

# Innovation

## A Business Imperative or Just a Fad?

Innovation is “change that creates a new dimension of performance,” according to management guru Peter Drucker. Innovation, therefore, must be focused on delivering a competitive advantage and creating increased value for businesses and customers.

Innovation covers:

- Business models
- Business processes
- Technology
- Organization architecture and methods
- Products

These can be tracked using the Innovation Radar developed by the Kellogg School of Management and available from Clareo Partners.

Innovative change is about leadership and must be communicated as a key strategy by the chief executive as its champion. An IBM study, *Expanding the Innovation Horizon: The Global CEO Study 2006*, found innovation strategy must be orchestrated from the top to succeed.<sup>1</sup>

### INNOVATION RADAR



Source: Clareo

<sup>1</sup> <http://www-935.ibm.com/services/us/gbs/bus/pdf/ceostudy.pdf>

The innovation strategy is then backed up by an organizational design, with mechanisms giving people the time, space, recognition and motivation to encourage appropriate behavior. Some of the initial change areas required to make a company more innovative are:

- Move from a hierarchical to a networked organizational structure
- Inclusion of innovation in job specifications
- Reward and recognition systems, including bonuses, awards and reviews
- Symbols—for example, work spaces and branding
- A culture more tolerant to risk and associated costs
- Corporate language

To achieve sustainable innovation, a good practice is to develop an overarching framework. This captures not only all aspects of innovation but also other change mechanisms.

### The role of external partners

External collaboration is an important element in successful innovation but is proving to be difficult to execute. Many companies, from conglomerate General Electric to retailer Safeway, are finding it a challenge to bring in the skills and the culture to deliver effective collaboration. By embracing collaboration and pushing its limits, companies increase the resources focused on finding innovative ideas. For ideas to be fully accepted, a company must develop a culture that accepts ideas from any source and moves away from the “not invented here” syndrome.

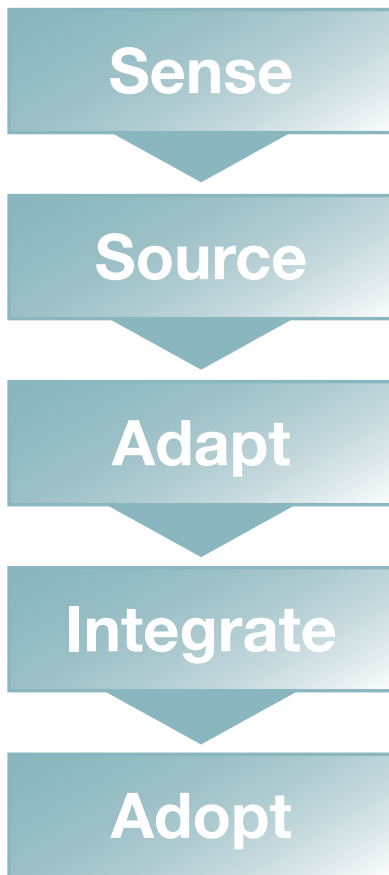
Extensive collaboration also allows a company’s capabilities and ideas to come from a variety of sources within, and external to, the industry’s ecosystem. This may involve collaboration with a wide variety of organizations, such as:

- University research centers
- Venture capital firms and start-ups
- Companies in adjacent industries
- Organization networks

Two emerging trends in this area are the creation of internal innovation groups, that are specifically responsible for external collaboration (for example, consumer goods company Procter & Gamble has created the role of technology entrepreneur) and corporate venturing funds (a Wharton School paper in October 2006 claimed this was now the possible fourth wave of corporate venturing).

### Approaches to external collaboration

The ability to identify and leverage external sources of innovation and introduce them into a business can be achieved by adopting a five-stage process.



**Sense:** A company has a two-way mechanism team (for example, the discovery team) that understands key drivers and needs of the corporate strategy and can communicate those to the external world. External parties then drive innovation towards the company and likewise the team translates otherwise unrelated capabilities into an opportunity for the company. This team is usually on the periphery of a company and one of the tools used is a corporate venturing fund.

**Source:** External organizations are identified by the discovery team and a relationship is engaged, bringing a new set of capabilities to the company. This could result in the formation of partnerships, consortiums or whatever arrangement makes sense for the given situation.

**Adapt:** Capabilities, generally from different industries, are adapted to provide value to the target company. At this stage, the discovery team, the external party or parties and a target business unit begin working together on a pilot.

**Integrate:** New capabilities are integrated into the existing platforms and processes, as applicable, so adoption can extend beyond the pilot. This stage is the beginning of the transition phase from the discovery team to the business.

**Adopt:** The transition is made from pilot to production and the capability is now adopted within the business.

Companies have adopted various approaches for some or all of these stages. Procter & Gamble’s technology entrepreneurs sense and source innovation for new products and business models. BP’s chief technology officer that has a successful approach for all five stages. Lastly, a large mining conglomerate launched a successful pilot for identification, adaptation and adoption of capabilities from the oil and gas industry.

The last two highlight an approach to realizing an opportunity to sense-source-adapt-integrate-adopt a new breed of advanced technologies into new platforms and leapfrog entire legacy generations of capabilities. Aggregating capabilities like this can deliver potential game changers.

### Corporate venturing as a tool

Corporate venturing allows a company to set aside risk capital to invest in emerging companies and ideas that have the potential to add value to the business.

It has different goals depending on corporate circumstances, including:

- Source new products or outsource research and development—this is most commonly found in the pharmaceutical and information technology industries
- Identify emerging technologies and capabilities that directly affect the strategic focus areas of the business



- Invest as a limited partner in an established venture capital fund focused on a narrow area of company interest
- Monetize internal innovations – an emerging model initially seen in the healthcare field where the fund invests in spin-outs of internally developed products.

In the first three cases financial return is secondary to the stated goal – it is all about adding value to the business by sensing and sourcing capabilities in the external ecosystem and by leveraging the most effective model in attracting and filtering a large volume of opportunities – the venture capital model.

The fund goal described in the second point is the type most commonly emerging as a tool for sense and source among companies in a wide range of industries – technology, media, transportation, mining and oil and gas. Even Gazprom, the Russian oil giant, in 2008 formed a corporate venturing fund of \$100m to invest in companies with solutions that would improve Gazprom’s operational performance.

This year we are seeing a resurgence of corporate venturing, and time will determine if the design and goal of these funds allows them to become a sustainable part of corporate growth, as it has for oil major Chevron or semiconductor maker Intel, rather than a passing fad.

Corporate venturing will emerge as a vital tool of leaders in open innovation, enabling companies to identify a range of solutions and capabilities that would not otherwise have been exposed to the company for years. Then, with effective internal collaboration, these will be leveraged into the business to create value and competitive advantage.

## About Clareo

At **Clareo**, our mission is simple: we help businesses grow.

We help leaders create new ways to grow—core, adjacent and new business—and build the plans and capabilities needed to get there. We also have deep expertise in creating strategy and operating models for the design and launch of corporate venture groups.

We do all this with our clients, not just for them so that the outcome is buy-in and an actionable road map, not just a book or set of slides that sit on the shelf. When needed, we’ll even come alongside to help our clients achieve their plans.

Our clients look for Clareo when they’re looking for bold new ideas, outside-in thinking fueled by a network of leading global experts, and plans that lead to action and results.

To find out more about Clareo, visit: [www.clareopartners.com](http://www.clareopartners.com)

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