

BUSINESS: THE INNOVATION IMPERATIVE

Progressive Creativity as Stewardship

There's a Better Way

Scripture describes God as the ultimate innovator. As imitators of God, we, too, are called to create. In the garden, God charged mankind with a stewardship and dominion mandate as co-creators.¹ Then in the Parable of the Talents, God rewards entrepreneurial innovation.² It brings glory to our Creator when we create, use our talents to serve others, work diligently, and build innovative companies to produce the returns He desires and expects.³

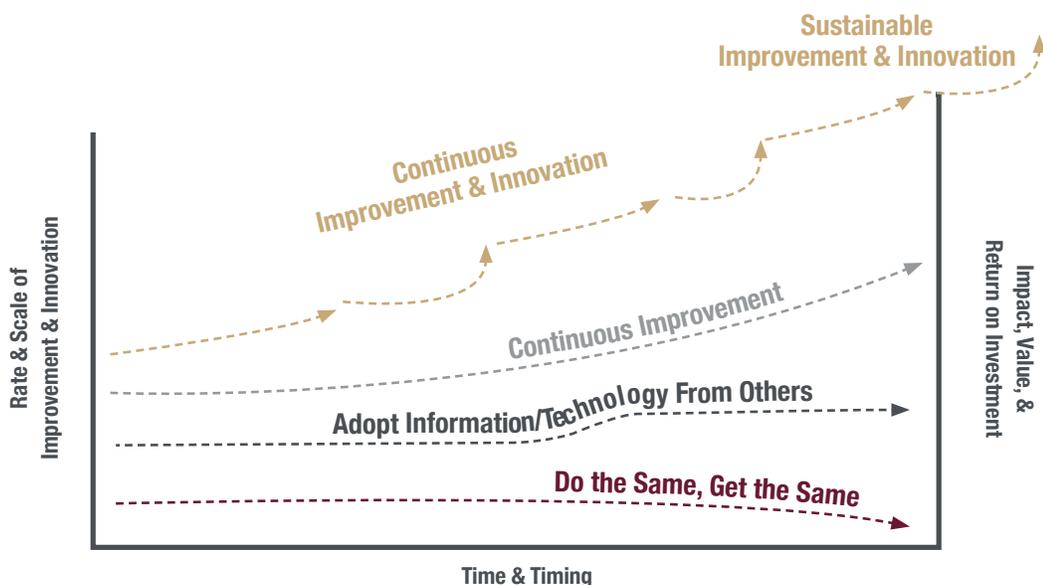
The various definitions of *innovation* can mislead some to think we must create something completely new from scratch. While this can be true, *innovation* derives from the Latin word *innovare*, meaning *to renew*. So, we can innovate by introducing new, fresh products or processes within our existing operations.

The Oxford definition of the verb:

in·no·vate

to make changes in something established

Moderate success can induce complacency. To steward our organizations and customers well, we cannot settle for selling the same old offerings, to the same old customers, in the same old way, at the same old price. As the Sustainable Improvement and Innovation (SI&I) model shows below, if we are *only* maintaining the status quo or what has produced success in the past, our impact and ROI are actually *declining*.⁴



1 Anne Bradley, "Innovation, Change, and Economic Growth: A Christian Economist's Perspective," Institute for Faith, Work & Economics, March 11, 2013, <https://tifwe.org/innovation-change-economic-growth-a-christian-economists-perspective/>.

2 Matt. 25:14-30, Luke 19:12-27

3 Michael Zigarelli, "Called to Create: The Practice and Theology of Innovation," Messiah College, Christianity 9 to 5, YouTube video, 16:48, March 3, 2015, <https://www.youtube.com/watch?v=2hy8XTwaz0o>.

4 "SI&I Model," Sustainable Improvement & Innovation, accessed November 8, 2018, <https://sustainableimprovement.weebly.com/sii-model.html>.

