



Creating a Culture of Innovation

Fresh Consulting

freshconsulting.com

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Introduction

All organizations need to build an innovative infrastructure—including tools, systems, people, culture, and process—to be competitive in the modern marketplace. This rapid rate of technological innovation and competitiveness in our global economy is best exemplified by this staggering fact: only 52 companies remain on the Fortune 500 list—a list of the 500 biggest companies by annual revenue—since its inception in 1955.¹ Comparing the 40 years from 1955 to 1994, with the following two decades, we can see the rate at which new companies have joined has nearly doubled.

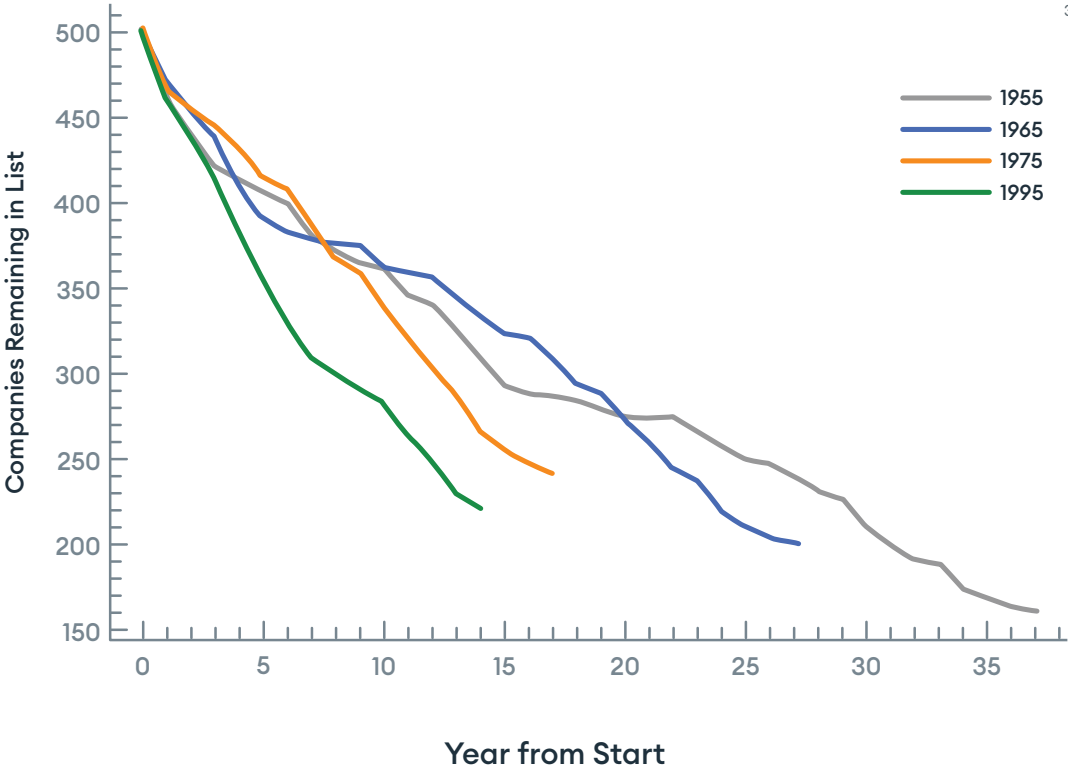
Change in Fortune 500 Firms			
Period	Surviving Firms	New Firms	New Firms/Year
1955 - 1994	153 (30.6%)	347 (69.4%)	8.5
1995 to 2016	188 (37.6%)	312 (62.4%)	14.2

Clearly, the rate at which companies need to adapt to change is increasing. Still, many organizations struggle to derive effective results from innovation efforts. Teams burn through resources, and leaders watch other organizations increase their competitive advantage by unlocking innovation within their industry, or in new markets. Then, when innovation efforts are recognized as failures, it can be difficult to build organizational momentum to reinvest in future endeavors.

