Innovation Center

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STRATEGY TOOLS

RITA MCGRATH

SENIOR EXECUTIVE STRATEGY

MASTERCLASS

STRATEGY IN UNCERTAIN ENVIRONMENTS

HIGHLIGHTS + KEY TAKEAWAYS

THE 3 STAGES OF INNOVATION

Measure your organization's level of innovation maturity and identify the weak points.

DISCOVERY-DRIVEN PLANNING

How you can innovate, grow new ventures, while at the same time minimize risk

INNOVATION MATURITY SCALE

Take a peek into the results from the Innovation Maturity Scale survey.

"We are honored to host Rita in Norway, and help drive innovation and transformation in Norwegian companies."

CHRISTIAN RANGEN
Trusted Advisor on Strategy, Innovation, and Transformation

THE THREE STAGES OF INNOVATION

The 3 Stages of Innovation

WHERE IS YOUR ORGANIZATION?

How do you know if your organization is moving ahead on your innovation efforts and actually making solid progress? What do you measure to account for it?

One of Rita McGrath's latest projects was developing a set of metrics that organizations can use to measure their level of innovation maturity.

She calls it The Innovation Maturity Scale, and during the strategy masterclass, outlined how companies here can learn to use it as a metric for innovation.

The scale runs from 1-8, where the lower your score is, the earlier your maturity stage is, and the more you have to improve on.

For easier discussion, McGrath further divided the maturity stages into three series.

1. Bias toward Exploitation: Status quo is taken for granted as the right way to do things. Emphasis on sustainable advantage. Often, a long history of success.

2. Innovation Theater: Desire to improve and innovate exists in islands, but there is little support across the organization. There may be workshops, boot camps and visits to Silicon Valley, but there is no sustained effort.

3. Localized Innovation: More innovative activity, but no official recognition of innovation as a discipline. One or two groups within the company initiate local efforts to innovate. Typically dependent on key sponsor, and often episodic.

4. Opportunistic Innovation: Innovation practices are recognized by senior executives as being an important proficiency. When opportunities are perceived there is more attention paid and resources allocated. The vast bulk of the organization still prioritizes the 'day job.'

5. Emergent Proficiency: Executive sponsorship includes dedicated resources of both time and money. First signs of innovation metrics. Early stage governance, funding & processes.

6. Maturing Proficiency: Strong executive commitment and resourcing. Teams have a set of repeatable, scaled, best practices to guide their innovation. Upper management monitors these quality indicators.

7. Strategic Innovation: CEO recognizes and articulates publicly that innovation is integrated into the company's central defining mission. Each step in the product development lifecycle benefits from the innovation practices.

8. Innovation Mastery: Corporate commitment to innovation at all levels creates a portfolio of wins, as well as cadres of highly-skilled practitioners, enabling the learnings and mastery of innovation practices to contribute to the global community.

Where do you stand on the maturity scale?

EARLY STAGE, MID-POINT, OR LATE STAGE INNOVATION?

The end goal is to achieve 8 -- Innovation Mastery.

Many companies in the world are practicing early stage innovation (1-2), some are at mid-point (3-4), while very few are at late stage (5-7).

Delving deeper into the Innovation Maturity Scale, McGrath detailed some major road signs within the three stages, so companies can identify where they stand on the scale.

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Early-Series Innovation Culture

Early stage innovation is characterized by:

- a focus on exploitation in the core business
- risk aversion
- sporadic and uncoordinated efforts
- low priority on senior executives' agenda

LACK OF CANDOR

Failures are hidden from executives and team leaders, or minimized. Risk-taking is discouraged.

COMFORT WITH THE CORE

No sense of urgency or crisis, emphasis on steady-state operations.

ISOLATED EFFORTS

Isolated groups and individual units experiment with innovation, but these are often not connected to strategy, dependent on the sponsorship of key leaders, and seldom lead to sustained success.

Mid-Series Innovation Culture

Mid-series innovation is characterized by the emergence of:

- governance and funding practices
- training of employees
- a common language
- innovation-friendly HR & evaluation practices

OPPORTUNISTIC INNOVATION

Dedicated innovation teams are authorized to pursue ideas discovered opportunistically; no consistent pipeline of innovations at all stages yet.

EXECUTIVE REGOGNITION

Understanding at a high level that innovation can and should be a key focus for the company; senior team members on innovation governance boards.

SHIFT FROM BLAME FOCUS TO LEARNING FOCUS

Disappointments and failures are examined for their learning benefit; emphasis on getting the most from the experiments that have been tried.

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Late-Series Innovation Culture

Late stage innovation is characterized by:

- well-understood and repeatable governance, funding, HR, and process practices.
- metrics are in place and transparent.
- senior leaders are required to demonstrate proficiency to advance.

COORDINATED INNOVATION

Innovation is tackled as a company-wide priority. Supporting infrastructure is in place, including technology that allows progress to be seen anywhere.

SYSTEMATIC INNOVATION

Plans of action for each area of the business, not just core business practices, are examined through the lens of a formalized innovation process.

SUCCESSFUL ATTEMPTS AT INNOVATION ACHIEVED

The formalized innovation processes have achieved success and learnings / practices have been incorporated back into the busienss / company. The company is mentioned as an exemplar in the business press in that regard.

Where to start?

The first step is to run an assessment. Start by detailing your portfolio and identifying the growth gaps, then you'll need to build a competency to take on the intricate challenges of innovation.

Training people in the language and tools of innovation will provide different lenses to view and consider new growth opportunities, while helping teams become more agile. Start with 2-4 opportunity spaces for learning projects, and senior level workshops.

