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## Four Essential Components Of Successful Innovation Initiatives

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### EXECUTIVE SUMMARY

In 2009's difficult economic environment, many technology vendors are placing a renewed emphasis on their innovation capabilities. Not content with adopting a reactive market strategy, these vendors are pushing forward with plans to develop disruptive new products, services, and business models. While innovating during a recession is a viable strategy for many companies, many innovation efforts are destined to fail before they start as a result of poor planning and execution. To succeed, Forrester has found that winning innovation programs need the right structure, focus, and support. In this report, we consider four of the fundamental components of innovation and why they matter more than ever in the current operating environment.

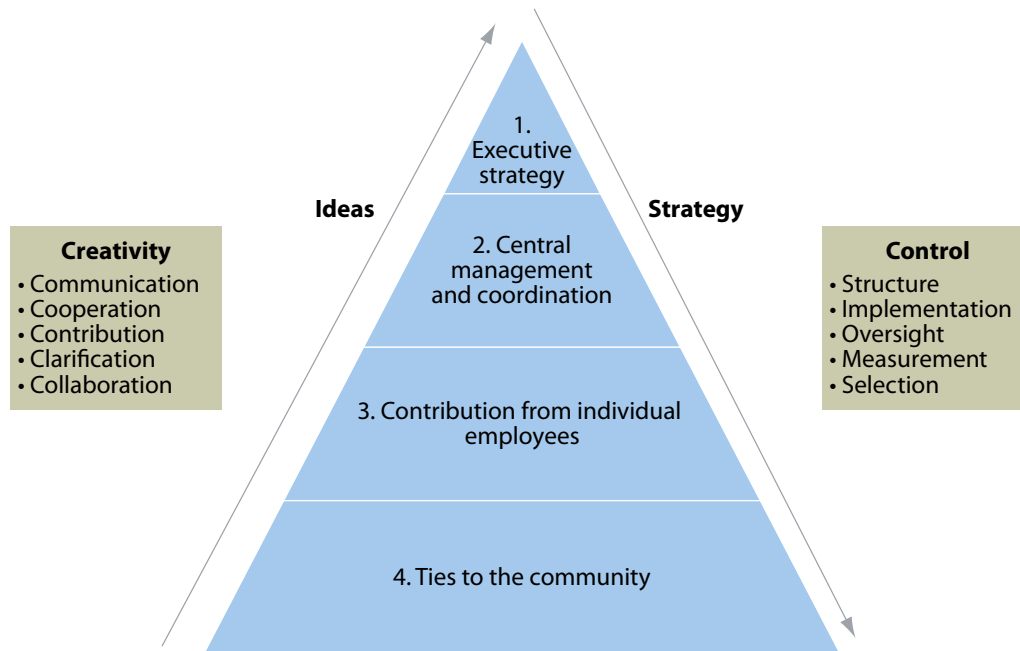
### MANY COMPANIES WANT TO INNOVATE DURING THIS RECESSION; FEW WILL SUCCEED

As the current global financial crisis intensified, Barack Obama's Chief of Staff famously stated that we should "never let a serious crisis go to waste" — and many tech strategists are following this advice. Recognizing that 2009 could be the most challenging operating environment in decades, technology vendors have turned their attention to their company's innovation capabilities as the best way to succeed in difficult conditions.<sup>1</sup> To execute on this strategy, they're seeking ways to create innovation more quickly and efficiently — hoping to generate new revenue opportunities in a matter of months, not years.

Unfortunately, in their rush to innovate, many companies will invest heavily in opportunities that are never commercialized or implemented. Disruptive ideas will meet resistance from internal stakeholders who don't want to change traditional business practices and who will be even more risk-averse in these difficult times. The failed innovation initiatives that result are likely to be costly to the organization and frustrating to an organization's most creative employees. Worse yet, these failures can contribute to a "culture of skepticism" that can doom future innovation.

To create and sustain successful innovation, Forrester believes technology vendors need to invest in several fundamentals. When applied correctly, these fundamentals create an important balance between creative idea generation and management control mechanisms. Strong innovation programs have: 1) a strategy that senior leadership supports; 2) a dedicated management function; 3) contributions from individual employees; and 4) a connection with the community (see Figure 1). Tech strategists who take the time to ensure that these key elements are in place will position their innovation programs to succeed, regardless of the economic environment.

**Figure 1** Four Essential Components Of A Successful Innovation Program



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Source: Forrester Research, Inc.

