



**INNOVATION LEADER**

June 2016



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# Linking Your Innovation Agenda to Strategy

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After a time in which it has seemed that execution was all the rage, strategy is a hot topic again in business. However, despite lots of available guidance and no lack of effort by executive teams and strategy functions, what we see is that companies increasingly struggle to obtain the results from the strategies they have developed.

In our view, the critical root cause of this underperformance is not strategy execution, but formulation. Today's world of fast change, digitization, new entrants, and disruption requires a different approach to strategy development: one that is less focused on extrapolating the present and more on working back from a future that we believe offers us opportunities. And that is just as rigorous as traditional approaches, but less formulaic.

In short, an innovation-centered model of strategy that applies proven creative techniques to strategy formulation, and then ensures that the product, service, and business model innovation efforts of the company are directly driven by the strategic agenda.

In our work with clients, we stress the importance of linking the innovation agenda and strategy inseparably – and we bring a variety of tools and techniques that companies can use to do just that.

More than you think, though, clients (surprisingly enough, often the leaders of internal innovation teams) push back – with questions and objections that point to some myths about the relationship between strategy and innovation:

**“WE ALREADY HAVE A STRATEGY, SO WE DON’T NEED TO THINK ABOUT IT”** The key question to ask yourself here is, “Has our strategy been translated into terms that describe our aspirations for a future that is different from our past?” If our strategy only applies to how to improve what we do today and doesn’t make it clear what we hope to become, why would we expect that it would inspire employees to search for breakthrough innovations? Too often, stated strategies are either so vague that they don’t give a clue as to where to innovate, or so rooted in the status quo that they don’t give a clue as to why we should even try.

**“CAN’T WE JUST INNOVATE?”** The myth here is that strategic aiming – that is, making choices about where we will focus – reduces innovation success. The evidence tells us otherwise – creativity within constraints works better than absolute freedom, leading to ideas that relate to each other and drive natural conversations about how small ideas in a given domain can be combined or linked to create big results. In most innovation process maps you see, the first step is either “discovery” or “ideation” – when in reality it ought to be “aiming.”

**“INNOVATION IS ONE THING – STRATEGY IS ANOTHER”** Often, the underlying myth here is that strategy should be developed by doing lots and lots of hard-core financial analytics, and that innovation is that fuzzy, touchy-feely stuff that might cook up some great new product ideas but could never help us set the direction of the enterprise – so they have nothing in common. In reality, the same front-end factual discovery process that creates the diverse stimuli to feed product, service, and business model innovation also does a fabulous job in helping to identify the dimensions of highly-differentiated strategies. Think about it: if you invest in building insights about unarticulated customer needs, likely step changes in the external environment, and your deep competences, why wouldn’t you use those to create strategic options as well as new business ideas?

**“ISN’T IT DANGEROUS TO START APPLYING INNOVATION TECHNIQUES TO STRATEGY?”** The concern here seems to be that, like the person scared of heights, if we expose ourselves to some strategic alternatives that are outside of our comfort zone, we will somehow feel compelled to throw ourselves off the cliff. Good news – we get to choose what we will, and won’t, do! As a colleague is fond of saying, just because we talk about something doesn’t mean that we have to do it – but if we never consider a range of truly different – yes, innovative! – strategic directions, the risk of getting blind-sided as we trudge along within our current paradigms is always there.

**“WON’T WE HAVE TO GET THE EXECUTIVES INVOLVED?”** Sometimes the concern seems to be, “Geez – we just now have gotten the permission to work on this ‘innovation thing,’ and if we don’t keep under the radar, there’s a chance that the executives will make us change direction or meddle in our work.” Here, the trick is to acknowledge that innovation efforts that are supported by an aligned top team do much better than those that creep along hoping that no one notices. If executives have debated – at a fundamental level – and agreed upon their key assumptions about the future world and the company’s role in it, support for innovation – and the coherence of the guidance that innovators receive from above – only grows.

Once you decide to push ahead with the development of an innovative strategy, there are a few critical principles you must follow to succeed:

**Focus on Future Identity** – All too often, companies view strategy statements as the labels on buckets of initiatives, using strategic “themes” such as “build cost competitiveness,” “expand pro-

duction capacity,” or “enter new markets” as the basis for organizing their actions.

While ultimately, a strategy must be translated into action, it’s more productive to focus at first not on what we are going to do, but who we want to be. When an informed observer writes about us 3, 5, or 10 years from now, what will she be talking about? What’s our role in the industry; how have we helped lead the evolution or redefinition of the industry over time; and based on our transformation to date, what else are we now prepared to do?

**Be Different from the Rest** – Are the competences, customer sets, strategic assets, and profit models of your business identical to those of leading competitors and emerging contenders in your industry?

If so, how do you expect to reap anything other than commodity returns? If not, why would you expect that following a copycat strategy generated through benchmarking or based on the generic views of industry consultants would maximize your chances of success?

In business, winning is about being different, not just better, and to pursue a different strategy one must first envision it, then commit to it, then learn and adapt while pursuing it. Yet what we see time after time is that companies fail to create a diverse enough set of plausible future identities to choose among, muddle along without making tough choices about what they are and aren’t going to become, and then stick too long to rigid plans while the world changes around them.

To break out of the trap, use innovation techniques including market discovery and diverse participation to create a truly divergent set of potential future directions for your company; our approach usually creates four “bookend” strategies, each plausible, but very different from the others.

**Agree on Why Rather than Arguing about What** – But how can you converge to a single direction after stretching your thinking to the bookends? The secret lies in ensuring that each strategy prototype is based on a separate set of what we call “have to believes:” the critical assumptions about ourselves and the world that have to be true to make that strategy attractive. By seeking and reaching alignment on the “why” of the underlying assumptions, leadership teams we work with routinely find that agreeing on their companies’ future strategic identities, and the steps to get there, becomes much easier.

**Make it Real** – Finally, remember to build a set of opportunity platforms – not just product and service ideas, but operating modes, pricing models, alliance networks, market positions, and even new business models based on emerging digital possibilities – that help to make your chosen future identity real.

In our experience, strategy and innovation can, and should, work together in a virtuous cycle – strategic direction guides the search for ideas, and the patterns in our ideas inform and shape the evolution of strategic direction. Take advantage of the inextricable link between direction and opportunities – and reap the results.

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