



TRANSTECH<sup>USA</sup>

## ***White Paper***

# ***Innovation – A business imperative or a fad?***

*by*

***Peter Bryant***

***Founder and President  
TransTech USA LLC***

***Senior Fellow  
Kellogg Innovation Network***

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## **1. Executive Summary**

What is Innovation, and why is innovation such a hot issue? There is a growing belief among pundits that companies which embrace innovation, and combine this with operational excellence, can deliver superior performance and gain a valuation premium. The increased velocity of business, the disappearance of traditional barriers to entry, and the exponential growth of the number of actors in the global ecosystem, whose actions can have a consequential impact on a business, demand that companies become truly innovative.

How do companies become Innovative, and what questions pertaining to their business environment, do they need to address?

- What is innovation?
- Is innovation just about products and technology, or is it much more?
- How do I make innovation part of the corporate fabric (sustainable) versus another fad?
- What role do external partners play in driving open innovation?
- What are successful approaches to external collaboration?
- What is the role of Corporate Venturing?

This White Paper explores each of these areas with the goal to frame a dialog in this rapidly evolving subject.

## **2. What is Innovation?**

According to the management guru Peter Drucker, innovation is *'change that creates a new dimension of performance'*. Executives agree that innovation must be focused on ultimately delivering a competitive advantage and creating increased value for their businesses and customers.

An accepted viewpoint is that innovation is about generating something that will either result in step change developments or continuous improvement initiatives; this has implications over different time horizons. Importantly, whatever definition of innovation a company adopts, it has to be anchored in the corporate strategy, as this provides context and clarity for employees and for all stakeholders.

## **3. Is innovation only about products and technology or is it much more?**

Earlier innovation discussions, papers and examples, focused heavily on product innovation. In particular, the development of new consumer products such as the iPod, the Razr phone and other new technologies. However, to deliver maximum value, innovation should be focused on the core business areas of the company for which technology is a key enabler. At times a breakthrough technology can become a driver for business change, but the default should be to focus on empowering the business. A good reference model for these core areas is:

- Business model
- Business processes
- Technology
- Organization architecture/methods
- Product

Various models have been developed to enable the systematic tracking of innovation initiatives; one recent development is the Innovation Radar from Clareo Partners.

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#### **4. How does a company make innovation a sustainable part of the corporate fabric, versus another fad?**

It is easy to talk about innovation and create impressive marketing statements. But for a company to make innovation a key part of the corporate DNA that can be sustained through changing business cycles, then the leadership must be committed to making the appropriate organizational and cultural changes. This is where many companies become stuck, due to their unwillingness to make the necessary core changes. Innovative change is about leadership. Innovation must be communicated, by the CEO, as a key strategy and s/he must become the key champion. A recent IBM study found that for innovation strategy to succeed, it must be orchestrated from the top. (*Global CEO Study – Expanding the Innovation Horizon – March 2006*)

The innovation strategy is then backed up by an organizational design with mechanisms that give people the time, space, recognition and motivation that will drive the appropriate behavior. Some of the initial change areas required to move a company to become more innovative are:

- Move from a hierarchical to a networked organizational structure
- Inclusion of innovation in job specifications
- Reward and recognition systems including bonuses, awards and reviews
- Symbols – e.g. work spaces and branding
- A culture more tolerant to risk and associated costs
- Corporate language

To achieve sustainable innovation, a good practice is to develop an over arching Working Model/Framework. This captures not only all the aspects of innovation, but the key change mechanisms that together will drive many of the processes and change initiatives.

#### **5. What role do external partners play in driving innovation?**

Business leaders recognize that external collaboration is a key element in successful innovation. However the ambition is proving to be difficult to execute in reality. Many companies from GE to Safeway, are finding that it is a serious challenge to bring in the skills and the culture to deliver effective collaboration. By embracing collaboration and pushing its limits, we exponentially increase the resources and brain power that is focused on finding those innovative ideas. For ideas to be fully accepted, a company must develop a culture that accepts ideas from any source and moves away from the *'not invented here syndrome'*

Extensive collaboration also allows you to expose a company's capabilities/ideas from a variety of sources within, and external to, your industry's ecosystem. This may involve collaboration with a wide variety of organizations; such as:

- University Research Centers
- Venture Capital firms
- Companies in adjacent industries
- Organization networks

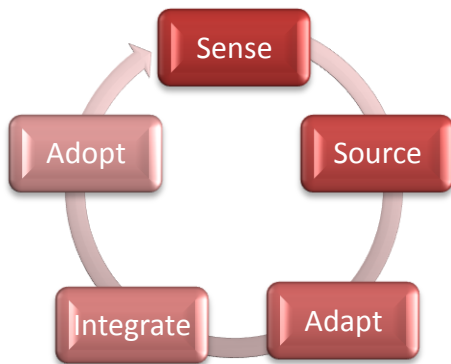
Two emerging trends in this area are the creation of internal Innovation Groups, that are specifically responsible for external collaboration (e.g. P&G has created the role of Technology Entrepreneurs) and Corporate Venture Capital Funds (A Wharton School paper in Oct 2006 called this the possible Fourth Wave of Corporate Venture Capital).