Innovation and management guru Gary Hamel famously said that success is a self-correcting phenomenon in the absence of deliberate and ongoing innovation.⁵ The best companies lead with a forward-looking strategy, setting the direction of their market rather than waiting to follow. Ten of the top 25 most innovative companies of 2018⁶ are also ranked among the 50 largest companies in the world.⁷ They successfully maintain **healthy tension between familiar core products and processes and a continuous stream of next-generation offerings and methods.**

| | |
|---------------------|-------------------|
| Apple | Alibaba |
| Microsoft | Tencent |
| Amazon | Toyota |
| Samsung Electronics | Unilever |
| Facebook | Johnson & Johnson |

Your immediate reaction might be that your business model can't compete with the R&D budgets of these large corporations. However, the basic principles and approaches that enable these global firms to perform so well are applicable and practical for companies of any size that want to thrive in their industries. **Change is an ever-present opportunity for pursuing innovation with a sense of urgency.** The greatest frontier of innovation is often in management and culture, not necessarily vanguard R&D widgets.⁸ The resources are readily available to us, we just need to optimize our processes to tap into them.



How does your company overcome the mentality of operating "the way we've always done it"?

What are the primary goals of your organization's innovation efforts?

Check all that apply.

- | | |
|--|---|
| <input type="checkbox"/> Increase market share in existing markets | <input type="checkbox"/> Disrupt current markets by creating a new process or business model |
| <input type="checkbox"/> Add new value to a current product or service | <input type="checkbox"/> Revise the current business model |
| <input type="checkbox"/> Enter new markets | <input type="checkbox"/> Preserve relevance and market position |
| <input type="checkbox"/> Introduce a new product or service category | <input type="checkbox"/> Expand reach of the business to increase gospel impact and influence |
| <input type="checkbox"/> Reduce the cost of current products or services | <input type="checkbox"/> Ensure generational succession and continuity of the enterprise |



Compare your innovation goals and discuss which should be the highest priority in 2019.

⁵ Gary Hamel, "Why Success Is a Self-Correcting Phenomenon" [sic], GaryHamel.com, video, 12:19, accessed November 8, 2018, <http://www.garyhamel.com/video/why-success-self-correcting-phenomena>.

⁶ Michael Ringel and Hadi Zablit, "Innovation in 2018," Boston Consulting Group, <https://www.bcg.com/en-us/publications/2018/most-innovative-companies-2018-innovation.aspx>.

⁷ "The 100 largest companies in the world by market value in 2018 (in billion U.S. dollars)," Statista, accessed November 8, 2018, <https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-value/>.

⁸ Gary Hamel, "The Why, What, and How of Management Innovation," *Harvard Business Review*, February 2006.

Leverage Internal Thought Leaders

We remember companies like Kodak, Blockbuster, or Borders, once at the peak of their markets, that failed to innovate and ultimately declared bankruptcy. These companies and many others highlight how critical it is for us to remain adaptable by responding to our evolving markets and investing in the goals we've identified above. Venture a guess at the percentage of time your team spends on innovation initiatives. You might measure this by how many trials or experiments have been deployed or how many things at which you have failed in pursuit of breakthroughs.

Organizations that thrive in today's competitive economy successfully engage, encourage, and attract employee input. This is not exclusive to executive management teams. Both bottom-up improvements and top-down innovations are equally important. A successful and sustainable culture of collaboration encourages ideas, supports successes, and allows failures.⁹ Eliminating fear by making "failure" acceptable and expected prevents employees from suppressing their potentially winning ideas.

Empowering employees requires ongoing, active involvement of leaders at all levels. Companies are recognizing the positive change made possible by an engaged workforce rewarded for generating innovative ideas.



Instead of providing financial rewards, Haier names final products after the employees that thought of them. Having your name "stamped" on a product encourages well-thought-out ideas that employees are genuinely proud to represent.



Intuit hosts a company-wide awards ceremony with a "failure award." This recognizes the team whose idea ultimately failed but provided the business with the most valuable learnings.¹⁰

Break Down Barriers

Whether for refinement or revolution, innovation might also mean looking outside our own companies and viewing our competitors as partners. Together, we have the opportunity to deliver game-changing ideas to our customers that we otherwise couldn't. Affiliates can add value. Nearly half (47%) of respondents to a 2015 survey indicated they developed their most successful innovations in collaboration with a partner or by acquiring innovation from outside the company.¹¹

An excellent example of this is the United Launch Alliance (ULA), a joint venture between Boeing and Lockheed Martin. ULA has launched more than 120 satellites that provide critical capabilities to our military, track severe weather for meteorologists, and enable GPS navigation. The company now serves as the nation's leading space launch provider with the latest technology for mission success at the lowest possible cost.¹² The JV has achieved the leading market position because each company has looked beyond itself and recognized it could better serve its customers by leveraging the expertise of its strongest competitor.

