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## Making Innovation Work

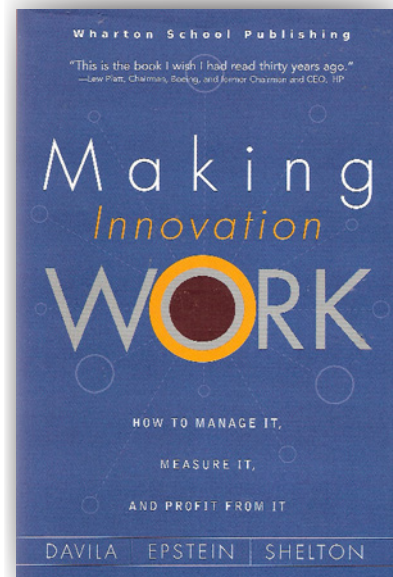
*How to Manage It, Measure It,  
and Profit from It*

Tony Davila, Marc J. Epstein,  
and Robert Shelton

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*Reviewed by Lydia Morris Brown*

### INTRODUCTION

Although many myths surround innovation, making it appear more complex than it is, the authors believe that the execution of innovation is not any more difficult than the implementation of other management activities. Nonetheless, it seems as if the correct set of innovation rules has been misplaced, distorted, or simply misinterpreted.

**Making Innovation Work** challenges prevailing misconceptions and lays out the tools and processes necessary for an organization to harness, manage, and execute innovation successfully and profitably. It provides a start-to-finish process for defining innovation strategy, integrating innovation and business strategy, balancing creativity and value capture, weaving

innovation into the fabric of the business, neutralizing organizational “antibodies,” building innovation networks, and measuring and rewarding.

#### PART I: THE RULES OF INNOVATION

For any organization, innovation represents the opportunity to survive, grow, and significantly influence the direction of an industry. Blockbuster development does not, however, guarantee success, but must be followed up with successive streams of innovation, from the incremental to the radical. Knowing that the only reliable security is the ability to innovate better and longer than the competition, leading companies develop innovation portfolios that they can use to help sustain growth over the long term.

A fundamental tenet of innovation says, “How you innovate determines *what* you innovate.” The elements of innovation—leadership, strategy, processes, resources, performance metrics, measurement, and incentive rewards—and how they are arranged (i.e., organizational structure and culture) have a huge effect on the quantity and quality of innovation that an organization achieves.

Given this reality, the authors believe that the key to successful innovation is what they call the **Seven Innovation Rules**:

1. Exert strong leadership with regards to innovation strategy and portfolio decisions.
2. Integrate innovation into the company’s basic business mentality.
3. Align innovation with company strategy.
4. Manage the natural tension between creativity and value capture.
5. Neutralize organizational “antibodies.”
6. Recognize that the fundamental building blocks of innovation are networks that include people and knowledge both inside and outside the organization.
7. Create the right metrics and rewards for innovation.

Leadership is first because it is where an organization needs to start. Metrics and rewards are last because they close the circle, creating the motivational and behavioral links to all of the other rules.

According to Davila, Epstein, and Shelton, **strong leadership** from senior management is essential to achieving innovation success. An important aspect of this kind of day-to-day leadership, which happens through commitment, example, and solid decisions, is the creation of a portfolio of technology and business model innovation.

Business model innovation is just as important, and just as powerful, in driving business success and revolutionizing industries as technological innovation. A classic example of this is Dell Computer, an enterprise that radically changed the business model of the customer interface in retail personal computer sales.

## KEY CONCEPTS

The elements of innovation—leadership, strategy, processes, resources, performance metrics, measurement, and incentive rewards—have a huge effect on the quality and quantity of innovation that an organization achieves.

The key to innovation is what Davila, Epstein, and Shelton call the **Seven Innovation Rules**:

1. Exert strong leadership with regards to innovation strategy and portfolio decisions.
2. Integrate innovation into the company’s basic business mentality.
3. Align innovation with company strategy.
4. Manage the natural tension between creativity and value capture.
5. Neutralize organizational “antibodies.”
6. Recognize that the fundamental building blocks of innovation are networks that include people and knowledge both inside and outside the organization.
7. Create the right metrics and rewards for innovation, as well as a structured process to guide the development of ideas.



