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INNOVATION

**A BLUEPRINT FOR TRANSFORMING
THE WAY YOUR COMPANY INNOVATES**

TO THE CORE

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PART ONE

**TURNING RHETORIC
INTO REALITY**

CHAPTER 1

The New Innovation Challenge

IMAGINE IF EVERY PERSON in your firm came to work every day believing their ideas could influence the destiny of the company.

Imagine if every corner of your organization was pulsing—at all times—with radical, rule-breaking concepts for new products, services, strategies, and businesses, providing you with a continual flow of innovations with which to delight your customers, confound your competitors, and richly reward your shareholders.

Imagine you could go online 24/7 and get a comprehensive, real-time window on your company's global innovation activities—a dashboard that showed you how many ideas were being produced, which parts of the world they were coming from, how fast they were progressing through the pipeline, when they were going to be commercialized, and what their future financial value was expected to be.

Imagine if every single one of your employees, at every level and in every location, had been trained in the principles, skills, and tools of innovation—greatly enhancing their ability to discover new insights, spot unexploited opportunities, and generate novel business ideas.

Imagine, too, that your company had a worldwide innovation infrastructure where those people could quickly find the cash, the talent, and the management support they needed to turn their ideas into market success stories.

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Simply put, imagine if the notion of building and sustaining a deep, corporate-wide capability for innovation were not just a vague aspiration but a daily reality inside your own organization.

Now stop imagining. At some of the world's leading companies—GE, P&G, IBM, Whirlpool, Royal Dutch/Shell, CEMEX, Best Buy, W. L. Gore, and others—much of the above is already happening.

In this book, you will learn how to dramatically improve your organization's own capacity for innovation by mobilizing and monetizing the imagination of your employees, customers, and business partners—every day, everywhere. On the pages that follow, we will share the tools, techniques, and methodologies we have used successfully for well over a decade to help companies turn innovation into a core competence and thereby outperform industry rivals.

MAKING INNOVATION HAPPEN

Innovation. From the boardroom to the business press, everyone is talking about it. Most senior executives would tell you that they get the message. In any survey of management priorities these days, innovation is almost always one of the top two or three items on the corporate agenda.¹

But making innovation a priority is not the same thing as making it happen. All too often, innovation becomes nothing more than a buzzword or a bumper sticker—the management theme du jour—that receives a lot of reverential rhetoric in company meetings, corporate ad campaigns, and annual reports.

The difficult challenge for most organizations is how to turn all that rhetoric into hard-nosed, revenue-growing reality—not just by making incremental tweaks to existing products or services, or by pursuing a “once in a blue moon” blockbuster, but by producing a constant stream of breakthrough innovations that compound over time to build a formidable competitive advantage.

Very few firms have managed to pull this off. In the vast majority of cases, pouring money and effort into innovation has produced remarkably little in terms of new wealth. After conducting studies of the world's one thousand biggest spenders on R&D, for example, consult-

ing firm Booz Allen Hamilton concluded both in 2005 and 2006 that there is “no discernible statistical relationship between R&D spending levels and nearly all measures of business success, including sales growth, gross profit, operating profit, enterprise profit, market capitalization or total shareholder return.”² To illustrate the point, guess which U.S. firm has spent more money on R&D than any other company in the world during the last twenty-five years? The answer is General Motors.³

Sure, business history is replete with examples of successful innovation. Over the years, many a company has been able to take the lead in an industry—or invent an entirely new one—by leveraging a disruptive technology, a radical new product idea, a truly novel service concept, or a game-changing business model. But in case after case, those companies eventually ceded their leadership position to a competitor—often a newcomer—that later seized on a superior idea. Not many organizations have so far managed to build *a deep, enduring capability for innovation*—one that consistently drives profitable revenue growth and that enables the company to maintain a competitive advantage over the longer term.

Not yet, that is. Right now, the list of major companies that are working methodically on the innovation management challenge is growing rapidly, and the progress of a few pioneering firms provides hope and inspiration for the rest of the business community. These leading-edge players are demonstrating that large industrial organizations really can tackle the challenge of innovation successfully in a broad-based and highly systemic way.

Consider the well-documented efforts of GE and P&G—two of the biggest and best-known companies on earth—to drive innovation to the core of their respective organizations.

GE: From Cost Cutter to Innovation Powerhouse

Since taking over the reins from Jack Welch in 2001, Jeff Immelt, GE’s chairman and CEO, has launched nothing less than a cultural revolution at the company, pushing its strategic focus beyond continuous improvement and bottom-line results toward the creation of bold, imaginative ideas. His aim has been to “grow the boundaries” of the company, this time organically rather than through acquisitions—by taking GE into

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new lines of business, new geographic areas, and new customer segments. Immelt knows this is the only way his company can continue to meet its grueling financial targets. Currently, he is under pressure to achieve an incredible 8 percent of organic growth each year. For a company of GE's magnitude, this represents around \$15 billion of new revenue annually—equivalent to adding a new business the size of Nike.⁴ To this end, Immelt has worked hard to make innovation a deep, systemic capability all across the company—an “engine” that will drive and sustain new revenue growth.