¹ <https://www.aei.org/carpe-diem/only-52-us-companies-have-been-on-the-fortune-500-since-1955-thanks-to-the-creative-destruction-that-fuels-economic-prosperity>

² <https://www.aei.org/carpe-diem/fortune-500-firms-1955-v-2016-only-12-remain-thanks-to-the-creative-destruction-that-fuels-economic-prosperity/>

Change in Fortune 500 Firms



A prime example of a now-defunct company that, stuck between the two different risks, steered away from strategic, core innovation, is Kodak. From a \$10B company listed on the Dow Jones Industrial Average in 1981 and ranked as the No. 1 seller of digital cameras in the U.S. in 2005, to filing for bankruptcy in January of 2012, Kodak is just one of many examples of companies that, although they appeared to be dominating their market, did not address the fundamental changes in the way their customers created, processed, and shared digital media.

³ <https://www.wired.com/2012/06/fortune-500-turnover-and-its-meaning/>

When it comes to driving core innovation, however, it isn't only about addressing technological changes in the market. According to a recent research report by KPMG, *Benchmarking Innovation Impact*, almost 60% of senior leaders say that company culture is a key challenge in scaling innovation efforts.⁴ Building an innovative culture requires much more than technology. It involves creating a workspace that spurs ongoing engagement and action. Putting these pieces in place and nurturing them helps innovation thrive continually. The risk of not innovating is far too great to be ignored.

This paper discusses the components that make up an innovation culture. These range from tools and protocols helping employees to be creative, to systems and strategies that grow those great ideas. It'll detail what it means to be an effective innovator, and how to build innovation capacity within organizations.

First, it explores the diversity of innovation methodologies today, and how they differ. This will include a breakdown of the different categories of innovation and nuances in organizational innovation design. Lastly, it analyzes the aspects of developing an innovation program within an organization by aligning people, processes, and tools.

⁴ <https://info.kpmg.us/content/dam/info/en/innovation-enterprise-solutions/pdf/2019/benchmarking-innovation-impact-2020.pdf>



Capturing Varying Types of Innovation

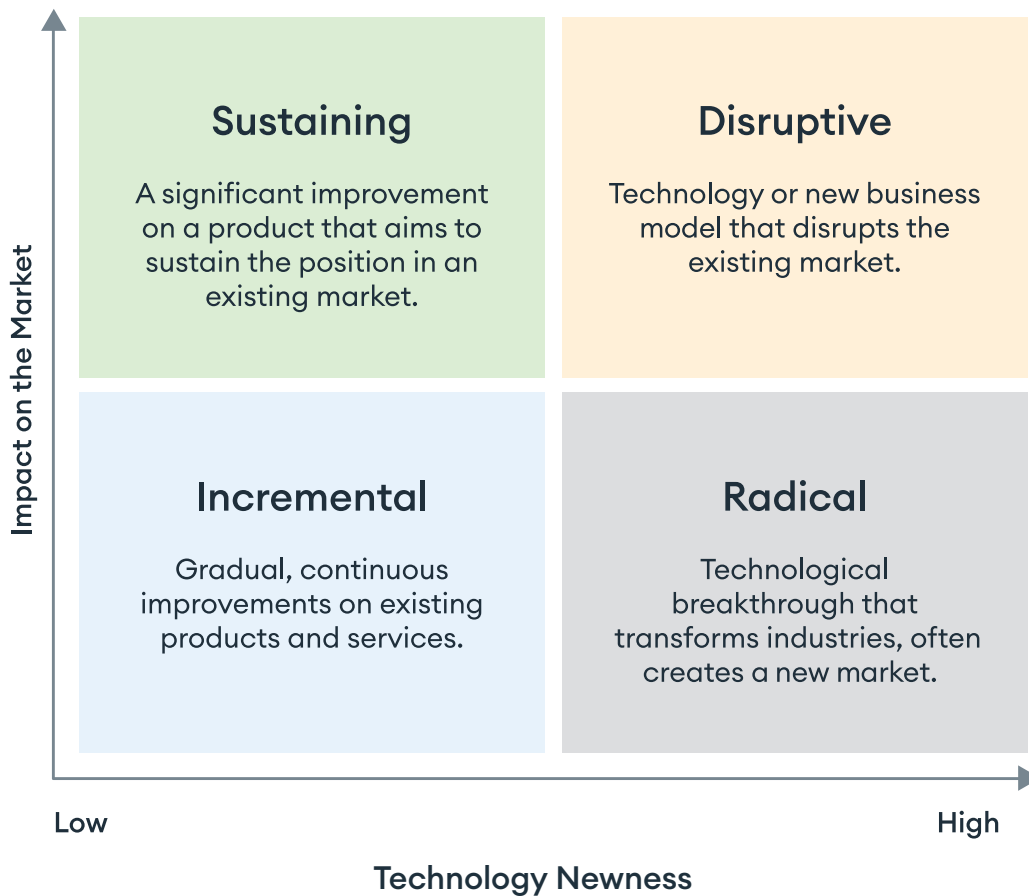
At the highest level, innovation can be defined as making something new that creates value. However, it's important to understand the variety of approaches to innovation to determine which ones will provide the most value.