9 "Improvement or Innovation," KaiNexus, accessed November 8, 2018, <https://www.kainexus.com/continuous-improvement/innovation>.

10 Kathleen McCaffrey, "10 Genius Examples of How To Encourage Employee Innovation," LHBS Collection, February 2017.

11 2015 Accenture survey of 500 managers and executives with roles in innovation at large US companies, https://www.accenture.com/t20180705T112257Z_w_us-en/_acnmedia/PDF-10/Accenture-Innovation-Research-ExecSummary.pdf#zoom=50.

12 United Launch Alliance, <https://www.ulalaunch.com/>.

Create Customer Intimacy

While we develop ideas internally and consider opportunities to collaborate externally, we must intentionally respond to meet the needs of our customers. Innovation creates value for customers when it provides a good reason to pay more, a way to spend less, or a societal benefit. Engaging key customers and end-users¹³ (through focus groups, user panels, surveys, transactional feedback, etc.) can reveal insight to help narrow our focus and cultivate meaningful, valuable innovation.

We can ask questions like

Was our service a good value for you?

Did we deliver on our promises?

Would you recommend us to others?

What can we do to serve you better in the future?

Big data analytics have become increasingly popular to gather this type of information and drive decisions and strategy. While that can be quite helpful, there are potential pitfalls if we don't also gather insight from a small data approach.



Voice of the Customer - Jim Tallman (C12 Member and president of Tallman Insights, Inc.) recommends a model for companies to hear, understand, and align with their target customers. Jeffrey Palermo (C12 Member and CEO of Clear Measure, Inc.) shares how the model has helped reorient his approach to innovation.



How do you systematically seek to understand your key customers and align your products and services?

Engines of Innovation

With all of these resources available to us, an organization's capacity for innovation ultimately depends on an *innovation system*: a coherent set of processes that dictate how the company identifies problems and solutions, synthesizes ideas into a business concept, and select which projects get funded.¹⁴

One example of a cutting-edge innovation system is Google Ventures' "sprint," a five-day process for answering critical business decisions through design, prototyping, and testing ideas with customers. GV developed the process in an effort to make teams more efficient in solving problems and serving customers. Before a sprint begins, the process requires the assembly of a team with a leader and a diverse set of skills from within the organization. By the fifth day of the process, the team watches target customers react to their new ideas through one-on-one interviews. This delivers meaningful insight (why an idea does or does not work) before the expensive commitment is made to launch. Such insight is much more difficult to obtain through large-scale quantitative data.¹⁵

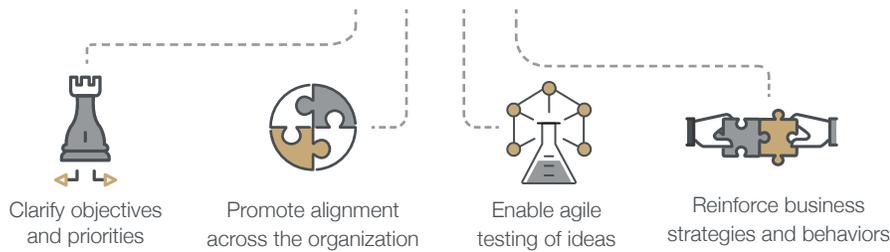
¹³ See previous C12 business segment *Retreating to Advance Together* (August 2016).

¹⁴ Gary P. Pisano, "You Need an Innovation Strategy," *Harvard Business Review*, June 2015, 44–54.

¹⁵ Jake Knapp, John Zeratsky, and Braden Kowitz, *Sprint: How to Solve Big Problems and Test New Ideas in Just Five Days*.

There is no one-size-fits-all innovation strategy, but there are necessary elements to design one that fits the specific needs of a company.

A clearly defined innovation strategy should



How to Launch a Rocket - Kevin Miller, C12 Vice President of Marketing, describes how C12 developed its Innovation Sequence.



See Appendix A for *How to Launch a Rocket: The C12 Innovation Sequence*.



