

Managing Innovation

To renew our companies and to become more competitive, we need to embrace innovation, to treat it as a continuous process, and to make it compatible with the company's day-to-day operations. Here is a new approach, a systematic way to generate and manage innovation through strategic initiatives.

Executive Summary

Good intentions are not enough. Companies that want to make innovation a priority must first understand that it is a process that requires more than ideas or technology. Innovation demands "its own rules of the game," and a change both in mindset and main practices. The purpose of this article is to show how a focus on innovation, which is based on the systematic generation of strategic initiatives, can foster innovation throughout an organization. However, as the authors point out, carrying this out requires more work than inspiration.

Only a few years ago, companies still treated innovation as a separate issue, apart from the main agenda. Some companies viewed innovation as the responsibility of one of the operational managers (such as the new products manager). Others saw it as a rather limited process for translating opportunities (more technological than market-based) into new products or processes. However, few people were generally involved, and the process was erratic and only vaguely linked to the company's strategy orientation.

Today, a growing number of companies are embracing innovation. The process of translating ideas into new product launches is gradually becoming more organized, and better managed. Targets, duties, teams and their responsibilities are now identified for each stage, from the moment an opportunity comes to light to the introduction of a new item into the market.

Step-by-Step Progress

A series of changes in the business environment indicates that the traditional approach to innovation – managing it as a process with limited potential – is not enough. If we are to make a qualitative leap forward in competitiveness, and especially if we want to renew our businesses, we must respond to today's changing demands. Innovation is much more than just technological innovation, and businesses must take a broad view towards it. We must try to create a system that generates innovation continuously, not just in fits and starts. Innovation must be compatible with the operational requirements of a company's day-to-day business.

Innovation is a specific type of change, and good programs for change begin by defining the goals. The aim of innovation is to build a culture that includes innovation among its basic pillars, creating an integral system for its management (see "A Framework to Manage Innovation," IESE Technical Note 01969300). However, a company cannot make great leaps into the unknown when setting out its internal functions. The gap between the point where our companies begin and its ultimate goals is often so wide that a company's efforts are defeated somewhere along the way.

The key is to create a process for managing innovation using strategic initiatives. This process of change towards innovation must benefit important areas of the company and it must foment the development of new ways of innovation. This



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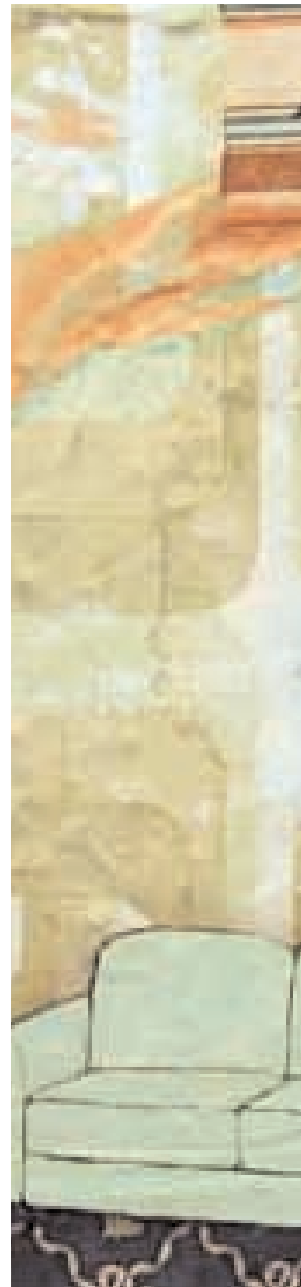


Figure 1
Systematic Phases



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process will keep us moving forward towards integral innovation management.

Getting Started

Our aim is to present an approach to innovation based on systematically generating strategic initiatives that will respond to the current demands for innovation in today's business world.

This systematized approach will be supported by a process governed by specific management bodies with well-defined duties. To begin, a company needs to create an innovation committee and to set down its operational rules. It then needs to implement a set of stages along the innovation process and, finally, to create and manage innovation project teams.

