

# **How to Assess and Measure Business Innovation**

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# 1 THE COMPLETE GUIDE TO BUSINESS INNOVATION VOLUME 1-5

The past can no longer be a predictor. The forces reshaping global culture have become so sweeping and multifaceted that a company's past successes have lost their statistical weight in projections of what is most likely to happen next.

There have been only a few other historical precedents of times like the one we are in now, and the post-change world looked absolutely nothing like the world before.

## **The World's Four Revolutions**

We are now living in the midst of the Fourth Industrial Revolution, fundamentally rewriting the rules of how we live, work and relate to one another. Somewhere in the world right now, there is most probably a working prototype of an innovation that will be as profound as the Internet or self-aware AI.

The World Economic Forum introduced this conceptual framework for global development in 2016, but the evidence has been right in front of us for a great deal longer.

The First Industrial Revolution in the 18th century transformed the world of work from animal-powered labor to mechanical drivers. The Second in the 19th century brought to bear electricity and previously unimagined economies of scale. The Third in the 20th century transferred over industrial logistical control to computers and automation.

Now, in the 21st century, we are witnessing the convergence of all past advances in power and energy. Mechanical devices, electricity and networked computers are merging with biological systems. Honestly, no one has any idea where that will lead us.

## **The Path Ahead**

In its scale, scope and complexity, our revolution is ushering in a world that is literally incomparable – it is unlike anything we have experienced. Like the world of quantum mechanics, common sense does not apply to uncommon environments. While we cannot know how this will unfold on the macro level, each organization can take control of its own innovation strategy.

In order for an organization to play a consequential role in the sweeping changes swirling all around us and to benefit from them, leaders must follow a praxis that is

integrated and comprehensive, involving all external and internal stakeholders.

If there are any omissions or vulnerabilities in the foundations of their business strategy, market forces will simply tear it apart. Successful leaders adhere to a methodology that aligns strategy, leadership styles, internal culture, untapped capabilities and adaptable competencies.

### **A Comprehensive Innovation Strategy**

Solid research indicates that a coordinated innovation strategy has been and will be the key to success in building innovative, sustainable business models that thrive amid the turbulent times ahead. Organizations that aspire to persistent relevancy need a true, reliable and easily measurable 360-degree understanding of what just happened, what is happening at the moment and which potential futures are most likely to occur.

Entrepreneur and international innovation expert Magnus Penker built the Innovation360 Group to offer businesses a pathway for achieving that understanding.

Penker's journey began with a deceptively simple question, "Why do some innovative firms change the world while others struggle to survive?" In analyzing data from thousands of businesses, Penker concluded that it's not a matter of luck, although timing matters. It's not just talent, a well-connected board or intelligent funding choices.

### **The Value of the InnoSurvey™**

The answer can seem stultifyingly elusive, but the underlying truth is that each organization contains its own individual seeds of success or failure. Repeatable success depends on leaders nurturing the right combination of elements with exquisite precision.

Penker and his team studied more than 1,000 companies across 62 countries to build the world's largest innovation database, the InnoSurvey™. This contains a compilation of insights from multiple respondents in each company, both external and internal stakeholders, that arrives at a comprehensive 360-degree analysis of what, why and how innovation projects came to fruition.

Over the years, the team has been able to refine and develop these specialized methods for anatomizing innovation. This approach provides an iterative, evidence-based assessment to serve as the roadmap for future investments.

### **The Overarching Goal**

The goal of this book series is to help more great ideas find practical expression and help more companies survive despite market upheavals.

The five volumes cover:

Part I: How to Assess and Measure Business Innovation

Part II: The Elements of Innovation

Part III: A Complete Innovation System from Ideation to Governance

Part IV: Tactical Innovation Techniques in Practice

Part V: Sustainable Growth and Profits from Managing Your Innovation Strategy, Organization and Portfolio

While things are changing with blinding speed and large-scale cultural shifts are resetting the market's priorities in unpredictable ways, there's no reason to throw up your hands. This book is meant to be a firm grounding that you can return to again and again. There are many precedents within the InnoSurvey™ to help you make sense of what's happening with each innovation you introduce.

What the world has in store for the years ahead is very likely to be radically, shockingly new, but you can prepare yourself and your organization to soar above the whirlwind. As you work your way through this series, you will nail down a repeatable, teachable process to innovate for greater profits and market share no matter how the world changes.

## 2 INTRODUCTION TO HOW TO ASSESS AND MEASURE BUSINESS INNOVATION

There have been many brilliant innovations in history that went nowhere.

Many brought fame and fortune to later adopters of these ideas, some who lived much later and are now credited with introducing these innovations to the world.

This distinguished list of ideas whose time had not yet come could include movable type printing, attributed to Gutenberg in 1440 but actually invented in 1041 by Chinese polymath Bi Sheng. Arguably, you could also include computer programming, which had its central logic laid out by Ada Lovelace in 1843, a century before there were any computers to program.

Undoubtedly, there is a great deal that could and should be salvaged from the world's current list of neglected innovations.

