

new directions:

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new directions: is edited by
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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 organizations: **innovation**. In this edition we look at **Disruptive Innovation** – major 'game changing' innovations that can suddenly arrive in a company's market; we review the key findings from our recent study on innovation in top **UK law firms** and we hear about **process innovation** from one of the global technology leaders in automotive and aerospace - GKN.

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"Every now and then a disruptive event happens, such as the invention of the telephone or the internet, that changes markets, industries, even societies."

"Grundfos exhibits many of the key traits of a company that can anticipate and manage potential DI – it is forward looking, open and systematic in its approach."



Are you ready for Disruptive Innovation?

"Every now and then a disruptive event happens, such as the invention of the telephone or the internet, that changes markets, industries, even societies. Successful well-managed companies thrive in mature markets by focusing on doing what they do, just a little bit better. Consequently, when a disruptive event, such as new technology or a regulatory change comes along, the successful company is often blindsided. It is just not very good at the 'doing it different' type of innovation. The very attributes that make it successful in stable conditions hinder its ability to detect or exploit the change." Source: 'Dealing with Discontinuity', AIM Research, Bessant & Francis 2005.

Leading companies are thinking about Disruptive Innovation (DI) and how they should best respond to it. A good example is Procter and Gamble, the global consumer goods company. In a recent interview, when asked about any long term worries, the Procter & Gamble CEO, AG Lafley responded: *"Disruptive technology – if someone finds an alternative to solution chemistry for laundering clothes, that's a \$10 billion sector in jeopardy."* (Source: Sunday Times 3-12-06). An international seminar on Discontinuous Innovation was held in London last October, on behalf of the UK Advanced Institute of Management Research, by Professor John Bessant of Imperial College London. At this seminar a number of companies taking part in an AIM run study on DI, led by Professor Bessant, were reporting on their activities. Codexx were invited to attend and we reviewed current 'on-the-ground' practical applications of DI.

Grundfos is one of the world's leading pump manufacturers with an annual production of more than 10 million pumps and has long been known as an innovator with many awards for its products and process management. Thorkild Kvisgaard, who is coordinating Grundfos activities in DI presented on their programme to further develop their innovation capabilities. He reported on the Codexx innovation assessment at Grundfos in 2005-6 which helped them identify key improvements in their innovation system. Grundfos established 2006 as 'The year of Innovation' to help provide increased focus. An internal innovation competition between the 50 Grundfos companies is helping to stimulate healthy internal competition. Grundfos have developed additional tools to help in company-wide innovation: An intranet portal provides employees with a mechanism for sharing new ideas together with tools to help internal innovation projects; the 'ishare' tool helps assign facilitators for a new idea and provides tools & methods for idea development. There is a strong focus on learning, ensuring the use of the right tools, focusing all aspects of innovation. One challenge that Kvisgaard identified was how their Continuous Improvement activities (such as Lean) fit with Innovation and where they should capture incremental ideas as opposed to Step Change/DI ideas. Grundfos is also active in investing in the development of new businesses outside its core pump markets.



These opportunities often spring from the group's research and technological development, but even business ideas that are created outside Grundfos are being developed further as part of Grundfos' New Business development. This helps reduce the risk that new DI concepts do not get blocked because they do not fit with the existing business paradigms. Grundfos exhibits many of the key traits of a company that can anticipate and manage potential DI – it is forward looking, open and systematic in its approach.

Figure 1: Grundfos' innovation 'impeller'

"Typically, these new market concepts are much, much harder to commercialise because we don't know the market very well. That's why we often team up with a partner who has an insight into what the market needs."

"Novozymes seek to establish a challenging work culture that is more likely to foster innovation – summed up in the phrase: 'Dream, Dare, Do.'"

"Reckitt Benckiser has also developed its approach to 'open innovation' by encouraging external companies and individuals to bring new ideas to the company for potential development, via its new 'rb-idealink' web-based solution."

Novozymes is a pharmaceutical company that de-merged from Novo Nordisk in 2000. It has 4200 employees and is a world leader in enzymes with sales of \$1B. It invests 13% of its revenue in R&D. It is making a major effort in innovation to raise growth from 5-8% to 10%+ a year and to support this effort, management is focusing on creating an innovative culture & systems. In 2003, more than 30% of sales revenues came from products that had been launched within the last five years.

