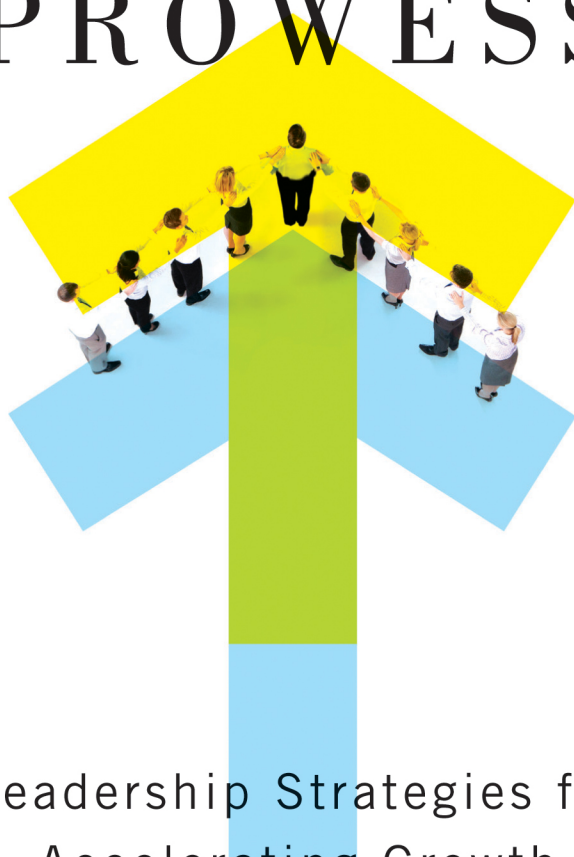


WHARTON EXECUTIVE ESSENTIALS

GEORGE S. DAY

INNOVATION PROWESS



Leadership Strategies for
Accelerating Growth



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Introduction: The Growth Challenge

Is your firm struggling to grow because of the following issues?

- It has trouble moving successfully from ideas to impact?
- It regularly fails to anticipate emerging opportunities and has to react to competitors?
- The productivity of its innovation activities is falling behind that of your rivals?
- Turf battles and short-term pressures routinely pull innovation resources from ambitious long-term growth initiatives?
- The culture is inward looking and risk averse?
- No one is held accountable for missed growth projections?

If these are pressing issues, you're not alone.

For all the veneration of innovators in the business and popular press, few firms have a solid grasp of how to drive superior organic growth. But such firms do exist—and prosper. Growth leaders such as IBM, Nike, American Express, Lego, and Amazon consistently realize organic growth rates exceeding those of their rivals. The purpose of this book is to learn from these growth leaders.³ With the strategies, processes, and methods discussed in this book you can build a tested and comprehensive template for accelerating your firm's organic growth rate.

Peter Drucker, one of the foremost thinkers in management practice, viewed innovation as a discipline, a skill that could be learned and practiced, like playing a musical instrument. He believed that innovation was about devising a systematic way of identifying opportunities that provide new value for customers and exploiting them with disciplined work: “What all successful

entrepreneurs I have met have in common is not a certain kind of personality but a commitment to the systematic practice of innovation.”⁴

But Drucker’s vision is rarely seen in practice. More often companies are like ActivatorCo, a leading firm in hydraulic systems used to lift elevators and move airplane flaps, with which I consulted. ActivatorCo suffered from having too many projects to absorb with its limited resources. It was entering a number of new markets and expanding its product lines while shifting from hydraulic to linear induction technologies. Few projects were completed properly. Instead of fully prepared “product releases” with tested new products, the company had “product escapes.” It felt pressured to push new products out the door without adequate sales training, documentation, or support, which spawned a host of problems that had to be fixed later. Its growth was faltering, the organization was demoralized, and leadership was frustrated.

Firms such as ActivatorCo are well intentioned but ineffectual. They want to grow, but their organization gets in the way. Instead of being growth leaders, they are growth laggards. For growth laggards, increasing investment in R&D or other parts of the innovation value chain often doesn’t just fail to pay off; it make things worse. The problem isn’t typically lack of funding, opportunities, or even ambition. It’s lack of innovation prowess.

Growth Laggards vs. Leaders: The Difference Is Innovation Prowess

Innovation prowess is gained by combining strategic *discipline* in growth-seeking activities with an organizational *ability* to achieve the aspirations and intentions of the growth strategy. Both facets work together to accelerate organic growth to a rate faster than competitors—and then sustain that rate.

Growth leaders have a superior ability to innovate that gives them confidence to commit to a strategy of accelerated growth. Their disciplined approach to growth uses that ability to pick the best growth pathways to pursue, ensure they have the resources

to succeed, and then execute well. Because the strategic front end is in place, and the whole organization is aligned to growth, the odds of market success of individual growth initiatives are much greater. Conversely, growth laggards have an anemic innovation ability, so they can't consider ambitious growth strategies, which further degrades their confidence in their ability.