DISCOVERY-DRIVEN GROWTH

Discovery-Driven Growth

DRIVING GROWTH WHILE MINIMIZING RISK

During the masterclass, McGrath pointed out how even the biggest and smartest companies sometimes experience defeat when it comes to new ventures -- Tropicana's packaging redesign in 2009 had sales dropping by 20% just 2 months after its launch, and represented a loss of 30 million dollars for the fruit juice company, Google has had many famous failures that costed hundreds of millions, and even Intel has seen its fair share of new growth ventures going off course.

While it often seems that way, planning for a new venture is not undisciplined or haphazard -- it is simply a different discipline than you would use in your core business.

This is where Discovery-Driven Planning, a technique that McGrath and Ian MacMillan developed, comes in.

The DDP approach is better suited for uncertain innovation projects than the conventional planning process used in your existing business lines.

When you practice DDP, you plan in stages up to the limits of your existing knowledge. Each time your plan progresses to the end of the stage, you stop and revisit your assumptions, update and redirect your efforts based on the new information you have.

This helps provide discipline and framework to the discovery process but at the same time allows the necessary flexibility for the project to change courses when needed.

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The 5 Components of Discovery-Driven Planning

DEFINE SUCCESS

The first step is to describe in specific terms what a successful outcome should look like. Create a "reverse income statement" by determining the profit margin required, then calculate how much revenue is needed to deliver it. This helps you see what a successful outcome looks like and if you're getting off track. In situations where success cannot be measured in financial terms, McGrath suggests looking at "things like number of users, size of network, uptake of a new solution, and so on."

DO BENCHMARKING

The next step is to reality-test your assumptions. How much does success imply for market share? Is the demand in the market sufficient for what we need to do? How do your key metrics stack up in industry? Test your ideas against the industry benchmarks.

DEFINE OPERATIONAL REQUIREMENTS

McGrath emphasized how important it is to identify all activities required for this new venture to meet the profitability targets you've established. "Be practical -- who do you need to produce, sell and deliver the new product / service? How many salespeople do you need? How many calls do they have to make? How many sales do they have to close and in what time period?"

CONVERT ASSUMPTIONS INTO KNOWLEDGE

In highly uncertain environments, the facts are usually not there yet. So it is important that organizations document the most important assumptions around costs, profit, revenue etc, then test them and update their hypothesis as the project proceeds. The biggest danger is untested assumptions assumed to be facts.

PLAN CHECKPOINTS

Identify the checkpoints the project will be moving through (for example: first prototype, first customer interaction, etc), and update your assumptions based on new data. Each checkpoint should come before you invest more money or time into the project.

DEVELOP YOUR OWN DISCOVERY DRIVEN PLAN. CLICK HERE TO DOWNLOAD YOUR WORKSHEET FROM RITAMCGRATH.COM

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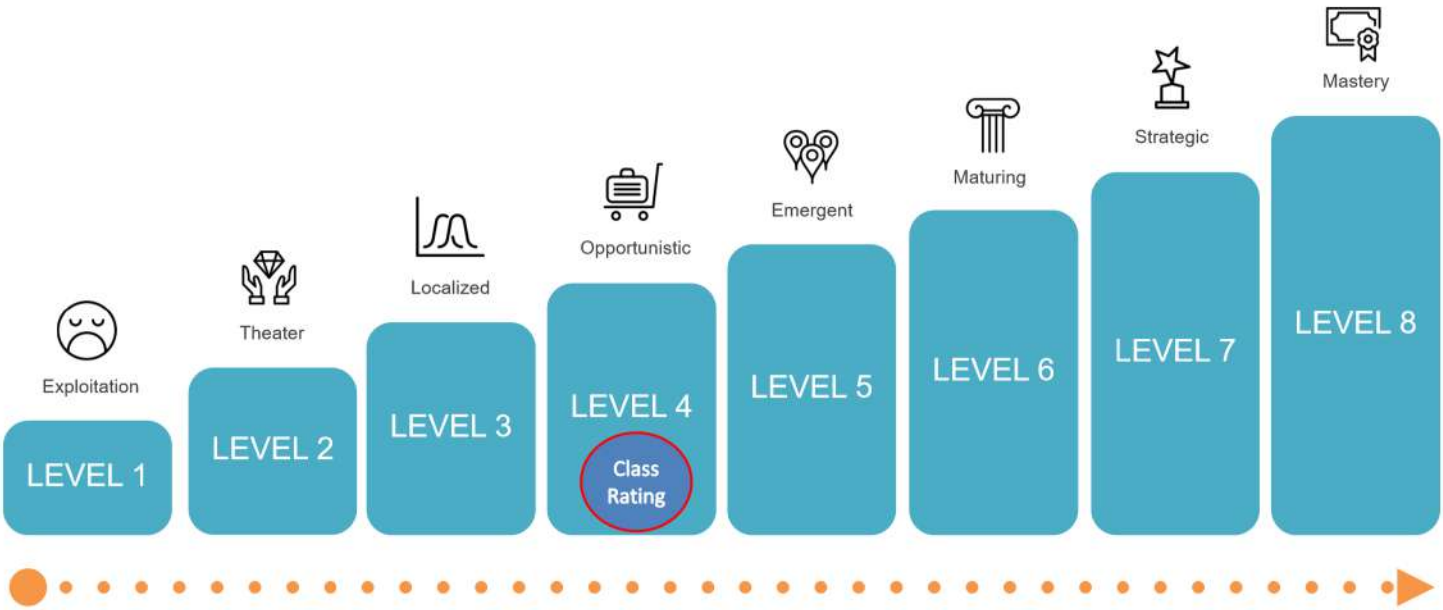
THE INNOVATION MATURITY SCALE SURVEY



How Do You Measure Against the Industry Average?