### SENIOR LEADERSHIP NEEDS TO DEFINE AND SUPPORT THE STRATEGY

Chief executive officers may be the most common culprits in failed innovation efforts because innovation strategies are often poorly defined and communicated. The most innovative companies that Forrester interviews tell us that innovation initiatives can't simply be delegated. Rather, they have to be recognized as a critical component of the company's broader business strategy — with investment and support from the most senior levels of the organization.

A well-defined strategy needs to define and communicate several key components of the innovation initiative, including the vision, focus, objective, tactics, organizational structure, and risk tolerance (see Figure 2). These components are essential because the rewards of innovation programs may not be clear to everyone. Highlighting this point, a recent Boston Consulting Group study showed that while innovation remains a top priority for senior managers, fewer than 50% of companies say they are satisfied with the financial returns of their innovation investment.<sup>2</sup> Senior leadership therefore needs to support innovation programs with an understanding that financial rewards may not be as steady and predictable as other business operations.

**Figure 2** Strong Innovation Strategies Have Several Key Elements

A bold vision	Not to be confused with the company's broader strategy, the vision should lay the foundation for innovation and should give employees a shared understanding of the company's future state.
A focused rationale	The company needs to address why it needs to innovate (e.g., to weather the economic environment, beat competition, become more customer-focused). Senior executives can't assume that their employees know the rationale.
Specific innovation objectives	Separate from the vision, the company needs to explain what type of innovation is desired (i.e., product, process, business model) and why that type of innovation is consistent with the company's overall strategy.
Tactical plans	Executives need to share what will be done at a tactical level to support the innovation efforts — specifically, what the company will change in order to innovate more effectively, and what the road map to success looks like.
Organizational structure	The company should be able to say who is in charge of the innovation efforts and what is realistically expected of them. Further, it should set up governance and incentive programs to ensure that the path to success is clear.
An understanding of risk/reward	Most disruptive change has a risk and reward associated with it. The company should know exactly how disruptive it wants innovation to be and how far it is willing to go to ensure those changes happen.

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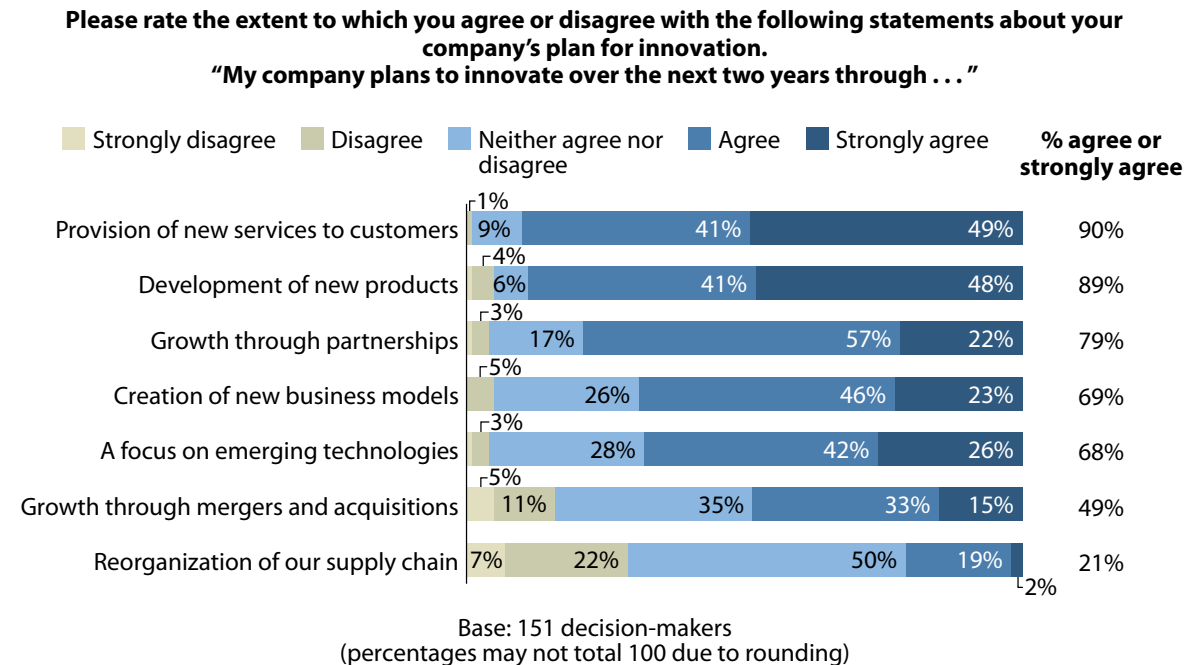
Source: Forrester Research, Inc.