Novozymes are strongly focusing on DI: *"In enzyme research we have been focusing on radical innovation – in other words, the ability to discover new products, technologies or solutions which will make a fundamental difference in our customers' markets, rather than simply improving existing products. In this context we have analysed the basis for innovation at Novozymes, our innovation culture, and even our research organisation. Actions taken include adapting our organisation and systems to promote a climate of innovation and provide a better platform for radical projects at Novozymes."* (Source www.novozymes.com)

In many cases, Novozymes have developed completely new concepts for using enzymes in a market where biological solutions haven't been used before. *"Typically, these new market concepts are much, much harder to commercialise because we don't know the market very well. That's why we often team up with a partner who has an insight into what the market needs. Forming a partnership, where they bring in market know-how and we bring in technical know-how, allows us to develop unique products for a particular industry,"* says Per Falholt, executive vice president of R&D at Novozymes. Novozymes have put in place specific approaches to manage what they call 'Radical Innovation'. They consider 'Radical Innovation' to be anything that significantly changes the competitive landscape in a current or new market; an example being their development of their product Novamyl for the bread industry. This enzyme-based product allowed bread makers to extend the shelf life of bread. Novozymes have put in place a number of mechanisms to help them identify and exploit Radical Innovation.

Enabling Radical Innovation

In their quest to identify internal barriers to creating radical innovation, one question Novozymes management asked was whether they were killing ideas at the front (or 'fuzzy') end of the innovation process with too rigid evaluation criteria. To address this risk they established dedicated facilitators to pick up and move new ideas forward to ensure that the formal innovation process didn't kill radical ideas too early. Novozymes tried many models in the past for new business development. They have set very ambitious targets to drive innovative behaviour and use a number of approaches such as encouraging new business models & entrepreneurship; product in-sourcing; acquisitions; business discovery and building. They want to build a network of entrepreneurs, like another Danish company – Danfoss - have done. Novozymes established a RI Hub to coordinate RI activities.

'Dream, Dare, Do'

In their effort to ensure that radical ideas are not killed prematurely by their innovation process, they have established a 'Continuous Learning Process' rather than a traditional stage-gate process to manage these ideas and use negotiation to determine go/no at each step. Novozymes seek to establish a challenging work culture that is more likely to foster innovation – summed up in the phrase: *'Dream, Dare, Do.'*

Reckitt Benckiser is a global company providing household cleaning products such as Harpic, Vanish, Finish, Dettol and health products such as Nurofen and Strepsil, with sales in 180 countries and net revenues in excess of £4billion. Around 40% of its sales come from products that were launched in the previous 3 years and the firm considers itself an innovator in its markets. However, it received a 'wake up call' on the need for continual market-scanning when a mid-sized US company launched a competitive product on a TV shopping channel. This was simply not on the firm's corporate 'radar screen'. This triggered the company to establish mechanisms for market scanning.

RB's market scanning activity yields a regular 'Innovation Bulletin' that is sent every 6-8 weeks to senior management to inform on developments of potential interest to the company. The scanning looks outside of their core markets. RB also uses a Knowledge management system to manage current innovation ideas and relevant past innovation – to effectively provide a 'corporate memory'. A rewards structure and values also helps drive innovative behaviour. To help drive new ideas, there is also a separate group that works with consumers for ideation. RB has also developed its approach to 'open innovation' by encouraging external companies and individuals to bring new ideas to RB for development, via its 'rb-idealink' web-based solution.