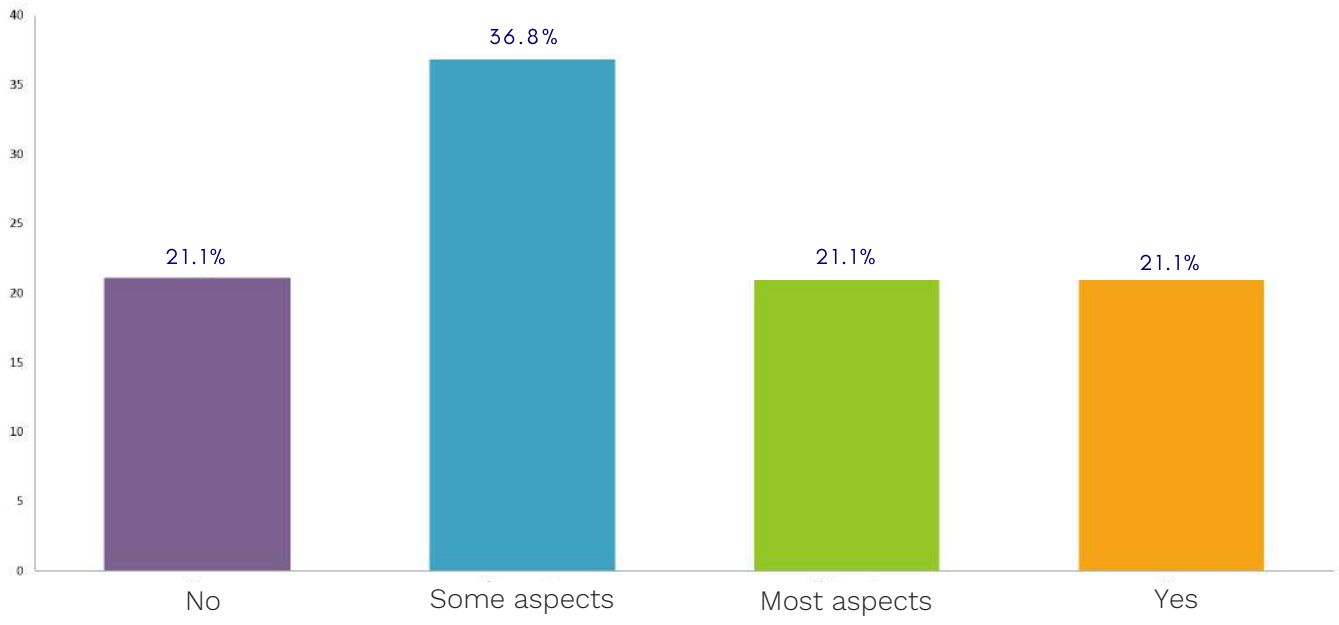
Developed by Rita McGrath, the Innovation Maturity Scale survey helps companies figure out how mature their innovation processes are and how far they are from developing a real innovation proficiency.

The survey is made up of the building blocks of innovation, encompassing governance and funding, innovation metrics, culture, and structure -- giving a pretty clear picture of how the leading Norwegian companies that attended the Masterclass were doing in terms of creating an innovation capabilities.

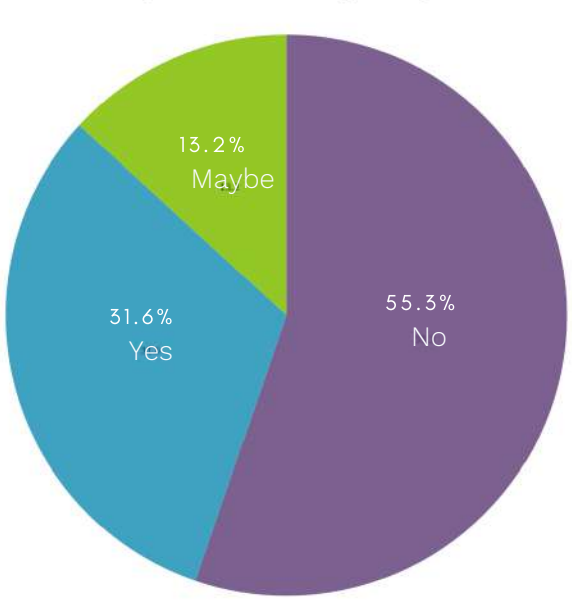
An overall assessment of the responses to the Innovation Maturity survey taken during the Masterclass puts the collective grade at Level 4. The industry average stands at Level 6.

On the next page are some interesting highlights from the summary report that we hope will help frame the next steps to take for the companies moving forward.

