

Managing Innovation - by measure

How to find relevant key dimensions to manage

Executive Summary:

Managing Innovation depends on many factors. One of the crucial ones is the definition and metrics of Innovation. Dr. Heuer describes a robust framework of three dimensions that can help.

Why a Framework?

I have had the idea of a definition framework for innovation challenged several times in my professional work. Usually, the argument goes as follows: *“We do not know what we will do in the future, where the next radical change will come from. Narrowing in our reach by defining innovation is dangerous. It will limit the creativity of our teams.”*

In my professional experience, this is far from true. A crisp scope provides direction and focus, creates a common thrust for a large organization and limits waste. There are several studies on this topic; I recommend reading the relevant chapters in Cooper, Kahn or Wheelwright / Crawford. The consistent outcome: a definition of innovation is crucial to the successful rollout to a

larger organization. It seems that for highly skilled and immersed R&D teams, a definition might be an obstacle. For the whole enterprise, however, such definition is one vital building block because it is a management tool.

A definition of innovation best yields both an In- and Out-Scope for what is innovative. It also sets some kind of “performance level” to know when “Innovation” is “produced”. Finally, it should deal with the tensions between “Innovation” and “Kaizen”.

It boils down again to one of the key management principles: SMART objectives.

- *Simple*: straight forward and available to everybody in the team
- *Measurable*: defines the metric and sets the desired level
- *Actionable*: can be actually acted upon without ambiguity
- *Relevant*: how does innovation tie to the business?
- *Time-Bound*: when will we reach these results?

The big question is **how to construct such a definition?**

I have a proposal for that.

Dr. Jürgen Heuer

*Don't confuse
the art of the
possible with the
art of the
profitable.*

David Tansley



Building Blocks

A good definition has more than one dimension to allow for a bit flexibility and complexity.

I propose to use three dimensions to identify and group innovation:

1. Source
2. Category
3. Magnitude

I prefer three to two to create a natural balance. More than three dimensions could cause overlap and misinterpretation. In addition, people like to think in threes.

Dimension SOURCE

Here we identify for the team “Where” to look for innovation inspiration. I prefer Peter Drucker’s list of seven sources of innovation:

1. The unexpected
2. Incongruities
3. Process needs
4. Industry market and structures
5. Demographic changes
6. Changes in public perception
7. New technology and scientific findings

Dimension CATEGORY

Here, we identify the “What” of Innovation: what will we change?

The Doblin Group has compiled a rather robust list of ten different categories of innovation:

	Type	“Tagline”
Finance	<i>Business Model</i>	<i>How you make money</i>
	<i>Networks and Alliances</i>	<i>How you join forces with other companies for mutual benefit</i>
Process	<i>Enabling Process</i>	<i>How you support the company's core processes and workers</i>
	<i>Core Processes</i>	<i>How you create and add value to your offerings</i>
Offerings	<i>Product Performance</i>	<i>How you design your core offerings</i>
	<i>Product System</i>	<i>How you link and/or provide a platform for multiple products.</i>
	<i>Service</i>	<i>How you provide value to customers and consumers beyond and around your products</i>
Delivery	<i>Channel</i>	<i>How you get your offerings to market</i>
	<i>Brand</i>	<i>How you communicate your offerings</i>
	<i>Customer Experience</i>	<i>How your customers feel when they interact with your company and its offerings</i>

Chris Zook did some remarkable work on the probability of success when changing more than one of the dimensions of a business. I propose to use his adjacency theory together with this list.

Dimension MAGNITUDE

Here, we identify the “How Much” innovation we want to attempt.

Here, Clayton Christensen’s work created the benchmark categories of



disruptive and sustained innovation. Unfortunately, these are somewhat open to interpretation. I like to use the impact on consumers as a measurement along Christensen's line of thought:

- **Improved Products** (current products sold to current consumers)
- **New Products** (significantly changed products sold to existing consumers of typically competitors)
- **New Markets** (that is new consumers that did not purchase these products before at all)

This list is product focused by design. I try to stay away from the process-vs-product discussion, as this view focuses internally. The essence of a company is what it does for its customers, its products and markets.

The thing that keeps a business ahead of the competition is excellence in execution.

Tom Peters

vocabulary required to allow for the best possible decisions.

These decisions can be prepared extensively with a high degree of robustness by the intelligence gathering processes within the company. This gathering is an ongoing activity that generates the raw data to feed into pre-analytics that drive the information presented to the executives to make their decisions.

Since the framework is public, everybody in the company can "post" data and conclusions into the company's database, making the strategy preparation process highly democratic.

It is even conceivable to tap into the wisdom of the crowd by asking everybody in the company to design their own strategy. Since there is a limited number of moving parts,

we can compare and statistically analyze strategies without human interpretation.

Another benefit of the framework is the **ease of communication** for both the decision making process as well as the decision itself. The audience knows the degrees of freedom for the decision. It understands the distinctions and is probably aware and experienced in the kinds of metrics being applied to the different elements. Inclusion of these metrics in personal performance plans is straightforward and data-driven.

Execution

Now let's see how the management team of the enterprise can use this framework.

For every planning cycle, the executive team can now decide, where to focus new product search (SOURCE), which elements of the value creation process they want to change (CATEGORY) and how much innovation, that is departure from "The Old", they want to see (MAGNITUDE). This creates the common



A final benefit of this framework is the comparability of cause and effect over time, enabling organizational learning. Strategic decisions are mapped onto a few dimensions. The results of these decisions can be captured and compiled over time. In essence, the strategies become comparable stepping stones, yielding a direct link between strategy and results.

Together with the information being fed into the process, this becomes a rich database to understand which strategies had positive or negative effects. Data Mining such wealth of knowledge of what works in the company can be supportive for the strategy process itself.

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About Jay Heuer

Dr. Heuer is co-founder and CEO of SarJay GmbH, the Germany-based consulting outfit focused on **Innovation Management, Finance Management, and Talent Development.**



Jay has spoken on numerous occasions at conference and in company events about Innovation Management and Talent Development.

Dr. Heuer has been quoted in several newspaper articles about product development and Innovation Management.

His career spans the creation of a German software development company and a successful, US-based decade in IT and Research & Development for one of the largest companies in the world.

He can be reached through the contact form at <http://www.sarjay.com> (because he really, really, really hates spam).