P&G: From “Not Invented Here” to Open Innovation

Similarly, when Alan G. Lafley became chairman of P&G in 2000, he made it clear that he wanted innovation “across the spectrum”—in how the company invents, markets, manufactures, and distributes its products.⁵ The reason is simple. Like Jeff Immelt at GE, Lafley is on the hook to deliver relentless levels of profitable growth each year—around \$7 billion of new revenue annually—and he needs to find imaginative new ways to fuel it. One of his major initiatives at the Cincinnati-based consumer goods giant has been to break down the walls that used to separate product categories, business units, sectors, and brands, thus allowing innovation to flow freely across the entire organization. More importantly, in 2001 Lafley threw open P&G's doors to innovators who are not on the company's payroll, setting a goal for his organization to source at least 50 percent of its innovations from outside the company (up from roughly 10 percent at the time). Thanks to a new organizational model called Connect and Develop, the company has since been able to bring hundreds of new products to the market that had their genesis, in whole or in part, outside P&G.

Clearly, when Immelt and Lafley talk about the innovation imperative, it's not merely rhetoric—it's something that is deeply transforming their organizations. And the precedent these companies are setting is not going unnoticed. Geoff Colvin writes in *Fortune* magazine, “Immelt and Lafley are going down a road everyone in business will have to travel. Watch and learn.”⁶

THE NEW INNOVATION LEADERS

Some companies—like Apple, or Google, or W. L. Gore—seem to have been *born* innovative. But what if your organization is not one of them? What if your firm is a whole lot better at disciplined execution than it is at wealth-generating innovation? If so, there's only so much you can learn from innovation's "usual suspects." Instead, you need to learn from companies, perhaps like your own, that have transformed themselves from innovation laggards into innovation leaders.

Consider two unlikely innovation champions. One is Whirlpool, the global leader in domestic appliances, and the other is a Mexican firm called CEMEX, one of the world's leading producers of building materials (including, for example, cement, ready-mix concrete, and aggregates). These two companies, among others, are demonstrating that it's perfectly possible to turn "old-line" industrial organizations into catalysts for continuous, break-the-rules innovation.

Whirlpool: Thinking Outside the "White Box"

When Whirlpool's former CEO Dave Whitwam set out to define his company's global innovation strategy back in 1999, the exact words he used were "Innovation from Everyone and Everywhere." This was a huge aspiration, considering that at the time Whirlpool had 68,000 employees in 170 countries, as well as 50 manufacturing and technology research centers around the globe. But today, Whirlpool has become a best-practice model for the embedment of innovation as a capability across a large, global enterprise.

Instilling innovation as a core competence at Whirlpool took a massive, broad-based effort over several years, involving major changes to leader accountability and development, cultural values, resource allocation, knowledge management, rewards and recognition systems, traditional hierarchies, measurement and reporting systems, and a whole host of other management practices and policies.

Here are just a few examples of these changes:

- The appointment of vice presidents of innovation at both the global and the regional level

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- The creation of large, cross-functional “innovation teams” in each region employed solely in the search for breakthrough ideas
- The introduction of a companywide training program aimed at developing and distributing the mind-set and skills of innovation
- The appointment of more than six hundred part-time “innovation mentors” and twenty-five full-time “innovation consultants,” who act as highly skilled advisers to new project development teams around the world
- The creation of “innovation boards” in each region and each major business unit, made up of senior staff who meet monthly not just to review ideas and projects, set goals, and allocate resources, but to oversee the continuing innovation capability-building process
- The organization of big communication events called Innovation Days where innovation teams showcase their ideas to other Whirlpool people, the media, and even Wall Street analysts. Sometimes these events are also held in suburban shopping malls as a way of collecting feedback and additional ideas from potential users
- The creation of a comprehensive set of metrics to continually measure the company’s innovation performance as well as its progress in embedding innovation as a core competence
- The establishment of a sophisticated IT infrastructure called Innovation E-Space, which integrates all of Whirlpool’s people into the innovation effort and allows them to track progress on innovation activities across the corporation

The key objective to all of this has been to help every single employee at Whirlpool think outside the traditional “white box” of home appliances, and imagine exciting, customer-relevant solutions that create new wealth for the company. The outcome has been a stream of breakthrough ideas for products and businesses that have come from all over the Whirlpool organization—ideas that deliver value to consumers in ways never before seen either at the company or in the industry.

This has produced a steep upturn in the company's annual revenues from innovative new products—rising from \$78 million in 2003 to \$1.6 billion in 2006 (a figure over twenty times higher).⁷ Today, Whirlpool has well over five hundred projects in its innovation pipeline, representing expected future revenues of \$3.5 billion. And the company's innovation juggernaut shows no signs of slowing down. As current CEO Jeff Fettig told *BusinessWeek*, "If we keep innovating we'll keep growing."⁸

Not surprisingly, Whirlpool's overall revenues and profits are now at all-time highs and growing at a brisk rate—this in a stagnating industry where many of Whirlpool's global rivals are struggling.

