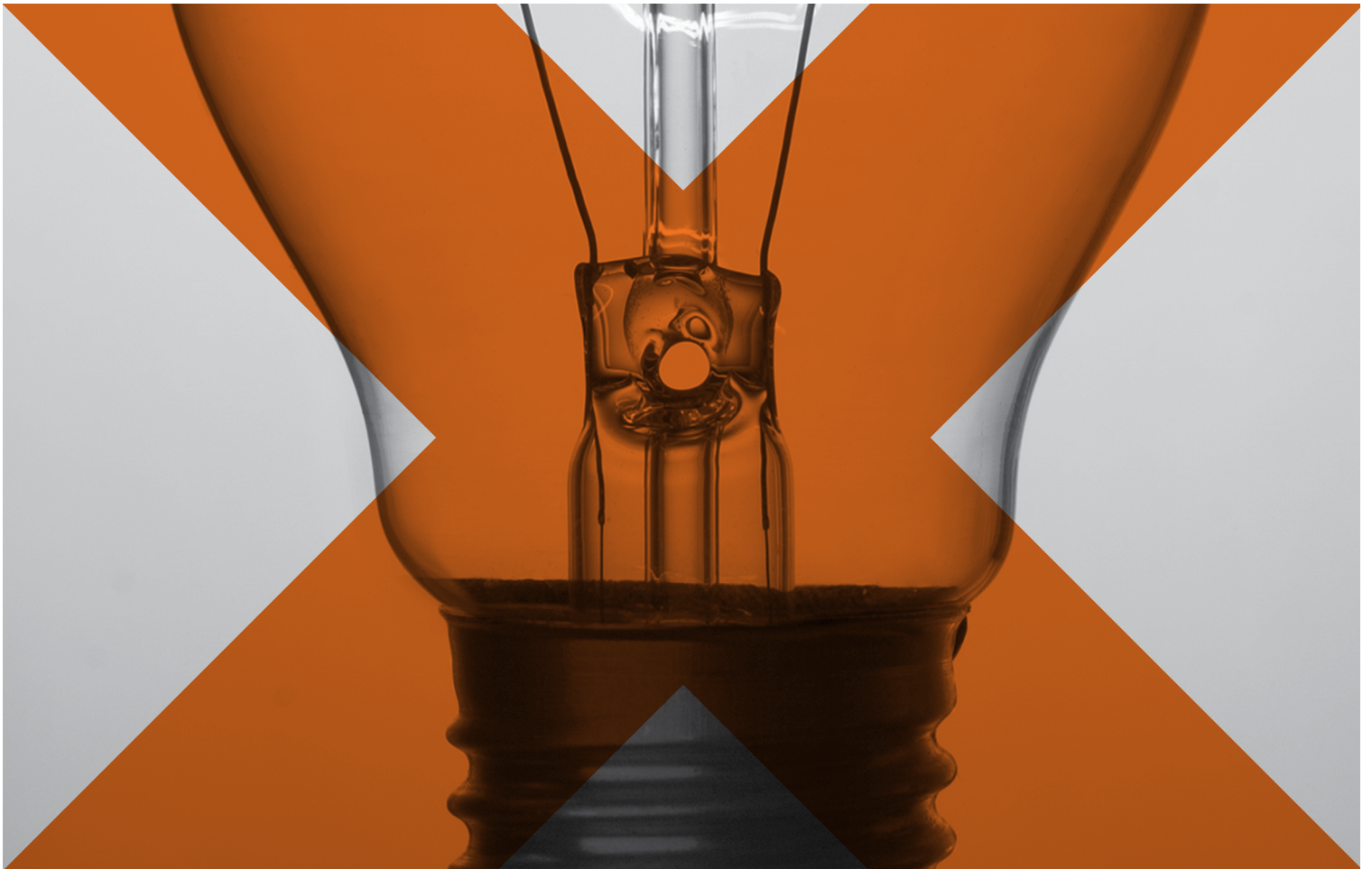


THE INNOVATION TOOLKIT

Stop Trying to Build an Innovative Culture



AUTHOR
Adam Michael Rubin
Associate partner

Fahrenheit²¹²

Part of Capgemini

INTRODUCTION

These days, it seems like everybody in big companies is talking about building a culture of innovation, or hiring innovation teams, or housing innovation enablers, like labs and accelerators. There is good reason for this and these discussions need to happen, but focusing on the *ingredients* of innovation risks missing the bigger picture of how leaders should think about and build innovation capabilities in their organizations.