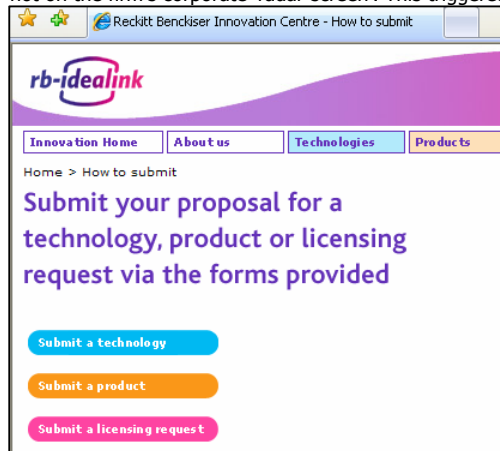


Figure 2: Reckitt Benckiser 'rb-idealink'



RB-Idealink

Reckitt Benckiser’s goal for rb-idealink is clearly defined on its website: *"We have some great creative minds working within Reckitt Benckiser, but that doesn't mean we have all the solutions we need, we know we don't! That's where you can become part of this success story, by collaborating with us to develop and launch new products. You may have a product that is just about ready to go, or a great technology, or even want to license one of our brands for your own product. The RB-Idealink website guides you through our simple process, and the options to bring to market, together, stronger consumer solutions and answer new and more needs!"* (Source: Reckitt Benckiser website).

Managing Disruptive Innovation

So what does this mean for most companies? The rate of competitive change – driven by globalization, new technologies and business models means that what’s off a firm’s radar today may well be on it tomorrow and threatening its business. Just look back at the impact of mp3 for music companies, Easyjet, Ryanair for airlines, ‘web-law’ for law firms, flash-memory for disk drive makers – and so on. Today all companies need to keep a weather eye open for what is over the horizon. This can be accomplished by forging and actively using strong external links to other organizations and other business sectors to pick up, evaluate and test new trends. Professor John Bessant summarises the dilemma as akin to the drunk found wandering in the road under a streetlight. Asked what he was doing, he replied that he was looking for his keys which he had dropped. Questioned further he admitted that he did not know where he’d dropped them. So why was he searching in this spot? Because that was where the light was...

The search problem: 360 degrees of darkness need targeted hunting and the need for peripheral vision. The jury is still out as to the best way of performing this search and organizations are using different approaches, including:

1. Use idea hunters / scouts (P&G have 80 of them working world-wide)
2. Develop Alternative Futures – using scenario planning for example ‘to crawl inside’
3. Use the web - for collaboration and to monitor different sites and communities for trends
4. Active users – they can be a powerful source of ideas; in open source software, users are the developers
5. Deep Dive – use immersion in the user world; apply an anthropological approach to identify key user wants
6. Probe and Learn - engage in small scale experiments, accept that failure is possible/likely
7. Mobilise the mainstream - engage the employees and suppliers
8. Corporate Venturing units - mixed past experience of this for firms
9. Recruit Intrapreneurs who will challenge existing norms in the organization
10. External Brokers - to make the connections from outside, e.g. organizations such as IDEO
11. Deliberate diversity in the organization (‘put the grit in the oyster to get the pearl’)
12. Idea generators in your organization - make use of them

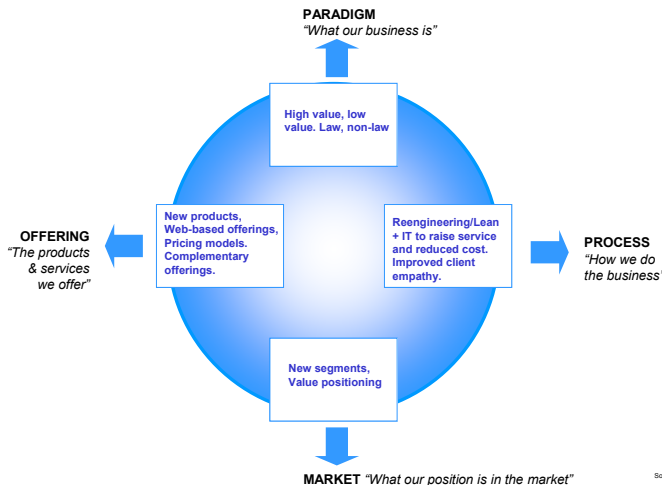
Disruptive Innovation can threaten any organization. It is clear that forward-looking firms realise this and so the innovation system in any forward-looking organization today must include mechanisms to address DI.

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"Disruptive Innovation can threaten any organization."

