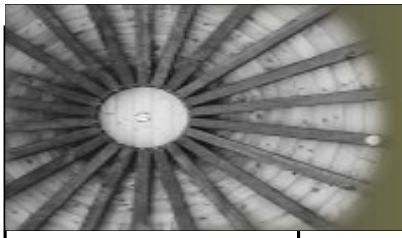

new directions:

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new directions: is edited by
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Inside this issue

"Innovation is often just expected to somehow 'happen' and is managed on an ad hoc basis."

"An innovation system provides an integrated approach to innovation."

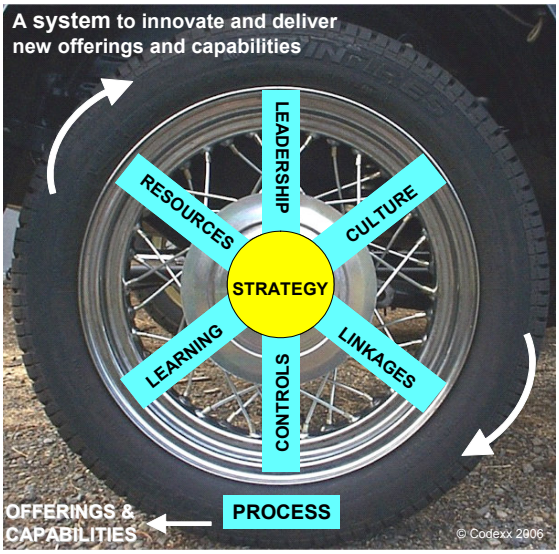
Welcome to new directions:

Welcome to our latest edition of **new directions:** our journal for leaders, innovators and change agents within European businesses. Our focus is on the business activity that is key for today's businesses: **innovation**. In this edition we investigate what is required to create an effective **innovation system** within an organisation; we examine the challenges for innovation in a **professional services** firm; we look at **tools for innovation** and we tap into our network of academic colleagues for their personal views on the **challenges** of innovation.

From innovation 'somehow' to an innovation *system*

Many companies are seeking to substantially improve their capabilities for innovation. A good start to this is to assess current innovation capabilities against both best practices and the company's specific innovation needs. This helps management identify their major weaknesses in their innovation practices and helps catalyse improvement. In addition it educates management as to what a best-practice system for innovation looks like. Unlike business activities such as Finance or Production which have been systemised with defined business processes, organisations and metrics, Innovation seems to be considered as different. It is often just expected to somehow 'happen' and is managed on an ad hoc basis. This is particularly true in professional services businesses. But even in many product-based businesses, whilst they will normally have a Head of R&D and a New Product Development process, there is often no system in place to formalise other key elements for innovation and link them all together within an innovation system.

Figure 1: Innovation System



An *innovation system* provides an integrated approach to innovation by resourcing and managing the diverse, but key, elements required for effective and sustainable innovation. A system for innovation manages, in an integrated way, key elements such as strategy development, an end-to-end innovation process, a supporting organisation, an appropriate culture and a measurement and control system for monitoring and controlling performance (see Figure 1). To represent an innovation system we can use the model of a *wheel*, driven and directed by the *axle of strategy*, connected to the *market environment* by the *process tyre* and held together by the *spokes of innovation practices*. These elements need to be managed as a system, because effective innovation on a sustainable (i.e. long term. not just occasional 'flash-in-the-pan' success) depends on all the elements effectively working together.

However few companies have such a system in place. 3M is an example of a company where innovation is rooted in the company culture and strategy and effectives processes and metrics are in place. Another example is Renishaw of the UK, a world leader in its field of metrology which has won 11 Queen's Awards for innovation and export since 1979. In the words of its CEO, Sir David McMurtry: *Breakthrough solutions are at the heart of our business strategy, which is captured by the phrase 'apply innovation'*. Clearly it has an effective innovation system in place. Recent Codexx innovation assessments have illustrated the consequences of an incomplete innovation system. A major international manufacturer invested heavily in R&D, had highly skilled people, a robust NPI process and excellent IT development tools. The company was known as the innovator in its sector.