For leaders, internal innovation capabilities are more than insurance against threats, they're assurance of relevance and revenue for the organizations they oversee. They also energize the broader team, complementing everyday activities with ones that satisfy aspiration and ambition. For individuals, it opens new meaningful ways to contribute and grow their own careers while advancing the company as a whole.

Focusing on the ingredients of innovation risks missing the bigger picture of how leaders should think about and build innovation capabilities in their organizations.

Thinking about innovation only as a project, special initiative or even as a cultural goal is a flawed approach. It is much better to think about innovation as a *system* with its own operating model. This is the key to establishing real, durable, and effective capabilities that can drive the growth that companies need.

Fundamentally, these capabilities would serve as both the heart and mind of an independent growth engine. And this is the path to an innovative culture, which is something definitely worth pursuing just not in the way most people tend to go about it.

Innovation is inherently future-minded. A robust internal system helps enable a radar that senses *possible* futures so the company can identify the truly plausible futures, which allows it to deliberately advance towards its *preferred* future.

Whether you work in a fast-changing, tech-fueled company or a relatively slower, perhaps asset-intensive organization, internal innovation capabilities are at minimum relevant, but more likely, they are essential.

This article outlines the many challenges inherent in building and sustaining these capabilities, a primer for a subsequent series of deep-dives into each crucial aspect.

The series will be relevant for executives who recognize the importance of innovation and want to lead, enable, and help drive transformations. It is also relevant for innovation practitioners who drive new product development within their organizations.

A NEW ERA
OF INNOVATION

Innovation hasn't always been treated as a discipline. Until the 1980's, innovation was largely considered to be the product of luck and natural traits. The idea of innovation as a discipline, one that could be taught and managed, emerged in the 1980s with Peter Drucker. In his 1985 HBR article *Discipline of Innovation*, he argued that successful innovation is "not the happy occurrence of a blinding flash of insight but, rather, the careful implementation of an unspectacular but systematic management discipline".

Now more than ever, companies recognize the need for growth through innovation.

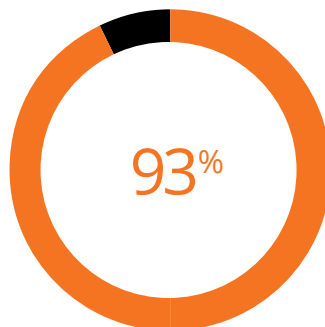
Another key moment in the evolution of innovation consulting was the publication of Clayton Christensen's book *Innovator's Dilemma*, in 1997, which argued that large corporations would be blind sighted by new technology and were less capable than startups to benefit from these disruptions. As the idea of structured ideation and the necessity of thinking took hold, a number of innovation and design thinking consultancies were founded, including IDEO in 1991 and Fahrenheit 212 in 2002.

In more recent years, the demand for innovation consulting has continued to grow in response to accelerating technology and changes in consumer expectations. In turn, ad agencies and traditional management consulting have acquired or developed internal innovation capabilities, proliferating the number of innovation offerings.

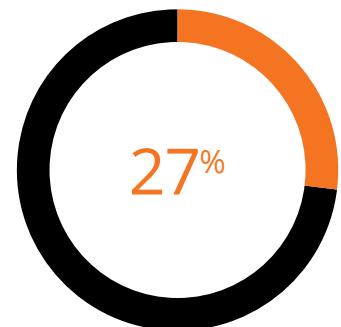
Now more than ever, companies recognize the need for growth through innovation. In fact, 93% of CEOs see innovation as the primary driver of their revenue over the next 5 years. *And yet, only 27% of them believe their organizations will be able to deliver it.**

The result is a major change in the way that innovation is talked about, understood, planned for, and enacted. Big companies continue to work with consultancies and independent contractors to help advance their efforts, and increasingly they also develop capabilities of their own.