Innovation in major UK law firms

During Summer-Autumn 2006, Codexx performed a study on Innovation in the top UK law firms, working with Professor John Bessant of Imperial College, London. The objective of the study was to determine the level of innovation practice and performance in place in major UK law firms. A total of 16 of the top 75 UK law firms took part in the study by completing a questionnaire and participating in a follow-up interview. The study examined firms’ innovation practices in key areas such as leadership, culture and process for innovation and in innovation performance measures such as revenue from new products and the level of business process improvement.



The study considered innovation in law firms to cover new or enhanced products, business process improvement, re-positioning in existing markets or entering new markets and fundamental changes in the firm’s strategy. It examined how well firms were approaching and developing innovation in these areas. Academic study and business case studies across industrial and service organizations have shown that common key practices are required to enable effective and sustainable innovation.

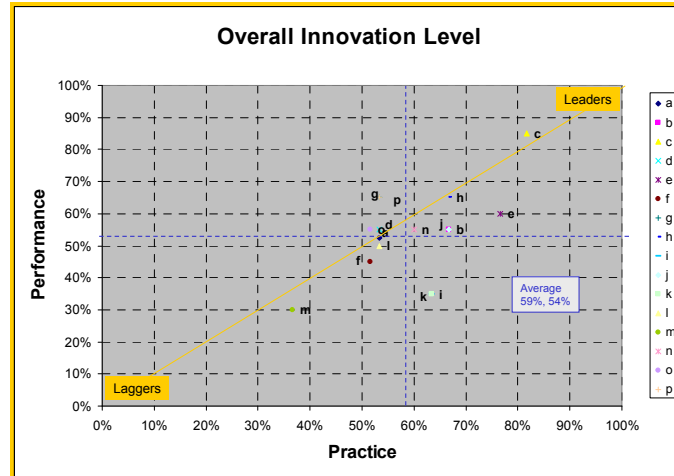
Figure 3: Law firm opportunities for innovation

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"Law firms typically did not have an effective process for innovation."

This model was applied to the legal sector and the participating firms innovation practices were compared against it. The business environment for law firms is becoming tougher, with increased competition, buyer and seller power and regulatory changes driving new forms of competition. To successfully compete, the study concluded that law firms will need to innovate to secure adequate profitability and differentiate themselves against rivals. The results of the study showed a wide variation in overall innovation practice and performance between firms. Law firms typically did not have an effective process for innovation and learning was not considered to be systematic. Firms considered that their main challenge in improving their innovativeness was in their partner culture. Partners needed to understand and champion innovative activities in their firms, to enable a climate supportive of innovation to develop.



The study report was presented to participating law firms on 17th January 2007 at a Codexx seminar at Tanaka Business school in London. For more information about the study and to order a copy of the study report, go to www.codexx.com/services_innovation.htm on our website.

Figure 4: Overall law firm innovation (Source: Codexx)

"Firms considered that their main challenge in improving their innovativeness was in their partner culture."

Personal View – Business Process Innovation

Michael Stokes – Director Business Excellence – GKN plc



Business Process Innovation – whether it be step-change ('re-engineering') or incremental change ('continuous improvement' or CI) is a key innovation area for firms seeking to improve their speed, service level or reduce cost. GKN is renowned for its capabilities in its business processes and technologies. GKN is a major global producer of automotive and aerospace technologies and systems, with revenues of £3.6 billion in 2006 and almost 40,000 people working in GKN companies and joint ventures across more than 30 countries. We had the opportunity to interview Michael Stokes, the GKN Director of Business Excellence for his views and experience of process innovation.

1. How important has process excellence and ongoing improvement been to GKN's success?

GKN operates in a global market place and in industrial sectors, primarily Automotive and Aerospace, which are incredibly competitive. Product innovation and technology are obviously core differentiators that reduce the opportunity for products in these markets to become commoditised, but we continue to make many products that are evolutionary rather than revolutionary and where annual price reductions are considered the norm. Against this background, the drive for process excellence, continuous improvement and 'Lean' ways of working are paramount. This applies to all processes, not simply in manufacturing, and is at the core of GKN - defined as "The GKN Way".

