

# The People-Ready Business

## Whitepaper

### The Road Map for Innovation Success

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Since 1976, PRTM has created a competitive advantage for its clients by changing the way companies operate. PRTM management consultants work with senior executives to develop and implement innovative operational strategies that deliver breakthrough results. The firm is a leader in operational strategy, supply chain, product development, and customer value management. PRTM has 16 offices worldwide and serves major industry and global public sectors.

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# The Road Map for Innovation Success

Priming the organization for breakthrough advances requires a more formal approach and strategy than is currently used by most companies.

## EXECUTIVE SUMMARY

Most companies find it hard to translate innovative ideas into action, according to a recent PRTM survey of more than 200 leading executives at global organizations in a variety of industries. Companies often stumble when it comes time to take their innovation strategy beyond lip service.

Other key findings:

- Most respondents felt their CEO adequately formulated an innovation strategy, though communicating and executing on that strategy were more problematic.
- Less than half of the respondents said their companies permit risk taking and are tolerant of failures.
- Most companies do not have a process to help employees turn raw ideas into meaningful proposals.
- Companies need to improve their understanding of future market needs and customer requirements. Less than half of the respondents said they have such an understanding and disseminate it throughout the organization.
- Managing the innovation process is a weak point for many companies. They need to build processes to define joint innovation opportunities with partners.
- Companies must do a better job of measuring the success and failure rates of their innovation initiatives.
- Well-defined metrics, though elusive, are critical for measuring innovation success or failure.
- Technology tools are key enablers of innovation processes; this is an important area of opportunity for most companies.

PRTM conducted interviews with executives who responded to the survey to elucidate the key success factors that affect innovation and to test PRTM's Innovation Maturity Model. The PRTM Innovation Maturity Model classifies organizations based on the maturity of their innovation capabilities (see Appendix 1).

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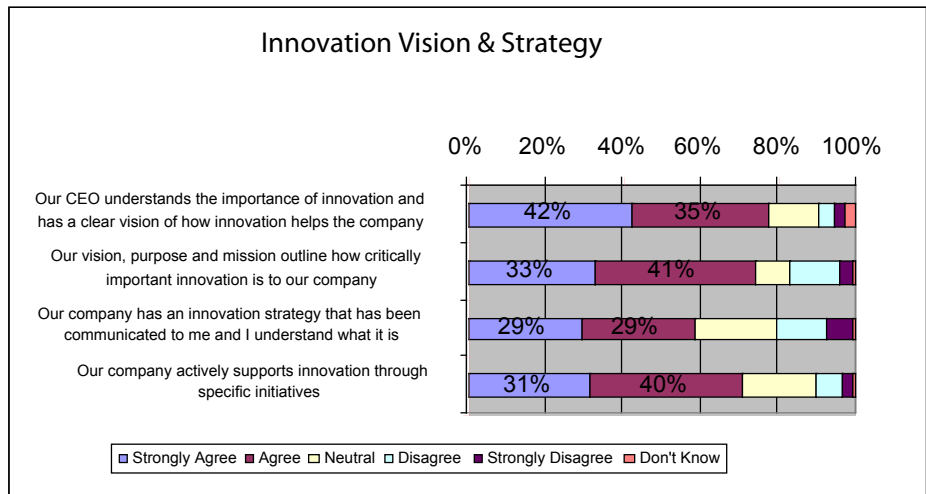
“Innovation needs to be part of your corporate values and vision; it must be top-down driven.”

### Innovation Vision and Strategy Need to Come from the Top

It is critical that a vision for using innovation to fuel growth comes from the very top of the company, typically the CEO and the board of directors. A large majority of the survey respondents—77 percent—agreed or strongly agreed that their CEO understood the importance

of innovation and had a clear vision of using innovation (see Figure 1, “Innovation Vision and Strategy”). “Innovation needs to be part of your corporate values and vision; it must be top-down driven,” remarked one of the senior officials polled as part of the survey. “If innovation is not endorsed at the top, it will fail,” added another manager we interviewed.

Figure 1



The next step is to convert the overall vision into a more detailed innovation mission and purpose for the company. Again, a large majority of survey respondents—74 percent—agreed or strongly agreed with that statement.