Thomas Edison famously said, "Genius is one percent inspiration and ninety-nine percent perspiration." Growth leaders are surely inspired by their growth strategies, but they also sweat the execution and fulfillment of their strategy by applying their organization ability. Their ability provides them with organization muscle from three reinforcing elements:

1. An innovation *culture* that encourages risk taking and exploration;
2. The *capabilities* exercised through innovation processes for acquiring deep market insights, mastering the supporting technologies, and carrying out innovation activities better than their rivals; and
3. A *configuration* of the organization and incentives that support and encourage growth-seeking behavior.

These are the "three Cs" that, when married with disciplined growth-seeking and growth-realizing processes, yield innovation prowess.

The innovation prowess of growth leaders enhances their ability to move from ideas to impact in three ways: First, by motivating all parts of the organization to take attractive opportunities through to completion and recognizing and rewarding innovation advocates; second, by removing obstacles that limit their potential to grow; and third, by strengthening the ability to innovate by opening up the organization to outside resources, nurturing the best talent, and supporting continuous learning.

It takes sustained leadership and the long-run commitment of finance and human resources to build innovation prowess. Success begets success: Prowess improves the more it is applied.

But it can be degraded by management neglect, complacency, overconfidence, and, especially, the pressure for short-term results. Thus, Nokia lost ground in the burgeoning smartphone market by emphasizing short-run earnings to sustain its share price, a consequence of which was an unwillingness to invest to replace its aging Symbian platform. This underinvestment left Nokia unable to match the customer experience of the Apple iPhone or the versatility and openness of the Android platform. Many observers point to a lack of diversity in the company's leadership team—setting the stage for inward-looking “group think”—as one reason why Nokia was so slow to realize its predicament. Most of the leaders were lifetime Nokians who'd grown up with mobile phones but who had less experience or feel for fast-moving Internet-based markets.

Growth leaders in very diverse industries, with utterly different histories, use a similar mantra when it comes to innovation and growth: “Think big...Start small...Fail cheap...Scale fast.” This approach helps overcome the centripetal pull of innovation resources toward cautious, low-yield initiatives in favor of bolder opportunities with higher risk-adjusted returns. These bolder ideas typically include innovations far beyond products or features and engage every function of the business. Growth leaders explicitly seek out growth opportunities that come from improving the customer experience, moving into adjacent product or geographic markets, and changing their business model. The growth opportunities that emerge from these innovations are often more profitable than any technical marvel on a sliver of silicone.

Growth leaders further enhance their innovation prowess by grounding every step of their growth-seeking process in deep market insights, with the aim of creating new value—not just new things—for customers. Growth leaders take an outside-in view that guides the search for innovation from the perspective of existing and potential customers and competitors. Sophie Vandebroek, CTO of Xerox, sums up this approach to innovation

this way: “If you innovate and it doesn’t end up as something the customer benefits from, then it’s not innovation.”⁵

A Disciplined Process Is the First Step Toward Accelerating Growth

How do growth laggards begin to develop innovation prowess and take steps toward becoming growth leaders? The first step is implementing a disciplined growth-seeking process.

Organizations use many kinds of innovation processes to realize their growth aspirations. These can be split into two categories: growth-seeking and growth-realizing. The growth-seeking process is all the steps taken to set a strategic direction, seek opportunities, and select the best from among them. The growth-realization process comprises all the steps taken to bring these opportunities to market and sell them. I’ll leave the innards of the growth-realization process to others; in this book, I’ll focus on the growth-seeking process.

At the top of the hierarchy of the subprocesses that make up the growth-seeking process is the setting of a growth strategy that guides the search for opportunities, sets growth objectives, details the resources needed, and mobilizes everyone with a role in innovation. The growth strategy provides a blueprint for operational activities, including stage-gate development processes for individual projects, brainstorming for ideas in a domain of interest, or identifying and selecting innovation partners.

The growth-strategy-setting process is the antidote to the old saying “If you don’t know where you are going, any road will take you there.” Knowing the road—or, more accurately, knowing the compass heading to follow—gives meaning and direction to the whole organization. Organic growth can then be sought in a systematic way. Without this discipline, the pursuit of growth will inevitably be haphazard and episodic. This is not a method for confidently addressing the future.