Once your system is in place, you can use it to guide how you approach innovation. The matrix below demonstrates some of the many avenues we might pursue to renew our performance and value. It can be a diagnostic tool to help you analyze your competitive environment, and it can reveal gaps and potential opportunities for doing something different and upending the market. We have to decide how much of our effort should focus on technological or business model innovation based on what will yield the greatest value for our specific needs. Brainstorming radical visionary concepts is a great way to spur smaller innovations.

INNOVATION MAP

| | | | | |
|---------------------------|------|---|--|---|
| Newness to Company | High | New Offerings to Existing Markets | New Offerings to New Markets | Breakthrough Offerings (never before seen) ----- Game-Changing Business Model (cost, speed, ease) |
| | | Improvements to Offerings (features, value, quality, lead time) | Product Line Additions & Extensions ----- New Trade Channels | Offerings Repositioned, Repackaged, Relunched, Repriced for New Markets |
| | Low | Cost Reductions & Capabilities Enhancements | Introducing Offerings to New Geography/Industry | Leverage Existing Capabilities to Serve Unmet Needs of Existing Customers |
| | | Newness to Market | | High |



6 PRACTICES OF DISCIPLINED INNOVATION LEADERS

GROW faster than the market (e.g., 10% growth in a 5% market) by setting stretch goals and insisting on strategies and operating plans that require innovation. Based on a SWOT analysis of each major offering, make specific plans to leverage strengths and improve weaknesses.¹⁶

FUND new initiatives (e.g., offerings and capabilities) via business model improvement (BMI) and annual cost reduction goals in the core business. Continually challenge the status quo (e.g., organization design, staffing, lead times, tools, methods, communication, supply chain, compensation, packaging, pricing, etc.). Ask key questions about whom we serve, what we provide, how we provide it, how we make money, and how we differentiate ourselves to sustain a competitive advantage.

Establish an INNOVATION CULTURE through communication, accountability, and celebrating success. Remember, what we measure, report, and reward gets done, repeated, and improved! Challenge staff to imagine breakthrough levels of cost, convenience, volume, and features as well as how to get there.¹⁷

TRACK your percentage of overall sales from new offerings, markets, and approaches (see **Appendix B** for practical help) and develop a toolkit for assessing status and progress (e.g., metrics, reporting, team brainstorming and problem-solving,¹⁸ project protocol, and an innovation "war room").

ASSIGN champions responsible for product line performance and innovation, and provide regular spotlight opportunities for fresh feedback and recognition. Regularly review each product line's performance (e.g., sales trends, margins, ROA) and phase out declining products to spur innovative replacements.

MOTIVATE and educate teams through continuous learning and planning. Make innovation a constant topic in performance reviews, compensation, hiring, training, lunch-and-learns, and celebrations.



Discuss what an innovation process might look like for your company and whom you would appoint to implement and administer the process.

The Leadership Challenge

Setting an innovation strategy is more than a choice—it is part of our responsibility as Christian leaders to steward the gifts, resources, and opportunities God has entrusted to us. **He has equipped us with a team of employees to empower, colleagues to partner with, and customers to serve.** The economy and conditions of our markets will continue to fluctuate and evolve, and God's plan will unfold. There will always be many factors over which we have little or no control. But remaining relevant and overcoming our evolving markets will require the discipline of innovation.

“Don't mistake the edge of your rut for the horizon!”

Gary Hamel
The Future of Management

¹⁶ See previous C12 segment *Vision-Casting with Key Customers & Employees* (July 2008).
¹⁷ Vijay Govindarajan, *The Three-Box Solution: A Strategy for Leading Innovation*, Harvard Business Review Press, April 2016.
¹⁸ See previous C12 segment *Clearing the Cobwebs & Taking a Fresh Look - Appendix C* (July 2010).

HOW TO LAUNCH A ROCKET:

The C12 Innovation Sequence

THE MISSION: Outline a problem that needs to be solved, a new idea or concept that needs to be developed, or an opportunity for improvement or growth. Assemble a project team and determine an "arbitrator."

7

EXPLORATION - With input from subject matter experts (both internal and external), discover facts, resources, and methodologies to help define the expected outcome. Present and discuss all possible solutions to the problem.

