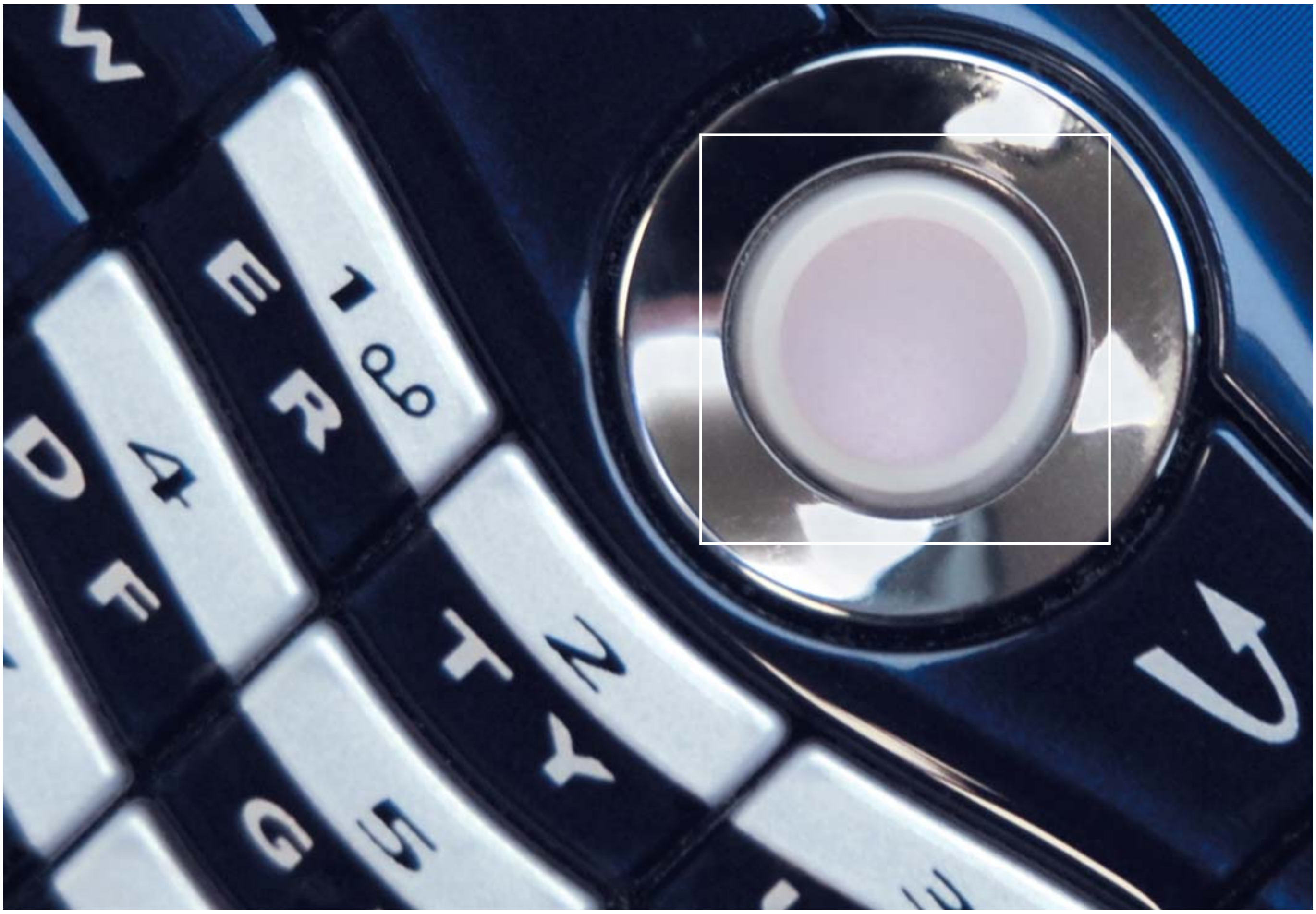
Technology & Innovation Management

Innovation Culture

Maintaining a Strong Innovation Culture During a Downturn



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Authors:

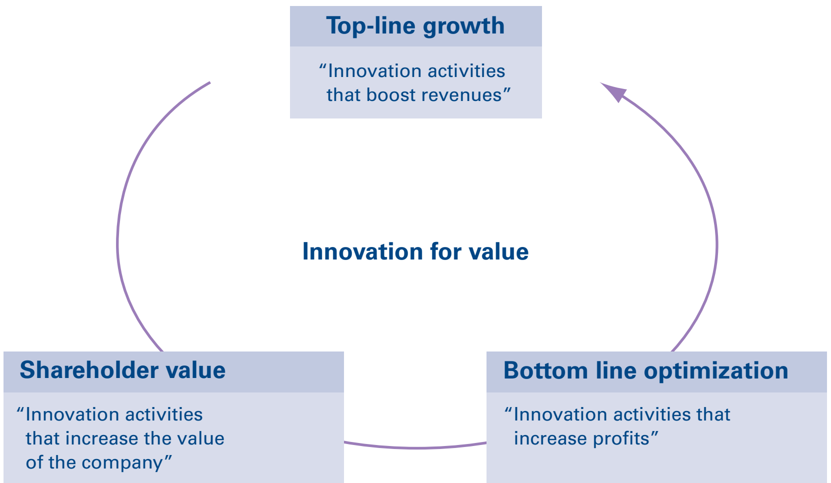
Richard Eagar and Charles Boulton

Introduction

Innovation sounds like a great thing to invest in when business is booming. But when times start to get tougher, as they seem to be at present, the case for investment may be a lot more difficult to make. Does it make sense to have teams of people working on ideas that may be dropped in future, or are years away from generating commercial returns, when the business is facing a cash or profitability crisis today?

At Arthur D. Little we argue that successful innovation is not about how much you spend, but why and how you spend it – in other words knowing what kind of value your business is aiming to create, be it Top-line growth, Bottom-line optimization or Shareholder value. "Innovation for Value" (see figure below).[1]

Figure 1



[1] For further information on our previous 'Innovation for Value' report, please visit www.adl.com/reports

In the current economic climate with a slowdown seeming inevitable, the focus for many companies has to shift from Top-line growth towards Bottom-line optimization. It is important to recognise that innovation, far from being just a discretionary cost or an encouragement for risky investment, can actually be a powerful tool to optimise the Bottom-line, for example by:

- Eliminating low margin products and using platforms and modularisation to optimise the product portfolio.
- Minimizing time to market and finding new solutions to quality and cost problems.
- Finding new process and/or IT efficiencies to help drive down costs.

Fortunately by now most, (but not all!), CEOs understand that even when times are tough, innovation capacity is not necessarily the first place to wield the cost-cutting axe.

For example, Amazon are well-known for taking a long-term view as far as stock price is concerned. They are clear that "there's no bad time to innovate" (Ref Jeff Bezos interview in Business Week April 2008). Google take a similar view, having increased R&D spending by 72% last year. Research in Motion, the developers of the Blackberry developed their key product platforms during the last downturn around 2001/2002.

However, even though the need to keep innovating might be clearly recognised, companies still find it difficult to make the shift towards Bottom-line innovation quickly enough: the product lifecycle might be such that it takes a long time for margin and quality benefits to be realised; and similarly the scale and inertia of operations might make process and IT quick-wins difficult to achieve. Often companies find that innovation can seem to grind to a halt, despite the CEO's best efforts to maintain and refocus it.

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So what else can companies do to optimise their innovation capability during tough economic times? One powerful lever that is often overlooked is Innovation Culture. In this report we explore how cultural and organisational issues can cause unseen barriers preventing change in innovation focus, and identify some practical ways that companies can overcome these barriers and get more value from their innovation effort more quickly, just when they really need it.

Problems with innovating in a downturn

Companies with mature innovation programmes may well start out with a strong effort to preserve them during a downturn: the CEO may declare forcefully, both internally and externally, that innovation is still the cornerstone of business success – and indeed he or she may passionately believe this. There may be clear statements about preservation of budgets and resources and reassurances about existing projects.

However, despite what leaders may declare, there is a recognisable pattern to how senior management tend to actually behave when they start to feel the cold economic chill. For example they may:

? Become more risk averse and conservative.

? Focus on the short-term and urgent, rather than the long-term and important.

? Go "back to basics" in terms of emphasis on what can be easily measured versus what cannot.