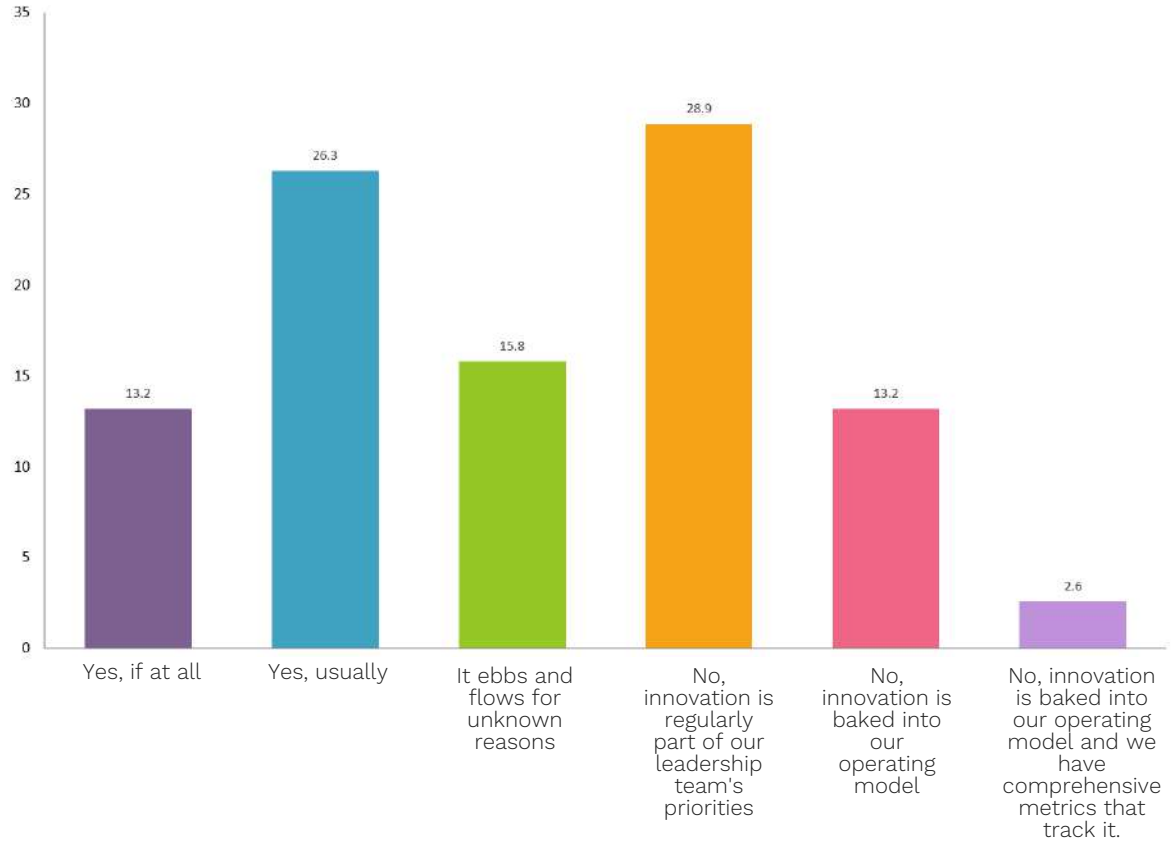
Could you describe your organization's innovation system?



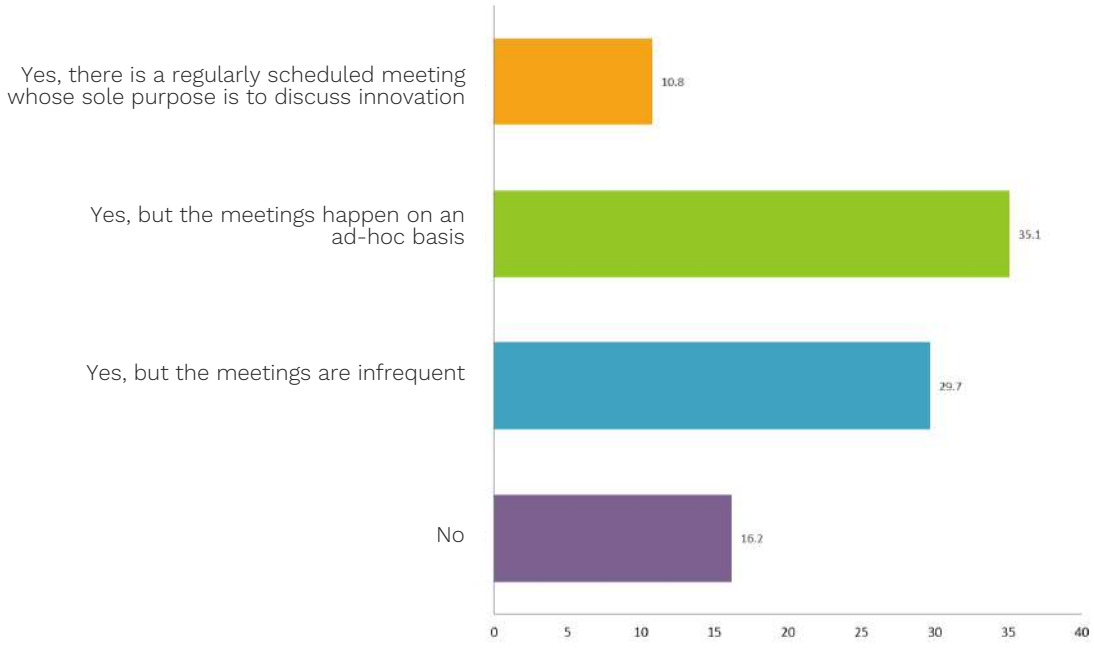
Do you believe that top management regards every employee in your company as an innovator, potentially capable of shaping corporate decisions?