However, the mix of respondents who strongly agreed was comparatively lower—at 33 percent—indicating that

some companies have not yet been able to effectively translate the innovation vision into a more concrete mission. This result reflects the experience of many companies that have struggled to realize results from the innovation initiatives they have launched. As important as innovation is to the company strategy, most companies still struggle with execution.

Our research indicates that the innovation strategy needs to be effectively communicated and well understood within the organization. This communication has to start at a corporate level and reach every member of the organization. The study showed that only 58 percent of the respondents agreed or strongly agreed that they understood their organization’s innovation strategy. Moreover, 20 percent of the survey participants disagreed or strongly disagreed with this statement.

On the key question of execution, a large majority of the respondents—71 percent—agreed or strongly agreed that innovation is in fact being supported by specific initiatives. However, the effectiveness of these initiatives is another matter.

Based on the survey results, PRTM estimates that a large proportion of these companies do not have a well-communicated innovation strategy in place. Therefore, many companies have initiated projects randomly and sporadically—just to convey “progress.”

### Encouraging Innovation and Risk Taking Requires Work

A key aspect of an innovative culture is the ability of employees to think of and suggest new ideas. A large majority of the study participants—82 percent—agreed or strongly agreed that they “feel comfortable in suggesting new ideas” (see Figure 2, “Encouraging Innovation and Risk Taking”). One company executive we interviewed said: “Senior management recognizes the challenges of innovation and has put in place the necessary systems to allow the innovation, recognizing that there will be failures along the way.”

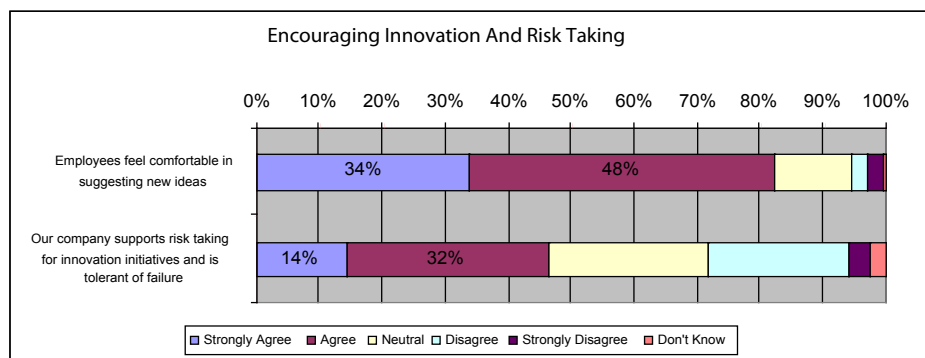
An important aspect of an innovative culture is how broadly innovation is accepted in the organization. As one interviewee put it: “An internal measure of innovation success is to get the majority of people comfortable with submitting new ideas and thinking creatively.” Another executive observed that in his company the challenge is: “How do you capture ideas from people who are buried in the organization or people who are on the fringes?”

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Figure 2



Apparently, companies may be open to new ideas and still have a risk-adverse culture that hinders the implementation of these ideas. This highlights the need for companies to better understand the risks associated with innovation initiatives and then to manage these risks carefully to avoid undue exposure. It also underscores the fact that companies need to gradually become more tolerant and understanding about failures in innovation projects.

Another key factor for innovation success is the risk tolerance of an organization. Innovation initiatives are risky by their very nature. Only 14 percent of the study participants strongly agreed that their “company supports risk taking for innovation initiatives and is tolerant of failure.”