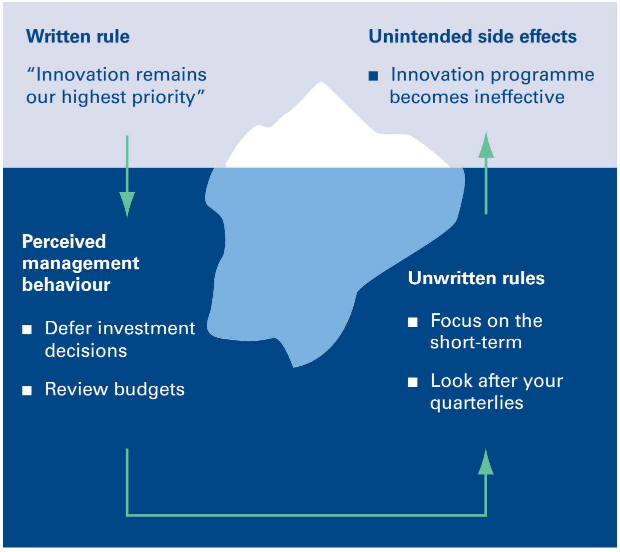
? Become more hierarchical and controlling.

? Shrink payback horizons and increase hurdle rates.

? Hunker down and retreat to the "not invented here" mentality.

If there is a real contrast between what senior management declare, and how they are actually perceived to behave, then this can have a devastating effect on the culture of the organisation. What actually happens is that a set of "Unwritten Rules" starts to exist within the organisation. Unwritten Rules can be best thought of as "the advice you would give to a friend about how to get on" in your organisation. Every organisation has them, without exception, and they can be good or bad. But usually they are hidden below the waterline, and one of the key characteristics of them is that they usually lead to "unintended side effects" as shown in figure 2.

Figure 2: The Iceberg diagram



The "iceberg" picture above is an example of a common cultural pattern, in which what actually happens is the opposite of what the CEO intended. Why? Because people within the organisation infer what is, and isn't, important to the leadership by picking up signals from the way they behave. It's what you do as a leader that counts, not what you say.

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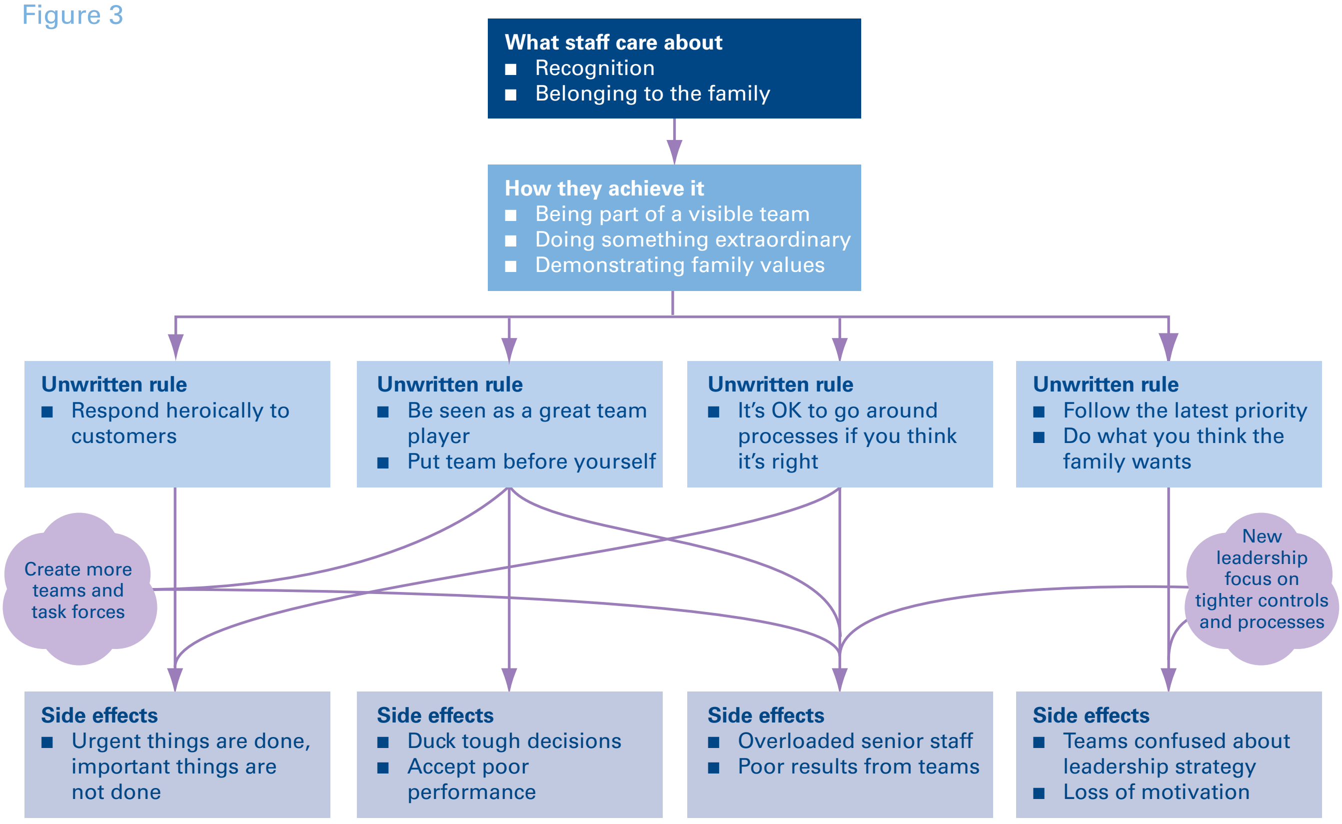
This is a fairly straightforward pattern for innovation culture – but sometimes it's not as simple as that. Take the example of a family-owned international Euro1billion company in the food and drink sector we recently worked with – we'll call them SmithCo. In the light of increasing international competition and a rapidly changing marketplace, SmithCo introduced their first structured innovation programme a few years ago and had enjoyed some early quick wins. SmithCo had a strong and positive culture, instigated by the founding family, based on always going the extra mile for the customer – and in return the staff had a strong sense of personal satisfaction from working as a team and being part of the SmithCo family. In this virtuous circle, innovation was seen both as an integral part of everyone's work, and a way in which staff could gain personal recognition.

