



Winnovation

BY ROWAN GIBSON

The real imperative for innovation

Ask any group of senior executives why they think innovation has become such an imperative, and the answer is invariably, “Because it drives growth”.

This is quite a reasonable and obvious way of thinking. Pushed into a relentless and never-ending race to grow earnings faster than the industry average, companies are increasingly turning to innovation as today’s best bet for closing the “growth gap”. Trouble is, by thinking of innovation almost solely in terms of growth, many executives are actually missing the bigger picture.

For most companies today, the real issue is not how to grow earnings by a certain percentage from quarter to quarter. It’s how to avoid the big and unexpected downside. Because the thing that kills companies today is not whether they are growing by 8% instead of 12%; the thing that kills them is when they miss some turn in the road – some fundamental change in the external environment – that axes the share price by 50% and sends the firm into the toilet. This is what has wrecked so many companies in so many industries.

It might be a disruptive new technology that causes all the trouble, the way digital photography decimated Kodak’s traditional film-based business. It might be a fundamental shift in customer preferences, let’s say from gas-guzzling SUVs to economical, environmentally-friendly hybrid vehicles. It might be another company’s game-changing business model; the equivalent of a Dell in computing, an Amazon.com in books, or an easyJet in air travel. It might be regulatory upheaval in the market, opening up the floodgates to a horde of aggressive new competitors, as we have seen in countless markets and in all manner of industries. Or it could be a lifestyle trend that suddenly turns millions of people off the food, or the drinks, or the clothes, or whatever else it is that you make.

So, yes, of course top line growth is important; nobody would argue with that. Maximizing the upside is all well and good. But the real issue is: **how do you minimize the downside?**

A lot of people would reply that minimizing the downside is about being careful and conservative; it's about avoiding risks. In fact, it's precisely the opposite. **Minimizing the downside is about continually experimenting with new things, recognizing that we are living in a world where the old things can quickly lose their value and become irrelevant.**

In this new disruptive age, competitive strategies and business models don't last anywhere near as long as they used to. Therefore, unless a company is innovating deeply and strategically – **at the level of the core business itself** – economic growth can very quickly turn into economic failure, decay and even death.

Of course, the financial risks of experimentation have to be managed too. But, essentially, **in today's turbulent times, the only long-term insurance against the downside is rampant and radical innovation.** That's the real reason for the innovation imperative.

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