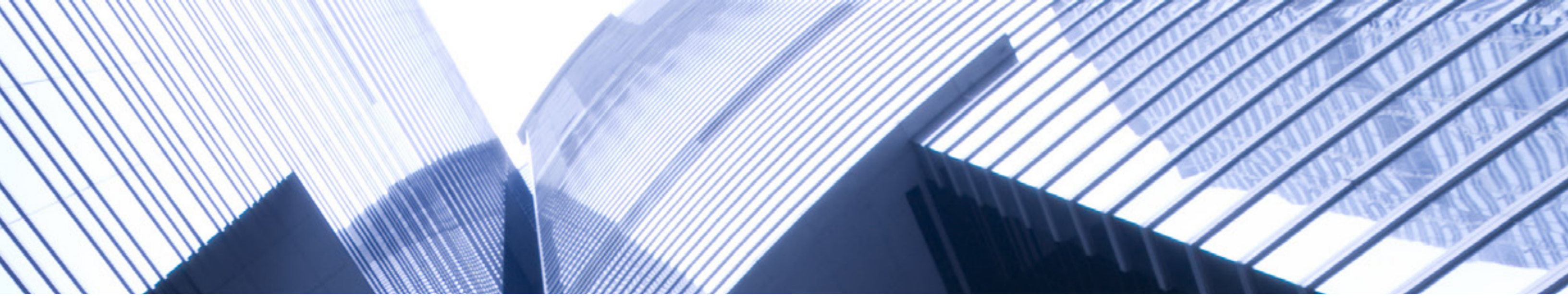

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Why Your Company Needs a Common Innovation Language

The first step in bringing clarity to your innovation efforts

By David S. Duncan, Alasdair Trotter and Bernard Kümmerli

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"What gets measured gets managed." This maxim from management sage Peter Drucker, while insightful, overlooks a preliminary step: Before you can measure something, you have to name it. This requires defining and establishing clear boundaries around the thing to be named. If done well, this makes measurement of that thing possible.

The importance of clear naming might seem self-evident, but it is often overlooked in the business world. In no domain is this truer than that of innovation. While the meaning of the word "innovation" might seem intuitive to most people, in practice there is far more confusion than clarity around it. This has profoundly negative consequences for leaders and organizations, and frequently hinders them from making progress toward their innovation goals.

Before you can measure something, you have to name it.

Many definitions have been offered over the years, but the number and variety of them can perplex even the most studious leader. One of the most enduring definitions is Clayton Christensen's concept of a "disruptive innovation," which he contrasted in his classic book *The Innovator's Dilemma* with "sustaining innovations." Since then, a veritable menagerie of types has emerged. There are open innovations, reverse innovations, incremental versus adjacent versus radical versus transformational innovations, product versus process versus marketing versus business model innovations, and organic versus inorganic innovations. One consulting firm claims there are "ten types of innovation." Another firm claims that there are more (15), and still another asserts there are fewer (four). If you are a leader who is not yet confused, consider that you could correctly combine a subset of the above terms to posit the existence of something called a "transformational business model open reverse disruptive innovation"!

A lack of clarity on what "innovation" means is a big problem for leaders tasked with driving more of it in their organizations. This is illustrated by an experience in a recent workshop we led with about 50 executives at a large, diversified financial institution. Their chief executive officer (CEO) had publicly declared innovation as a top strategic priority, and this group of leaders was responsible for executing on it. The purpose of the workshop was to share learnings from other companies on how to enable innovation in large organizations and use that as a jumping-off point for the group to formulate its own plan of action. To kick things off, we asked each participant to write down answers to the questions "What does innovation mean at this company?" and "Why is it important?" Then we had people share their answers with the group.

The variation in responses astonished everyone. Some said the company needed to create completely new businesses, such as marketplaces for "alternative currencies" like Bitcoin. Others argued the bank needed to reinvent the end-to-end customer experience in its existing businesses, pointing to the recent development of futuristic retail bank branches with a science fiction feel. More common was the view that innovation was about rolling out successive generations of products in their existing businesses, with greater speed and differentiation. And some believed that innovation was really about incrementally improving internal processes and getting more efficient in what they already did. How could these leaders possibly respond in a useful way to the innovation rallying cry when none of them even agreed on what it was or what role it should play?

We've seen this same situation in scores of other companies across industries: vast numbers of seasoned, accomplished and very smart executives expected to pursue meaningful innovation without the foundational language that would enable them to do so. This is in stark contrast to the painstaking definitions of many financial terms and measures explained at length in annual reports to avoid misunderstanding and confusion.