**What it means in 2009:** Executive leaders who need innovation to happen *in 2009* — rather than next year — need to acknowledge that rushed projects come with tradeoffs. Pressure to innovate quickly requires executives to make faster investment decisions, break down traditional bureaucracies, and accept higher rates of failure (particularly in these economic conditions). Still, even innovation programs with extremely short time horizons need a strategy. Executives must define and communicate their unique goals and objectives to the rest of the organization — or the rest of the company will be “flying blind.”

## DEDICATED MANAGEMENT COORDINATES BUSINESS UNITS AND FACILITATES CHANGE

Although an executive-level strategy is essential, business unit leaders will quickly revert to the status quo without constant support and coordination from innovation management professionals. This team — often in the form of a dedicated office of innovation — is in charge of bridging the gap between executive-level strategy and execution. For example, while Whirlpool has trained employees on how to embed innovation into their daily lives, it also coordinates innovation to collect, analyze, and act on innovative ideas.<sup>3</sup> Innovation management leaders coordinate activity among business units, break down organizational barriers, and push for disruptive change. They also coordinate a diverse range of innovation initiatives; Forrester surveys indicate that tech companies manage innovation projects related to such things as new products and services, partnerships, emerging technologies, and mergers and acquisitions (see Figure 3).

**Figure 3** Innovation Leaders Need To Coordinate A Broad Range Of Initiatives



Source: August 2008 Global Strategy And Marketing Professionals Online Survey

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Source: Forrester Research, Inc.

More frequently than ever, Forrester sees companies creating a chief innovation officer title in order to manage their innovation programs and coordinate cross-functional work. This position, rare a decade ago, has become common within the largest, most innovative enterprises. While the responsibilities of chief innovation officers vary according to the company's strategy, they are typically in charge of generating new ideas, identifying the best opportunities, and creating viable commercial solutions. As such, the typical chief innovation officer profile is of someone who is creative, multitasking, and excellent at execution. These individuals must also be comfortable breaking down organizational roadblocks and must work well with a diverse range of business unit leaders.<sup>4</sup>

**What's new in 2009:** While we've highlighted the fact that many tech strategists will focus on product and service innovations, some of the more disruptive industry changes in this economy are likely to stem from new business models.<sup>5</sup> In particular, companies that can cut costs — and pass savings on to customers — are likely to fare well during this economic downturn. For example, IT service providers like IBM and Wipro are now engaged in "productizing" their service delivery by developing repeatable software solutions, known as "solution accelerators," which change their business models and have the potential to result in significant benefits for the customer.<sup>6</sup>

## INDIVIDUAL CONTRIBUTORS FEED THE INNOVATION FUNCTION

Academic studies have shown that for certain problems, the collective wisdom of individual contributors is a successful way to generate new ideas and solve complex problems.<sup>7</sup> Thus, it's not surprising that most innovation efforts seek to harness the contribution of employees as a way to create innovation. Whether the contributions of individuals are broad (with a large number of voices contributing ideas to solve big-picture issues) or focused (with narrow groups of contributions from specialists), the goal is the same: to inspire creativity and gather constructive insight from a base of employees before initiating innovative projects.

The ability to harness the collective wisdom of employees has changed drastically in the past decade with the emergence of a range of new innovation management tools based on Web 2.0 capabilities. These tools, which generate innovation from internal and external sources, have amassed a growing base of innovative companies. Companies like Spigit and Brightidea give innovation leaders a way to collect, manage, rate, and develop ideas while also recognizing the contributions of individuals.

Forrester believes that companies that give their employees the flexibility to discuss, define, and solve problems will find their employee base more informed and prepared to innovate. For instance: HP's senior management regularly uses prediction markets to gain input from employees and validate new sales plans before implementing them; Infosys reserves up to three days for an "Innovation Day," where only employees under 30 can present ideas and suggestions to senior management; and IBM has been hosting its creative "Innovation Jam" sessions since 2001.<sup>8</sup>

**What's new in 2009:** For years, Forrester has heard from CIOs asking us what "Facebook for the enterprise" will look like. A growing ecosystem of Web-based innovation management tools and services, which allow individuals to contribute to innovation and be rewarded for their creative ideas, may be the most promising way to merge Web 2.0 trends with business objectives. Forrester expects the value of these innovation management products and services to increase as a generation of workers enabled by mobile computing and social networking becomes a more important part of the business.