6

CALIBRATION - Refine and consolidate all ideas, considering the expected outcome, budget, timeline, scalability, human resources, and mission effectiveness. Through this process, determine the best one or two ideas.

5

PROTOTYPE - Sketch out and/or build a prototype of the final idea(s), incorporating the fundamental user experience and functionality.

4

SIMULATION - Choose a feedback group based on a wide variety of demographics and acumen. Test the prototype(s). Implement changes based on the first round of feedback and retest.

3

ASSEMBLY - Based on final simulation feedback, build a launch-ready product.

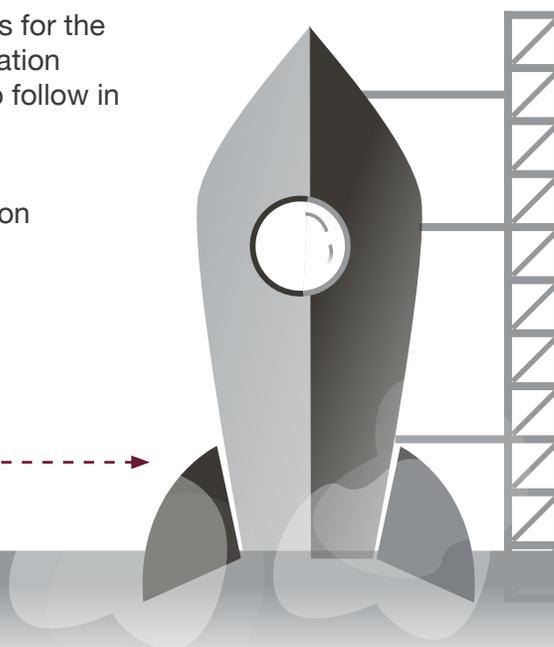
2

LAUNCH PREP - Create collateral and resources for the newly assembled product. Develop a communication strategy that outlines key dates and resources to follow in the launch sequence.

1

LAUNCH SEQUENCE - Execute a communication strategy to educate and build awareness in preparation for the upcoming launch.

GO FOR LAUNCH!



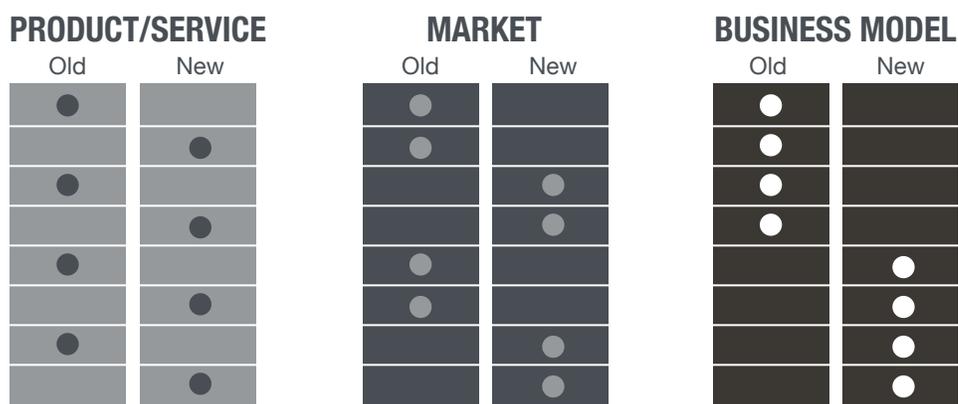
Tracking Our Progress

If we're serious about developing a culture of innovation, we must develop a common internal language and key metrics to track and celebrate our progress.

Consider the following when measuring your innovation efforts:

- whether you're growing faster or slower than the composite "organic" growth rate of the markets you're serving
- the percentage of your current sales activity that comes from new ideas you've implemented (e.g., new products and services, new markets and channels of distribution, and new business model innovations that open up formerly closed opportunities)

One way top-performing companies plan and track progress and long-term health is to have goals for the percentage of sales that comes from offerings or markets that are "new" (i.e., launched in the last three to five years, depending on the rate of change in the industry). The matrix below is one way to think specifically think about the possibilities for planning, goal-setting, and performance-tracking:



Those who have a lot of their sales in areas that reflect new initiatives are making significant strides in reshaping the future of their company and perhaps even their industry. Significant new sales in all three areas will definitely change the competitive landscape of your market.

