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An Innovation Audit: Evaluating Corporate Readiness for Innovation

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Abstract

Research shows that the corporations frequent fail to innovate in an effective, consistent manner. This paper reports on a study involving 150 respondents who serve as senior managers at five Fortune 500 companies to identify root causes. Respondents indicated that their companies did not have a good working definition of innovation leading to innovation proposal confusion; lacked an effective innovation process to support non-incremental innovation; and had organizational cultures that penalized rather than foster individual risk-taking by innovators. The data also showed that few companies provided training to employees on innovation methods nor was sufficient slack time provided to pursue innovative concepts. On the other hand, respondents indicated that their companies did have good working knowledge of customers/markets and most firms were working with what respondents considered to be innovative technologies. A number or firms were also experimenting with new business models and were expressly committed to innovation as part of the corporate growth strategy. Unfortunately, most respondents felt the barriers to innovation overwhelmed these positive aspects and that a gap persists between stated corporate commitments to innovation and the readiness of staff and the organization itself to take effective action. We term this a lack of innovation readiness.

Key Words: innovation audit, American corporations, innovation readiness.

1.0 Introduction

It is common knowledge that innovation failure is the norm in corporate America. (Crane and Meyer, 2014; Keeley, 2013; Crane and Meyer, 2011; Estrin, 2009). And, this fact has not changed much in the past twenty years when Tucker (2002) suggested that innovation in America is analogous to the mating of pandas; infrequent, clumsy, and often, ineffective.

There have been many reasons suggested for the lack of innovation success in corporate America, from a broad variety of perspectives. These reasons tend to fall into three basic categories: cultural and organizational barriers to innovation; strategic and market-related barriers to innovation; and process-type barriers to innovation. For example, a cultural/organizational cause behind a failure to innovate would be the lack of embedding innovation as part of the DNA of an organization. An example of a strategic or market-related cause of innovation failure is an organization's inability to recognize and respond to structural market changes that are transforming an industry such as the emergence of new customers and the dwindling of traditional core customers. An example of a process-type cause of innovation failure could be a strangling stage-gate system - perhaps originally designed to bring order to chaotic R&D activities - that drives risk-taking out of R&D only to yield the most basic incremental innovations.

2.0 Methodology

We conducted five different innovation workshops for five different Fortune 500 companies. As part of the pre-work for the workshops, individual participants had to complete an innovation audit or innovation readiness instrument that contained fifteen statements. These statements were developed based on historic reasons cited in the literature for the lack of innovation success which tend to fall into the aforementioned three basic categories: cultural and organizational barriers to innovation; strategic and market-related barriers to innovation; and process-type barriers to innovation (Utterback, 1994; Christensen, 1997; Leonard, 1998; Shilling and Hill, 1998; Sharma, 1999; Meyer, 2007; Estrin, 2009; Crane and Meyer, 2011; Crane and Meyer, 2012). Other researchers have used similar questions when conducting corporate innovation audits and have been found to be both valid and reliable (Ireland, Kuratko and Morris, 2006).

Respondents were asked to respond as to whether or not they agreed or disagreed with that statements based on their experience with their individual company. There were, on average, 30 participants for each innovation workshop resulting in 150 completed instruments. In essence, we realized a full one hundred percent response rate. Participants at these workshops were director-level to C-suite executives and the majority had at least 10 years of experience leading or managing innovation teams.

The five different companies represented very different industry verticals: aerospace; consumer packaged goods; computer software; energy production; and financial services. We ran a Tukey HSD test to determine of there were any significant differences in responses between the companies/verticals. Despite the diversity of the companies and respective industry verticals we found surprising consistency in responses and therefore report here the overall aggregate results.

