

# BE FOREVER INNOVATIVE

## KEY FINDINGS

1. Innovative firms perform more strongly than those that are poor innovators. They have higher profitability and are valued more highly by the market.
2. Innovation is complex to measure.
3. Value creation and competitive advantage comes from innovation that results in unique intellectual property where intellectual property is a cocktail of process, skills, product, technology and cultural attributes.

**The Issue: RI strategy rule 4 urges firms to be forever innovative. This requires the development of, constant improvement in, and commercialisation of intellectual property (IP). What does this mean for practice?**

**Our academic literature search found the following.**

- Innovative firms perform more strongly than those that are poor innovators. They have higher profitability and are valued more highly by the market.
- Successful innovation is more than a new product or invention. Innovation is the take up of the new ideas or invention and their successful commercialisation/implementation; that is, innovation must create value.
- Because innovation is not just invention, assessing innovativeness therefore requires more sophisticated measures than the number of patents or amount of R & D expenditure.
- Innovation can take many forms – new products, new processes, new organisation, new technologies. It might be an old idea but implemented in a different context or setting.
- Because technology is changing so quickly, successful innovation requires speed and constant improvement.
- This leads many to have observed that a specific innovation may improve firm performance but it is the lasting transformation of internal capabilities, skills and processes that either created the specific innovation or were created because of it that create the lasting impacts for firm performance; that is, the capacity to continually adapt and create new value anew.

In sum, value creation and competitive advantage comes from innovation that results in unique intellectual property where intellectual property is a cocktail of process, skills, product, technology and cultural attributes.

For further reading and the full review visit  
<https://fbe.unimelb.edu.au/cwl/research/the-ruthven-institute-hub>

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## The Implications for Practice.

- Because innovativeness is an organisational attribute or characteristic and innovation may take many forms, the implications for those seeking to ensure that their firm is innovative are complex. The general view is that an organisational culture that encourages experimentation and risk taking will be more successfully innovative than those that are dominated by command-control structures and operating styles and penalise mistakes.
- Studies also show that the greater variety of technological experts within a firm, the more likely is the firm to be innovative. However, the key is their capacity to work together, to communicate with each other and to work together in teams that allow cross-fertilisation of different perspectives.
- This underlines a key issue. Idea generation and/or undisciplined experimentation will not necessarily deliver innovation and create value. New ideas, be they process or product, need to be shepherded through a process that allows the best ideas to be appropriately resourced and steered into a commercially disciplined implementation funnel.
- One key attribute is that the funnel must not include too many initiatives at once. Organisational resources, including management and staff attention and development capital, are limited.
- Cross disciplinary teams that apply multiple perspectives will hasten the development or winnowing process and assist with overcoming or minimising unconscious decision bias.
- Further, studies show that if new ideas are to be marshalled to create value – be they product or process related – people must be clear about their roles and responsibilities and incorporated within staged implementation plans. Those firms that create accountabilities and KPIs that require managers to take responsibility for implementation are the most successful in achieving innovativeness.
- Most innovations are incremental rather than radical. This means that innovativeness requires an organisational mindset that stresses continual improvement and encourages staff to listen to customer feedback and market trends so as to understand where their market is going. Again, this is a behaviour that needs to be reflected not only in the role modelling of senior leaders, but also built into performance management processes.
- The stage of the industry life cycle is also relevant to what innovation is most likely to create value for the firm at that stage. Empirical studies show that in more mature stages of the lifecycle innovations that deliver cost savings, quicker revenue cycles or greater market penetration are more likely than new products.
- A 2013 Australian study showed that companies that had successfully developed a systematic capability for innovation had embedded the following attributes or practices:
  - Managers get involved in innovation projects
  - Innovation is prioritised in business strategy
  - Business strategy and technology is strongly aligned
  - There is a willingness to take risks
  - Teamwork is emphasised
  - Employees are highly skilled
  - There are clearly articulated employee capabilities relating to innovation
  - Employees are rewarded financially for innovation contributions
  - Competitors are benchmarked

## The Challenges for Implementation

- Developing an innovative organisation requires more than an organisation that creates inventions. It requires the development of an organisational culture and an operating style that encourages and rewards continual adaptation, the purpose of which is the creation of value for customers and shareholders alike, in a disciplined way. Organisational processes and structures must consistently enable and facilitate this adaptation while at the same time imposing a commercial discipline that delivers value. Thus, while Rule 4 describes the need for unique intellectual property it encompasses significantly more than the notion of a new patent or invention. It encompasses all the operating systems – financial, information and human resource – that go to creating a creative but disciplined approach to innovation. This is a comprehensive brief and requires a total firm approach that is proactively managed and part of everyone's responsibility.
- The difficulty of creating such a systemic approach is significant. Stages of the lifecycle and size of the organisation will also complicate implementation. While a large firm may theoretically have the resources to spare to investigate and develop new initiatives, the bigger the organisation the more likely it will have developed operating procedures that emphasise standardisation, consistency and predictability. A mature lifecycle that requires close attention to cost and quality control will exacerbate the issue.
  - Consequently, an ongoing debate for those who seek to make mature and large organisations more adaptable is whether they should seek a whole-of-organisation transformation or whether they should create skunk works and spin out new product/market/process units into a greenfield organisation.
  - Generally, the urgency of the need for change will dictate the answer. But so too will be the history of past so-called transformations, the level of trust that exists within the organisation, and the regulatory context, including industrial arrangements, in which a transformation must occur.
- Studies of implementation efforts underline the difficulties of achieving systematic success.
  - Most attempts at transformation will fail and in those that have success, the results are not necessarily as great as foreshadowed at the beginning.
    - One early challenge for those planning a transformation in capability is assessing the benefits and costs of undertaking the project. There is considerable evidence of unconscious bias in assessment processes that tend to exaggerate potential benefits and understate risks and costs.
    - There is considerable literature and advice for practitioners on how to avoid or reduce these biases. Key to them is an awareness of the level of bias and unconscious assumptions we all make and the use of deliberate and staged processes designed to surface and highlight them. See below for further advice.

— McKinsey has undertaken regular surveys of global executives about transformation initiatives and found, for example, in 2015 only 26% of executives reporting success, or part success. This percentage has not changed significantly in the years of surveying. Again, their investigations of what has led to success have included: a disciplined and organisation-wide approach to transformation; managerial accountabilities that stress implementation but also teamwork, communication and role modelling of the new behaviours required; human resource systems that encourage and reward employees for ideas, continual improvement and risk taking; and the allocation of appropriate resources to support the effort.

### **Further Practitioner-focussed Reading**

McKinsey (2015) [How to beat the transformation odds](#)

McKinsey (2020) [Eight lessons on how to get the growth you planned](#)

Samson, D. and Gloet, M. (2013) [Innovation: The New Imperative](#)

Soll, J., Millman, K and Payne, J. (2015) [Outsmart your own biases. \*Harvard Business Review\*, 93\(5\): 64-71](#)