But when SmithCo needed to refocus its operations to meet a slowing of demand in some of its core market sectors, things changed. SmithCo senior management needed to start worrying more about prioritising between important and less important customers. They needed to be more strategic in their marketing, product development and manufacturing activities, and that meant the need for stronger management processes and controls. They needed innovation to continue in the meantime – but even more than before, they needed innovation to cover Bottom Line as well as Top Line. So they set up a number of taskforces to address the key changes needed. What happened? Innovation ground almost to a halt and the organisation became paralysed. Here's what was happening:

Figure 3



In this example, staff in SmithCo cared about recognition and a sense of belonging to the family, which they achieved through going the extra mile and demonstrating family values, such as showing respect for others and teamworking – all very positive attributes. This led to a number of positive unwritten rules governing how people behaved. However, when the leadership had to respond to a new tighter business environment, some of these unwritten rules started to produce quite unexpected negative side-effects: for example, in the new environment, teamworking started to become ineffective, because of too many new teams leading to senior staff overload, and because of the culture of mutual respect which led to ducking of tough decisions and failure to confront problems – especially those that were important for the future of the company, rather than the immediate present. The organisation started to be confused about leadership strategy – the old values were still espoused, but to the staff this didn't seem to square up with the actual leadership behaviours they saw, around increasing controls and more emphasis on robust processes. All of this led to a sense of paralysis and confusion.

"The leadership also needed to communicate much more explicitly what "doing a good job" actually meant in the context of the new business environment, including specifically how the right sort of approach to innovation contributed to gaining personal recognition."

In this example, part of the solution was for the leadership to be much clearer in communication of their strategy and priorities, and the place of innovation as a key part of the strategy. This allowed staff to allocate their time in a more effective way, rather than trying to do everything at once and second-guessing what they thought the leadership cared about. The leadership also needed to communicate much more explicitly what "doing a good job" actually meant in the context of the new business environment, including specifically how the right sort of approach to innovation contributed to gaining personal recognition. Coaching and training in effective teamwork and productive meetings was also a key enabler for progress to be made.

Five ways to overcome the barriers

Failing to pay attention to cultural barriers can be a major obstacle to effective innovation on a downturn environment. And whilst no two organisations are exactly the same, there are some widely applicable lessons that senior managers can apply to stop innovation grinding to a halt:

1. Understand your unwritten rules and how they relate to innovation behaviour

Take some time to consider your own unwritten rules and how they determine people's behaviour in your organisation. Sometimes even positive unwritten rules can have negative side-effects when the business environment changes. Once you know the unwritten rules you can start to take the right sort of action to address them and accelerate progress. Typically this might include:

- Being clear to staff about how innovation fits with a cost-conscious strategy – not just by a bland statement of intent, but by showing how it fits in with new or revised priorities and emphasis on bottom-line.
- Specifically address the concerns and questions staff may have about changing priorities.
- Change personal rewards and incentives to overcome barriers preventing people from adapting their behaviour in the way the business needs.