Perhaps the most surprising observation about the great diversity of definitions might be this: They are all correct. But they are not all useful and relevant in all situations. What leaders need is a way to define what innovation means in their specific company and industry context. They need a way to name the types of innovation they want to measure and manage.

WHAT IS INNOVATION? THE UNIVERSAL AND THE PARTICULAR

To make headway on this problem, we'll first make two assertions:

1. There is not just one type of innovation — there are multiple types.
2. There must, however, be a single, universal definition that encompasses all these types.

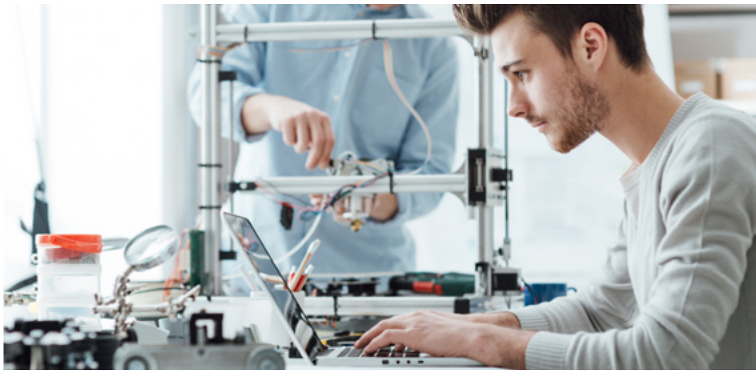
The first assertion allows for a world in which many different types of innovation are possible — and indeed even necessary — within an organization. But the second assertion must also be true, or it would make no sense to label all of these things with the same word.

Let's start with our proposed universal definition and unpack it a bit: An innovation is "**something new that creates value**." According to this definition, an innovation has two critical properties:

1. It is new, meaning there is something about it that is different than what has come before.
2. It creates value, meaning that it has some sort of practical benefit or impact.

The latter property distinguishes it from pure creativity, which is novelty that may or may not have a practical purpose.

This general definition of "innovation" is not, in itself, particularly innovative. There are similar definitions floating around, and it is consistent with what you'll find in Merriam-Webster ("the introduction of something new" or "a new idea, method, or device"). These dictionary entries clearly incorporate the property of "newness," and the reference to a new "method" or "device" implies practicality matters.



Moreover, because this definition is so general, it is not that useful on its own. But we can apply it in a useful way to map out the universe of discrete innovation types. The key to this is to recognize that *any specific type of innovation can be defined by the answers to three questions implicit in our universal definition "something new that creates value":*

- What kind of "thing" is it?
- How "new" is it?
- What kind of "value" does it create?

Let's examine each of these three defining dimensions of an innovation in turn.

1. **What kind of "thing" is it?** We can first ask what type of "thing" it is that comprises the innovation. This dimension is analogous to the medium within which an artist creates. A painter might use watercolors or oil paint; a sculptor, marble or clay; a dancer, body movements; a musician, any number of different instruments. All create art — they just use different forms. Similarly, an innovation in a business context can be created within the "medium" of a product, a service, a process, a marketing program, a business model and many, many other levers commonly pulled within companies. In fact, an innovation can address anything in a company that can be changed, is subject to resource allocation and has financial and/or strategic impact.

This is a first clue as to why there is such a proliferation of types out there: Really anything can be the medium or substrate for an innovation — as long as it is new and creates value. This is also the first indication of how leaders can determine which types of innovation are most important to their companies. While we've asserted that every organization needs to pursue more than one type of innovation, it is clearly going to be interested in innovation within the medium of the primary thing that it sells. Car companies need to innovate cars. Insurance companies need to innovate insurance products. And consulting firms need to innovate their services. But more on this shortly.

The more the innovation stretches beyond the way things are done today, the more it requires a different approach.

2. **How "new" is it?** The second question characterizes the degree to which an innovation is different than what has existed before. Is it an incremental adjustment to an existing product, but sold through the same channels and within the same business model? Or is it something that exists somewhere in the world, but is new to the company considering it? Or is it completely new to the world? This dimension characterizes how much of a stretch the innovation is beyond the world as we know it today and is really what is being referred to when people talk about "core" or "adjacent" or "transformational" innovations.

We care about this dimension because it is at the heart of how you pursue innovation in a large organization. The more the innovation stretches beyond the way things are done today, the more it requires a different approach to manage it than what's used in the "core" of the business today.

3. **What kind of "value" does it create?** This final question prompts a consideration of what the practical impact of the innovation is. Many managers would focus first on new revenue as the type of value created (and the implied new value for the customer that would warrant such revenue). This is eminently reasonable, but other types of value are worth considering when a leadership team is defining what innovation means for them.

