

Leadership for a better Future

Leadershift: Creating the innovation-ready organisation

By

Cliff Dennett

Leadershift: Creating the innovation -ready organisation

There is perhaps no greater challenge for modern leaders than to protect their companies from the threats of the near-term future. Companies such as Woolworths, HMV and Thomas Cook failed to meet the challenge of external threats.

In contrast, companies building processes to import innovations developed outside of the organisation are maintaining their relevance and attacking strategic challenges head on.

Examples of these “open innovation programmes” include BMW’s Startup Garage, National Express NXIS Accelerator, Unilever’s Open Innovation Portal, LEGO’s Ideas Platform and the UK Health Service’s Meriden platform.

As digital connectivity continues to flip the business models of many industries, accessing innovations created within SMEs will become increasingly vital to the future success of many large companies.

“Leadership myopia” caused by years of operating in the same industry can prevent breakthrough thinking. SMEs can help fix that. Large companies benefit if leaders can shift priorities and genuinely place innovation at an organisation’s cultural heart.

Most leaders recognise this, of course. Large companies understand the need to innovate and small companies want to be the source of that innovation. Yet when both meet, disappointment is often the only thing created. This is because innovation still takes a backseat to “business as usual”.

The theory is that future success will be assured through innovation but in practice, daily operational concerns and annual targets almost always win the battle for leadership resources.

“

Most leaders recognise this, of course. Large companies understand the need to innovate and small companies want to be the source of that innovation. Yet when both meet, disappointment is often the only thing created. This is because innovation still takes a backseat to “business as usual”



Leadership for a better Future

Leadershift: Creating the innovation-ready organisation

Why corporates fail to innovate with smaller companies

Despite the positive intent of those involved, many external innovation activities within large companies often fail to deliver. Leadership fails to prepare the company for innovation and so its immune system rejects it when it arrives.

Imagine sitting at your desk, pondering the day ahead with one of those “executive toy” Newton’s Cradles in front of you. You pull back and release the heavy metal ball at one end, setting off waves of satisfying energy transference and change throughout the rest of the system.

Now imagine you replace that first ball with a glass lightbulb, pulled that back and released it. You would witness a very different and much shorter-term outcome and possibly spill your coffee all over the desk.

Unintentionally, a similar exchange usually happens when a large company starts working with a smaller one to integrate the latter’s innovative technology. The lightbulb moment of the start-up crashes into the solid control processes, strategies and personalities of the larger company.

The expectation is of waves of energy and change, the reality is a lot of hot air, mess and no outcome aside from the sharp debris of failure on which others will cut themselves in the future.

When a large company wants to innovate and a small company wants to deal with that company, everyone’s intentions are usually good. The large company has a challenge (most have many) and the small company has a solution.

The large company is very keen to find a solution because it is trying to solve an expensive problem. The small company sees opportunity to do a deal or even get bought and so it seems that the two organisations are aligned for a win-win situation.

This dynamic of large firm/small firm interaction plays out many times. The SME founder meets a corporate contact at a business event and exchanges cards with the promise of a meeting. The founder adds the contact to their prospects list and make the first follow up-calls or emails. After two or three attempts, the corporate contact may respond, often asking for more information. The corporate contact is genuinely interested and wants to help.





“

Despite the positive intent of those involved, many external innovation activities within large companies often fail to deliver. Leadership fails to prepare the company for innovation and so its immune system rejects it when it arrives

After two to three months, the first meeting may finally happen and everyone will likely be interested in the new gizmo. At the end of the meeting, a follow up may be offered as long as the founder jumps through a few more hoops; “Can you mock this up in our brand style?” or “What would this look like with [X] functionality?”

And so continues the dance, month after month, until the corporate contact changes job, loses budget, leadership pulls the plug, the SME goes bust or the communication just dries up.

Many large companies just have no idea how to integrate the offering of a SME, despite the positive intentions of those involved, and this challenge rarely finds a space at the top leadership table.

and drive of the archetypal entrepreneur but for smaller companies, speed is everything.

Many SMEs have had little experience of the decision-making processes and timescales of large companies so expect everything to be done in days or weeks rather than months and years. Speed of action is a necessity for smaller companies because they are invariably always about to run out of money.

