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GOVERNING INNOVATION IN PRACTICE – THE ROLE OF TOP MANAGEMENT

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In thisarticle we will summarize the role of the C-Suite in exercising the company's innovation governance responsibilities.

If you compete through new products or services, your company has, by necessity, a new product development system and organization in place. As part of it, management allocates functional and process responsibilities for the planning, design, production and introduction of new offerings. In some companies the process works well and smoothly. In others, it may be more chaotic as different functional interests collide and conflict resolution takes time.

But innovation is clearly broader in scope than the new product development process; it pervades all functions and activities. It is both richer in results, for example when it leads to the creation of new business models, and more complex because it involves a combination of 'hard' and 'soft' elements. Innovation is therefore more than a set of processes; it is foremost a mindset. It builds upon everyone's creativity and ideas, and the organizational discipline of teams working constructively across functions and units to implement them.

So, whereas many companies have a satisfactory new product development process in place, fewer have set up a comprehensive innovation management system and organization, capable of developing a range of innovations and sustaining a high level of creativity over time. This lack of formal innovation management system often reflects past legacies that are seldom challenged by management. Occasionally, a new CEO or CTO will launch an 'innovation revival' campaign, but it is often limited in scope and duration.

It is therefore a healthy practice to regularly engage in a comprehensive reassessment of the company's innovation system and organization and introduce new innovation governance guidelines. The role of the top management team in this effort is critical. It goes beyond making minor structural changes and appointing new persons in charge of existing departments. The role of the C-Suite in governing innovation effectively covers at least six areas:

1 Setting an overall frame for innovation by clarifying a vision and mission for innovation, proposing a set of values to guide innovation activities and auditing current innovation performance.

2 Defining how the company will identify and generate value from innovation; how it will analyze and create value; and how it intends to realize and capture value.

3 Choosing organizational models for the allocation of primary and supporting responsibilities for innovation, and setting up dedicated process management mechanisms.

4 Allocating resources and establishing priorities for innovation as part of an explicit innovation strategy and plan in support of the company's objectives.
Identifying and addressing current obstacles in the company's organizational system and sources of resistance within the structure in order to build a lasting innovation culture.

5 Monitoring and evaluating results on an on-going basis, and setting up a process to address conflicts of interest within the top management team so as to make innovation sustainable.

Setting an overall frame for innovation

In some companies, the innovation tradition and culture seems almost like a magic potion that guarantees ongoing innovation success — think of Apple, Google. But even in such companies it is useful for top management to reflect at regular intervals on how innovation can contribute to the realization of their overall company vision and mission.

In defining the scope of innovation governance it should address three questions on content:

Why innovate? i.e. what concrete benefits are we trying to achieve given our current market and competitive position?

Where to innovate? i.e. in what areas should we concentrate our efforts beyond our traditional product renewal activities?

How much to innovate? i.e. how ambitious and risk-prone should we be, and can we afford to be, and for what objective?

These are questions worth asking, for example as part of a top management off-site strategy retreat. Answering them formally may generate new perspectives. But even if they only confirm current management views, they will at least ensure that all the members of the C-Suite are aligned behind common beliefs and a shared innovation vision.

These innovation-specific management discussions may also be useful to reaffirm a set of specific values concerning innovation. Many companies include 'innovation' or 'innovativeness' in their corporate values.

Defining value

It is a well-accepted truism that innovation is about turning market opportunities into value. In established management theories, this means identifying, analysing, evaluating, designing, creating and – arguably the most difficult step – capturing value.

Without clear mandates from top management, most organizations will naturally search for value within their current industries and markets. In this way, value is generated by developing and introducing new products or services that replace or complement the company's existing product lines. Some of these products or services will be incrementally better or cheaper; others more radically new. But their common denominator is the fact that they remain, for the most part, within the company's existing industry value chain and keep converging towards the same competitive arena. This is why the potential value created by most new products is seldom fully captured. In fact, it is not rare to hear CEOs complain that the new products or services generated by their organization are often less profitable than the original ones on which the company built its growth. These new products or services may revitalize their current market segments but, quickly imitated or superseded by competitors' entries, they do not lead to a sustainable competitive advantage. An important element of the innovation governance mission of top management is to stop this new product merry-go-round and initiate new ways to redefine value.

Redefining value requires broadening the scope of the search for opportunities. This can be done by introducing a totally new basis of competition, as well as up to now neglected yet critical attributes, to create new market space – Kim and Mauborgne's "blue vs. red ocean strategy" mentioned earlier. It can also result from a systematic exploitation of opportunities to redesign the industry value chain to one's advantage, or in some cases to create a totally new value chain. Such a move requires a thorough understanding of value chain dynamics, alternative business models and of competitors' blind spots.