Here's a look at the different ways innovation can take shape, how those definitions lead to different outcomes, and why certain methodologies may be more effective than others.

The Different Types of Innovation

Four primary types of innovation can be plotted on a 2x2 grid of technology newness and market impact.⁵ Technology newness describes whether an innovation is based on emerging or well-proven technologies. Low-market-impact ideas are easier to implement, with compounding effects over time. High-market-impact ideas tend to be difficult, costly, and risky to develop, but arrive with high potential value.

⁵ <https://www.viima.com/blog/types-of-innovation>



Disruptive Innovation

Disruptive innovation is often the most well-known type of innovation. It comes with compelling uses of new technology, and high-impact results. While disruptive innovation is extremely flashy and grabs headlines, it comes with many nuances and challenges. The most common organizations exhibiting the characteristics of disruptive innovation are startups targeting overlooked segments in the market to deliver an offering that is more affordable, convenient, or simpler than the established players can.

However, the challenges of market entry position when dealing with disruptive innovation cannot be ignored. Disruptors have to come into the market in low-end footholds or unique footholds, then grow into a leading position. Low-end footholds are opportunities catered to less-demanding customers. Established incumbents don't serve these customers, as they're focused on the most profitable and demanding customers. Their offerings overshoot the performance requirements of the less-demanding customers, opening the door for a disruptor to provide them a product that is "good enough" in their eyes, at a lower price point.

Unique footholds, meanwhile, capitalize on shortcomings in the current offerings, or focus on serving unique segments. By targeting a small very specialized group, an organization can establish its offering. Starting with a low-end or unique foothold, however, means disruptive innovations don't catch on with mainstream customers until quality catches up to their standards.

One of the most striking examples of disruptive innovation came with the release of the initial iPhone in 2007. This product combined the iPod with a phone. This disrupted both industries, as now two highly desirable devices could be obtained in a single form factor. The iPhone as a smartphone, with the App Store and its multipurpose use cases, only further separated it from all other products at the time. In 1998, Netflix disrupted Blockbuster's status quo in the home movie rental business.

Netflix's original DVD-by-mail service was far simpler (delivered to your door) and cheaper (no late fees), helping it find its distinct wedge in the marketplace. "It took Blockbuster years to start offering a similar service as Netflix and by the time they finally shifted to a subscription service," writes Marjolein Oomen at BMI, "Netflix already had started the process of shifting their customers to become streaming subscribers, quitting the DVD rental business altogether."⁶ In 2007, Netflix made a way for its customers to watch programming from the comfort of their couch, without the hassle of returning anything at all, by offering streaming subscriptions.⁷

⁶ <https://www.businessmodelsinc.com/exponential-business-model/netflix/>

⁷ <https://www.altitudeinc.com/netflix-applies-disruptive-innovation-to-itself/>

The Evolution of iPhone



Incremental Innovation

Incremental innovation constitutes a gradual, continuous improvement of existing products and services. While the least flashy of any of the categories, it offers the clearest value to an established bottom line. By continuously improving products, services, and business operations, organizations can reduce stagnation and consistently grow market share.