2. What do you see as the key success factors for a company to be effective at process excellence?

There are probably many contributory factors here but in my experience there are three key ones:

1. Firstly a company needs to have a really deep understanding of the technology that drives its key processes, especially in manufacturing complex products.
2. Once this is in place however the company must have a burning desire to seek to continually improve these processes and to avoid 'not invented here' or 'it ain't broke' attitudes from blocking progress.
3. The last factor is that to drive the improvements, we need to liberate the talents and ideas of all the employees who are involved in designing and/or running the processes to help identify and implement the process improvements. This requires a real commitment by leaders to put in place the infrastructure, knowledge and tools to support a true CI culture. It also requires an effective prioritisation process for deciding where the main drive for improvements should be. Resources are always an issue in competitive businesses and it is critical to focus on a limited number of areas where improvement will make a real difference, rather than a scatter gun approach which seeks to fix everything.

"The company must have a burning desire to seek to continually improve these processes and to avoid 'not invented here' or 'it ain't broke' attitudes from blocking progress."



3. In your view what are the common reasons that companies struggle in this area?

There are many reasons, and failure to address any of the issues identified above will obviously impact negatively. In some companies, but not generally in GKN, the 'not invented here' syndrome can be a problem, but with a growing appreciation of Toyota's approach to continuous improvement I think this will become less of an issue. Another problem is the 'flavour of the month' reaction. Many CI programmes get launched with much fanfare and initial leadership support but after a period of time, typically two years, a new issue captures management's attention and a new programme is launched. Focus then gets lost on the previous programme.

Sustainability is the key and companies must recognise that CI is a never ending journey and therefore a long term investment. It is not always possible to see process improvements immediately being translated into improved bottom line results and for real progress to be made, the up-front and ongoing investment in training, development and time to support the improvement activities is critical. The prioritisation process is also an area where some companies don't focus enough attention - which negatively impacts on the return on energy expended.

4. How do you see approaches for process improvement/innovation changing in the next few years?

I am not sure that there is any "magic pill" that will come along and radically alter our approaches to improvement and innovation. After all in GKN we have been continually evolving (improving!) our company since 1759 and the words from Lady Charlotte Guest in 1854 concerning the Dowlais Iron Works (one of the precursor companies to the current GKN) still resonate: "And unless we keep quite ahead as to improvements and the most advantageous and enlightened system of working we shall be quite unable to keep any position at all - much less than we now occupy at the head of the trade - and this will involve immense skill and energy."

Changes that do come will perhaps be more directional than radical. There is already a growing focus on process improvements outside the manufacturing areas, where time and transaction quality/efficiency will become increasingly important. A key challenge will be leading the culture change in these areas which have historically been less subject to this type of thinking. The best companies will however live by their continuous improvement creed and seek to improve and develop their CI and innovation processes in just the same way as all their other processes. I am hopeful that GKN will increasingly be seen as a benchmark in this respect!

Michael Stokes became Director of Business Excellence for GKN in 2001, having previously been in general management in GKN. He believes passionately in the need for businesses to continually strive for excellence and to leverage the knowledge and experience of all their employees to make progress on this journey. GKN uses its Business Excellence programme as a key tool in assessing the overall health of its businesses at all levels in the organisation and for aligning and prioritising its improvement activities.

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News

Innovation Leadership – new 1 day course

We have just announced a new 1-day course on **Innovation Leadership**, providing education and practical training on innovation management, process and tools - delivered in a highly interactive seminar style, which we will be running in 2007. For more information please contact us.

Codexx re-branding

You may well have noticed that our logo has changed. Our previous logo served us well for many years since Codexx was established in 2002, but we wanted to more strongly bring out the aspects of change, innovation and transformation that is the Codexx value that we seek to bring to our client projects – we believe that the new logo does this well. We like it – we hope you do too!

Codexx buys strategy and assessment solutions

On the 15th February 2007, Codexx agreed to purchase outright the supply chain strategy and assessment solutions of Supply Chain Analytics Ltd. This will allow us to offer an end-to-end supply chain assessment using the SCAN best practices assessment tool developed in conjunction with BSI British Standards. This acquisition complements our existing best practice assessment tools such as F4i in innovation assessment, SPARK in business assessment and PROBE in manufacturing benchmarking and also builds on our existing supply chain expertise.

Connect to Codexx

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 innovation@codexx.com



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