



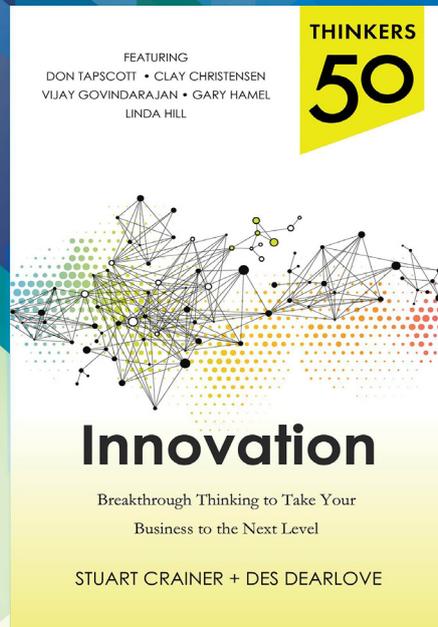
Book Excerpt

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INNOVATION

Innovation

STUART CRAINER + DES DEARLOVE



SALIENT POINTS

INNOVATION USED TO SEPARATE EXTRAORDINARY COMPANIES FROM AVERAGE COMPANIES. TODAY, IT'S MAKING THE DIFFERENCE BETWEEN THOSE THAT SUCCEED AND THOSE THAT OUTRIGHT FAIL.

THE AUTHORS PRESENT A GUIDE TO BUSINESS INNOVATION THAT WILL PUT YOU AHEAD OF THE COMPETITION

INNOVATION IS WHERE THE WORLD OF BUSINESS AND CREATIVITY MEET TO CREATE NEW VALUE

THINKER 50 INNOVATION TEACH US HOW TO APPLY THE BEST IDEAS FROM THE BRIGHT MINDS IN BUSINESS INNOVATION

INNOVATION

HOW WE GET HERE

Innovation matters now more than ever. But why does innovation matter so much in today's business world? The answer is surprisingly simple. Innovation is where the worlds of business and creativity meet to create new value. There is a paradox here. The fact is, business and creativity are uncomfortable bedfellows. Indeed creative is often a pejorative term in business-think of "creative accounting" or the broad-brush of distrust of "creative in many organizations". The stereotypical corporate world is full of buttoned-up suits and left-brained rational decision makers, whereas the world we associate with creative endeavour is populated with undisciplined, scruffily clad, right-brained mavericks. It is the seeming disconnect between creativity and business that make innovation so difficult for companies to understand and manage. Yet, manage it they must because the need for innovation is becoming more and more vital to the success of all organization.

The Austrian American economist Joseph Schumpeter [1883-1950] coined the phrase "creative destruction". Innovation can be seen as the driving force behind Schumpeter's gale. Taken as a whole, innovation is the animating wind of progress. Time and time again, innovation unlocks the social and economic building blocks and reconfigures them for a new era. Throughout history, periods of social turmoil and change have been preceded by-or have given rise to-explosive bursts of innovation. Think of the Renaissance of the fourteenth century, and the Industrial Revolution-or the current digital revolution, for that matter. So what do we know about innovation? Given that it is integral to the human condition, the answer is, surprisingly little. But there have been a handful of individuals whose track record suggests that they are worth listening to and learning from. One man with a genius for innovation was the American inventor and entrepreneur Thomas Alva Edison [1847-1931].

To understand innovation, Edison's own life is instructive. His observation about the effort required to turn ideas into innovations was also the maxim by which he lived. By the end of his extraordinary career, Edison had accumulated 1093 U.S and 1300 foreign patents. The inventor of the phonograph and the incandescent light bulb also found time to start up or control 13 major companies. His endeavours directly or indirectly led to the creation of several well-known corporations, including General Electric and RCA. Undoubtedly, a large part of Edison's genius lay in his realization that innovation alone was insufficient for commercial success. Edison focused on creating commercially viable products. To do so, he assembled a team of brilliant minds at Menlo Park. In effect, he created the first product research lab-a fore-runner of facilities such as the celebrated Xerox PARC at Palo Alto, California.

As the twentieth century drew to a close, it was clear that the world

was changing. As company after company in sector after sector has discovered, no competitive advantage is sustainable in the long run. If you have any doubt about this, ask the people who used to work at Kodak. A company that once enjoyed a seemingly unassailable position in the photography market was forced to file for bankruptcy in 2012 because it had failed to respond quickly enough to, and eventually rendered redundant by innovation in digital photography. The same thing is happening in other industries. In cell phones, Motorola first led the way; it was then displaced by Nokia, which had successfully reinvented itself; then came the BlackBerry, followed by the iPhone and now Samsung is changing the marketplace once again. In fashion, the Spanish company, Zara has created its own brand of "fast fashion". It has the capacity to produce the latest fashions quickly at competitive prices. Its innovation lies in its process rather than its original designs.

As the face of innovation has changed, so too the way we understand it and think about it. Today, experts talk about several types of innovation:

- **Sustaining innovation.** A brand of innovation that occurs within an existing market, offering better value and allowing a company to compete with its rivals.
- **Efficiency innovation.** A type of innovation that reduces costs or increase productivity. Efficiency innovation was the driving force for much of the twentieth century.
- **Disruptive innovation.** A type of discontinuous innovation that has the power to disrupt existing markets and create new ones. Typically disruptive innovation results from a new technology that replaces the incumbent technology.