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Knowing how to change business models and technology together and individually is also a mark of success. The authors' *Innovation Matrix* illustrates this interplay by highlighting the fact that not all innovations are created equal. Three types of innovation exist: (1) incremental, (2) semi-radical, and (3) radical. Senior management bears the responsibility for creating a balanced portfolio, consisting of all three and for creating the appropriate options, both business-model and technological.

Innovation encompasses two established activities. The first, R&D, is thought of as technological. The

second, defining the business model, is strategic. Success depends on the **integration of business model and technology change** into a seamless process. However, this does not imply that innovation should be contained within one organizational unit.

*We define "innovation" as our ability to create new value at the intersection of business and technology. We have to have new insights. We have to do things differently. We cannot rely just on invention or technology for success.*

## ABOUT THE AUTHORS

**Tony Davila** is a faculty member of Stanford's Graduate School of Business. He works with both large industrial companies and Silicon Valley startups to design management control and performance measurement systems that drive innovation. And, he has been published in *Harvard Business Review*, *Research Policy*, and other leading journals.

**Marc J. Epstein** has been a visiting professor and Hansjoerg Wyss visiting scholar at Harvard Business School, a research professor at Rice University's Jones Graduate School of Management, and a professor at Sanford Business School and INSEAD.

**Robert Shelton** is managing director of Navigant Consulting's Innovation practice, with a client list that includes *Fortune* 500 leaders in the electronics, energy, health care, automotive, consumer goods, software, and aerospace industries. He has served as vice president and managing director of the Technology Management practice at SRI International. And, his work has been referenced in *The Wall Street Journal*, CNN's "Financial News Network," and other leading media.

Innovation requires resources, competencies, and experience that reside in different parts of the organization and in enterprises outside the organization. It also requires coordination and synchronized efforts across these departments in order to transform an abstract idea into a tangible product.

The importance of innovation rises and falls with time, depending on the confluence of several factors, including the timing of the last innovation, the nature of the competition, and the overall business strategy. Thus, the **amount and type of innovation must align with the company's strategy**. The selected strategy has to fit the business situation and it has to be clear (i.e., must be measured and recognized with proper rewards linked to performance) throughout the organization.

Companies also need to keep in mind that more innovation is not necessarily better. Not all businesses need significant, continual doses of innovation, especially the radical, game-changing kind. This level of change may cause problems for the competition, but it could also break the back of the innovating organization. Constant, radical change not only represents a huge cost, it also creates huge organizational tensions and destabilizations.

Thus, innovation, like most things, is best in the right proportions. Moreover, each enterprise needs to determine how much innovation it can handle in the present, how much more it needs in the future, and the dynamics of how to get from here to there.

Wrongly assuming that structure and process are the natural foes of creativity, many people cannot imagine how to **manage the natural tension between**

**creativity and value capture** (i.e., commercialization). However, structure can, in fact, enhance creativity if built and used in the right way.

Too much emphasis on delivering value through execution can stifle the creative processes. And, unstructured creative processes can displace the effective value management, yielding many great ideas but insufficient commercial successes. Innovation does not mean ignoring business imperatives but, rather, being aware of the processes within the organization that kill creativity. Commercialization processes also need to be managed so as to turn the best creative concepts into marketable products and services quickly.

*Organizations ... need to create an environment where taking risks on breakthrough innovations is recognized as valuable to the company. This recognition will help modify a unilateral short-term focus on results to a more balanced view that encompasses a long-term perspective.*

Senior management must create a culture that has the ability and courage to change and explore and, at the same time, remain stable enough to deliver on its innovations. In other words, companies must **neutralize organizational antibodies**—the explicit routines and cultural norms that act to block or negate change. In general, the more radical the innovation, and the more it challenges the status quo, the more antibodies there are. Also, the greater the company's past successes, the greater the organizational antibodies.

Core capabilities can become core liabilities if they do not adapt and change, and this requires cultures that are open to questioning assumptions and to debating alternative business approaches. Managers must also understand that only by taking risks, closely observing results, learning from them, and trying again, can innovation occur.