CEO'S SEE INNOVATION AS PRIMARY DRIVER OF REVENUE



CEO'S BELIEVE THEIR ORGANIZATION WILL DELIVER INNOVATION



* PWC. (2013). Breakthrough innovation and growth.

THE DEFINITION OF INNOVATION

Before we go further, let's take a step back and define our terms. What exactly do we mean by *innovation*? The word is used so liberally that it has become almost trite. In our context of new products, services, and businesses, most people understandably peg it to something narrow and tangible like idea generation, brainstorming, or individual products from Amazon, Apple, and Tesla. Engineers tend to think of efficiency or patents, and executives tend to think of top-line growth and surviving disruption.

True innovation occurs when new problem-solving ideas meet measurable, strategic goals.

One of the things I think of is a great *Curb Your Enthusiasm* episode in which Larry David and Jeff Greene are considering investing in an inventor who has created a periscope for a car, so a driver can see further in traffic and make better-informed decisions. Larry insists that he is an “inventor” too because he has many ideas for inventions, but Jeff tells him that he isn't an inventor unless the invention is *implemented*. Larry vigorously protests, but Jeff maintains that he's just an “idea-man”.

I love this scene both for its hilarious banter and for the truth that it reveals about innovation. There's an immediate temptation to venture into the philosophical fog of *if a tree falls in a forest...* But for companies, there's little tolerance for ambiguity because ideas can't only solve for the consumer, they must also solve for the business, which means they must be feasible and deliver economic returns either directly through sales or indirectly through a secondary benefit that ultimately connects to revenue.

I'd argue that for companies, true innovation occurs when new problem-solving ideas meet measurable, strategic goals—which typically means going to market and realizing targeted financial results. If they don't, the ideas are just inventions. Sorry, Larry.

THE CHALLENGES OF INNOVATION

When thinking about the complexity of large organizations, a simple tactic or two won't move the needle.

Being innovation-capable means treating it as a discipline, something that can be studied, trained, honed, and repeated. Growth that comes from new products, services, and business creation doesn't have to feel as random as it often does for many practitioners out there. A big part of being innovation-capable is being resilient against bad luck and transforming your odds of success.

Startups and small companies don't feel these challenges in the same way that medium-large ones do. In smaller outfits the purpose is younger and clearer, and leaders are within reach to be reminded. Priorities are more easily established because only so many things can be attacked at once. There are fewer activities, team members, and objectives to plan for, and fewer people to manage, direct, and coalesce into a functioning unit. Finally, performance is simpler to measure and drive without bureaucratic barriers that slow or stall progress.

Amidst these many challenges, growth for companies still depends on innovation. And when thinking about the complexity of large organizations, a simple tactic or two won't move the needle. What's needed is a multi-pronged system of interconnected components that click together and make sense as a whole.

A recent report on *The State of Innovation* by CB Insights confirmed the value and need through a survey of over 600 executives. The findings also revealed that only 51% of companies prefer to build, while the others prefer to partner or buy innovation outcomes. Notably, the report found that companies lack confidence in their abilities in each step of the process, and most don't even have process to begin with.

The challenges of innovation in large organizations are numerous. Recognizing these challenges is a good first step to outlining the required principles and components of a system that will work, consistently.

THE BIG REASONS WHY INNOVATION IS SO HARD IN LARGE ORGANIZATIONS:

1. PURPOSE

Innovation is hard because its purpose isn't always clear to leaders, and therefore hard to motivate, steer, and incentivise the team.

2. PRIORITIES

Innovation is hard because of the priorities that compete and shift amidst zero-sum budget decisions.

3. PLANNING

Innovation is hard because of planning that is stifled by perceived complexity and ambiguity, unclear next steps, and intimidation of too many unknowns.