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However it was clear from our assessment that with the increasingly global nature of their market the company needed to step up their innovation effectiveness. More flexibility was needed in their NPI process to bring products to market faster. The work environment and culture for innovation needed to encourage more entrepreneurial behaviour. Changes were also needed in the process for developing their business strategy to consider the market opportunities and needs for different types of innovation. As part of the assessment we also examined their ability to innovate and develop services offerings as this is a growing requirement for many industrial businesses.

"By managing innovation as a system, the likelihood of sustainable long term innovation performance can be greatly improved."

In contrast, a UK professional services company were at a much lower level of innovation capabilities. However they recognised the need to improve and formalise this area. One key challenge for the company was to establish a formal process for innovation and encourage a more supportive culture for innovation amongst the managers. The existing values and metrics within the company meant that time spent away from billable activities was not generally valued. The company were also missing a clear strategy for where to focus innovation efforts. Codexx are working with the company to establish a system for innovation and deploy across the business.

Both these examples show the importance of understanding and managing innovation activities within an organisation as an *integrated system*. All the key activities need to be managed in an holistic way. None is more important than the others. An over-emphasis on strategy at the expense of resourcing and implementation will result in a lack of successful execution. Focus on formal processes and controls without addressing cultural inhibitors will also result in a lack of success. By assessing current innovation practices against a systems model, an organisation can identify the areas of improvement required to develop superior innovation capabilities. Then by managing innovation as a system, the likelihood of sustainable long term innovation performance can be greatly improved.

This article is based on Codexx and associates' experience of working with companies on innovation assessment and improvement and the development of our SystemInnovation offering

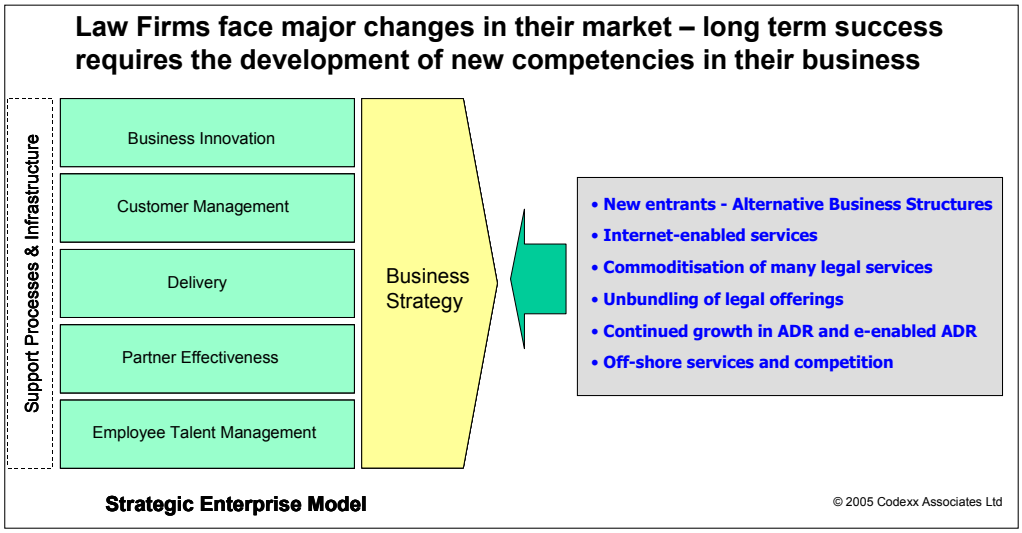
"Law firms are a good example of a professional services sector that is facing major change in a number of areas."

Developing innovation in a Law Firm

Professional services firms are waking up to the need to establish effective methods for innovation in new products and new methods of delivery. This has been driven by external threats such as global competition from lower cost offshore competitors, new entrants and regulation. In addition the continued 'march of the web' into business models and methods offers opportunities for both new entrants and step-change improvements from established companies.

"The Clementi driven regulatory changes will open up the legal sector to competition from new entrants from 2008."

Law firms are a good example of a professional services sector that is facing major change in a number of areas (see Figure 2). To address these challenges, many law firms need to re-engineer their ways of working across their business. A key part of this re-engineering needs to be in creating a sustainable system for innovation. Until recently, law firms have enjoyed a relatively stable business environment - at least in comparison with industrial companies. Consequently many law firms have operated pretty much in the same way with the same core products for many years. Of course they have adjusted to accommodate changes in the law and utilising new ways of working such as email. But these have typically required only incremental adjustments to their business model. But that is about to change. The Clementi driven regulatory changes will open up the legal sector to competition from new entrants from 2008. The internet is enabling the commoditisation of areas of legal services. Additionally, off-shoring to low cost countries can radically change the economics of operation.