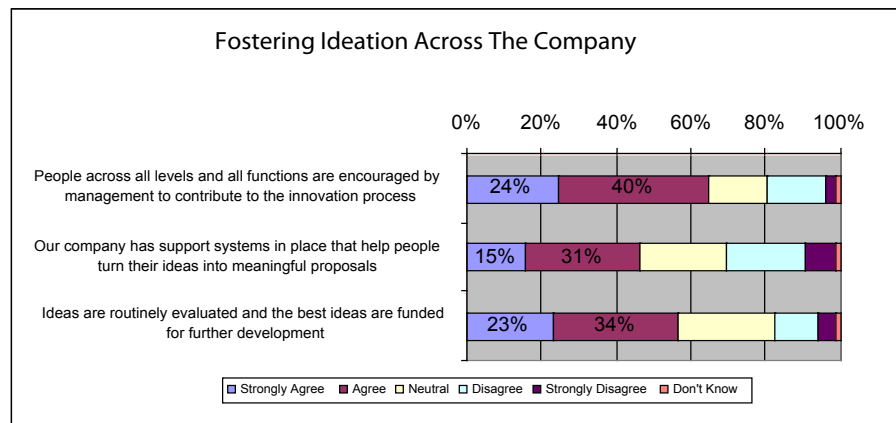
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tolerant and understanding about failures in innovation projects.

**Cast a Broad Net when Capturing Ideas**

Clearly, innovation is not limited to a functional group or senior executives within a company. People from all levels, functions, and geographies will participate in the innovation process if the culture encourages it. In our study, 64 percent of the respondents agreed or strongly agreed that that is the case in their organizations (see Figure 3, “Fostering Ideation Across the Company”). This is a good indication that companies are encouraging ideas from a broad cross section of people, confirming findings from the previous question that the majority of the employees feel comfortable in suggesting new ideas.

**Figure 3**



However, only 46 percent of the respondents agreed or strongly agreed their company actually helps to nurture their ideas. A smaller but substantial group—30 percent—disagreed with this statement.

This gap presents a great opportunity for companies to develop a meaningful infrastructure that supports innovation. It may be that many good ideas are being prematurely rejected. This will be especially true if employees do not have the business knowledge to shepherd their ideas through financial scrutiny.

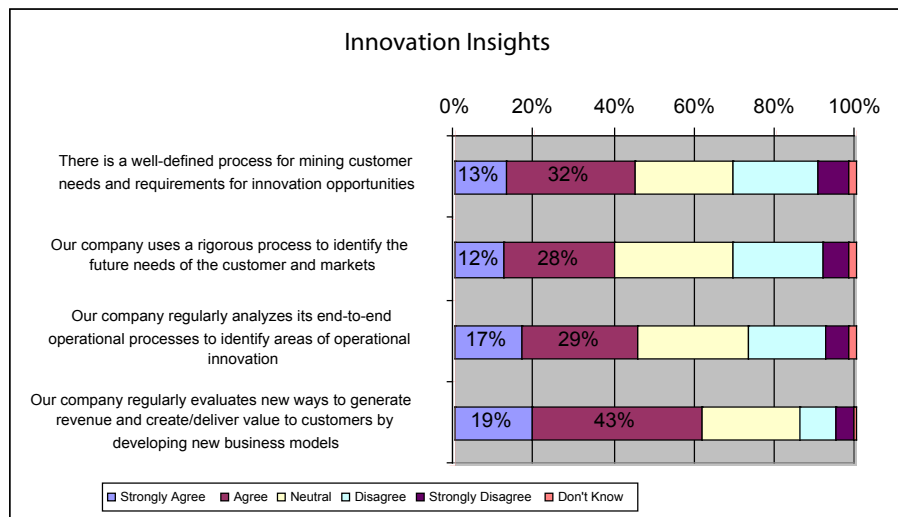
**Anticipating Future Customer and Market Needs Is Key**

“For a company to be good at innovation, it should have solid insight and foresight, the ability to anticipate,” remarked one of the innovation leaders we interviewed. A key differentiator of innovation from other initiatives is the aspect of “newness,” expressed in a new product, a new technology, a new insight into customer requirements, or simply a new way of applying an existing technique in a new situation.

From an external perspective, a company needs a good understanding of customer requirements. Such “customer insight” helps to identify customers’ explicit and implicit needs. However, our study showed that only 45 percent of the respondents had a “well-defined process for mining

customer needs and requirements for innovation opportunities.” Moreover, although understanding *future* customer and market needs is crucial for identifying innovation opportunities, only 40 percent of the respondents agreed that they had this capability (see Figure 4, “Innovation Insights”).

