Innovating Perspectives

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Knowledge-Creation: The Basis of Authentic Innovation

By Lanny Vincent

As a student of innovation for over 25 years, a recent study of Toyota's innovation management system is challenging some of my beliefs, biases and assumptions.

Thanks to Tom Ruhe of Hewlett-Packard and Bruce Beihoff of Whirlpool, who gave a presentation on Toyota's unconventional wisdom at the Innovation Practitioners Network meeting in Dallas last week. I am taken back to basics: to a renewed understanding of what innovation is, in the first place, and its proper place in the scheme of things.

Ruhe recently shared how Al Ward defined innovation, through the experience of Toyota, as "learning applied to create value" [for customers]. Don't let the simplicity or brevity of Ward's definition deceive you. Ward seemed to know what Toyota has experienced: knowledge creation is the basis for authentic and substantive innovation. So much of what we hear, read and even

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Strange Bedfellows: Innovation and Risk Aversion

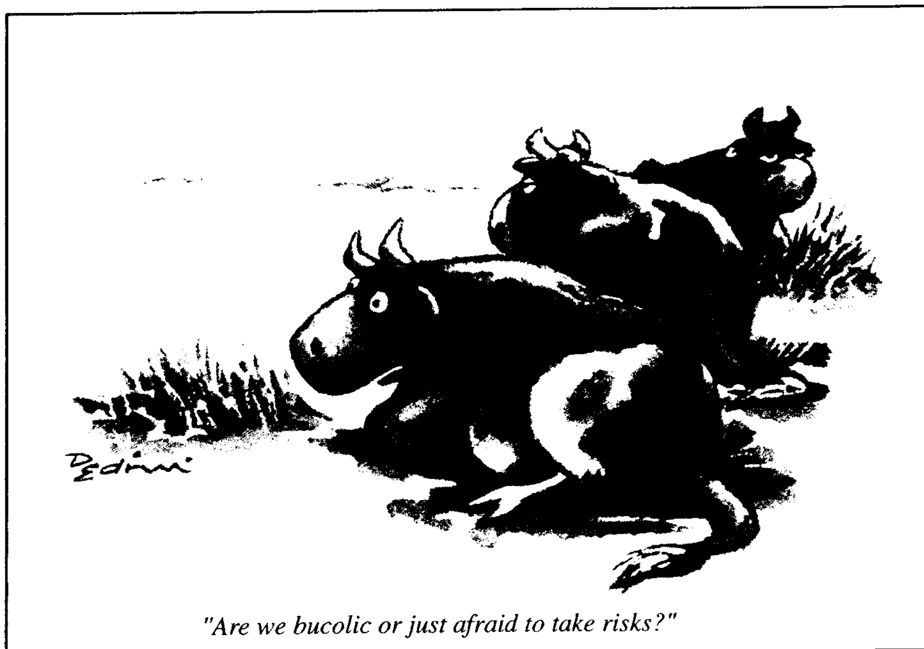
By Brian Christian, Principal, DASO Consulting LLC

All organizations have some degree of aversion to risk. At a certain level, it's a healthy instinct that protects us from betting the farm on Brussels sprouts. However, in many organizations there is an unhealthy level of risk aversion. It can be a major barrier to developing a sustainable innovation capability and the silent killer of many potentially great innovations.

Do you have a risk-averse organization? Few companies like to admit this publicly but this self-criticism is often heard behind closed doors. Maybe you are not sure if your organization is risk averse or not. Ask yourself these questions:

- Does management spend more time in monthly/quarterly business reviews talking about (A) making the monthly or quarterly forecast or (B) innovation and growth opportunities?
- Which is the more closely watched performance metric: (A) days of receivables outstanding or (B) % of revenue from innovative new products?
- Does your company spend more resources on (A) cost reduction efforts or (B) new product development?
- Do most of your senior leaders have reputations for (A) strong execution and delivering results in existing business lines or (B) creating new products and building new businesses?
- Is project management a role that is (A) viewed as subordinate to line management and not worth the career risk or (B) celebrated and rewarded as critical to the organization's success and a necessary leadership development step?

If you answered (A) to one or more of these questions, you are probably working in a fairly risk averse organization. But then, so are most of the rest of your peers in the corporate world. Whatever your risk aversion profile, it is likely that you have become more so in this new age of Sarbanes-Oxley regulations.



"Are we bucolic or just afraid to take risks?"

There are many ways to mitigate the risk that stands in the way of developing a sustainable innovation capability. The most important six things to do to mitigate innovation risk are as follows:

1. Focus the effort
2. Recruit partners
3. Create the resources
4. Streamline the investment decision process
5 Experiment
6. Measure, measure, measure.