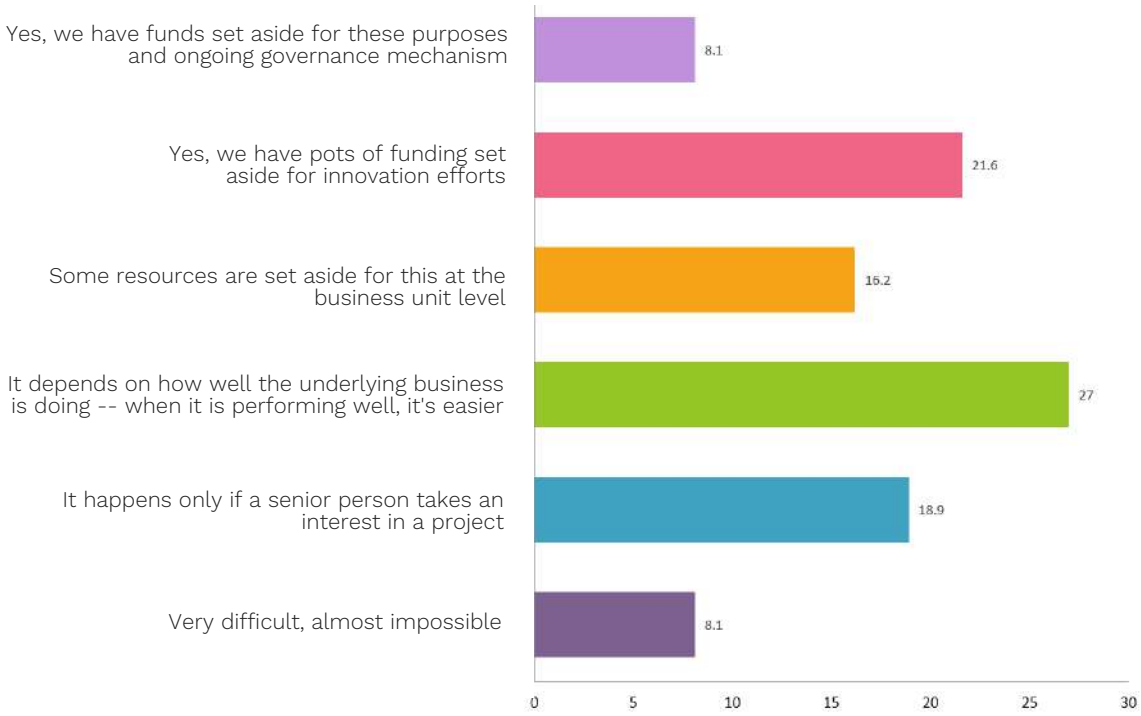
Innovation is an on-again, off-again process.



Innovation is the subject of senior level reviews, in a dedicated process.

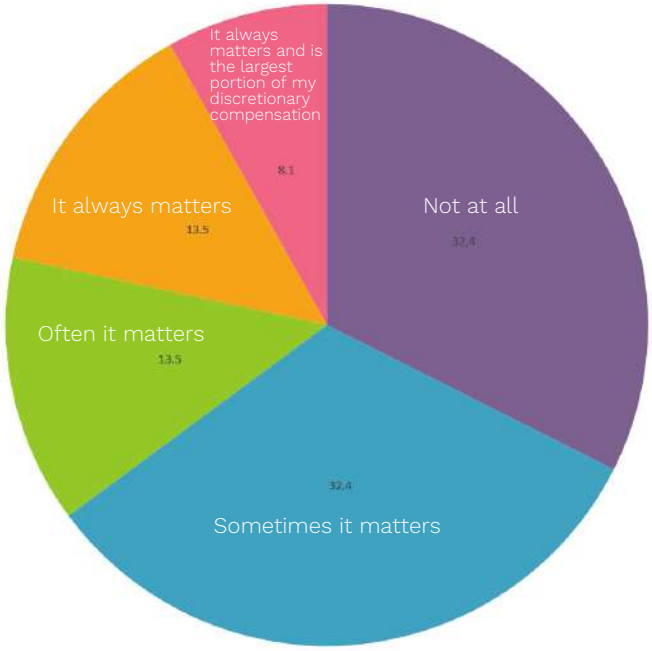


How difficult would it be for you to get small amounts of experimental capital to test a new idea?

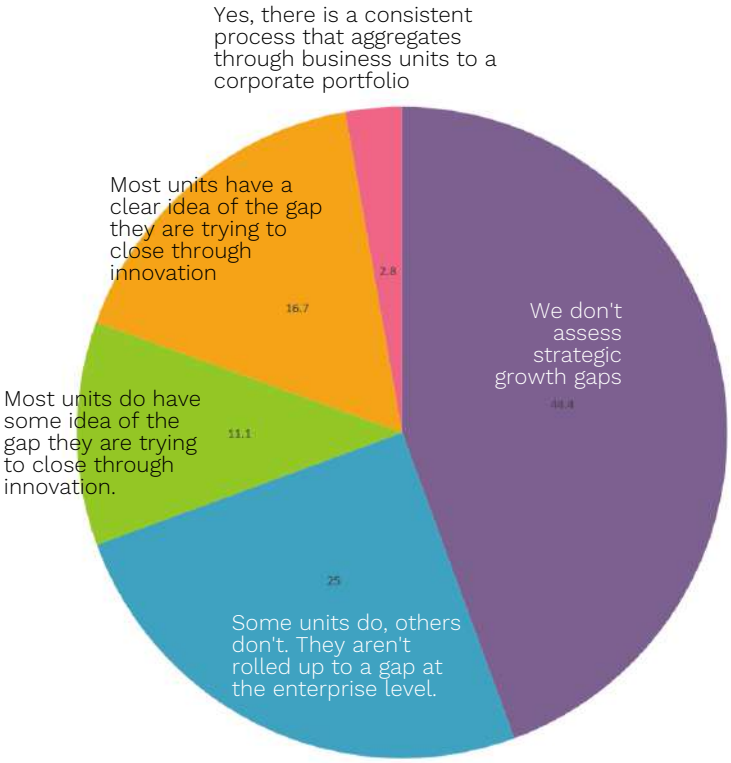


Employees have a legitimate mechanism to devote discretionary time to innovation and managers are accountable for seeing that they use it.