Figure 4



From an internal perspective, companies need to have a good understanding of their operational capabilities to identify areas for innovation that can deliver the most value. The study showed that 46 percent of the respondents agreed or strongly agreed that their companies follow this practice. Because internal operations are one area where an organization has a lot of control, we believe that this is a good opportunity for most companies.

**Innovation Management Is Often a Weakness**

“Without a well-defined innovation process, you never realize all of the things that need to happen to have successful innovation,” commented a corporate product development executive. Indeed, the biggest challenge in many companies

is how to bring the best ideas to the finish line. To succeed, companies need a solid decision-making structure, a prudent approach to developing projects, and a methodical way to manage the overall project portfolio.

Effective governance and decision-making are critical for sustaining the velocity of innovation initiatives and ensuring that projects are being steered in the right direction. This includes allocating the appropriate resources, budgets, and management support for project success. In our study, 43 percent of the participants agreed or strongly agreed that their organization had “timely and clear decision-making” capabilities regarding innovation activities (see Figure 5, “Managing Innovation”).

Although understanding *future* customer and market needs is crucial for identifying innovation opportunities, only 40 percent of the respondents agreed that they had this capability.

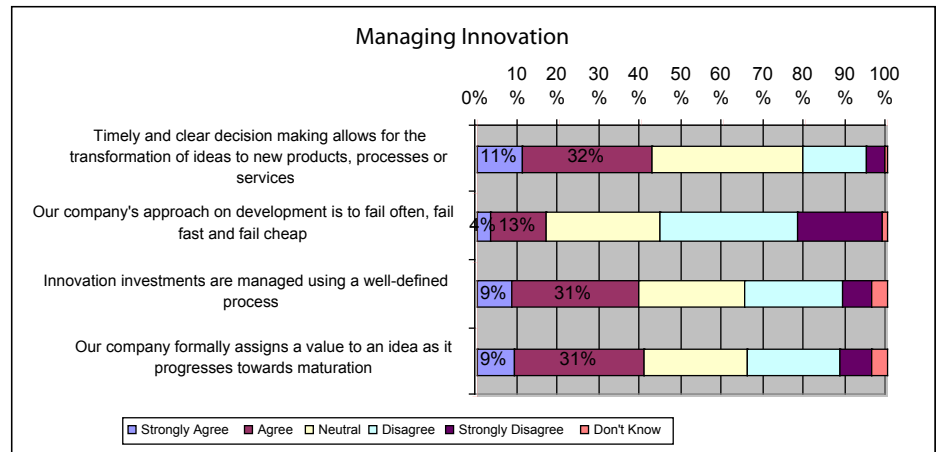
A good percentage of companies are collaborating with external entities to develop offerings, with some viewing collaboration not as an option but as a necessity.

**Few Fail Often, Fast, and Cheap, but Should**

A key aspect of innovation-related project management is to rapidly iterate and test potential options. This approach ensures that a high number of options are tested and that the best ones progress to the next stage. The survey found that only 17 percent of companies agreed that they “fail often, fail fast, and fail cheap.”

This represents a major opportunity for improvement in most companies. The primary advantage of this approach is that it allows good ideas to be screened quickly, up to a point where a solid decision can be made on the probability of success. Note that 40 percent of the respondents agreed that their innovations were “managed using a well-defined process.”