3.0 Findings

The results are shown in Table 1. Only 30 percent of respondents believed that their organizations has a good working definition of innovation 30 percent. Moreover, less than 25 percent believed that their organizations had an effective innovation process to support non-incremental initiatives. Most respondents referred to some type of stage-gate process in their corporations. More fundamental was that only 34 percent of respondents believed that their organizations had a culture that fostered innovation and the risk-taking that comes with innovation proposals. Again, a number of respondents noted that leading a highly innovative project was seen as overly risky and even a potential career killer in their respective corporations.

Table 1 – Statements and Percentage Agreeing to Statements

Statements	Percentage of Respondents Agreeing with Statement
1. My company has a good working definition of innovation.	30
2. My company has an effective innovation process.	24
3. My company has an organizational culture that fosters innovation.	34
4. My company encourages and acts on suggestions for innovation from employees.	41
5. My company promotes interaction between departments and uses cross-functional teams for innovation.	44
6. My company effectively trains its people for innovation.	20
7. My company gives its people the time necessary to think and act innovatively.	22
8. My company shares the risks/rewards associated with innovation throughout the company.	20
9. My company has a good understanding of its customers and markets.	70
10. My company outperforms its competition in terms of innovation.	30
11. My company is effective at developing and deploying innovative technologies.	49
12. My company understands the importance of developing innovation for new customers.	47
13. My company explores new, innovative business models.	56
14. My company is committed to innovation as a corporate growth strategy	65
15. Overall, my company is successful with its innovation efforts.	24

N= 150

In terms of innovation capabilities, only 20 percent of respondents believed that their organizations effectively trained their people for innovation. Just as important, only over 21 percent of respondents believed that their organizations gave their people the time necessary to think and act innovatively. More encouraging was that slightly over 40 percent of respondents believed that their companies encouraged and acted on suggestions for innovation from employees.

But only 20 percent of respondents believed that their organizations shared the risks/rewards associated with innovation throughout their companies. But 44 percent of respondents believed that their companies promoted interaction and used cross-functional teams for innovation.

However, about 70 percent of respondents believed that their organizations had a good understanding of its customers and markets. Additionally, 65 percent of respondents believed their companies were committed to innovation as a corporate growth strategy. Over 55 percent of respondents believed their companies were exploring new, innovative business models.

And, almost 50 percent of respondents believe their companies were effective at developing and deploying innovative technologies. Yet, only 47 percent of respondents believed that their companies understood the importance of developing innovation for new customers.

As an indicator of innovation outcomes, only 30 percent of respondents believed that their organization outperformed its competition in terms of product, system, or service innovation. That result is as telling as any other in this study. And in a parallel question, when asked about company success with its innovation efforts only 24 percent of respondents felt that their companies innovative efforts were effective.

The irony of the study showed that most respondents felt that their respective companies had a good understanding of their markets and customer (70%) and were committed to innovation as an essential corporate growth strategy (65%) , but nonetheless, were ineffective bringing new products and services to those customers (only 20%), or outperforming direct competitors in innovation (only 30%).

4.0 Discussion

These survey results have consequences for considering a firm's innovation capability and effectiveness. To start, if a company does not have a clear definition of the innovation which it deems deserving for resources, employees will consistent settle for more traditional types and forms of innovation – e.g. incremental improvements to current products and services, and will be confused as to what otherwise would be acceptable to senior management and aligned with company goals. When we spoke to staff in one of the respondent firms where the scope of innovation was clear and perceived as a company strength, we saw best practices that included specific boundaries for innovation, such as projects that either applied its core technologies to new market applications, or work to disrupt its current technologies with next generation technologies. (Christensen, 1997; Zook, 2004; Meyer, 2007). This policy led to a range of adjacent market application projects, as well as highly innovative advanced R&D projects. More broadly in any industry, we have come to see that innovation itself must be defined beyond just new products, embracing innovation in business model design, go-to-market strategies, and areas of process such as manufacturing platforms. With this foundation of thinking in place, executives can then make innovation proposals along approved innovation types a formal part of the annual strategic planning and portfolio management process. Whatever the specific approach, the bottom-line is that innovation needs to be taken out of the clouds and translated into actionable vectors so that fast-track managers and their personnel can respond with concrete proposals.