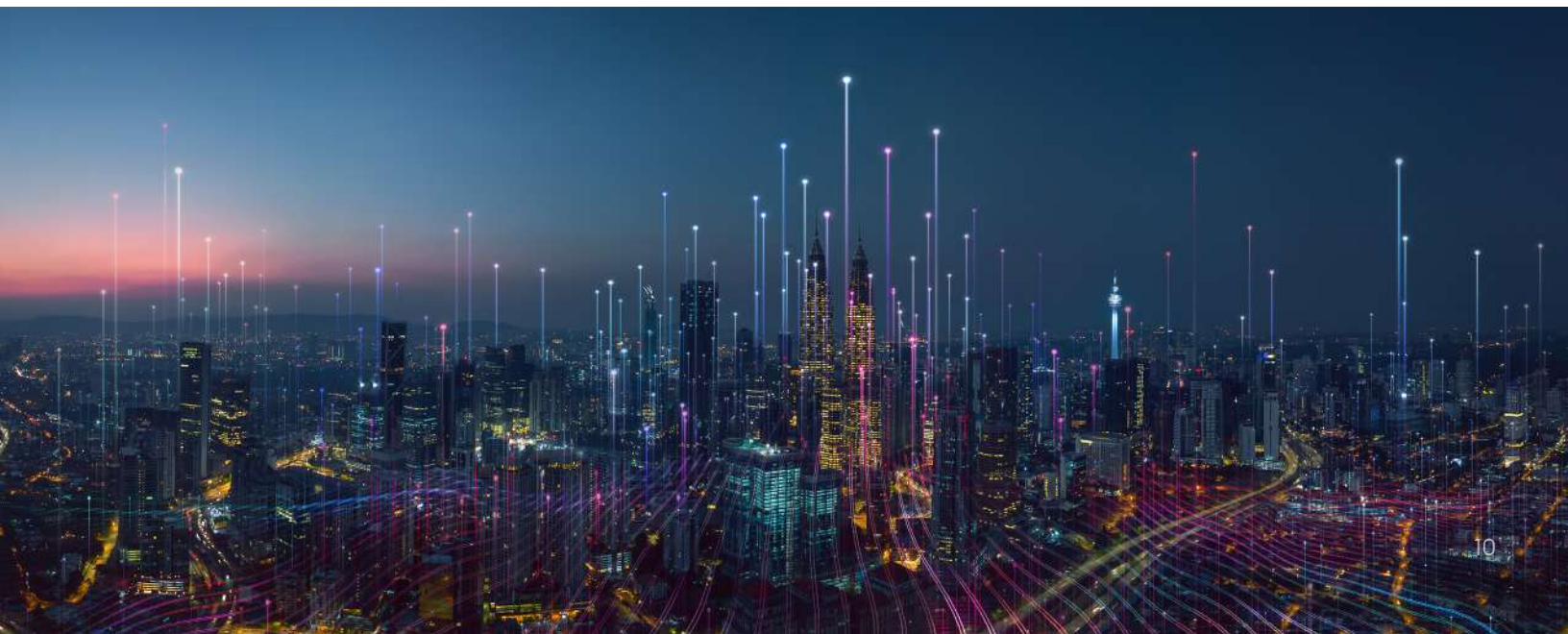
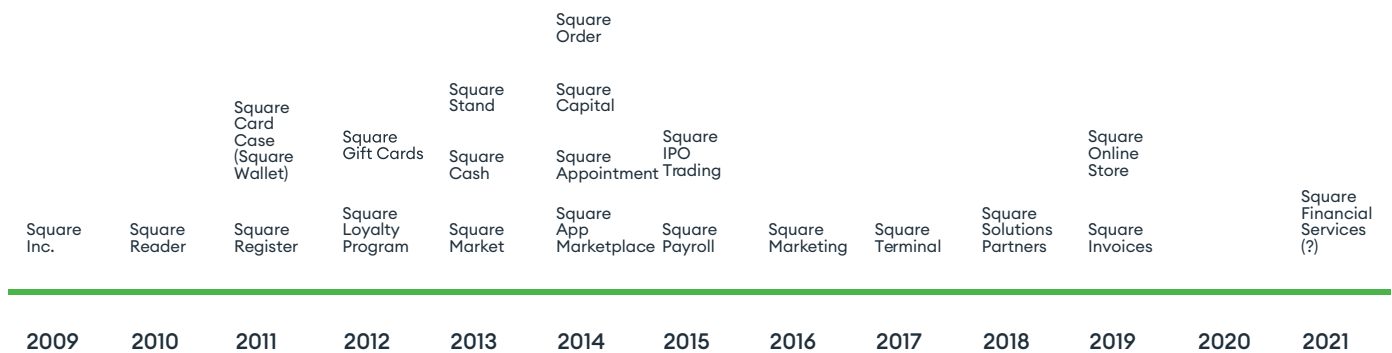
While incremental innovation is extremely valuable towards improving current products, it is also the slowest of the different types of innovation. While incremental innovators make progress, disruptive innovations from competitors can still upend their position in the market.