Apple provides a striking example of that value creation strategy. Its financial success is in large part the result of having recognized, before any of its hardware competitors, the importance of 'content' in terms of sustainable value creation… and of having cornered that value through its novel iTunes system and its focus on smartphone applications. This winning value chain strategy is largely attributed to Steve Jobs and his top management team. They fully exercised their innovation governance role, which was to steer the company towards greener new pastures rather than to compete against the conventional hardware business model of its competitors.

Choosing an innovation governance model

Steering, promoting and sustaining innovation, in the broadest sense of the term – i.e. not just the new product development process – is a major task that straddles all company functions and organizational units. It needs to be entrusted, explicitly, either to a single leader or to several senior leaders sharing that responsibility.

In some of these models, the overall responsibility for innovation is assigned to a single individual. There are as well models in which a group of leaders takes over the responsibility for innovation collectively, whether they represent a subset of the top management team or constitute a high-level cross-functional steering group or a network of 'champions'.

Establishing innovation priorities and allocating resources

Steering innovation, i.e. deciding on the company's priorities concerning where and in what domain to innovate, is one of the key governance missions of top management. It is generally done, at least indirectly, through project portfolio decisions. Business units typically identify their most attractive projects and management consolidates the various portfolios to check whether, once combined, they provide the right balance of growth, margin and risk. Such a consolidated bottom-up approach should be complemented by a proactive and ambition-led top-down innovation strategy. The sum of business projects included in the portfolio reflects the company's implicit innovation strategy. However, several elements need to be made explicit in order for the strategy to meet the company's innovation priorities and to provide investment guidelines.

Addressing obstacles and building an innovation culture

Innovation calls for openness, experimentation and risk-taking and above all cooperation and constructive challenges across functions and organizational units, and all of these qualities need to be explicitly encouraged by management. But this is not sufficient; management must also address six other organizational and cultural obstacles that hinder innovation.

The first innovation killer, present in most companies, is the excessive pressure put on managers as a result of their operational responsibilities and constant fire fighting. There is simply not enough time for innovative undertakings in many organizations

A second innovation killer is a fear of experimentation and taking risks, usually resulting from unrealistic financial benchmarks or from a culture which does not tolerate failures.

Insufficient customer and user orientation is another classical innovation killer. Managers rely on superficial market knowledge, or knowledge from the past, or they neglect to define and target specific customer groups.

Uncertainty on innovation priorities is also quite common as an innovation obstacle. It leads to ad-hoc idea generation, difficult evaluations, fuzzy screening and selection, and poor project justifications.

The lack of management patience regarding results is also a strong innovation inhibitor. It creates a tendency to pull the plug too soon on longer-term, high-risk/high-impact projects.

Last but not least among the most widespread innovation killers is the prevalence of a rigid and over-regimented environment, as exists in many traditional companies. It will stifle innovation through excessive rules and regulations.

Monitoring and evaluating results

Last but not least, management needs to set up and monitor a range of performance indicators to track progress and identify new improvement targets as some of the initial goals are reached. At the least, indicators ought to cover both input factors – i.e. how much resource is pumped by the company into innovation – as well as output measures – i.e. how much the company is getting out of its innovation investments. But advanced innovators will typically go beyond these two broad categories and introduce a pyramid of metrics with four types of carefully selected indicators, e.g.

Lagging indicators, which measure process results, typically on the basis of market or financial performance. The percentage of sales coming from products introduced in the past several years, depending on the lifecycle of the industry, is a typical lagging indicator. So is ‘time to profit’, which measures the time it takes for cumulated profits to pass cumulated investments.

Leading indicators, which measure process input quality and/or quantity or factors conditioning innovation. The number of patents issued and granted is one of those leading indicators — and not an overall innovation performance indicator as some companies believe! So is, for example, the percentage of R&D spent on long term, high-risk/high-impact projects.

In-process indicators, which measure process quality in terms of deliverables and time or cost compliance. Classical indicators in this category include the number of non-value-adding changes in projects past a certain point, or the percentage of project review gates passed according to schedule.

Finally, learning indicators, which measure the improvement rate on critical performance targets for the business. Examples include the product stabilisation period (from launch until quality and performance meet expectations) or more generally the ‘half-life’ of a specific improvement (the time it takes to improve a given performance by 50%).

The six areas described in this article highlight a number of responsibilities that will typically not be carried out by the second or third line of a company’s hierarchy. The latter can be expected to manage processes and projects within a set of overall guidelines, not to come up with an overall framework for innovation.

These six domains:

- setting an overall frame for innovation;
- defining value;
- choosing an innovation governance model;
- establishing innovation priorities and allocating resources;
- addressing obstacles and building an innovation culture;
- monitoring and evaluating results.

They are essential to organize and mobilize for innovation. They will condition the way innovation will be carried out and sustained by the organization. They belong therefore to the prime innovation governance duties of the top management team. It is critical that the top management team address them collectively, that they broadcast their outcomes, and that they introduce them as a regular topic of the top management agenda.

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