**Figure 5**



**Collaborating to Innovate Boosts Speed to Market**

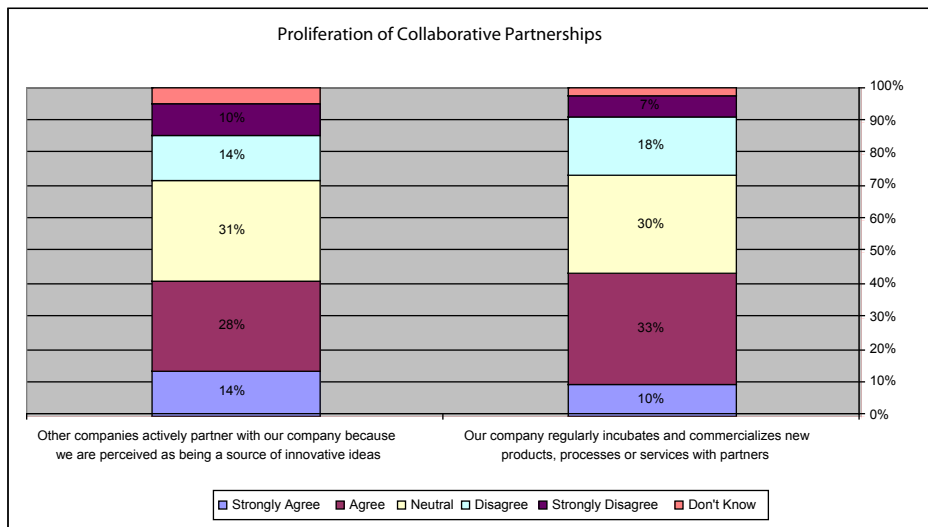
Collaboration with external partners is becoming essential to develop innovative solutions that would not be individually possible. The reasons for collaboration are many, from increasing the speed to market to gaining access to additional technologies and talent. In the survey, 43 percent of the respondents agreed that their company “regularly incubates and commercializes new products, processes, or

services with partners.” This shows that a good percentage of companies are collaborating with external entities to develop offerings, with some viewing collaboration not as an option but as a necessity.

About 42 percent of the respondents agreed “other companies actively partner with our company because we are perceived as being a source of innovative ideas” (see Figure 6, “Proliferation of Collaborative Partnerships”).



Figure 6



Companies need to continue to build established processes to better define the joint opportunities and to continue working to manage their ongoing relationships with partners.

Based on the survey responses, only 35 percent of companies have a process for identifying when to collaborate with partners. Most companies are, therefore, unclear about when they should initiate collaboration with potential partners. A possible implication is that companies are losing out on opportunities for a better joint offering simply because they are unaware of the benefits that collaboration would bring to the initiative.

By contrast, a relatively higher number—44 percent—of companies have a process for identifying and selecting partners. This could be because most companies are using an established supplier selection process to choose collaboration partners. Less than half of the companies surveyed had a process for defining the joint effort and then

managing the relationship with that partner. This highlights the fact that companies need to continue to build established processes to better define the joint opportunities and to continue working to manage their ongoing relationships with partners.

**Well-Defined Innovation Metrics Are Hard to Come By**

Innovation is a process that can and should be measured. PRTM research and analysis indicates that companies applying metrics to the innovation process, in addition to the innovation successes and failures, are able to better manage innovation. According to an executive from an industry-leading consumer goods company who participated in the survey: "Good metrics are a key success factor for increasing innovation."

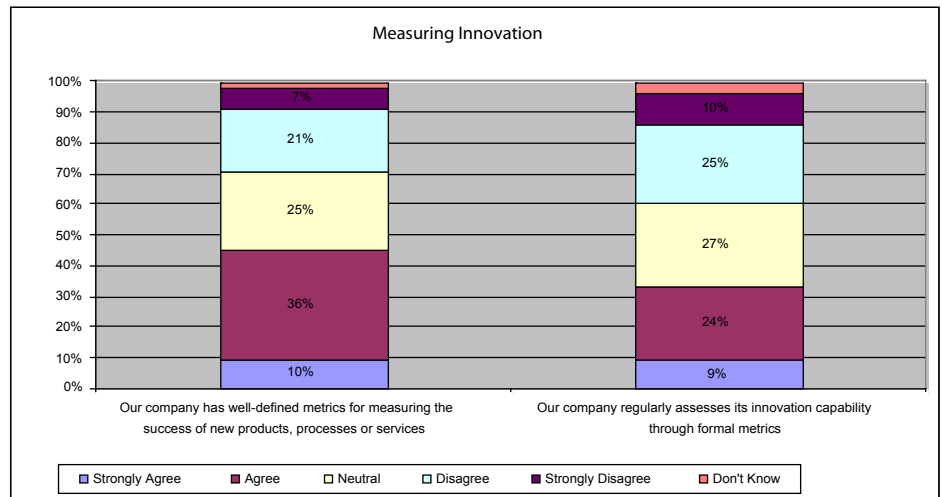
A vast majority of companies are not measuring the performance of innovation processes by itself. This causes a poor understanding of the failings and the shortcomings of their innovation system.