Continuing the analogy from the previous section, the iPhone also serves as a tremendous example for incremental innovation. Since the groundbreaking release of the original iPhone in 2007, new models have included improvements year over year that keep the device relevant and useful. This type of innovation increases value on a consistent basis, creating new value propositions and new reasons to upgrade year over year.

Sustaining Innovation

Sustaining innovation is the best way to protect an organization's position in a market. Where incremental innovation focuses on small improvements to existing products and services to increase value or customer satisfaction, sustaining innovation focuses on larger changes to gain or maintain market-leader position. This category is focused on creating new features or services that differentiate a product from all of its competitors.

Jim McKelvey and Jack Dorsey's startup, Square Inc, is a prime example of sustaining innovation. From the launch of the Square Reader in 2009 to the Square Online Checkout in 2020, Square has quickly grown to command a large market share. Square constantly created new form factors, devices, and infrastructure to keep it at the forefront of the payment space.



“ As Square has matured their growth engine has evolved. You don't reach a \$3.25 billion valuation on the back of any one hack... Square's growth, however, continues to be driven by the core components of their hardware/software system, and their ability to continually innovate to make payments easier and more accessible for both consumers and small businesses alike.”

- EVERETTE TAYLOR, GROWTH HACKERS GROWTH STUDY ⁸

⁸ <https://growthhackers.com/growth-studies/square>



Radical Innovation

Radical innovation typically utilizes a technological breakthrough that transforms industries and creates new markets. This type of innovation completely changes how an organization interacts with the marketplace. The success of the underlying technological shift to drive this type of innovation is often related to the organizational behaviors and capabilities of the firm that create the right conditions for new ideas to be successfully commercialized in the first place.

Radical innovators create a market where none existed, finding a way to turn non-consumers into consumers. Uber Eats is a good recent example. After Uber established itself as a distributed ride-sharing service, it looked for adjacent markets where it could apply its infrastructure. A scaled food delivery service that had never been successfully implemented before, Uber Eats created a market where a multitude of restaurants was available to consumers on-demand. This immediately gave rise to a new industry sector, with competitors like DoorDash, Grubhub, Postmates, Caviar, and more.

A Harvard Business Review article on radical innovation gives a strong example of how new markets can disrupt and bankrupt competitors:

“ In the early days of photocopying technology, Xerox targeted large corporations and charged high prices in order to provide the performance that those customers required. School librarians, bowling-league operators, and other small customers, priced out of the market, made do with carbon paper or mimeograph machines. Then in the late 1970s, new challengers introduced personal copiers, offering an affordable solution to individuals and small organizations—and a new market was created. From this relatively modest beginning, personal photocopier makers gradually built a major position in the mainstream photocopier market that Xerox valued.”⁹

⁹ <https://hbr.org/2015/12/what-is-disruptive-innovation>

Radical innovation can oftentimes be an innovation of adjacencies, nearby areas a company can move into, either applying technology to a new market, or identifying new structures that could create new sectors. Understanding how technologies can reshape an industry or create opportunity leads to enormous value. Similar to disruptive innovation, it is important to always stay open to potential opportunities, but not overly invest in trying to force radical innovation. Having a methodology that enables your organization to analyze new technologies as they emerge from the laboratory, assessing whether they can have market impact, enables stakeholders to dynamically invest in the potential of disruptive or radical innovation.