4. PEOPLE

Innovation is hard because of people and the internal politics that get in the way, their resistance to external direction, cultural conflicts, and inevitable discontinuity as they transition to new roles.

5. PERFORMANCE

Innovation is hard because performance requires the right skills, technologies, tools, processes, management, and ability to learn from successes and failures.

DECONSTRUCTING THE SYSTEM OF INNOVATION

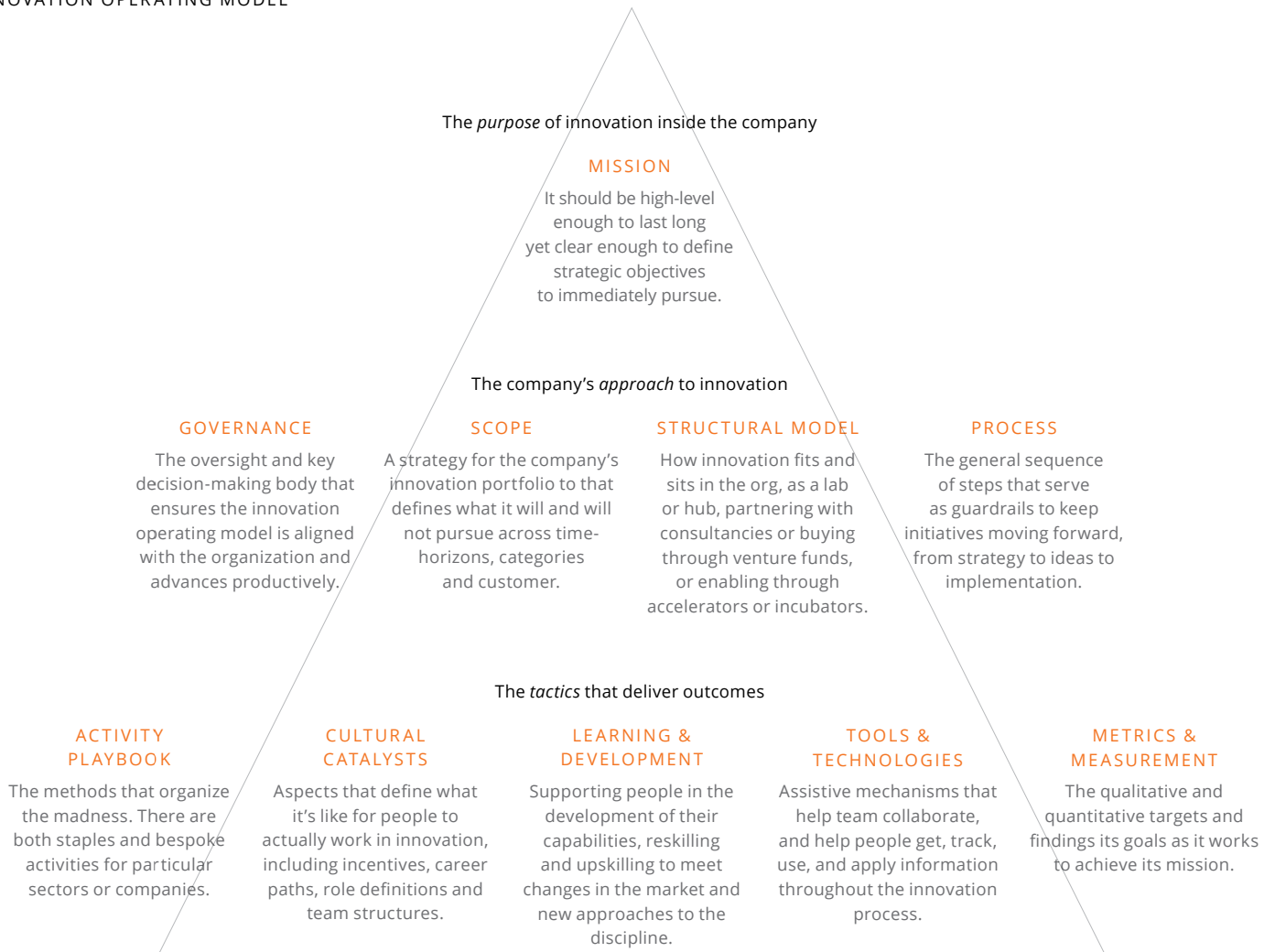
In this way, we can think of innovation as a true *system*.

