mindset that permeates the whole organization.
- ▶ Nurture group dynamics and socializing and guide employees through a structured, collective ideation process.
- ▶ Use cross-functional teams to cluster diverse ideas into new solutions.
- ▶ Embed innovation by aligning it with HR function and develop genuine reward and recognition for employees participating in social networks to share and develop ideas.
- ▶ Embed innovation by aligning it with the corporate communications function so that developments are communicated in the context of corporate strategy and future goals.
- ▶ If necessary, set up a separate company within the enterprise to protect revenue flow in the core business and provide the right environment for innovation.
- ▶ Ensure continuity of funding, particularly in an economic downturn. In a tough commercial environment, there is no return to how things were, only an acceptance of external change and therefore internal transformation.
- ▶ Explore how new risk management tools for innovation can be introduced to the core business.

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