Increasingly, innovation is being applied to processes and services as well as products. Today, innovations extend to everything from the use of biometric scanning to shorten the queues at airports to offering touchless credit cards to speed up financial transactions.

DISRUPTIVE INNOVATION

Clay Christensen is best known for his 1997 book *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. In it, he looked at why well-managed companies often struggle to deal with new radical innovation in their markets. These companies often fail, he suggests, because the very management practices that have allowed them to become industry leaders also make it extremely difficult for them to develop the disruptive technologies that will ultimately steal away their markets. The idea of "disruptive technologies" was introduced by Christensen and Joseph Bower in a 1995 article in the *Harvard Business Review* entitled "Disruptive Technologies: Catching the Wave". Christensen and Bower noted that "one of the most consistent patterns in business is the failure of leading companies to stay at the top of their industries when technologies or market changes.

Bower and Christensen pointed to a number of examples that were current at the time they were writing. For example, Goodyear and Firestone entered the radial tyre market late. Sears gave way to Walt-Mart, Xerox let Canon create the small copier market, and Bucyrus-Erie allowed Caterpillar and Deere to take over the mechanical excavator market. But the most striking example of this phenomenon is the computer industry. IBM dominated the

that are at work in social innovation. In particular, his work has looked at stakeholder engagement, the adoption of longer time horizon, the ability to attract people whose value are aligned with the organization's, and the ability of corporations that engage in social innovation to accumulate financial as well as nonfinancial information to help ignite sometimes radical solutions. Of course, changing the world [or an organization] is never easy. Ioannis Ioannou points to corporations, including Unilever, Nike and Puma, that are actively engaged in social innovation. Both governments and companies are still feeling their way forward. Stumbles are par for the course. Ioannis Ioannou's work identifies two set of mistakes that companies commonly make. The first is what he calls "the efficiency trap" and the second is the "ticking the boxes trap". In the efficiency trap, companies focus on waste management, energy management, recycling, and the like. These are important operational efficiency issues, but they are not sufficient to turn an organization into a sustainable company that is coming up with new ideas and social innovations. In the second trap, companies concentrate on ensuring that they are doing the right things rather than focusing on value-adding and innovative activities.

Alongside the rising importance of social innovation is the concept of sustainability. If you want an idea that should resonate with businesses over the next decade, one front runner could be the idea of cradle-to-cradle. This basically argues that our attitude toward environmentalism and sustainability has to change. At the moment, organizations are happy to be a little bit better. They feel virtuous simply because they recycle a little bit more, cut their energy usage, or do something similar. Cradle-to-cradle contends that our attitude to products and how we manufacture them remains rooted in the Industrial Revolution. It argues that products and services that generate ecological, social and economic value can be created. Among the examples of the idea in practice is the redesign of Ford's River Rouge facility. Ford invested in an \$18 million rainwater treatment system that reputedly saved \$50 million that the company would have had to spend on mechanical treatment. Ford also has a prototype car, the Model U, that is made according to cradle-to-cradle principles. Elsewhere, Nike has developed cradle-to-cradle shoes, and EDAG has developed a recyclable car. At the heart of cradle-to-cradle is the idea that ingredients can be reused to create high quality products. Desso [Dutch carpet manufacturer] invested in a take-back system called Refinity. This take back carpet tiles from offices, school and university after 10 years' use. The bitumen is then sold to the road and roofing industries, and the yarn goes to one of Desso's yarn manufacturers.

What unites social innovation and the notion of personal progress is the willingness to break down the silos of the mind. Where once we might have preferred to keep society and business separate, there is now a much greater understanding that business is part of, not separate from, the broader society.

Companies require a license to operate. They must demonstrate their worth to the society that they are part of. At the same time, innovation is becoming less secretive and more open to outside influences. No company, industry, or country can afford to ignore developments outside its borders. Indeed, cross-pollination is the order of the new day. How, then can organizations ensure that they cast their innovation nets wide? In his 2012 book *The*

Wide Lens: A New Strategy for Innovation Ron Adner offers some ideas. Adner argues that many companies fail because they focus too intently on their own innovations, while neglecting the innovation ecosystem on which their success depends. In an increasingly interdependent and global world, Adner argues, winning depends on more than simply delivering on your own promises. It means ensuring that a host of partners-an entire ecosystem, in fact - deliver on their promises too. It is only by viewing the world through a wide lens that companies can hope to thrive in the future. By extending that logic and widening that lens to take in people and society as a whole, innovation can be a force for good in the world, and human ingenuity can drive progress.

ABOUT THE Thinkers50

The first-ever global ranking of management thought leaders, Thinkers50 is the most prestigious and influential listing of its kind. Created in 2001 by Stuart Crainer and Des Dearlove, Thinkers50 has broadened its impact to include identifying, ranking, and sharing the best management thinking in the world.

Today, Thinkers50 is recognized as the world's definitive ranking of the top 50 business thinkers, and the Thinkers50 Distinguished Achievement Awards are widely regarded as the "Oscars of management thinking."

Now, the ideas and insights of the world's top business figures are right at your fingertips. The Thinkers50 series culls the best of the very best, delivering the latest concepts and theories on today's most important management issues - from leadership to strategy to innovation.



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DES DEARLOVE and STUART CRAINER are the creators of Thinkers50 - the world's most influential global ranking of management thought leaders. *Management Today* describes them as "market makers par excellence." Their written work has appeared in *The (London) Times*, *Financial Times*, *The Times of India*, *Newsweek Japan*, and many other publications.

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