All too often, SME-corporate engagements suck up everyone’s time for little gain. For the corporate employee, all that’s happened are a few welcome and interesting meetings to break up the day’s usual pressures but for the start-up business such time-drains can be fatal.

The need for speed

It’s almost trite to say it but things work differently in larger organisations than they do in smaller ones. Minds inside large organisations have different world views to those inside start-up businesses. The vocabulary, corporate culture and ability to operate is very different to that in an early-stage business.

Corporates have decision-hierarchies, rigid budget processes and employee reward mechanisms that can sit completely at odds with the flatter structures, flexible strategy, agile modus operandi and founder motivations of the SME.

This mindset contrast is not based on a difference in enthusiasm or energy; there are plenty of corporate employees who can equal the verve

Mortgages don’t care about innovation

Despite the call for innovation and the worry of market disruption threatening obsolescence to incumbent businesses, employee reward structures generally are not setup to encourage innovation.

Most large companies have become big by developing a competence for a particular product, service or operation. Business planning and management processes are established to try to maintain and improve that competence and so anything new and radical finds it hard getting air time at the right meetings.

This leads to corporate employees becoming inherently risk averse; they have to be, to deliver against the company’s core competence and so protect their monthly salaries and future wealth.



Leadership for a better Future

Leadershift: Creating the innovation-ready organisation

An open innovation 'leadershift' toolkit

While there is no universal "playbook" when it comes to securing innovation, leaders need to build in a deeper level of structural innovation that addresses the negative consequences of the *ad hoc* situations described above.

Leadership needs to consider how their particular company culture and business model can absorb the new, turning it into competitive advantage. This "leadershift" takes time, focus, engaged people, belief, new processes and an operational structure that scouts for, selects, tests, operationalises and measures innovation.

This isn't about smashing any emergent creativity between start-ups and corporates but more about creating the conditions that allow the organisation to use innovations for the benefit of all parties.

To build an effective open innovation programme, leaders should consider the following:

► Plan for fast-tracking innovation

A company needs a methodology that can take innovations through a rapid assessment pipeline that; (a) engages the right stakeholders at the right time, (b) passes innovations through clear decision gates and (c) provides managers with the freedom and incentives to act.

► Commit to a multi-year (at least three years) programme

Large firms need to overcome internal resistance to external change and learn how to internalise innovations from SMEs. Furthermore, the company needs to signal clearly to the rest of the organisation that it is serious about innovation. Finally, it can take six to eighteen months for a SME's innovation to gain traction within a large firm. As the organisation learns how to internalise innovations, these timescales will shrink.

“

Leadership needs to consider how their particular company culture and business model can absorb the new, turning it into competitive advantage. This "leadershift" takes time, focus, engaged people, belief, new processes and an operational structure that scouts for, selects, tests, operationalises and measures innovation





► **Run it in the right place**

An offsite innovation programme helps involve other corporate and supply chain partners and also helps the SMEs maintain their independence. Co-locating with other innovation activities and other knowledge-intensive businesses can provide a steady pipeline of SMEs and other inspiration. Being nearby to universities helps as does being located in or very near to city centres, creating the right kind of energy and flow of talent.

► **Assign enthusiastic, skilled, connected people**

The quality of talent that leaders assign to their innovation activities determines the value of the impact on the firm's future. Sometimes, the role of innovation lead is given to those who "don't quite fit" anywhere else. This is leadership "copping out"; paying lip service to innovation.

► **Set challenges but remain open**

Leaders should agree four to six strategic challenges that SMEs are asked to address and revise them every one or two years. It's important to include a wildcard option for non-challenge-based "left-field" innovations that can reveal opportunities the corporate isn't even aware of.

► **Set targets and measure the number of..**

- new SMEs accepted onto the programme every year (of course passing quality thresholds)
- trials completed
- deals signed innovations integrated
- investments made

Careful selection of SMEs can produce success rates (in terms of commercial trials) of 50% of the initial cohort selected, though success rates don't have to be this high to add huge value.

It takes bold leadership to create an innovation-ready organisation but against relentlessly shifting markets and technological disruption, this leadershift is the only option.



About the Author

Cliff Dennett is a partner at FutureWork Forum

www.futureworkforum.com/?dt_portfolio=cliff-dennett



50%

Careful selection of SMEs can produce success rates (in terms of commercial trials) of 50% of the initial cohort selected, though success rates don't have to be this high to add huge value