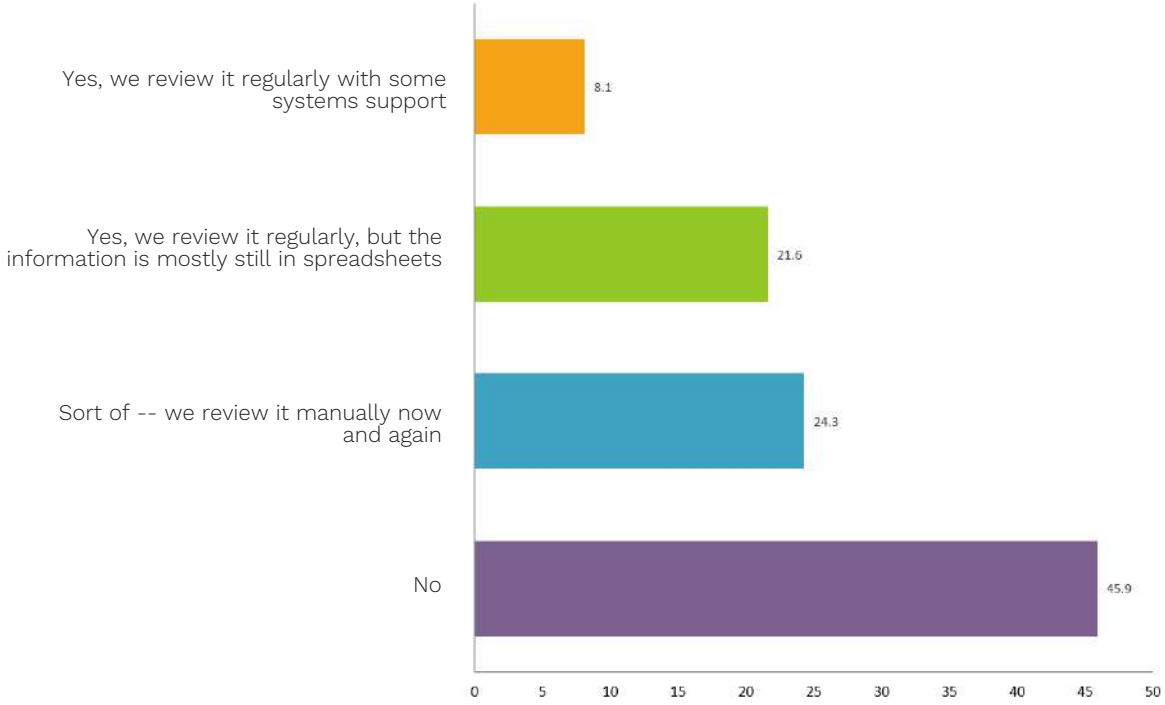
How important is innovation to your own performance metrics and in your compensation?



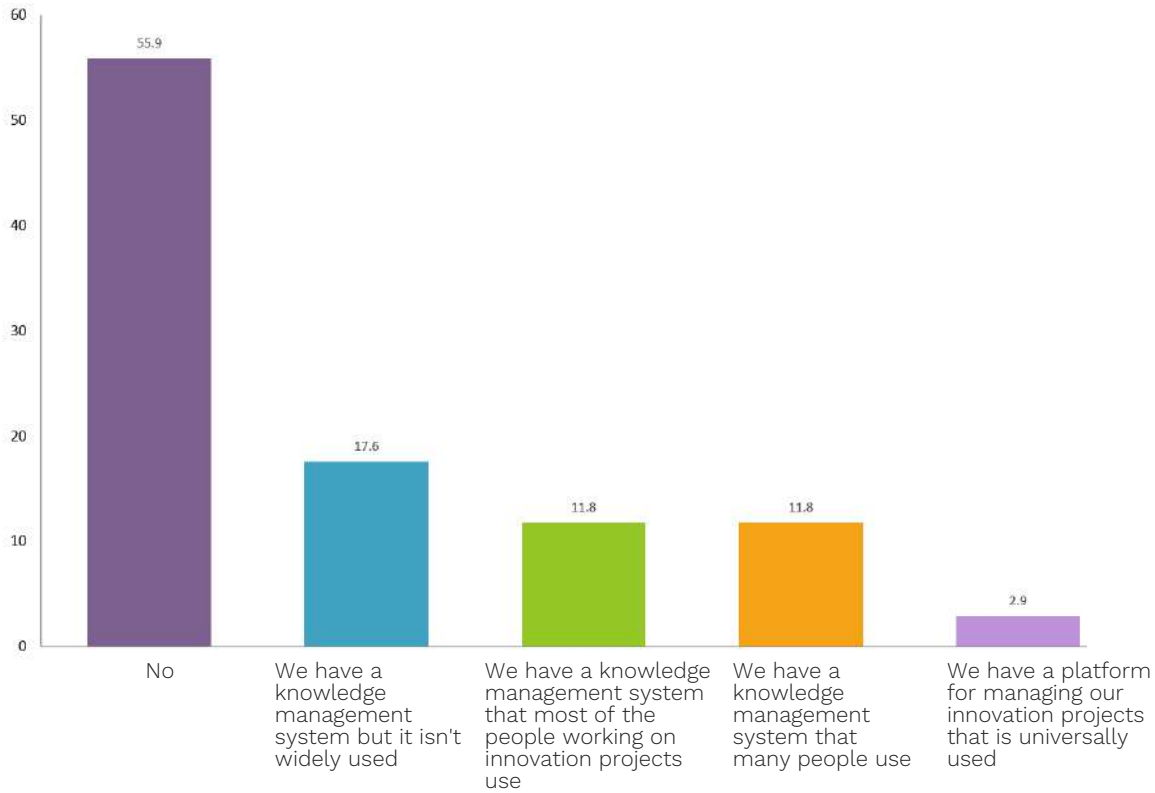
Each unit knows and tracks its growth gap measures (the difference between strategic objectives and how much can be delivered by the base business)