The innovation process itself logically comes as the next area of great concern. In our sample, the organizations struggled with the concept of an innovation process that suited non-incremental improvements to current products and services. All of the companies sampled had defined innovation processes with various stages or gates, over which senior executives had veto power to fund or defund individual projects at each stage of the process (Cooper, 2008). In reality, conversations with respondents revealed that this type of hardened stage-gate process limited bolder innovations proposed by employees. The root causes were several: senior managers wished to minimize the risk in new investments in general and have all the authority to do so in the veto power enabled in the stage gate even before ideas were prototyped and market tested; and, companies often applied the return on sales hurdle rates to new concepts that were standard fair for large, mature product lines. Also, marketing executives shunned new distribution channels or marketing programs; and manufacturing executives new contract manufacturers or suppliers. It was clear to us that most traditional stage-gates stifle risky pursuits. A number of respondents expressed the need for an internal new venture incubator within their corporations that would allow innovation teams to conduct rapid market tests and acquire the learning needed to fully plan for scalable new product lines or services.

As teachers, we find another standout finding was that most respondents felt ill-equipped to do more substantive, market-driven innovation in terms of their formal education or company-sponsored training. Only 20% of the respondents felt innovation training was adequate in their companies. In fact, several of the companies had begun to offer seminars in "design thinking", but none had combined this with methods for concept validation, business model design, and go-to-market planning – all essential components of the business planning required to bring an innovative idea through the typical company innovation review process.

Employee incentives to engage in non-incremental innovation activity were another striking finding of the survey. One component of this is simply free slack time for employees to design and prototype new ideas. (Agrawal, et. al., 2018.) Also, most perceived negative incentives to engage in such activity. Only one of the companies provided extra financial incentives, in the form of bonuses, for success new product or service development. In fact, our follow-up interviews showed the more common perception that working on more adventuresome project typically ended as a career impediment, if not a career killer, for those involved. If there are no financial rewards for innovation nor any protection provided in the event that a new idea cannot be effectively prototyped or fails its market test – then why would a rationally thinking employee risk fate to work on something truly new? Without the proper skills sets, and without the time to innovate, financial incentives or a cultural disposition to look kindly on early product and market experiments as learning opportunities, a lack of effective innovation is the likely outcome. To encourage innovation corporations need comprehensive, progressive and equitable incentive systems instituted within their organization that align with their innovation efforts. This includes even making innovation part of the performance review system.

5.0 Conclusions

Per our survey, much of the extant research in innovation management focuses on the problems (Utterback, 1994; Christensen, 1997; Leonard, 1998; Sharma, 1999). However, some work has shown it is possible for mature corporations to improve both individual and corporate readiness for innovation (Katzenbach and Smith, 1993; Zook, 2004; Meyer, 2007; Christensen and Raynor, 2003.) As noted in these pages, the components of such revitalization include: defining and scoping innovation vectors for the corporation and communicating these widely throughout the organization; focusing innovation on adjacencies where company technology can be feasibly leveraged; providing training for employees on the principles and methods for effective innovation; give employees the slack time and encouragement to experiment and take risks for the company's betterment; and design an innovation process that allows new concepts the time and flexibility for teams to prototype, launch, and learn on the path to understanding an effective business plan, rather than being required to have a complete plan in order to begin R&D.

None of the corporations included in this study had ever done a sampling of their staff on innovation readiness and effectiveness – that is why they engaged in this project. Similar to employee satisfaction studies, one can build an instrument based on best practices for innovation – training, teams, work loads, risk-reward compensation – and ask employees for their perception of company practice and policy. It is through such audits (Ireland, et. al.) that the identification of specific needs and a priorization of improvement initiatives can best proceed.[1]

[1] Readers are encouraged to contact the corresponding author for a copy of the instrument used here.

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