Yet only 46 percent of the respondents asserted that their “company has well-defined metrics for measuring the success of new products, processes, or services” (see Figure 7, “Measuring Innovation”). This shows that companies are conscious about the eventual successes and failures of their innovation efforts.

However, from the survey results, even fewer of the respondents—33 percent—said that their company “regularly

assesses its innovation capability through formal metrics.” Although companies may be carefully measuring the final outcome of the innovation process—through post-launch financial analysis, perhaps—a vast majority of companies are not measuring the performance of innovation processes by itself. This causes a poor understanding of the failings and the shortcomings of their innovation system.

Figure 7



## IT Support for Innovation Processes

Information technology tools and systems can help in developing an underlying infrastructure that supports the innovation effort. This IT enablement can be categorized in three broad areas.

First, IT supports **innovation process management** by allowing companies to track, share, and manage innovation initiatives. Companies should be aware of IT's function and limitations in the innovation space, however. According to an industry leader in the financial services sector, IT does not spark innovation, "but it can accelerate the innovation process after this initial point."

Second, IT enables and assists **collaboration**. That collaboration spans the entire ecosystem, from a multitude of internal functions and departments to external partners. From asynchronous interactions (like e-mail) to real-time sharing of ideas using instant messaging or Web-based meetings, companies are using IT to accelerate collaboration between team members separated by great distances. "We use IT tools for getting people to

collaborate without getting them on the plane," explained a leader in the aerospace and defense sector.

Finally, IT enables **knowledge management**. Simply put by an official at a leading chemical company: "IT can support knowledge sharing and knowledge transfer." Tools that foster the development of a corporate knowledge base can be easily and readily tapped, depending on the requirements. This knowledge base can range from a simple shared file server to a complex knowledge management system with sophisticated search capabilities.

If IT enablement of processes within an organization is viewed from a broader perspective, the use of IT tools for routine tasks can free up people's time to think about innovative solutions. "IT is important to automate the processes as much as possible," explained an innovation leader in manufacturing. "It frees up the creativity so people can focus on the business perspective and business interests."

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## Conclusion

More organizations are realizing the importance of innovation and its potential to deliver breakthrough benefits to the business. However, most companies are struggling with establishing a systemic approach to innovation (see Figure 8, “Innovation Execution Practices Lag Innovation Intent”). The results from this

survey indicate that companies need to take a more formal and rigorous approach to encouraging and managing innovation. This system for innovation takes into account the people, process, and technology aspects, in addition to related factors.

### Figure 8

#### Innovation Execution Practices Lag Innovation Intent

- 40% have a well-defined innovation **process**
- 43% have timely, clear innovation **decision-making**
- 46% have **metrics** to measure innovation success
- 39% have a **common language** for innovation
- 35% have **incentives** aligned to encourage innovation
- 35% have a clear process for **deciding when to collaborate** externally
- 22% report high usage of **collaboration tools**
- 17% report high usage of **portfolio management tools**

At the most fundamental level, it is people who innovate. To help galvanize employees, an organization needs to develop an environment that is conducive to innovation at both the macro level and the micro level. At a macro level, high-level vision and values keep the company on the right track toward innovation. This includes a good understanding of how the company values innovation, its overall innovation strategy, and the culture that permeates the organization. At the micro level, the policies and practices related to individual employees make a difference in innovation. This includes making sure that the organization is hiring the right people, encouraging them to innovate at the individual level, and providing them with the right incentives and rewards.

The next step is to develop a more systemic pathway for innovation. A key issue with innovation is that it appears to be a makeshift process. However, for companies that are successful at innovation, there are processes that provide a structure and methodology to guide innovation from ideation to execution. It is important that these processes are neither overly rigid nor mire employees in bureaucracy. Good processes ensure that a company is doing the right things in the right way. Good processes also ensure that the organization is focusing on innovation,

consciously managing its resources, making timely decisions, and balancing its current needs with future goals.