It is not uncommon for companies to have more than a third of their sales coming from new offerings launched or new markets opened in the past three to five years. If internal business model innovations and capabilities have appreciably improved your value proposition with existing offerings and customers, this would also qualify as new. If you find more than one-third of your sales are coming from new activity, you're either very innovative or part of a rapidly changing industry. On the other hand, if you find yourself with less than 10% of your sales coming from new activities, you are at risk of being a stale company—internally and externally. You'll need to look at this in the context of your business.

Tracking Our Progress (Continued)

B

Even mature industries can roll out innovative, competitive, game-changing offerings to existing and new markets. Look at your product and service offerings and the markets you serve. What percentage of your current sales would be "new" in one or both of these areas within the past five years? Set goals that are valid for your industry and situation.

INNOVATION SELF-ASSESSMENT

| % of Sales, 'New' (Past 5 Years) | My Innovation Status |
|-------------------------------------|--|
| > 33% | Healthy & Vibrant Innovation Culture |
| 25 - 33% | Solid Emphasis on "What's New" |
| 10 - 25% | A Bit Sluggish in Planning Innovation |
| < 10% | Obsolete (Both Internally & Externally) |

REFLECTION QUESTIONS:

- *How would you rate your key competitors on this same basis?*
- *How can you challenge and equip your team to plan improvements and growth more aggressively?*
- *Highly innovative cultures can end up with low-margin, low-return chaos if they aren't excellent at planning and executing new projects and rollouts. How do you plan to ensure that the business performance of new initiatives will improve your future profitability?*

Recommended Books on Innovation



Simplifying Innovation: Doubling speed to market and new product profits—with your existing resources, by Michael Dalton

- Offers approach to new product growth based on the theory of constraints

Innovation to the Core: A Blueprint for Transforming the Way Your Company Innovates, by Peter Skarzynski and Rowan Gibson

- Fieldbook for making innovation a core competence within an organization

Double-Digit Growth: How Great Companies Achieve It—No Matter What, by Michael Treacy

- Identifies and exploits opportunities for increased revenues, gross margins, and profits

Customer-Centered Growth: Five Proven Strategies For Building Competitive Advantage, by Richard Whiteley and Diane Hessian

- Defines five proven strategies to grow—even under the most adverse business conditions

The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market, by Michael Treacy and Fred Wiersema

- Advocates mastering one of three "value disciplines": the highest-quality products, the lowest prices, or the best customer experiences

The Customer-Driven Company: Moving from Talk to Action, by Richard Whiteley

- Explains how to implement a plan to improve quality and service

The Ten Faces of Innovation: IDEO's Strategies for Beating the Devil's Advocate and Driving Creativity Throughout Your Organization,

by Tom Kelley with Jonathan Littman

- Contains ten roles people can play in an organization to foster innovation and new ideas while offering an effective counter to naysayers

The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, by Eric Ries

- Offers entrepreneurs a way to test their vision continuously and to adapt and adjust before it's too late

Sprint: How to Solve Big Problems and Test New Ideas in Just Five Days, by Jake Knapp, John Zeratsky, and Braden Kowitz

- Outlines a unique five-day process for going from problem to prototype

Recommended Books on Innovation (Continued)



Called to Create: A Biblical Invitation to Create, Innovate, and Risk,

by Jordan Raynor

- Shares compelling stories from an eclectic group of 40+ Christian entrepreneurs to help reimagine work as service to God and others

The Three-Box Solution: A Strategy for Leading Innovation, by Vijay Govindarajan

- Gives a simple vocabulary and set of tools for managing and measuring behaviors and activities to align an organization on the critical but competing demands of innovation.

What Got You Here Won't Get You There: How Successful People Become Even More Successful, by Marshall Goldsmith and Mark Reiter

- Serves as a guide to help eliminate dysfunction and move to where you want to go

Selling Blue Elephants: How to Make Great Products That People Want Before They Even Know They Want Them, by Howard Moskowitz and Alex Gofman

- Presents Rule Developing Experimentation (RDE) as the systematized process of designing, testing, and modifying alternative ideas, packages, products, or services so that the developer discovers what appeals to the customer