The innovation committee is the highest-ranking innovation management body in a company. It outlines the phases of the process and the people involved. It is responsible for advancing the process through each stage and for defining the specific foci of strategic reflection. The committee also selects the initiatives to be pursued, identifies the members of the innovation project teams, ensures that these teams have the support of the rest of the organization and oversees their proper operation. Finally, the committee reviews the systems used throughout the process and ensures their continuous and sustained improvement over time.

To begin the first phase, the committee must assess the starting position and what innovation is intended to bring. Ideas and initiatives are to be generated and the best ones selected and taken on as innovation projects. Finally, it must define and manage the projects and train the teams involved.

The innovation teams are the basic operational units responsible for completing the projects. They include a project manager and representatives from each of the departments most critical to its implementation. They enjoy operational independence and report directly to the innovation committee.

Table 1
Advantages of Strategic Reflection

- Increases the company's aspirations
- Focuses attention on key success areas
- Standardizes efforts around the most important directives
- Integrates the objectives and efforts of the different managers
- Coordinates activities both within and among teams
- Ensures the speed and flexibility of the decision-making process
- Facilitates delegation, to develop the abilities of those working on the project
- Monitors the quality of the work being carried out (to inform managers if they are doing their job properly)

Table 2
Examples of Strategic Guidelines

- Be a reference point for customers and strive for excellence in the relationship
- Offer innovative models and solutions with a high added value, based on a profound knowledge of the company's customers, which will put us ahead of the competition
- Search systems to facilitate product delivery and administration
- Develop specific solutions to large accounts
- Identify opportunities to improve quality of service within the current business or related areas

Systematic Phases

1. Diagnosis. Systemizing and improving any process requires that attention be paid to the factors that influence its actual operation. Thus, it is important to begin the innovation management process by diagnosing the starting position. The aim is three-fold: to initiate debate about the factors that condition the capacity for innovation, to make people more open to accepting changes, and to identify areas for improvement. Any limitations or deficiencies of the company are a source of potential initiatives.

There are several distinct models that can be used to complete this diagnosis. The CIDEM Model, created by the Catalan government and explained in the "Guide to Innovation Management: Diagnosis," helps companies assess their capacity to innovate. It deals with three main areas.

The central area is the innovation process itself, from generating new concepts all the way through to marketing. This process is supported by a culture of innovation and the management of knowledge and technology. The authors of this article developed a tool at IESE, which follows an integrated innovation management model. It includes the main factors that drive a company's capacity to innovate.

2. Strategic reflection. Innovation is not an end in itself, but rather a means used to reach certain strategic objectives. As such, it should be placed at the heart of corporate development and not on the periphery. It must follow the company's own strategic directives.

An effective process of strategic reflection brings with it a whole series of benefits (see Table 1). It is key that innovation initiatives emerge from the company's own strategic directives.

Strategic reflection defines priorities both for day-to-day activities and for initiatives of change. From there, there are various outcomes to strategic reflection. An important one is the creation of a "strategic theme framework". This framework will provide clear guidelines from which the creative foci of attention will flow during the idea generation phase. Good strategic reflection processes also differentiate "what we would like to do" (the more original, innovative ideas) from "what we can do" (the more realistic, feasible ideas).

Effective strategic reflection involves the key people in the innovation process. Usually, the innovation committee presents its partial findings to the management committee for debate and approval. It's a good idea for committee members to be well-acquainted with the strategic directives (see Table 2), since they will later serve as guidelines for generating new ideas, selecting projects and managing the teams.

Strategic reflection is carried out business by business. It begins by looking outwards, identifying "what we would like to do." It ends by looking inwards to specify "what we can and are going to do." Here are some sample questions for a business:

- What is value to customers in our target market?
- What must a company do especially well when it aspires to win over customers?
- What are the specific aspects of our company that will allow us to differentiate ourselves from competition?
- What skills are essential in order to reach the targets that we are pursuing?
- What current limitations or deficiencies reduce the scope of our strategic aims?

