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'Companies not focusing on actual innovation reality'

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A few minutes into our conversation, Rowan Gibson points out that most companies have failed miserably when it comes to building a climate for innovation. "They still approach innovation in a piecemeal manner — they focus on research and development and brainstorming, but all at an individual level.

Few have managed to bring all these aspects together and build a corporate innovation system that will continuously drive growth," he says.

Gibson should know. As a business strategy consultant and author of the best-selling *Rethinking the Future*, he has encountered more than his fair share of companies not wanting to lose out on everybody's current darling — innovation.

Now, in his new book, *Innovation to the Core*, co-authored by Peter Skarzynski, founding director of Strategos (set up with strategy guru Gary Hamel), Gibson tries to set up a blueprint for companies to follow when setting up a corporate innovation system. "Most companies are still focusing on the innovation rhetoric rather than the actual innovation reality," he says.

Over the course of studying the successful innovation models of about 200 companies, Gibson realised that the romanticised view of a lone innovator (who eventually makes it to the cover of *Fortune* magazine) staring out of the window waiting for his 'eureka moment' wasn't actually a reality.

"We found that innovators came to their innovation by looking at the world from a fresh perspective — of which four were most common. I call these the lens of innovation, which can be used by companies to generate insights for game changing ideas," says Gibson.

The first 'lens' is challenging orthodoxy and conventional wisdom. In the airline business, for example, most carriers were concentrating on how to push up quality and the customer experience, when a couple of innovative companies decided to turn the model on its head by allowing people to fly at a price ten times cheaper, which is how the low-cost carriers came about.

The second lens is to harness trends and discontinuities. "Something may be at the cutting edge of change; we have to understand what it is and how to harness it," Gibson says. For the longest time, the internet, file sharing and even outsourcing to India were fringe developments before reaching their current scale.

Disney had a portfolio of strategic assets and core competencies like its theme parks and 3D entertainment model. What the company did is what Gibson calls the third lens of innovation — leverage the resources embedded in the existing business model — and come up with a *Lion King* show on Broadway.

The final lens is to understand unarticulated customer needs. While most of us wouldn't have felt the need for world beating yet affordable healthcare, Apollo Hospitals made it a reality, as did Tata Motors with Nano, the world's cheapest car. "The key here, is to rightly discover needs by getting under the skin of the customer and addressing them before competition does," points out Gibson. The iPod too, would fit under this category.

Gibson cautions that this is not a cookie-cutter model and may not

necessarily work for all companies, but it can serve as a guiding tool. While certain companies like Apple and Google are born innovative, it is the older, more traditional companies that need more help in making the shift towards being more innovation focused. "If you are a 100 year-old manufacturing company, you would approach innovation in a very different way from a Google," says Gibson.

Which is not to say the older, larger companies have not been innovative. In 1992, IBM posted a loss of \$5 billion, the biggest ever loss in US corporate history, which is when it was forced to take a relook at itself. That's when the company realised that being profitable wasn't only about downsizing and cost cutting, but also about having the right kind of business model.

IBM then shifted focus to proprietary technology, increased collaboration with business partners and most important, to services. Today, the services division, which didn't even exist 15 years ago, contributes about 50% to the behemoth's turnover.

Similarly, cement maker Cemex may seem like an unlikely candidate in an unlikely sector for doing something revolutionary. Yet, back in the early 1990s, Cemex's CEO Lorenzo Zambrano realised that the key to the company doing well would be innovation, and through a dedicated effort including Annual Innovation Days and a dedicated innovation board, the company has managed to grow at an average of 20% for the past decade.

While almost all companies have an innovation initiative of some sort, Gibson says most go wrong when it comes to the implementation and approach to generating insights. "For a large number of companies, the innovation effort is restricted to asking employees to submit new ideas. These tend to dwindle after the initial rush as the senior management is not providing them any strategic insights based on which they could develop their ideas," says Gibson.

If the basic insight-generation process is flawed, it is not likely to result in path-breaking innovation. The other thing companies are doing wrong is that they are trying to push up supply of new ideas, but not pushing for demands. That has to happen from the top — if people are coming up with ideas, there also needs to be a demand for them. "If the business unit heads don't take the ideas seriously, it is going to create a lot of cynicism in the company," says Gibson, "defeating the purpose of creating new ideas."

According to Gibson, the best way to tackle this is to make it a part of every employee's appraisal form. At Whirlpool, one of the companies profiled in the book, about 30% of the management level compensation is linked with innovation. "A few years ago, the company realised that the only way to stand out in a sea of white (goods) was to come up with products that the consumer would be willing to pay a premium for," explains Gibson.

Steps like appointing vice-presidents for innovation at the global and regional level and full time innovation mentors and consultants played an important role in the company achieving an all-time high revenue and profit growth.

Using Apple as an example, Gibson has a final bit of advice to companies even as they prepare to deal with an impending recession in the US. During the previous downturn, instead of downsizing and cost-cutting, Apple concentrated its energies on three new products — iPod, iTunes and the iStore, all of which took off in a big way once the economy improved. Similarly, companies need to use this time right now to prepare for when the economy will come out of the recession.

Companies also need to develop a long term approach to innovation as it is not something that will show results overnight. "There is too much thinking from quarter to quarter, but innovation initiatives need to move beyond that," says Gibson. Some innovations will be sprints that will happen very quickly , like Skype. Other like the internet is a marathon which takes its own time. The trick lies in recognising the difference between the two and pacing the commitment and investment accordingly.

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