Finally, a technology infrastructure can help support both human interaction and processes management to accelerate innovation across the organization. Technology can aid global teams in brainstorming together, identify expertise across the organization, and allow collaborative work on projects. New levels of collaboration within an enterprise and across multiple partners are now possible with the advent of recent collaboration tools. Technology can also support the key innovation processes in areas such as project management, portfolio management, idea management, and others. This helps to accelerate innovation projects and allows teams to focus on more value-added activities. Finally, tools related to knowledge sharing allow access to global knowledge and information, ensuring that teams are not reinventing the wheel and are instead working on truly innovative activities.

#### **For More Information**

Additional research on innovation is available on the PRTM Web site. Please visit [www.prtm.com](http://www.prtm.com) for more information, or contact the author of this white paper at [mromeri@prtm.com](mailto:mromeri@prtm.com).

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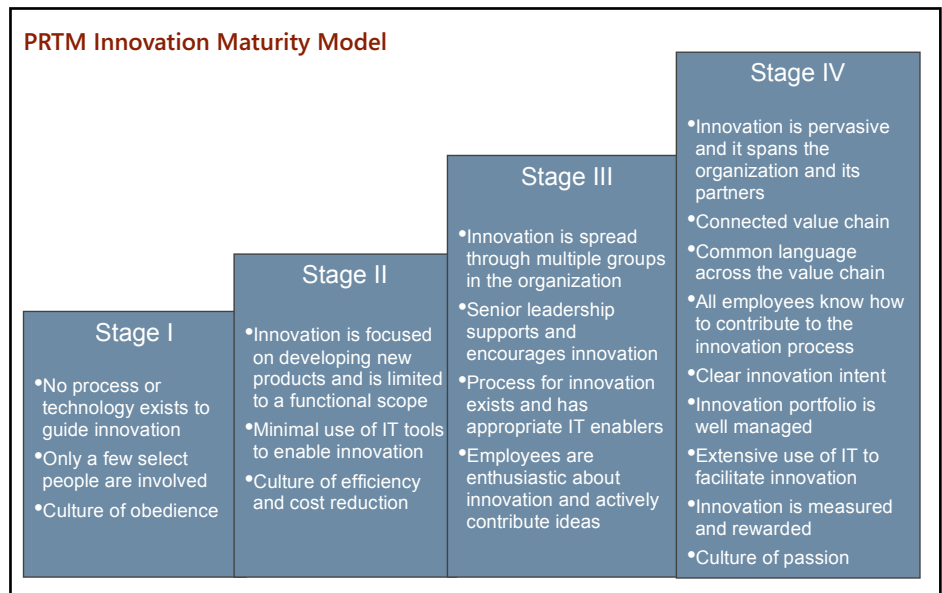
## Appendix

### The PRTM Innovation Maturity Model

The PRTM Innovation Maturity Model classifies organizations based on the maturity of their innovation capabilities. The model presumes that innovation performance correlates with the maturity of the innovation-related practices employed by the company.

The model depicts the four stages of maturity that a typical organization progresses through as it improves its innovation capabilities (see Figure 9, "PRTM Innovation Maturity Model").<sup>i</sup>

Figure 9



Source: PRTM

Each stage is characterized by a set of representative management practices in the following four areas:

- **Vision and Strategy:** The overall innovation aspirations of a company and the strategy it is employing to move in that direction
- **Insights:** The types of insights (from customer/market to business models) that a company needs to focus on to enable innovation in different domains

- **Management:** The decision-making and management processes for managing the innovation process
- **Organization:** The culture of innovation, the hiring approach, innovation metrics/incentives, and collaboration approach

<sup>i</sup> A more detailed version of this model is available from Mike Romeri at PRTM. E-mail him at mromeri@prtm.com.

## The people ready business.

A people-ready business is one where people can apply their unique skills, insights and experience to create new products and services, work responsively with customers and partners, and drive operational excellence in every aspect of the business. People-Ready businesses support people with knowledge, practices and tools so that they can add the extra value that helps differentiate successful organizations in a competitive, fast-moving global economy.

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