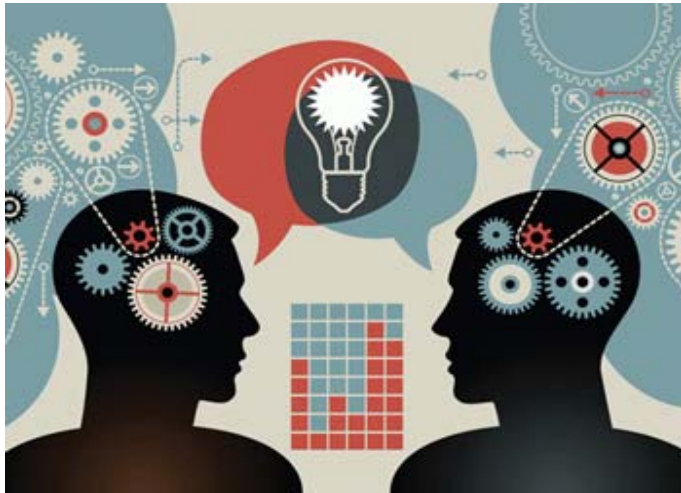


# Innovation: A Critical Capability

By Scott J. Edgett



**An organization that believes in the importance of innovation takes the steps necessary to ensure it is a top performer. Below, Scott J. Edgett suggests that the first step in improving your own company's innovation capabilities is to understand where the strengths are and where improvement is needed, and argues that the ability to increase business value through innovation is a major success driver.**

**3** M, Abbott Nutrition, Baker Hughes, Corning, GE, Lego, Nestlé, Pepsi and Starbucks, all from different industries, yet all have in common the ability to be product innovation juggernauts in their respective markets. These companies and many others have successfully created and support an internal innovation capability that drives new products into the marketplace year after year with remarkable success.

Why are these firms more successful at innovation than their competitors? First and foremost, each has recognized and worked hard at making innovation a critical capability within their organizations. It is understood that the ability to increase business value through innovation is a critical success driver.

## Opportunity and Risk

Today's rapidly changing technologies and the markets within which we operate provide both opportunity and risk from an innovation perspective. Change provides opportunities if we get it right and threats if we do not, particularly given the intensely competitive nature of most industries.

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The conceptualization and development of new products and technologies is one of the more complicated initiatives an organization can undertake as new ideas migrate from ideation through the feasibility, development and scale-up stages and finally into commercialization. First, there is the number of internal functions and people to coordinate. There also must be value chain collaboration in the face of rising costs and margin erosion. Meanwhile companies face increasing regulatory complexity, changing customer and consumer demands, evolving business models, shorter cycle times, and new sources of competition, just to name a few. "Innovation is probably one of the most complex things our company can undertake" said one executive. "However, if we get it right we can win big in the marketplace."

The good news is that if your company can, indeed, get it right, you stand to gain a competitive advantage and will reap the benefits of increased top line revenue growth with improved profits. Hence, the lure of identifying new opportunities, increasing product volumes and market share, securing a competitive advantage, improving margins and strengthening brand loyalty, is a powerful incentive to be successful at product innovation. However, the challenges and pitfalls do not make this easy.

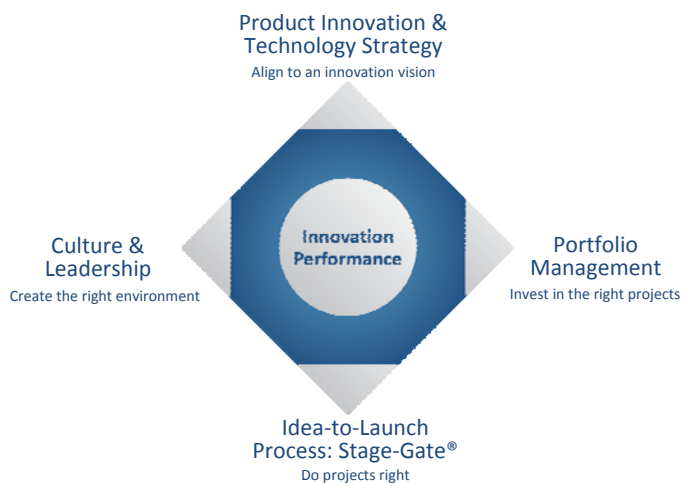
Take, for example, the global telecom market wars occurring over the past few years. Samsung and Apple have emerged as two clear winners that have been able to leverage powerful innovation machines. The competition (Nokia and more recently Research in Motion - Blackberry) have stumbled badly in their respective innovation capabilities and ultimately paid the price in the marketplace.

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## The Innovation Performance Framework®

Through extensive benchmarking studies on product innovation a framework has emerged that is successful in capturing and identifying the four key aspects that determine whether a company has a high-performing or under-performing innovation capability. The Innovation Performance Framework examines the inherent complexity of innovation and addresses some of the challenges by separating it into four key themes: product innovation strategy; portfolio management; idea-to-launch process; and culture and leadership (see Figure 1).<sup>1,2</sup>

**Figure 1: The Innovation Performance Framework®**



Benchmarking results confirm organizations that master these four key drivers of success do, in fact, achieve better performance results from their product innovation efforts (see Figure 2). The top performing companies excel in all four aspects while poorer performers tend to be struggling in one or more of the four critical components of the Innovation Performance Framework.

The Innovation Performance Framework examines the inherent complexity of innovation and addresses some of the challenges by separating it into four key themes.

**Product Innovation and Technology Strategy:** It all starts at the top. A product Innovation strategy guides a company’s innovation direction and ensures resources are directed towards the right innovation investments and the right strategic arenas. If there is not a clear and crisp product innovation strategy supporting the business strategy, problems begin. Some key questions to ask are: Do we have such a strategy? Is it clear? Is it the right strategy? Is every part of the company aligned with it? Has it been widely communicated? Are people walking the talk? Are there realistic expectations on new product revenues? Do we have multi-year roadmaps?

