STILL WAITING FOR THE “EUREKA MOMENT?”

Five lessons to boost your innovation practices

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Innovation ain’t what it was. It was once the province of a department, with a clear remit: new product development. Today, it’s everywhere. It concerns not only products and services, but also processes, technologies, business models, pricing plans and routes to market, even performance management practices – the whole value chain in fact.

Yet, building an innovation capability is not easy. The anticipated benefits can fail to materialize – and worse still can distract the company from its operational focus.

To boost innovation, global companies have set up suggestion schemes, ideation programs, venturing units, and online forums. But our discussions with firms revealed that achieving widespread participation in innovation remains an elusive goal.

To make more sense of existing practices, we spent three years investigating the innovation efforts of 13 global companies. The companies represented several sectors – including pharmaceuticals, banking, FMCG, energy and communication technology – and we interviewed 54 of their senior managers.

Our research yielded a number of key insights, captured in five lessons.

**Lesson 1: Beware of the rewards trap**

The central preoccupation for many companies seeking to expand their innovation capability is what kind of reward system to put in place. Yet, rewards did not emerge as a strong driver of innovation. Innovation is intrinsically enjoyable. What employees cared most about was having a chance to make an impact and being recognized for it.

The consensus among our study companies was that rewards played, at best, a secondary (hygiene-type) role and, at worst, could actually prove counterproductive – acting as a disincentive to those whose ideas did not end up paying off.

Clued-in companies attend more to the social and personal drivers of discretionary effort than the material drivers.

**Lesson 2: Forget the flash of insight**

The “Eureka moment” maintains a powerful grip on our view of innovation, but it perpetuates a skewed view of the innovation process. It suggests that the core challenge is to generate ideas. This explains why many companies are drawn to big brainstorming events like deep dives, ideation workshops and innovation jams.

New ideas are clearly important, but they are just the first step in a long sequence of activities that culminates in successful commercialization. Real problems occur in latter stages, where people have to work out how to deliver on the idea and turn it into reality.

Paradoxically, innovation events can even prove damaging if the company does not have a system for acknowledging, assessing, and developing the bright ideas that emerge from them. Before embarking on such an exercise, companies must be clear that a shortage of ideas is an issue – and, if that’s the case, they should not underestimate the amount of work needed once the workshop is completed.

**Lesson 3: Online forums are not panaceas**

The companies we studied all grasped the potential of Web 2.0 tools for involving large numbers of people in the innovation process. Most had developed online systems for recording, developing, and evaluating ideas.
Some of these online forums had been very effective in attracting contributions and stimulating the company’s innovation efforts. IBM, for example, used space on its corporate Intranet to launch a 72-hour “Innovation Jam” that attracted 57,000 visitors and 30,000 posts addressing new business opportunities.

However, more often online innovation forums struggled to take off. A misleading assumption is that companies need only to provide the infrastructure, to point people in the right direction. In truth, broad based engagement in innovation has to be carefully nurtured and actively maintained.

The key to leveraging online forums is to understand the type of interaction that occurs in them. They are more suited to generating a wide variety of views or else answering a specific question. If, on the other hand, the aim is to come up with novel ideas and to get people to build on each others’ ideas, then a face-to-face workshop is much more appropriate.

**Lesson 4: Use open innovation selectively**

Open innovation is a hot topic. Many companies are looking outside the boundaries of the organization, to their suppliers and even customers, for ideas. For example, the Danish toymaker LEGO has been leveraging customer ideas as a source of innovation for years – and some new products are even labeled “created by LEGO fans.”

But open innovation also creates practical challenges in terms of mistrust and IP ownership issues. Roche Diagnostics, for example, opened up six technology challenges to the external technology community through Innocentive, a well-known technology marketplace. According to the manager in charge, “We received one novel solution, which really made the entire experiment worthwhile.” However, at the time of writing, the company has still not resolved the details of the licensing agreement with the person who solved their technological problem, and the transaction and licensing costs are far from trivial.

Another factor to consider is the operational cost associated with building an open innovation capability. The successes of companies like LEGO or Procter and Gamble are the results of sustained investment in external networks – and the returns were slow to materialize.

Tapping into an external community makes sense when trying to solve a narrow technological problem. But external respondents would have a lot more difficulty tackling embedded problems that are company or situation-specific.

**Lesson 5: Top-down innovation still matters**

The dominant message in much writing on innovation is that bottom-up innovation is best. The reasoning is that top executives are too removed from reality to understand customers’ needs or to come up with ideas that truly resonate with them. It is a compelling message, but one which found little support in our investigations.

The bottom-up initiatives we came across – like UBS’ Idea Exchange and GSK’s Spark program – did not really live up to expectations.

Rather, the most successful approaches actually combined bottom-up with top-down. Innovation depends on the interplay between direction and empowerment, even in a company like Best Buy which prides itself on bottom-up innovation. The US retailer has benefited greatly from encouraging store-level experimentation. But what is often overlooked is the key role of top management in providing a strong customer service focus for innovation, minimizing the risks of irrelevant innovation.

Besides framing the innovation challenge, top management also plays a vital role at the other end of the process, in deciding what needs to be discontinued. Companies can’t “do it all.”
It is only by saying no that companies can concentrate on the ideas that are really important. Of course, this raises the tricky issue of maintaining the energy of those whose ideas are turned down. How their contributions are acknowledged will be crucial factors in keeping the ideas coming.

No Easy Formula

Innovation can be top-down or bottom up, face-to-face or online, internally-focused or externally-focused. All of those approaches have their strengths but also their limitations. Innovation is about finding the right mix of approaches – which means that companies must first be clear on the innovation challenge they face.¹

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¹ The research behind this article was outlined in more detail in MIT Sloan Management Review, Winter 2011: 43-50. LBS professor Julian Birkinshaw also contributed to the study.
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