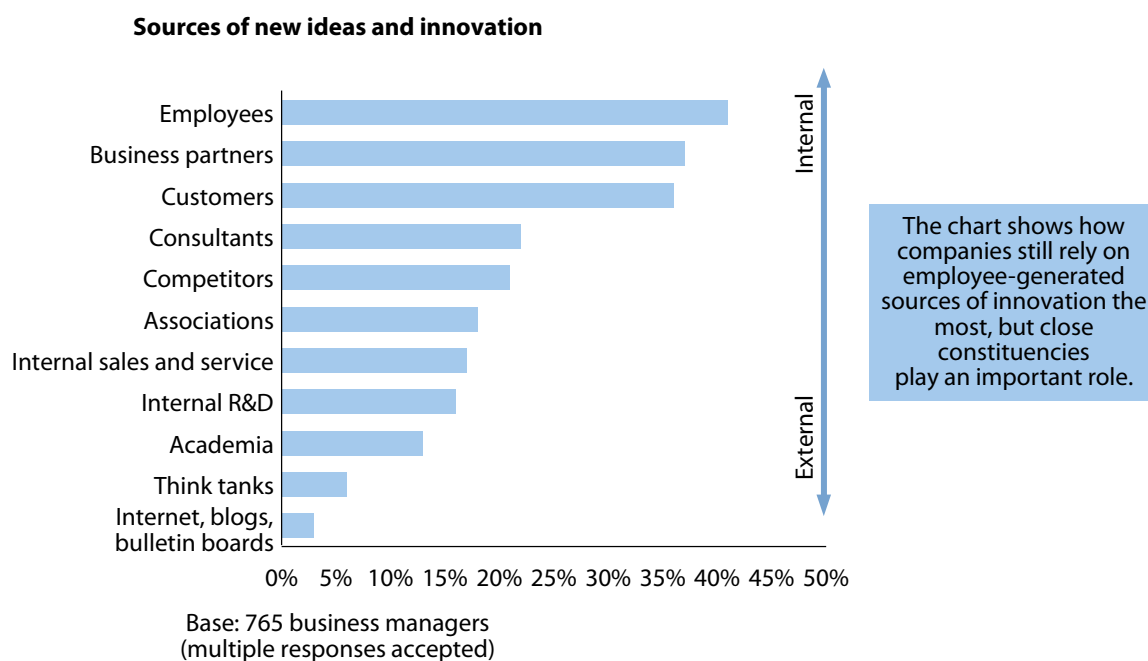
## TIES TO THE COMMUNITY BRING OBJECTIVE INSIGHT AND CAN DEEPEN RELATIONSHIPS

"Community" has become an increasingly important word in innovation over the past few years as companies have realized the benefits of open, networked innovation. Under the direction of A. G. Lafley, Procter & Gamble based its innovation strategy on generating opportunities from external sources; the company now serves as a model for organizations seeking to create more robust innovation programs.<sup>9</sup> While leveraging external sources to create innovation is often viewed as a specialty of very consumer-focused companies, macro-level trends like globalization and the expanded use of social technologies are making interaction with communities more essential for business-to-business technology vendors as well.

Not surprisingly, surveys show that, after their internal employees, business partners and customers represent the leading ways to generate innovation (see Figure 4). Companies also rely on a host of other sources, including customers, consultants, competitors, and associations. To set an innovation strategy, tech vendors need to first consider their individual strengths and weaknesses and then define how their relationship with external constituencies can deepen the company's core value proposition.

An important side effect of community outreach is the deep relationships that communities enable. Many companies have realized that interaction with communities is not only a way to gather information but also a way to share market knowledge, deepen relationships, and eventually create new business. For example, SAP has elevated its community development into an entire practice within the company, and it allows the most dedicated members of its community direct access to senior management to provide feedback on products, services, and strategy. This is a best practice that Forrester believes will become common over the next decade as more companies realize that while community development can be difficult to manage, it may be the best way to stay customer-focused and relevant in a rapidly changing competitive environment.

**Figure 4** Companies Have Realized The Importance Of Externally Generated Innovation



Source: IBM CEO Global Survey 2006

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Source: Forrester Research, Inc.

**What's new in 2009:** Just as innovation management tools are changing the way companies interact with their employees, they are also changing the way companies interact with external constituencies. While most idea management companies allow for interaction with communities (including the vendors mentioned in the previous section), some companies — like InnoCentive, NineSigma, and TopCoder — help companies solve complex, industry-specific problems by harnessing the collective wisdom of external groups. These companies have proven their business value within market-leading companies, and macro-level trends indicate that the market may still be in its early stages of growth.<sup>10</sup>

## RECOMMENDATIONS

### THE BEST INNOVATION PROGRAMS ARE BUILT ON THE RIGHT FOUNDATION

Despite all of the hype over the past decade, “innovation” remains much-desired but poorly understood. Technology strategists need to recognize that for their companies to become more innovative, they will need to address organizational barriers and facilitate systemic change. Use the four components outlined in this report to:

- **Assess your company's innovation capabilities.** No company has perfect alignment between executive-level strategy, business unit coordination, and contributions from both employees and communities. Identify your company's strengths in each of these areas and use the analysis to diagnose areas for more investment. Without these four fundamentals working together, your innovation initiatives are likely to face more resistance.
- **React to changing market conditions.** Charles de Gaulle said, “You have to be fast on your feet and adaptive or else a strategy is useless,” and this is still relevant today. The magnitude of the current economic crisis may vary by geographic location and industry, but perhaps too many companies have accepted a business-as-usual strategy. The best companies will stay abreast of market changes, understand the implications for their innovation focus, and revise plans accordingly. Changing short-term tactics and focus does not mean that you have to abandon your long-term strategy.
- **Manage the risk.** The relative youth of innovation management functions means that many companies are still working on the right innovation model. Learning to unlock innovation requires careful — and often frustrating — diligence, organizational mapping, stakeholder buy-in, and execution. Companies that recognize the risks and carefully align their tolerance for failure with their long-term innovation strategy will be less frustrated by failures and adjustments along the way.

## ENDNOTES

- <sup>1</sup> In a February 2009 *Harvard Business Review* article, Donald Sull discusses two strategies for seizing opportunities in a downturn: “agility” and “absorption.” Agility, he says, is the ability to quickly identify and capture business opportunities more quickly than your rivals do. Source: Donald Sull, “How to Thrive In Turbulent Markets,” *Harvard Business Review*, February 2009 ([www.hbr.org](http://www.hbr.org)).
- <sup>2</sup> This finding highlights the importance of getting senior leaders comfortable with the innovation program from the outset — so that expectations can be met, and failed innovation does not receive undue criticism. Source: “Innovation 2008,” Boston Consulting Group, August 2008 ([http://www.bcg.com/impact\\_expertise/publications/files/Innovation\\_Aug\\_2008.pdf](http://www.bcg.com/impact_expertise/publications/files/Innovation_Aug_2008.pdf)).
- <sup>3</sup> Whirlpool relies on “global knowledge brokering” processes to cross-pollinate technical and market insights across all regional markets. See the June 19, 2006, “Market-Focused R&D Elevates Whirlpool Business Performance To New Level” report
- <sup>4</sup> It’s accepted — but unproven — business wisdom that companies that fail to innovate because of cannibalization fears often find their competitors taking share. *The Wall Street Journal* recently reported that Microsoft had a Web-based search tool called Keywords in 2000 but failed to develop it over concerns about cannibalization. Source: “Microsoft Bid to Beat Google Builds on a History of Misses,” *The Wall Street Journal*, January 16, 2009.
- <sup>5</sup> Charles Darwin famously stated: “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” The quote is extremely relevant in today’s operating environment.
- <sup>6</sup> Facing immense competition and bottom-line pressure, IT services providers are developing solution accelerators, which Forrester has defined as predeveloped software that technology services firms use to automate a particular business process or aspect of product development, where 30% to 70% of the code can be reused across clients. See the October 29, 2007, “Solution Accelerators Will Disrupt The IT Services Landscape” report.
- <sup>7</sup> One study showed that adding competitors to a group of direct competitors solving the same problem systematically reduced the problem-solving scores of individual competitors, while at the same time positively affecting the maximum or best score attained within the group. Source: Kevin J. Boudreau, Nicola Lacetera, and Karim R. Lakhani, “Parallel Search, Incentives and Problem Type: Revisiting the Competition and Innovation Link,” Working Knowledge, Harvard Business School, November 14, 2008 (<http://hbswk.hbs.edu/item/6044.html>).
- <sup>8</sup> In an economic downturn, it’s vital to maintain high levels of employee motivation. One best practice to keep employees engaged, especially collaborative Gen Yers, is to involve them in the formulation and/or implementation of corporate strategy. See the December 1, 2008, “The Tech CEO’s 2009 Innovation Agenda” report.
- <sup>9</sup> Procter & Gamble’s innovation strategy “Connect and Develop” was based in part on Henry Chesborough’s open innovation models. According to Lafley, in 2006, more than 35% of its new products had elements



that originated from outside P&G, up from about 15% in 2000; 45% of the initiatives in the product development portfolio had key elements that were discovered externally. Source: “P&G’s New Innovation Model,” Working Knowledge, Harvard Business School, March 20, 2006 (<http://hbswk.hbs.edu/archive/5258.html>)

- <sup>10</sup> Most innovation management companies, while in their early stages of development, are not unproven. Most have more than 50 customers, and many have Fortune 500 clients. See the March 2, 2009, “Vendor Landscape: Innovation Management Software” report.