The Benefits of Utilizing All Types of Innovation

Each of these categories has value. And certain organizations may have existing strengths that favor one over another, or a strategic plan that prioritizes one approach. However, a system that combines all four creates robust and effective innovation, while uncovering blind spots to potential market or consumer shifts.

Without incremental innovation, products and services can fall behind. Customer experience and retention both suffer. Without sustaining innovation, a company has to work harder to reach market leader status and gain a majority market share. And without radical or disruptive innovation, a company misses out on massive potential value, while risking being disrupted by new methods or technologies.

By implementing all four, a company ensures short-term success by optimizing its current products and differentiating them from competitors, while also protecting long-term sustainability. Innovation applied properly can be a strategy for both present and future success.

Innovation Approaches and Trade-offs

With a foundation for understanding different types of innovation and their impacts, we can discuss approaches to achieve them. Understanding different implementations' specifics prior to structuring an innovation program helps us understand respective strengths and weaknesses.

To do so, we will break down key characteristics around innovation strategies. We will then discuss their benefits and shortcomings with reference back to the categories described above.

Approaching Innovation Problem-by-Problem

There are many ways to approach different types of innovation in regards to frequency of activities, resources utilized, and organizational capacities. One major aspect that changes from organization to organization is how innovation is applied. Innovation can be applied either on a problem-by-problem basis or used as an ongoing process, more tightly integrated into core workstreams. Applying the problem-based approach tends to be the far more widespread model; after all, an ad hoc approach requires no specific organizational changes, just an order, usually from the top. Innovating on a specified problem also tends to provide clearer metrics of success and impact than a fully integrated approach. In terms of a cost and ROI, innovating on a few important problems as they arise can limit spending to a research and development branch. Ultimately, companies tend to find it far easier to start innovating on specific challenges (such as with a **sprint**) than to integrate a full innovation strategy and culture.



Structuring Ongoing Innovation Approaches

Ongoing innovation, on the other hand, is a process-based approach for engaging in ideation and innovation activities. Instead of starting innovation any time a suitable problem statement is found, innovation occurs as part of a designated process, with ideation and collaboration included at key steps.

This incorporated strategy enables incremental changes, a gradual evolution of activities, operations, and creations. According to researchers at UCSD’s Blink, an online source of information, training, and tools for UC San Diego faculty and staff, “When continuous innovation is executed deliberately across all levels and all functions of an organization, it can drive the company forward one project, change, and idea at a time.”¹⁰ This approach is more of a process than a solution, which enables incremental innovation to be developed directly into product development cycles. It also supports ongoing processes for selecting new technologies and identifying potential adjacencies, which can open the door to radical innovation.

An ongoing innovation approach also supports sustaining and disruptive innovation. Instead of focusing on specific problems when they arise, an organization can approach innovation activities with a regular cadence.

This consistency enables better measurement, improving innovation efforts over time. By thinking of innovation as a process, groups can find elements that are working and enhance them, while fixing or removing the aspects that aren’t creating value.

¹⁰ <https://blink.ucsd.edu/sponsor/innovate/whatis.html>

Siloed Approach

When building internal innovation capabilities, it has historically been the case to silo those efforts in a “**skunkworks**” or R&D lab-type environment. A traditional siloed model is to build a team, give the team a certain amount of funding, then wait to see what results they come up with.

A siloed approach can be easier to launch within an organization, as it only requires a few dedicated team members and some funding to start. It also enables a group outside of the core day-to-day work to provide a fresh perspective on problems or opportunities. However, this approach can overlook many of the main benefits of a more integrated approach.