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## 6. Approaches to External Collaboration

The capability to successfully identify and leverage external sources of innovation, and introduce them into a business can be achieved by adopting a five stage process:



**Sense:** Where a company has a two way mechanism/team (e.g. the Discovery Team), that understands key drivers/needs of the corporate strategy and can communicate those to the external world. External parties can then drive innovation towards the company and likewise that team can translate otherwise unrelated capabilities, into an opportunity for the company. This team is usually on the periphery of a company and one of the tools used is that of a Corporate Venture Fund (Refer Section 7)

**Source:** When external organizations are identified by the Discovery Team and a relationship is engaged, is to then bring that capability to the company. This could result in the formation of partnerships; consortiums or whatever arrangement makes sense for the given situation.

**Adapt:** This is when the capabilities, generally from different industries, are adapted so as to provide value to the target company. At this stage, the Discovery team, the external party/parties, and a target business unit begin to work together on a pilot.

**Integrate:** Begin to integrate the new capability into the existing platforms and processes, as applicable, so adoption can extend beyond the pilot. This stage is the beginning of the transition phase from the Discovery Team to the business.

**Adopt:** The transition is made from pilot to production and the new capability is now adopted within the business as a new solution.

Companies have adopted various approaches for some or all of these stages e.g. P&G's Technology Entrepreneurs' covers Sense and Source; BP's Office of the CTO has a very successful approach for all the stages and a large mining conglomerate has successfully piloted an approach that allowed for the identification, adaption and adoption of a certain capability from the Oil and Gas industry. The latter two approaches highlight an approach to realizing an opportunity to SOURCE-ADAPT-INTEGRATE-ADOPT a new breed of advanced technologies into new platforms and leapfrog entire legacy generations of capabilities. This can be considered as an aggregation of capabilities to deliver a potential game changer.

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## ***7. Corporate Venture Capital as a Tool for Sense and Source***

Corporate Venture Capital (CVC) is where a company sets aside risk capital to invest in emerging companies and ideas that have the potential to add value to the business.

CVC has different goals depending on corporate circumstances, including:

1. Source of new products, i.e. outsourced R&D– this is most commonly found in the pharmaceutical and IT industries
2. Identify emerging technologies and capabilities that directly impact the strategic focus areas of the business
3. Invest as a Limited Partner in an established VC Fund focused on a narrow area of company interest
4. Monetize internal innovations – an emerging model initially seen in the healthcare field where the fund invests in spin outs of internally developed products.

In the first three cases financial return is secondary to the stated goal; it is all about adding value to the business by sensing and sourcing capabilities in the external eco system and by leveraging the most effective model in attracting and filtering a large volume of opportunities. i.e. the Venture Capital model.

The fund goal described in point 2 is the type that is most commonly emerging, as a tool for Sense and Source, amongst companies in a wide range of industries from technology, media, transportation, mining and oil and gas. Even Gazprom, the Russian oil giant recently announced a Corporate Venture Fund of \$100m to invest in companies that have solutions that would improve Gazprom's operational performance.

Corporate Venture Capital will emerge as a vital tool of the leaders in open innovation, enabling companies to see a range of solutions and capabilities that would not have otherwise been exposed to the company for years. Then, with effective internal collaboration, these will be leveraged into the business to create value and competitive advantage.

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## **8. Summary**

In conclusion, many critical success factors exist that determine whether a company can develop a sustainable innovation based organization and achieve innovation excellence; these include:

- Development of an **overall Innovation working model**/framework and processes
- Leadership must provide an appropriate **strategic context**
- Strong and **consistent leadership and communication**
- Pushing **external collaboration** boundaries
- **The right tools** to support efforts
- Effective **organizational and cultural change**
- Recognition that innovation is about **more than products & technologies- about all aspects of the business**
- Organizational support – culture, behaviors & symbols – **provide the space and recognition**
- Create a **Portfolio of Options** over multiple **Horizons**, matching **People** with **Horizons**

It is now a business imperative for companies to become more innovative as they face a competitive world vastly different from the one that they have been operating in; this challenges existing thinking and frames of reference. Those companies that excel at adapting to the new world and transitioning their organizations will be tomorrow's winners.

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## About the author



Peter Bryant, the Founder and President of TransTech USA LLC, and a Senior Fellow of the Kellogg Innovation Network, which is part of the world leading Kellogg School of Management, provides advice to executive teams on sustainable corporate, innovation and market growth strategies. Peter has consulted to companies from the US, UK and Asia Pacific - ranging from emerging companies through to Global Fortune 500 companies, primarily in the resources, energy & technology sectors. This has included companies such as Rio Tinto, Ricoh, Peabody Energy, Barrick Gold, BHP and BP.

Prior to founding TransTech USA Peter spent twenty four years working within the global technology industry both as an entrepreneur and in executive management for larger enterprises such as GE and Computer Associates, including 12 years in CEO, COO and President roles. He has built successful companies in the US, APAC and the UK.

Peter is a Senior Advisor to the boutique investment bank Q Advisors. Peter also sits on the Boards of organizations including iTechne, Syft Technologies, Our Team Base, Spatial Energy, Motherlode Venture Fund, Friends of Victoria University and T -UP.

He has been a speaker at various Innovation, Venture Capital and industry conferences in the US, UK and APAC.

Peter holds a Bachelor of Commerce and Administration from Victoria University in Wellington New Zealand and is an alumni of the Kellogg School of Management. Peter is also a Fellow of the Australian Institute of Company Directors and a senior member of the NZ Institute of Chartered Accountants.

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