CEMEX: Remixing the Cement Business

One of the fastest-growing and most profitable companies in the world in the last few years has been a global building materials firm from Mexico called CEMEX. *BusinessWeek* lists CEMEX among "a new class of formidable competitors" from emerging markets that is rapidly rising up to challenge corporate America. Today, the company is number three in the world cement market.⁹

Cement may not seem like an industry that inspires revolutionary thinking or that attracts the creative, curious, and contrarian type. Yet CEMEX's ability to reinvent both its industry and itself serves as an example to any company aspiring to make innovation work.

Back in the early 1990s, CEMEX's CEO, Lorenzo Zambrano, decided that the key to building a better future for his company was innovation. He resolved to push CEMEX beyond its tradition-bound roots by investing in the problem-solving skills of rank-and-file employees. This vision has spawned a corporate-wide innovation capability that has helped the company achieve sales and profit growth over the last decade of more than 20 percent on average, and raise its operating margins by the same percentage, making them nearly twice as high as its two global rivals—France's Lafarge and Switzerland's Holcim. It has also helped CEMEX become one of the most highly regarded employers in Mexico.

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Here are some of the components of CEMEX's innovation system:

- A dedicated innovation group, led by the innovation director, with full-time employees responsible for millions of dollars in annual budget
- Multifunctional teams, each consisting of ten to twelve members from across the company, whose mandate it is to generate new ideas and breakout proposals around major platforms or themes
- An innovation board that is set up to screen and fund these proposals, with initial funding ranging between a few hundred thousand dollars and several million dollars
- Hundreds of trained and highly visible “innovation champions” in every part of the organization, who are there to guide and mentor any employee who comes up with an idea
- Virtual, online “ping-pong” competitions—held regularly and judged by one of the company's innovation experts—in which people “bat” exciting ideas back and forth across the organization, improving them as they go
- A dedicated IT platform that expedites the spread of new ideas across CEMEX, featuring an online idea bank designed to make it easy for employees to share their ideas, big or small
- Annual Innovation Days, devoted to recognizing and celebrating the work of innovators, which feature “Oscars” for the best implemented ideas

At CEMEX, nobody has a monopoly on new ideas. Innovation is a collective act that springs from a collaborative approach to solving business problems. By tapping into as many minds and as many different talents as possible, and by getting people to swap ideas, innovate together, and feel jointly responsible for success, CEMEX has been able to invent a variety of novel approaches to its business that nobody in the industry had ever thought of before. The innovation process has

produced hundreds of opportunities in all aspects of the company's business model, including new products and services, improvements in the manufacture and distribution of cement, and ideas for radically streamlining the company's operations, such as logistics. Some of these ideas have delivered hundreds of millions of dollars in operations savings, sometimes in just a few months.

What the examples of Whirlpool and CEMEX teach us is that, with a serious, broad-based effort and with the right set of design rules, innovation can become a systemic capability inside any organization—as ubiquitous as Six Sigma, cycle time, rapid customer service, or any of the other complex processes that companies have been honing over the last thirty years. These companies are proving that you can indeed turn innovation from an ethereal, hit-and-miss thing into a deep core competence, something that becomes part of a company's bloodstream.

Why is it, then, that in most organizations today—even those where organic growth and innovation are supposed to be top strategic priorities—we still find nothing that even remotely resembles a systematic, corporate-wide approach to innovation?

MORE BUZZWORD THAN CORE COMPETENCE

Pick up the average annual report. Open it at the “CEO's letter to the stakeholders” and look for the word *innovation*. Usually, you will find it in the first few lines: “We thrive on innovation,” “We're committed to growth through innovation,” “We have an unwavering commitment to innovation,” and so on. But try this little experiment: visit that company and talk to some of its midlevel employees. Ask them a few questions like these:

- Could you describe your company's corporate innovation system?
- Do you believe that top management regards every employee in your company as an innovator, potentially capable of shaping corporate direction?

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- Have you personally been trained as a business innovator?
- How important is innovation in your own performance metrics and in your compensation?
- How difficult would it be for you to get small amounts of experimental capital to test a new idea?
- Would you know where to go in your organization to find coaches and mentors who could help you push an idea forward?
- In what ways do your company's management processes—strategic planning, capital budgeting, and so on—support your work as an innovator?

Ask people these kinds of questions, and you will usually be met with a blank stare. It's quite obvious that, in most companies, innovation is still more buzzword than core competence. But why is this?

We certainly wouldn't put it down to a lack of sincerity on the part of senior executives. Most corporate leaders understand quite well that there is only one way to drive the kind of aggressive top-line growth that investors demand from them year after year—and that is not through tired old management practices like cost cutting, restructuring, buying back shares, or mergers and acquisitions. They realize that in the longer term, if they want to stand any chance of growing faster than the industry average or the overall economy, they have no alternative but to innovate in their products, their business models, and, indeed, their management systems.

They also know that, with today's intense competition and rapidly changing market dynamics, strategy life cycles are getting shorter. Most senior managers recognize, therefore, that what they really need is not just another incremental efficiency program, but some fundamentally new strategic thinking—that radical innovation is the only option they have left for creating new wealth.

The reason for the large and yawning gap between rhetoric and reality concerning innovation is that most organizations have not yet developed a clear model—reflected in management practice—of what