And this system doesn't have to make innovation slow and it doesn't have to be complex. It doesn't have to take years to get started and it doesn't have to be fully understood or planned all up front. But it does require knowledge about the components, why they are important, how they interact with each other, and how to think about them in principles so they can be applied in practice.

A helpful reference can be found in the common device of an organizational *operating model* which describes the way they do business, deliver value, and combine pieces to unify as a whole. In our context, we'll adapt as needed and use the term *innovation operating model*.

An innovation operating model, like any robust operating model, ought to reflect the why, how, and what of the entity. That is, innovation's purpose, approach, and tactics, respectively. Below is a description of this model at a high-level of definitions to share a glimpse of the topics that we'll explore more deeply in subsequently articles of this series.

INNOVATION OPERATING MODEL



INNOVATION IS A DISCIPLINE

It has been over 30 years since Drucker wrote *The Discipline of Innovation*, defined the term itself, and elaborated on its sources and principles of execution. This series aims to reinforce that it is, in fact, a discipline that can be developed while providing some guidance as to how that might be accomplished.

As the saying goes, Rome wasn't built in a day. There is no shortcut to developing high-functioning innovation capabilities. But understanding the holistic system in the form of an innovation operating model is the right first step. In this way, you can set a vision for your organization, and build towards it in a series of milestones through a roadmap that's right for your specific context.

The idea is that you can solve a problem or need for consumers that will deliver pure bliss, but go bankrupt in the process if your organization can't pull it off at scale. And you can have the world's most efficient and productive machine for producing a product that nobody wants, and you'll be similarly out of luck, despite 100% margins.

For companies building their own innovation capabilities, the consumers in the equation are its people within. The components of an innovation operating model need to be designed for them as much as they need to accommodate the commercial objectives. It will be important to strike a balance between money and magic throughout team building, process design, metrics and

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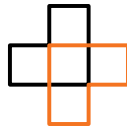
The innovation operating model is an ideal formation and its components don't need to be tackled at once. You can get started today. The common way-in is to build upon existing strengths while addressing limitations (or complete gaps) that are both doable and most immediately impactful so the wins are felt early-on and momentum is gained.

Copy-pasting the approaches of other companies will have limited benefits. Each component of the system would ideally be tuned to work inside the organization.

At Fahrenheit 212, we apply this philosophy through our approach of *Money and Magic*. These words come together under one banner of innovation. They reflect our approach to growth in theory and methodology, pairing business acumen and consumer empathy to repeatedly delivered predictable, sustainable growth for our clients. To some, these terms come across as a dichotomy, but when applied in a complementary way they form a simple secret to unlock success.

analytics, among other fundamental components of a high-performing innovation system.

In future articles of this series we'll unpack the components of the innovation operating model, aiming to bring colleagues and clients into the conversation, and you as well. The sequence won't be linear but the goal will be to make our way through the system and expose what it really takes to build true innovation capabilities. Please share your thoughts, areas of interest, and questions to help shape this endeavor so that it will be useful to you in your own journey. ☒



ABOUT THE AUTHOR

Adam is an Associate Partner at Fahrenheit 212 and Head of IP & Development. He has spent nearly twenty years integrating strategy, technology, and design, building his career in innovation. On behalf of his clients, whether a Fortune 50

organization or start-up, Adam is a leader, strategist, technologist, entrepreneur, coach, and educator. Adam lives with his wife and daughter in Brooklyn.
arubin@fahrenheit-212.com

ABOUT FAHRENHEIT 212

We are an innovation consultancy creating new products, services and experiences that deliver sustainable, profitable growth for the world's most ambitious companies.

Want to learn more? Want to explore how building innovation capabilities can help your business grow? We'd love to hear from you.
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