Some organisations make a virtue of innovation with minimal resources. These organisations respond very positively to their realities and have a positive attitude that underpins their creativity and their capacity to deliver. For example we assessed the research programme of the UK Fusion research programme and met a team who have achieved remarkable advances by building rigs at minimum cost, re-using equipment and nursing their budgets very carefully. Under excellent leadership, their corporate culture respects insights, ingenuity and robust progress without ornamentation. The result is a set of unwritten rules that equip them to innovate because of, rather than despite, limited resources.

2. Proactively address common barriers such as risk aversion and short-termism

Monitor your portfolio of innovation projects against criteria of return vs risk and timescales of expected return. Task your teams with maintaining the high return projects even in the face of risks and focus on keeping the pipeline of project returns full.

One retailer we know has a target for product success which they set low enough to encourage risk-taking: 'if you don't have some failures you're not trying hard enough'. In a downturn they do not raise their target success rate.

3. Make sure your behaviours align with your public declarations – and vice versa

Within SmithCo, the first hint that management behaviours were not aligned with public declarations were when decision-making on innovation projects slowed relative to the speed of decision-making on cost-cutting projects. When one innovation project was delayed while they chose the right project champion, this was widely interpreted as reducing the priority of the innovation agenda, and a subsequent delay in choosing the launch market for the innovation sounded the death knell for innovation. Leaders should think carefully about whether public declarations are really realistic and able to be lived up to in practice. You also need to be sensitive and alert to the likely inferences that staff will make about your behaviours, especially with regard to budgets, metrics, controls, processes and short-term priorities.

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4. Recognise that your opportunity costs and the costs of experimenting have now fallen, and make the most of this

You may find that, as others cut back, your innovation and development teams find themselves under less pressure, with fewer demands from customers, suppliers and, indeed, maybe your own product managers. This means that the identified end-market value of the work done in innovation, in product and in process development is falling. Since that end market value is the real opportunity cost of your teams this means that your innovation resource just got cheaper. So use the resource creatively, perhaps to pursue some of the riskier projects or for the projects that will give you insights or new capabilities. Build the capabilities you will need to take a lead in key markets.

"You may find that others, both past collaborators and new potential partners, are more willing to discuss innovating in partnership."

5. Explore what you can do in partnership

You may find that others, both past collaborators and new potential partners, are more willing to discuss innovating in partnership. What opportunities exist for the two of you to innovate together in ways that you could not individually? If reducing risk has become a key issue within the corporation then open innovation offers a route to increasing the amount of innovation derived from combination as distinct from invention. You might have particular long-standing opportunities if you could just find the technology or other capability you lack. Alternatively you may seek an exploitation route for technologies and capabilities that are underused in your company today. Now might be the ideal time to build the foundations for long-lasting open innovation partnerships that will stand you in good stead, especially when the upturn comes.

Conclusion

During a downturn, innovation can provide just as much value as during growth periods. But leaders needs to make sure that they pursue the right type of innovation to suit their evolving objectives – this is what Innovation for Value is all about. And whatever change companies are looking to make in their innovation focus, whether it's Top-line to Bottom-line or vice versa, the evidence says that if they don't pay enough attention to nurturing the right culture and overcoming some of the hidden barriers, then they are unlikely to succeed.

Contacts

If you would like more information or to arrange an informal discussion on the issues raised here and how they affect your business, please contact:

Benelux
Frederik van Oene
vanoene.frederik@adlittle.com

Austria, Germany and Switzerland
Dr. Fabian Dömer
doemer.fabian@adlittle.com

China
Jian Xu
xu.jian@adlittle.com

France
Eric Kirstetter
kirstetter.eric@adlittle.com

India
Srini Srinivasan
srinivasan.srini@adlittle.com

Italy
Paolo Dutto
dutto.paolo@adlittle.com

Japan
Yusuke Harada
harada.yusuke@adlittle.com

Middle East
Thomas Kuruvilla
kuruvilla.thomas@adlittle.com

Nordic
Daniel Roos
roos.daniel@adlittle.com

South Korea
Daesoon Hong
hong.daesoon@adlittle.com

Spain
Salman Ali
ali.salman@adlittle.com

UK
Richard Eagar
eagar.richard@adlittle.com

US
John W. Brennan
brennan.john@adlittle.com

The Trackball Navigation System

Research In Motion is a leading designer, manufacturer and marketer of innovative wireless solutions for the worldwide mobile communications market. The trackball navigation system was introduced to its Blackberry products in 2006 and has proved a major success. It delivers a user experience that is dynamic and intuitive.

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