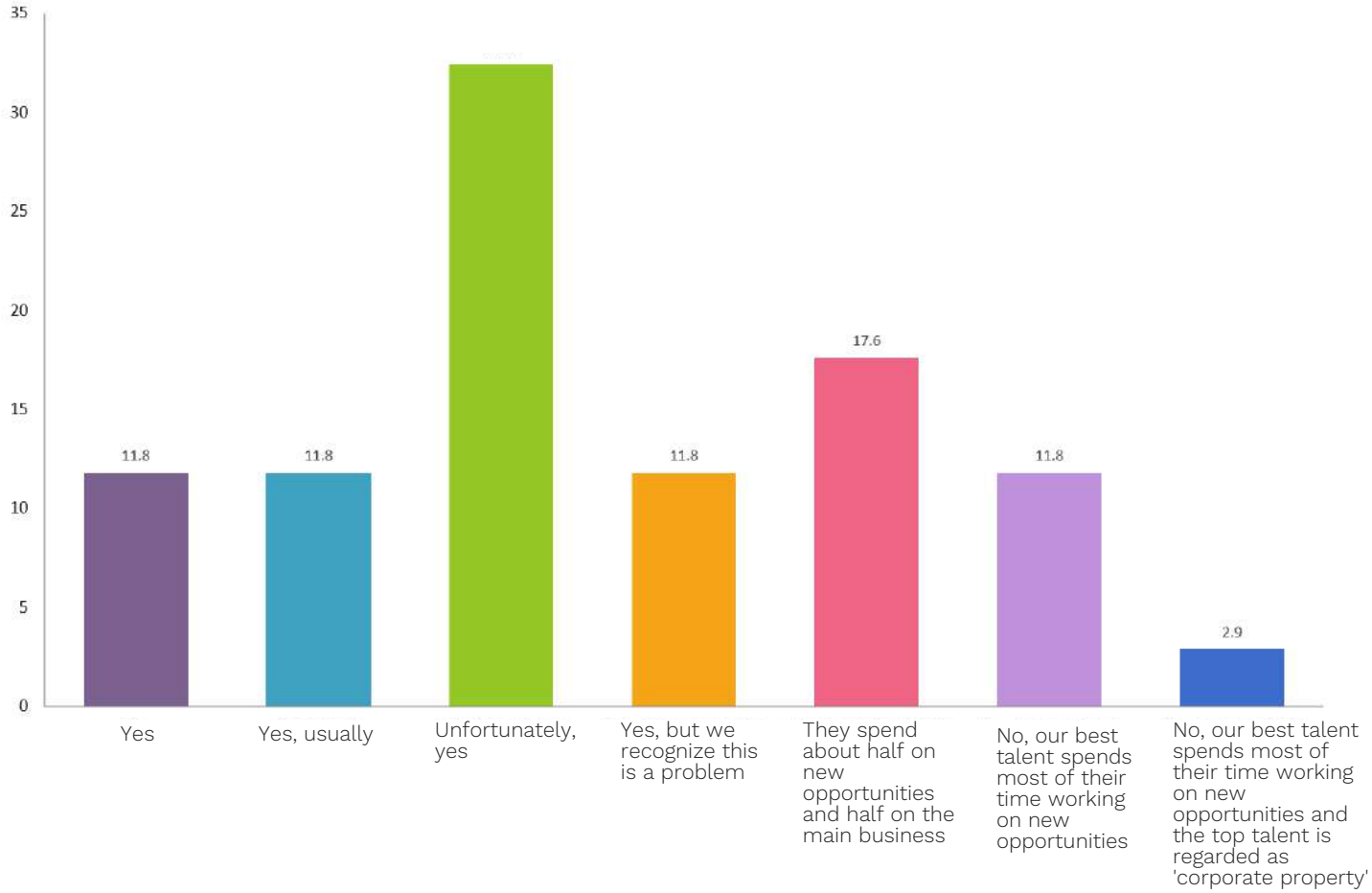
We have a holistic view of our innovation pipeline and can access it easily through technology.



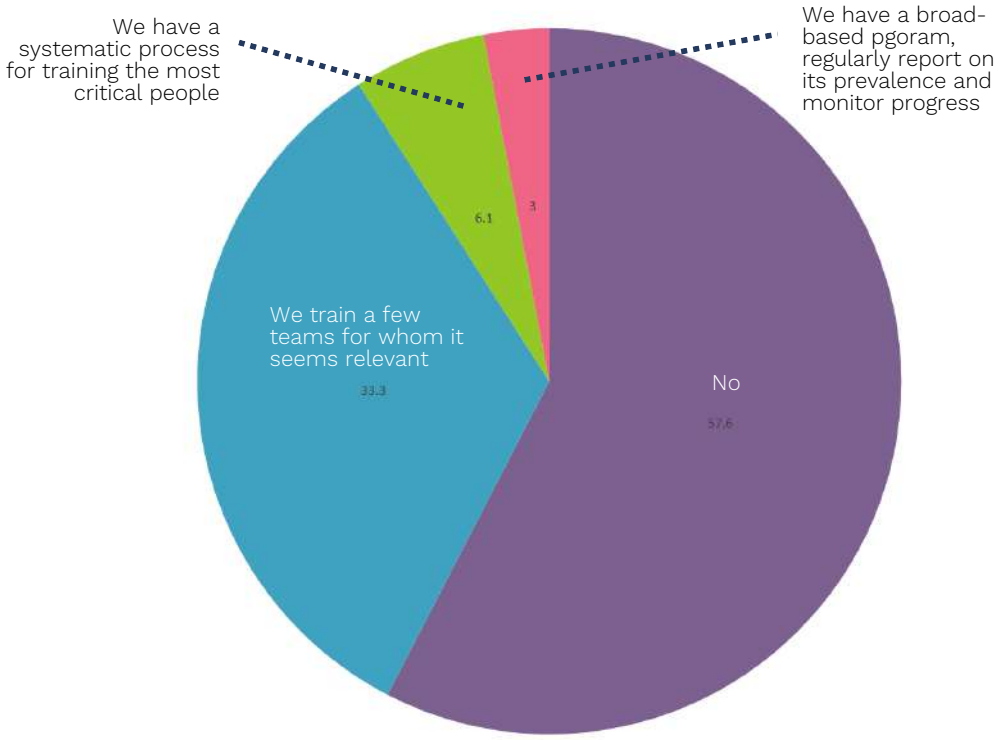
We have technological infrastructure that facilitates the sharing of ideas, creating conversations and collaborating on innovation projects.