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Law firms need to adapt to this new dynamic market that is emerging by implementing a robust system for innovation in their business. An ongoing Codexx project with a Top 50 UK law firm has shown the challenges in this area. This forward-looking firm wished to put in place a formal innovation process to effectively conceive and bring new products to market. They recognised that historically they had not been successful at this due to the lack of a formal system and the demands of daily business. Codexx worked with the firm to implement a best practice innovation process together with a supporting review committee and an innovation strategy. The process was used to bring a new litigation product to market in 1/3 of the time previously. We are currently working to assist the firm in further deployment of these methods across their business.

"The process was used to bring a new litigation product to market in 1/3 of the time previously."

Typical challenges for law firms in becoming more innovative include the following:

- There is typically no culture for innovation
- There is often no strategy for innovation - only revenue projections
- Time for innovation conflicts with fee paying work and is thus often not valued
- Formal processes for new offering development often do not exist

It is clear that the implementation of a formal system for innovation together with supporting culture can make a significant competitive improvement to a Law Firm. However there can also be significant challenges, not least in changing the culture to support innovation. Many law firms are at an early stage in this process and as a start need to assess their current innovation against best practices to catalyse and focus the required improvements.

Innovation in professional services

Codexx has worked with a number of professional service companies who are seeking to bring in new innovation practices or develop new offerings. Service companies have the opportunity to learn from successful established innovation practices in industrial companies, but have the challenge of implementing process thinking into cultures where this has not been usual. We recently interviewed John Bessant, Professor of Innovation Management at Imperial College, London for his views on professional services innovation. John has written and consulted widely in the area of innovation and worked with us on a number of innovation projects.

"Professional services companies could learn a lot from models which already apply in manufacturing industry."

What are the main challenges for professional services firms in becoming effective innovators*?*

Perhaps the biggest obstacle is that such companies often don't realise that they already are innovators - indeed on a regular basis they configure their knowledge assets to provide unique and highly customised solutions. So in that sense their behaviour can be seen as classic service innovation with a very high knowledge component. Perhaps the challenge that they face - beyond recognising that they are innovators - is in looking to manage the process in a more systematic and organised fashion. For example rather than configure purely in response to customers there is real opportunity for proposing services or designing new "products". In their generation, the allocation of resources, the development and overall management of this product development process, professional services companies could learn a lot from models which already apply in manufacturing industry. A related issue is the possibility of working with users. Much of the cutting edge in innovation thinking is around the active involvement of users as 'co-designers' of innovations and certainly the evidence is clear that user input and experience can have a marked positive effect in shaping and improving the final innovation product or service. In particular working with demanding lead users - or even the "extreme" users which are present in any market means that there is real opportunity for learning and building their experience in to develop robust innovation products which can be rolled out to a much wider audience.

"The problem with professional service organisations is that they may not have thought of themselves as "industrial" organisations and therefore may have some reluctance to try and apply models which come from that kind of heritage."

How much of industry experience in innovation can be applied by professional services companies?

As indicated in my response to the first question, there's an extensive range of transferable ideas and frameworks. Innovation is the core renewal process in any kind of organisation and service innovation can be mapped very clearly on to this kind of model. Triggering the process through formal R&D or customer input - developing search mechanisms - processing, putting in some key and identifiable stages around strategic portfolio selection, managing risk through various kinds of stage gates as products/services are developed, having an overall innovation strategy and committing support and resource - for example to some degree of blue sky or research and development spending - all of these models would transfer very easily. Indeed an increasing number of service businesses have taken on such models - for example companies like Tesco have an innovation department which has been responsible for much of the reframing of Tesco away from being a simple supermarket to a large-scale solution provider with an increasingly broad range of products and services on offer. The problem with professional service organisations is that they may not have thought of themselves as "industrial" organisations and therefore may have some reluctance to try and apply models which come from that kind of heritage.

Professor John Bessant's areas of research includes the management of discontinuous innovation. He is the author of 20 books and has consulted widely to companies and organisations world-wide.