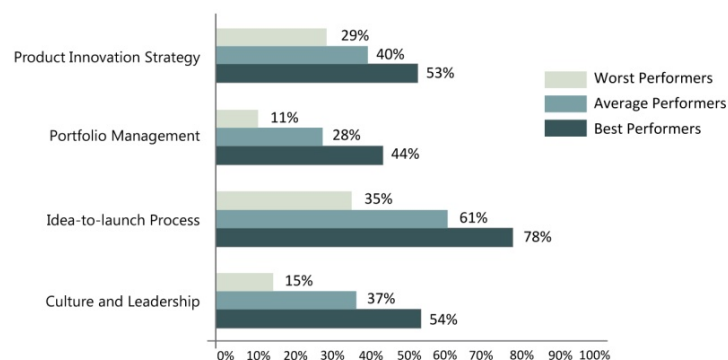
**Portfolio Management:** This is the strategic allocation of resources that ensures innovation efforts advance the product innovation strategy. It is also the prioritization of projects in the pipeline to ensure that resources are being tactically deployed on the right projects for the right reasons. Some key challenges are: too many projects and not enough resources to get everything done; difficulty in deciding which projects to select (when evaluating multiple projects that are competing for the same resources); difficulty in optimizing the portfolio of projects (i.e. short-term versus long-term, high-risk versus low-risk);

poor alignment on priorities; and resources that are simply stretched too thinly.

**Idea-to-Launch Process:** This is the playbook that takes each project from idea to launch. It includes all of the activities and decisions that must occur in order for the product innovation to be successful. Some key challenges are: not enough high quality ideas; not having a standard playbook that can be used consistently; leadership that cannot articulate the importance of their idea-to-launch process; not tailoring the process to support the business strategy and project complexity; lack of clarity around process governance; being unable to say no to projects; not being realistic with actual time and resource allocation; placing unrealistic speed-to-market pressures; expectations to resource projects not in the official process; and, the inability to yield effective decisions in a timely manner (i.e. everything is a high priority thus creating gridlock which, in turn, results in significant project delays).<sup>3,4</sup> For example, Corning has worked over the years to ensure that its Stage-Gate process is an enabling process. It is continually updated and modernized to reflect the changing innovation challenges the company must address. As Corning’s Director of Innovation Effectiveness noted, “It is the way we develop new products and commercialize technology. For us it is a common way of doing business and communicating across a global company.”<sup>5</sup>

**Culture and Leadership:** This is the way the organization works: the typical behaviors, norms, values and leadership style that either enable or hinder product innovation performance. Some key challenges are: difficulty in striking a healthy balance between ‘discipline and focus’ and ‘flexibility and judgment’; driving projects to successful completion while managing cross-functional teams (i.e. shortage of trained project leaders, staff turnover, gaps in necessary skills, lack of training and/or experience); management of failure, and poor support from other parts of the organization. In other words, an innovative company needs to create and support a culture that fosters innovation company-wide.

**Figure 2: Innovation Performance Framework – Impact on Performance**



A key first step in improving your own company's innovation capabilities is to understand where the strengths are and where improvement is needed. It is possible to score high on every component of the Innovation Performance Framework® – if the desire is there.

### Evaluating Your Organization's Innovation Capability

How does your organization perform compared to other companies? Figure 2 provides a composite benchmark to compare your organization against. For example, best performers are shown to be almost twice as likely to have product innovation strategies in place and four times more likely to have viable portfolio management systems than poor performers. A high score in all four parts of the Innovation Performance Framework suggests that your organization should be well on its way to embedding the innovation capabilities needed to be successful. However, a score that is weak on any of the four key components suggests your organization is probably also experiencing difficulties embedding your innovation capabilities and your innovation performance results are probably not meeting business expectations.

Each of the four components of the Innovation Performance Framework is proven to impact innovation performance. The best performers have clearly demonstrated a sustained capability to operationalize each of the four components on a repeatable basis. Poorer performing companies have not been able to develop this type of internal competency. The Framework diagnostic provides a quick way to determine where you need to improve inside your organization.

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- Are you struggling with an unclear innovation strategy that has not clearly targeted the arenas where innovation resources should be focused?
- Do you have confidence that the strategic portfolio allocation ensures that the right projects are being selected and funded? Or is it more of a pipeline issue where project prioritization is a challenge and too many projects are being worked upon for the resources available? Are enough projects reaching the market in a timely manner?
- Is your challenge more of a process issue, where teams struggle without a clear and consistently applied roadmap of activities that ensure a project is executed properly and in a timely manner?
- Does your company's leadership support innovation in the manner needed to realize the revenue growth targets?

- Does your organization have a culture that embraces innovation?

An organization that believes in innovation as a critical capability takes the steps necessary to ensure it is a best-in-class performer, and it is constantly challenging that premise as it strives to improve and remain a market leader. A key first step in improving your own company's innovation capabilities is to understand where the strengths are and where improvement is needed. It is possible to score high on every component of the Innovation Performance Framework – if the desire is there.

Of one thing you can be sure: Your most threatening competition is striving to improve its innovation capabilities, and if you are not doing the same thing then future market gains will be harder and harder to achieve.

### About the Author



**Scott J. Edgett**, Ph.D., is Chief Executive Officer at Stage-Gate International and is internationally recognized as one of the world's top experts in product innovation. A co-author of eight books and numerous articles, Dr. Edgett is a former professor at the DeGroote School of Business at McMaster University and is a Faculty Scholar at the Institute for the Study of Business Markets (ISBM) at Penn State University.

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