For example, cost savings could be realized through efficiency or business model innovations. Positive impact on a company's brand could be a type of value created, whether it relates to how a company is perceived by its current customers, potential customers, employees or investors. Or perhaps the innovation has strategic value because it enables a key pillar of a company's strategy or because it creates option value for a move the company might make down the road.

This disaggregation of our universal definition into three distinct questions, then, explains how all the distinct types of innovation floating around relate to one another: They are all[1] just different incarnations of our universal definition, with each a distinct permutation of the answers to those three questions. Moreover, for a type of innovation defined as important at a company to be useful, all three of those questions must be answered for it.

CREATING YOUR COMMON LANGUAGE FOR INNOVATION

With this map of the landscape of innovation types out there and how they differ, how do leaders go about applying this? Here are three principles to keep in mind as you clarify what innovation means in your organization:

1. **Agree on the strategic intent behind your innovation effort.** Innovation is always a means to an end, not an end in and of itself; in a company, these ends must relate to your financial and strategic priorities and imperatives. Are you looking to drive growth in existing businesses, to create new businesses, to drive increased efficiency? Are you looking to transform your existing models or to stave off disruptive threats? Any of these objectives, and many others, can be turbocharged by innovation, so it's important to figure out where you want to formalize this link.
2. **Define more than one "type" of innovation.** Because there is inevitably more than one strategic objective that innovation needs to support, you'll need to define more than one type. A best practice is to create clear definitions for the multiple "innovation types" you want to manage and measure, and to use this "innovation typology" as the basis for designing and building your innovation infrastructure. For example, we sometimes hear leaders say they want "innovation to be everyone's job." But they surely don't mean they want 100% of their workforce focused on creating disruptive new growth businesses. Having multiple types will help your people understand the different roles they might play in driving innovation.
3. **Align the organization behind your definitions — and the underlying strategic intent.** Spread the language — and be precise about it. Once you've aligned on your "common language of innovation," you need to make sure everyone in your organization understands the language and can speak it.

1. There is actually a fourth dimension needed to fully understand many widespread innovation definitions: This dimension relates not to *what* an innovation is, but to *how* it is discovered. For example, "open innovation" refers to a set of techniques for discovering new ideas external to one's organization. "Reverse innovation" refers to the transplantation of an innovative idea from one geography to another, typically from a developing economy to a more developed one. Both of these are agnostic as to what type of innovation is involved, and indeed both techniques can apply to a wide variety of innovation types. Neither is what we are focused on in this article, which is the more fundamental issue of how leaders can define which types are relevant to their organizations.

This starts at the leadership level, where it is critically important that everyone be on the same page about what "innovation" means and how each defined type is enabled across the company. This can be reinforced at all levels through training, integration into innovation processes, and carefully crafted communications.

A great example of a powerful, custom innovation typology is that of Procter & Gamble Company (P&G) during the tenure of A.G. Lafley, which consisted of four types, each of which can be understood as different permutations of answers to our three questions. These types were:

- ***Sustaining* innovations:** These are improvements to existing products (what kind of thing?) that are incremental (how new is it?) and aimed at sustaining share with current customers and getting new customers to try it (what kind of value does it create?). These innovations are the lifeblood of any company as they keep the core business on track. Example: improvements in the cleaning efficacy of P&G's suite of Tide-brand products
- ***Commercial* innovations:** These are creative marketing, packaging or promotional approaches (what kind of thing?) aimed at growing existing offerings (what kind of value does it create?). Example: the 2010 Winter Olympic P&G ad campaign celebrating mothers, which cut across a wide range of brands driving $100 million in revenue
- ***Transformational-sustaining* innovations:** These are new product innovations (what kind of thing?) aimed at reframing and reinvigorating existing categories that have been commoditized through quantum leaps (how new is it?) in performance improvement, with the aim of attaining completely new levels of market share and profit (what kind of value does it create?). Example: Crest 3D White, a suite of advanced oral care products
- ***Disruptive* innovations:** These are new business models (what kind of thing?) that create new sources of growth (what kind of value?) through simplicity or affordability. Example: Swiffer line of products

Each of these types supported a different strategic priority of P&G. Defining them enabled P&G to organize its sophisticated innovation capabilities around them — and to measure the results.

The most important thing a leadership team can do is to get started on clarifying the roles and meaning of the word "innovation" in its company. This can save immense amounts of time, wasted energy and employee frustration, and greatly increase your chances of realizing the hopes you had for innovation in the first place.

About the authors

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About Innosight

Innosight is a strategy and innovation consulting firm that helps organizations navigate disruptive change and manage strategic transformation. Now the strategy and innovation business at Huron, we work with leaders to create new growth strategies, accelerate critical innovation initiatives and build innovation capabilities. Discover more about us at www.innosight.com