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Fast track scenario planning & road-mapping

One key requirement for effective innovation is to have a clearly defined strategic context within which innovation is required. In developing a strategy, tools such as scenario planning and strategic road-mapping can be very powerful. Scenario planning helps organisations consider how their business might develop in the future. By identifying key drivers which may impact the development of their business (such as regulation, demographics, technology etc.), a range of possible futures (typically 4) can be described and the impact on the organisation assessed.

"Scenario planning helps organisations consider how their business might develop in the future."

Strategic road-mapping enables a time-based approach for a company to define new product and service offerings to meet market opportunities and then to link technology underpinnings and other business enablers such as skills and processes (see Figure 3). This produces a pictorial map which can be used for product/service planning, requirements in process improvement and skills development, knowing that all these activities are aligned to deliver the required market outcomes.

One issue is that these tools are seen as too complex and time-consuming for many organisations to apply. To make these tools more easily useable, Codexx have developed fast-track approaches for scenario development and road-mapping. This makes these tools more affordable and applicable by organisations. Recent applications have been in scenario planning for new environmental product/services, to identify scenarios for the next decade based on regulatory changes and the opportunities created for producers of environmental goods and services. Strategic road-mapping was then used to identify required sector developments to seize the market opportunities identified. The power of these tools is that they make the strategy development process more open and easier to communicate across an organisation.

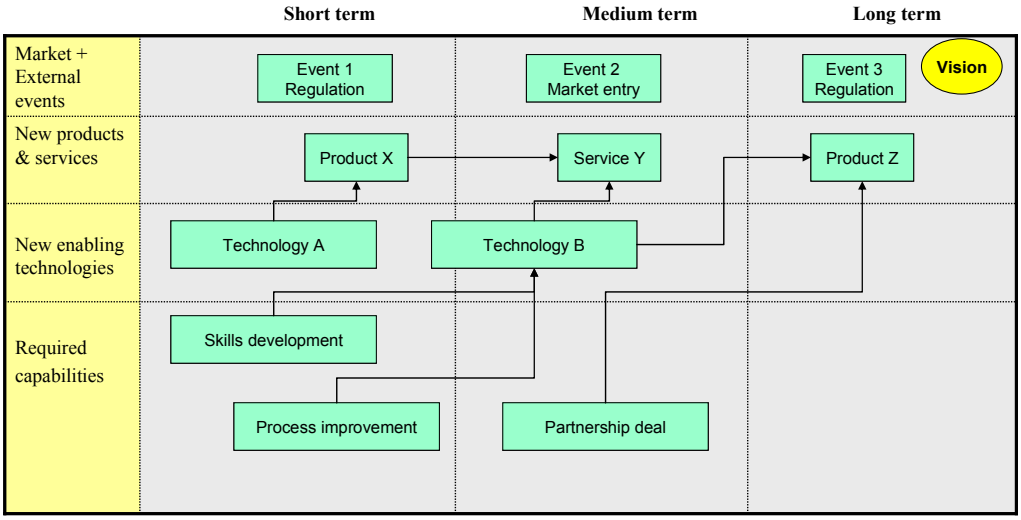

Figure 3: Strategic road-mapping approach

"A clearly articulated need is the best spur to creative innovation."

Personal View - *management must provide direction for innovation*

Rick Mitchell *- Visiting Professor for Innovation at Cranfield School of Management:*

"The most common weakness I find in innovation management is a lack of direction. Management may emphasise the need for innovation, provide facilities for it and applaud success but they are often strangely reticent in saying what is needed. They may assume that "everyone knows" or they may fear that to try and direct innovation will stifle creativity. But the truth is that the majority of people are most able to be creative when given a clear and demanding problem to solve. This is well known in the creative arts, where there is a long and honourable tradition of great works of art being done on commission. A clearly articulated need is the best spur to creative innovation. It is management's job to make clear what are the key challenges the organisation faces that demand new ideas and to place those needs clearly with their colleagues. This requires both clarity of thought and a certain modesty - challenges in themselves!"

Rick Mitchell is a Visiting Professor for Innovation at Cranfield School of Management and a Visiting Fellow at Cambridge University. In his career he has managed R&D activities within Philips and Domino Printing Sciences.

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We hope you have found **new directions:** to be stimulating. Any feedback you would like to provide is welcome. If you would like further information on any of the topics discussed in this edition, mail us at enquiry@codexx.com

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