### **Innovation Lost**

A more relevant and recent example might be LoudCloud. Marc Andreessen, one of the most successful entrepreneurs and venture capitalists in the world, launched this cloud computing provider with \$120 million in seed funding and an open market of \$5.9 billion. You probably haven't heard of it because it doesn't exist anymore. LoudCloud was broken up and sold off in pieces. You can't really call the innovation a failure because its technology is still generating revenue, but that revenue is flowing to other companies.

What went wrong? A proper analysis could fill a book by itself, but part of the answer is that the world wasn't ready yet. LoudCloud entered the market in 1999 – a decade before Software-as-a-Service (SaaS) computing and storage went mainstream.

To successfully navigate the forces of change and disruption, the leaders of today's organizations are tasked with one major challenge: reliable growth in an uncertain market landscape. Given current conditions and outlooks, the greatest risk you could take is to do nothing.

### **The Odds of Survival**

According to some leading market estimates, four out of 10 businesses that dominate their verticals today won't even exist within a decade. The ones that survive will be transformed by technologies still in their infancy today.

Barriers to entry have never been so low and product and company lifecycles have never been so short. Simple optimization of current resources, processes and business models is not enough. The central question each leader needs to answer is: Where do we grow next? Taking a chance is an unacceptable risk when so much is at stake. You will need a more insightful, more data-driven way to define your investment in innovation. That path begins here.

By its very nature, innovation seeks to challenge the status quo by making better, unique products and services using existing resources, capabilities and competences in new ways. The goal is to satisfy unmet needs, whatever they may be, by using and/or developing technology to make the impossible possible.

Innovation can be done in small steps (incremental) or in leaps (radical). Everything external as well as internal can be innovated. Some innovations are designed to impact profit, while others impact are meant to grow market share, but each innovation affects the others within an organization's Wheel of Innovation™. However, pursuing different innovations requires equally different perceptions, mindsets and goal settings. Thus, innovators and innovation managers need to be active in different "time horizons" at the same time

### **Working with Three Innovation Horizons**

The Innovation360 approach is inspired by Steve Coley's work that defined how innovation can be divided into three parallel horizons. Each evolves along a predictable S-Curve.

The first horizon (H1) concerns smaller, incremental innovations that build on existing business models, extending the existing S-Curve of the company. These can be normally be accomplished with little structural change and lead time. The second horizon (H2) is more creative and proactive, expanding and building new businesses into new directions.

The third horizon (H3) is sometimes characterized as "moon shots" or "skunk works." This is a much more explorative approach to future S-Curves, to be commercialized in H2, ending up producing significant cash flows in H1. Ideally, a company should be working on all three horizons simultaneously.

The biggest failure of many contemporary strategies is that they are stuck in H1. Some studies indicate that up to 99 percent of businesses are trapped there due to "spiral staircase" leadership. In the interest of safety and risk aversion, leaders mandate step-by-step projects with narrowly-defined goals and predictable ROI.

This strategy has also been compared to arranging deck chairs on the Titanic, a futile action in the face of an impending catastrophe.

When this happens, large H1 projects tend to get prioritized to the extent that they generate internal traffic jams among projects that must share resources. The result is too many, too big and too cautious projects that don't create value for the firm or their customers.

### **The Roles of Assessment and Measurement**

The more successful approach has been seen in companies that deploy limited resources more optimally, nurturing today's profit (H1), developing new ideas for tomorrow's profit and market share (H2) and taking part in building the future (H3).

To link strategic direction and business modeling in a hyper-competitive market with change and transformation programs for driving successful business development in several horizons, one must have a thorough apprehension of what innovation management means within the context of your own organization.

Turning the principles of successful innovation into something that can be assessed and measured will be the subject of this book, part one in a series that will take you from quantification to execution of your innovation strategy.

In particular, the assessment and measurement of the organizations's innovation capabilities both deserve a prominent place on the agenda of all C-levels, entrepreneurs, business owners, venture capitalists and practitioners working with business development/R&D.

### **Optimizing Innovation Investments**

By using the framework in this book, you will use your findings to establish the most effective strategy, leadership, culture, capabilities and competences needed to drive optimal innovation in the first, second and third horizons, mitigating risk in a changing market landscape and identifying the smartest moves for short-, mid- and long-term profitability.

In the pages ahead, you will be introduced to Innovation Analytics. More than just a theoretical construct, Innovation Analytics is a praxis for turning the possible into the real. As you apply Innovation Analytics to your own organization, you will learn how to interpolate data on the competitive landscape and the dynamics of how the market will react to the introduction of your innovative ideas.

You will develop an understanding of how to quantify all major drivers – industrial

as well as macro key – in the bigger picture. You will oversee a comprehensive investigation of the organization’s business capabilities that we call the “360-degree analysis.” This analysis is a living document that will grow and evolve in tandem with internal and external changes from technology drivers

Common creative solutions, crowdsourcing, social media, online intermediaries and Massive Open Online Courses (MOOC) are just a few of the underlying driving technologies that are fundamentally changing the landscape, opening a window of opportunity to firms with innovative capabilities to service and drive these new markets. These capabilities include multi-strategy capabilities, the use of in-depth consumer insights, an agile organization, advanced networking and linkages, platform thinking and technology watch.

The end result will be a compendium of tangible data that can be used to model or remodel the business structure, the overall strategy and the related transformation projects that will set the staging area for your innovation’s best possible launch.

Let’s make it happen.