1. Focus the Effort. Avoid opening up the innovation funnel too broadly. Initially, it is important to keep a focus on areas of opportunity that play off existing capabilities, known customer insights and

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Knowledge-Creation

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experience ourselves these days relating to our organizations' attempts to innovate lacks this basis in knowledge creation, particularly creating knowledge where it matters. Too many of our innovation efforts are motivated by the desire to differentiate or create something new without either a deeper understanding of the value that is needed or the causalities of the underlying system. It is no wonder that we remain for the most part disappointed in the results of our innovation investments. The Boston Consulting Group's latest survey reaffirms previous surveys' conclusions of the dissatisfaction of executives in the returns on their innovation investments *(Business Week,* May 14, 2007).

Would Toyota bring to market a product or feature innovation simply because it is new or different? I suspect not. While novelty, patentable inventions and differentiation may be necessary in highly competitive markets, new value for customers is even more important. It is the foundation for authentic and substantive innovation.

For the past several years I've been participating in an interesting but largely theoretical debate regarding which comes first, invention or discovery. Now after being introduced to Toyota's approach to innovation management, I am ready to conclude what they learned some time ago. Discovery (i.e., creating new knowledge where it matters the most, especially to customers) precedes invention and is essential for it. At least two practical implications stem from this insight:

- delay efforts to generate solution ideas until such time as a solid hypothesis, experience-based insight and/or understanding of the system is developed, and

- spend time up front in knowledge creation efforts—particularly through collaborative diagramming of relevant systems, experimentation (both thought and actual experiments), and clarifying purpose and potential value. It is absolutely necessary and will pay off handsomely in the long run.

Innovations, which are not based upon knowledge creation, end up short-lived if they have any life to begin with.

Innovation and Risk Aversion

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established brand positions. In addition, a strong focus on leveraging your current capabilities is more likely to lead to early momentum-building successes. Finally, as Geoffrey Moore states convincingly in Dealing with Darwin, specific types of innovation are more likely to be successful at certain stages of industry and category life cycle maturity than others.

2. Recruit Partners. Avoid the natural tendency to go it alone. It is important to spread risk by bringing partners into the process. This not only can spread investment risk but also greatly increases the odds and speed of finding truly innovative, value-creating new products and services. This means forming partnerships with suppliers, trade partners, technologists, other adjacent businesses and even competitors. The operative word here with external partners is trust.

3. Create the Resources. Do not confuse commitment to innovation with funding for innovation. It is possible to be very committed to innovation without throwing bags of money at it. In fact, a 2006 study of the 1,000 largest R&D spenders in the world by the consulting firm Booz, Allen & Hamilton found no correlation between R&D spending and shareholder return. In addition, it is healthy to challenge the organization to "create" the human and capital resources necessary to deliver more innovation. The opportunities to create resources in today's world are plentiful including outsourcing, offshoring and six-sigma or lean enterprise.

4. Streamline the Investment Decision Process. Companies have limited resources, both human and capital. Consequently, decisions must be made about how to allocate these resources. However, effective investment decision-making must contend with a number of pitfalls including (1) lack of consistency and integrity of business case assumptions across all projects, (2) political power trumps rational decision-making, (3) lack of a disciplined and consistent decision-making process and (4) incremental annual budgeting in which resources are spread like peanut butter across all business units. Overcoming these pitfalls requires an integrated combination of organization design, management process, information tools and decision-making frameworks.

5. Experiment. The inclination in most companies is toward the big bang product launch of innovative new products. The sense of urgency, the limitation of investment dollars, the pressure for short-term performance and the mobility of professionals within companies creates a go-for-broke tendency when it comes to new product launches. An experimentation approach that tests new products at multiple stages of development dramatically reduces overall investment risk and speeds "time to profit", though perhaps at the expense of "time to full scale launch".

6. Measure, Measure, Measure. All business leaders know that the old cliché "what gets measured, gets done" is a rule of law, not a quaint aphorism. Yet, so often we find reasons not to do it. In the innovation space, we know that measurement is fraught with challenges. How do you define which projects are innovative and which are not? How long after launch does a new product get to be counted as innovation for the purpose of measuring innovation-driven revenue or profit? How do you hold any one function accountable for innovation metrics when the responsibility is shared by many functions? These are all legitimate questions but should not get in the way of putting measurements into place and working.

There are real risks inherent in pursuing a broad innovation program in your business. To the extent that your organization is risk averse, you are swimming upstream and likely to run into hidden shoals or submerged trees lying just below the surface. It is better to expose these risks and openly address them than to pretend that they do not exist. It can be uncomfortable to admit publicly that your culture is risk averse. Get over it. Admitting the problem is the first step toward recovery.

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