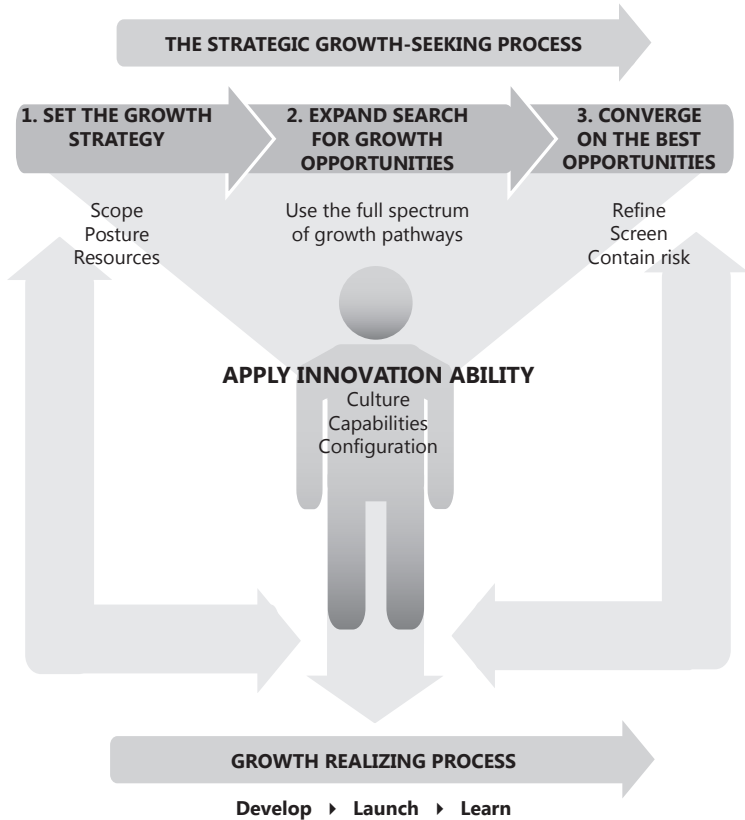
The aim of the growth-seeking process is to achieve high productivity in the application of innovation resources and

ability, by seeing the best opportunities sooner than rivals and then reducing errors of commission (pursuing dry holes that absorb scarce resources) and omission (missing big opportunities). Every company has its “Why didn’t we do that?” list: Why didn’t:

- Sony provide online music (instead of Apple)?
- Local newspapers offer online classified ads (instead of Craigslist)?
- Nordstrom see sooner the possibility of selling shoes online (instead of Zappos)?
- Microsoft launch an Internet-based advertising medium (instead of Google)?
- Kodak sell a full line of digital cameras and photo printers (instead of Canon)?
- LEGO build an online construction game (as Mojang did with Minecraft)?

There is an emerging view among growth leaders and students of innovation about how best to embed the growth strategy into the overall business strategy, and the necessary stages of the process for seeking growth.⁶ These stages are connected in the sequential learning process in the three steps at the top of Figure I-1. This growth-seeking process accepts the reality that innovation is inherently inefficient; that is the essence of its exploratory, trial-and-error, risk-taking nature. An effective growth-seeking process balances divergence (which widens the search for opportunities) with convergence, to focus on the best bets. This balance is easy to lose. As top-down pressure for organic growth intensifies, the number of growth initiatives usually expands faster than the capacity of the organization to bring them to market. The inevitable result is an internal traffic jam of projects that causes delays, frustrations, and disappointment. Jørgen Vig Knudstorp, CEO of the LEGO Group, rightly observes, “Companies don’t die of starvation, they die of indigestion.”

Figure I-1
Innovation Prowess: Discipline + Ability



As noted in Figure I-1, a disciplined growth-seeking process includes setting a growth strategy, expanding the search for growth opportunities, and converging on the best opportunities. These steps are fed by (and feed on) the three Cs of culture, capabilities, and configuration, which determine innovation ability. When they come together, as illustrated in Figure I-1, the result is innovation prowess. Thus, Figure I-1 is the framework for this book. Of course, there is another set of steps to profiting from innovation—the growth-realizing process at the bottom of Figure I-1—that, as noted earlier, is *not* the focus of this book. I'll leave

the development and launch activities for bringing innovation to market in the hands of the many experts who have discussed them at the individual project level.

Each of the following chapters deals with a specific stage of the growth process, and the development of innovation prowess. Chapter 1 focuses on setting a growth strategy that is realistic and achievable while still pushing the firm to raise its growth rate. Chapter 2 turns to the issue of expanding the search for growth opportunities. I've developed a road map for this search that follows what I term the 14 pathways of full-spectrum innovation.⁷ Chapter 3 takes on the difficult process of converging on the best bets; choosing and pursuing a limited number of opportunities that the firm can hope to bring to market successfully, with the right balance of risk and reward. Finally, in Chapter 4, I'll take a look at the people side of the equation, by showing how growth leaders nurture and exercise their innovation prowess through an artful integration of their culture, capabilities, and configuration. Innovation prowess requires a disciplined growth process, but it is not all about processes. Processes don't have insights, find creative solutions to problems, or connect with customers. Only people do that. If your growth strategy isn't supported by, and supportive of, an organization with the culture, capabilities, and configuration necessary to nurture organic growth, your efforts to develop and apply innovation prowess will surely disappoint.

Building superior innovation prowess cannot be done easily or quickly. Many firms will aspire to become growth leaders but will fall short, either because of a lack of knowledge or a shortage of determination. This book can help management teams accelerate their growth rate with a tested and comprehensive approach to building their innovation prowess. By giving them a clear path forward, this guide to action can also strengthen their determination to make the necessary investments. There has never been a better time to make this commitment, as customers are more demanding and the competitive landscape more challenging, and as technological advances are opening up more exciting new ways to deliver value to customers.

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