When day-to-day employees aren’t engaged with innovation, the organization misses out on having valuable insights and ideas spread across the organization. It blocks lower-level or non-technical employees—who may be more familiar with the products or services—from getting oxygen to their most influential or innovative sparks.

Additionally, a lack of leadership integration, increased organizational barriers, and communication issues can make getting buy-in on innovative initiatives more difficult, reducing their overall impact. Feasibility, cost, and timeline are rarely incorporated into the ideation process as the relevant roles responsible for those aspects aren’t included. Since project managers, engineers, and business executives are separated from the ideation process, feasibility, risk, and value aren’t weighed across multiple perspectives.

Executives may feel hesitant to put everyday employees’ time towards ideation and innovation. However, the risk of a siloed approach can be costly. When organizations involve cross-functional team members from all levels, team members can provide more accurate scopes and avoid blind spots.

Company-Integrated Approach

An integrated innovation approach starts with employee engagement. Incorporating employees into innovation processes increases engagement, productivity, and overall satisfaction in their job. A study by Kreuger & Kilham found that 59% of engaged employees say that their job “brings out their most creative ideas” in comparison with only 3% of disengaged employees.¹¹

A different study by the Chartered Management Institute found companies that encouraged innovation experienced lower sickness and absence rates, along with higher employee engagement.¹² These effects reduce turnover rate and directly improved talent acquisition as a beneficial side effect.

In implementing the company-integrated approach, organizations are able to incorporate aspects of incremental and sustaining innovation into teams’ natural workflows. Adding a few minutes in daily standups to discuss potential improvements, for example, or creating bi-weekly meetings for feature proposals can enable a group to incorporate flavors of innovation at almost no cost.

Finally, tasking an entire organization with innovation means having an interdisciplinary pool of individuals concepting and contributing to new solutions. This means that the range of creativity and innovation far outreaches that of a typical R&D group.

There are even more benefits to an integrated innovative company culture that we will discuss around recommended methodology. Many companies today still use an isolated R&D group as their main claim to innovation. The benefits that come from having a separate isolated group analyzing your products and thinking of improvements can be greatly amplified by working with external innovation partners.

¹¹ <https://news.gallup.com/businessjournal/27145/innovation-equation.aspx>

¹² <https://www.idashboards.com/blog/2017/11/22/engage-to-innovate-or-innovate-to-engage-which-comes-first/>

Internal vs. External Approach

When should innovation be led in-house, and when does working with external partners add value?

There are many benefits to building an internal innovation engine while cultivating external innovation partners. The two complement each other and lead to some of the most robust and impactful innovation.

Cisco Systems, for example, has stayed ahead of the networking technology curve in part by making more than 175 acquisitions since 1993.¹³ By constantly consulting and incorporating outside perspectives, Cisco has managed to keep itself fresh and relevant for almost three decades.

The benefits of an external innovation partner boil down to three main parameters: unbiased perspective, diversified thinking, and risk management. An innovation program's success is mainly influenced by risk management. Money spent on innovation is an investment in a company's future success. This is especially the case when dealing with disruptive or radical innovation. By partnering with external innovation firms, which have established frameworks to scale innovation, companies can test innovation hypotheses with far less risk than if they were developing and testing the same ideas internally. This enables an organization to be far more diverse in its exploration and investment into innovation and see better results.

External partners also bring unbiased perspective. Moving away from known and proven business models and approaches can be politically difficult. Hierarchies and middle management can stifle voices nearer the ground truth of a problem. Innovation challenges frequently surface employees who would like to share ideas, but refrain after seeing a superior sharing an idea counter to their thinking.

¹³ <https://www.bcg.com/publications/2017/growth-bringing-outside-innovation-inside>

An external innovation group can uncover insights otherwise lost due to internal biases. On top of the incentives to share information, the external perspectives that come from individuals who haven't been close to the day-to-day development can provide new value.

Simply getting fresh eyes on a problem, product, or idea can yield all sorts of fascinating insights. It is for this very reason that user testing is so widespread and influential in the modern design world.

Thus, integrating with an innovation partner allows for accurate auditing of your current products and problems, while also enabling a more diverse and creative group of innovators.



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