The approach is deductive. It begins with a strategy unconditioned by the company's current limitations, which is then progressively narrowed down by introducing restrictions of various kinds, until the final strategy can be defined. This method spawns more innovative ideas than the traditional methods of strategic analysis.

3. Generating Initiatives. This next phase is to develop actions and specific projects that are aligned with strategy. This can be achieved in different ways.

It is important to open up initiative-generating sessions to a broad range of managers and key personnel within the company. This includes future members of project teams. The brainstorming sessions generate ideas that are linked to strategy. Creative techniques and tools are used. Although there are many available, they can be divided into provocative techniques and rational techniques. Some examples include "brainstorming," brainwriting, analogies or attribute listing. On the other

Table 3
What Benefits Does Systematization Offer?

- A more cohesive management team
- A frame of reference for prioritizing initiatives and projects
- An ordered system that would be difficult to achieve in day-to-day operations
- The sensation of having more control over the situation
- The engagement of co-workers with projects that motivate them
- Preparation to tackle new challenges

hand, customers, representatives and agents, suppliers and technical centers can also be great sources of inspiration.

Generating ideas is quite different from evaluating them. Non-conventional principles are used when coming up with ideas. At the outset, priority is given to quantity rather than quality. Everyone builds upon the ideas of others. Judgement is deferred. Finally, the ideas are worked on in a non-hierarchical team context.

4. Project Selection. In contrast with the idea generation phase, project selection provides focus and closes the gaps. The aim is to identify the most interesting initiatives and to turn them into innovation projects with specific teams. The established selection procedure must be as objective, strict and systematic as possible, eventually focusing efforts on the appropriate projects. The selection of ideas is critical because it links strategy, the distribution of resources and the focus of management efforts.

When selecting projects, the process can include existing projects that have yet to be launched or brand-new projects. A file is prepared for each initiative. It contains a simple description meant to assist communication between the innovation committee and the project team. The next step is to establish the criteria for selection. Once a preliminary selection has been made, a table is drawn to show each proposed initiative set against the relevant objectives. It will become obvious that some projects are insufficient and will need additional attention.

The selection criteria must look at results (e.g., impact on strategic objectives) and resources (i.e., technical, commercial or financial viability, or urgency). The tools can be visual, such as a “bubble diagram,” or quantitative, using tables with weighted values to evaluate each project’s contribution.

5. Project Definition. The initiatives selected – whatever their nature – then become official projects. Defining a project properly is a prerequisite for ensuring the quality of its execution. No project should be started until there is a specific definition of its requirements. Project specifications are listed in a working document that includes the following information: title, project aims, person responsible, team members, descriptive memorandum, scope, activity plan (in broad terms) and criteria for evaluating the project.

6. Project Launch. When implementing and managing projects, it is important to define the role of the innovation committee, the teams and support units. The interface between the innovation teams and the company’s day-to-day operations requires a specific organizational solution if the project is going to work. Innovation requires specific organizational principles, and its own allocation of time and resources. Some companies have resolved this by defining precise “rules of the game” for everyone involved.

Projects are subject to phase-by-phase monitoring in order to assess the degree to which targets have been achieved, and to take any necessary corrective action. It is common to adopt a “stage gate” model to monitor progress in projects.

Projects usually require knowledge and skills that are different from the norm, and occasionally information and people will come from outside the company.

From Innovation as a Process to Innovation as a System

With innovation, companies enter uncharted waters. The aspect of the company cannot be managed in the same way that we manage operational procedures. The key lies in institutionalizing innovation practices. Systematization has brought clear advantages for companies that have implemented innovation management by strategic initiatives. Table 3 reflects the observations of six senior managers who have led these processes in their own companies over the last three years.

Finally, the systematization of the innovation process must be subject to continuous improvement. One way to ensure this is to apply the principles of Deming’s Wheel: Plan, Do, Check, Act. One must systematize, learn and correct, to develop new individual and organizational skills. This is necessary if the company wishes to achieve higher levels of development, with a view towards creating a culture that continuously feeds innovation. We are well aware that this is much more a question of work than of inspiration. ■