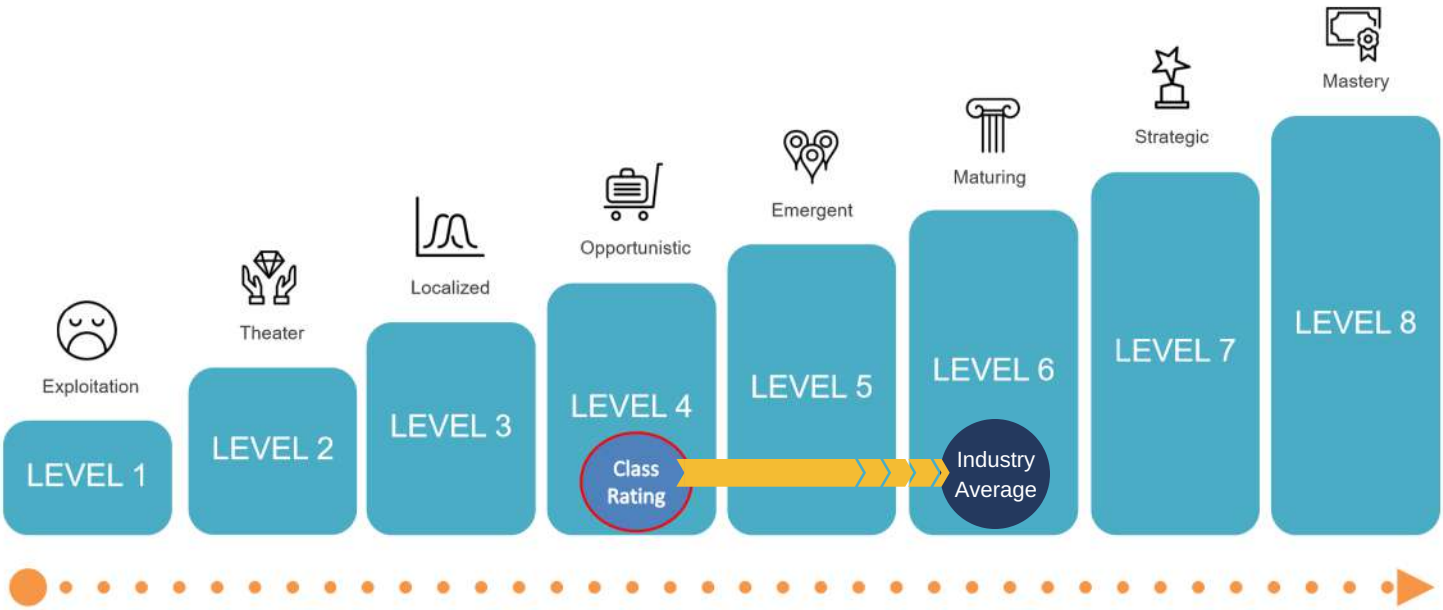


Our best talent spends most of their time problem-solving and handling crises.



We make broad-based innovation training widely available.





What Next? Key Takeaways to Move Up the Scale

BY CHRISTIAN RANGEN, BUSINESS SCHOOL FACULTY, SERIAL ENTREPRENEUR, STRATEGY AND INNOVATION ADVISOR.

When it comes to innovation, most firms have a long way to go -- also in Norway.

We are facing an unprecedented combination of digital disruption, industry shifts, new energy solutions, new growth markets, faster pace of business model innovation, and really, a new world of strategy.

To truly compete, top management across all industries will need to build deep innovation capabilities, invest outside their core and lead transformation.

This might be their number one challenge in the decade ahead.

SOURCES & TOOLS

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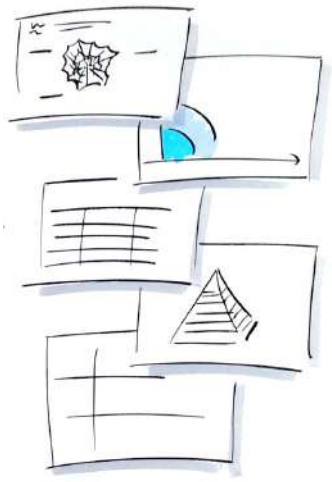
Strategy Tools

Rita McGrath & Christian Rangen has developed strategy tools that facilitate a better, more efficient innovation process.



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"We learned a lot to bring back to the company."

HEGE HOMLONG,
INNOVATION DIRECTOR, TINE

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