Cultures that foster innovation embrace communication, not only with the members of the organization, but also with such external constituencies as customers, suppliers, universities, competitors, or companies in other industries. The not-invented-here syndrome is a sign of an arrogant culture, and where there is arrogance, strong organizational antibodies exist.

Successful organizations understand that the primary unit of innovation is not the individual. Rather, **it is a network that includes people and knowledge both inside and outside the organization**. Innovation requires cultivating and maintaining this network as an open and collaborative force, which is no easy task, considering the complexities of relationships, as well as differing motivations and objectives.

Rewards that focus on meeting budgets and avoiding risk cause managers to invest in safe products where there is little chance of a big loss but also little chance of a big profit. These companies reward the speed at which low risk products are created and marketed, even while they hope for radical new ideas. The outcome is an overdose of incremental ideas.

To innovate successfully organizations must create environments where taking risks on breakthrough innovations is recognized as valuable. Thus, they need systems in

place that **create the proper measurement, motivation, incentives and rewards**, as well as a structured process to guide the development of ideas.

## PART II: STRATEGIC INNOVATION - A MODEL AND PROCESS

According to the authors, successful organizations combine technology change and business model change to create innovation. Rarely does a technology change occur without also causing a change in business processes and vice versa. Both go together and, thus, must be conceptualized and implemented as a whole.

There are six levers that influence strategic innovation. Three of these levers are the basis for creating business model innovation:

1. value proposition—what is sold and delivered to the market
2. supply chain—how it is created and delivered to the market
3. target customer—to whom it is delivered.

Sometimes new technologies are a major part of an innovation, and they stand out and garner significant

attention. At other times, the new technologies are hidden and can only be seen by the technical people servicing them. Either way, technology change can fuel innovations through three additional levers:

4. product and service offerings,
5. process technologies
6. enabling technologies.

Although enabling technologies (technologies that help a company execute strategy much faster and leverage time as a source of competitive advantage) are the least visible to customers, change in this arena can be very important because it helps to ensure better decision making and financial management.

Another key aspect of this model involves the generic types of innovation—incremental, semi-radical, and radical.

*Incremental innovation* is the most prevalent form of innovation, receiving more than 80 percent of total innovation investment in most companies. It is a way to wring out as much value as possible from existing products or services without making significant changes or major investments.

Nonetheless, incremental innovation is not a minor factor in the equation but its cornerstone. It is extremely valuable in providing protection from the competitive erosion that eats away at market share, profitability, or both. By providing small improvements, via changes in one or more of the six business-model-technology levers, a company can sustain its product market share and profitability for a longer time. This results in better cash flow and a better return on development and commercialization investments. Nonetheless, companies cannot succeed, or even survive throughout the long term, without complementing their innovation portfolios with other types of innovation.

*Semi-radical innovation* can provide crucial changes to the competitive environment that an incremental innovation cannot. If it is business-model driven, the innovation is characterized by significant change in one or more of the business-model levers and small change in one or more of the technology levers. If the

semi-radical innovation is technology driven, there will be small change in one or more of the business-model levers and significant change in one or more technology levers.

Some companies are adept at managing the change in either the technology arena or the business model arena, but seldom both. This puts then at a significant disadvantage to the company that is able to manage change in both.

In order to collaborate effectively in semi-radical innovation, and avoid missteps, missed opportunities, and the inability to quickly and effectively capture the two-step process, groups within the organization need to have a map of both the business model *and* technology space in which they compete. A collaborative innovation map provides a common framework for different groups to discuss threats, opportunities, strengths, and weaknesses that are crucial to successful innovation.

*Southwest Airline's move away from the traditional hub and spoke business model is an excellent example of a semi-radical innovation. ... It has set the new direction from the industry and established the competitive benchmark that others use to measure themselves.*

*Radical innovation* is a significant change to one or more of the business-model levers *and* to one or more of the technology levers. Moreover, it usually brings fundamental transformations to the competitive environment in an industry. The introduction of disposable diapers in the 1970s is a historical example of the combined changes in the technological and business elements leading to a fundamental change in home baby care. Because of the success of this radical innovation, companies like Procter & Gamble, Kimberly-Clark, and Johnson & Johnson (to name a few) have invested massive amounts of money and intellectual resources in the development and commercialization of advanced absorbent and containment technologies for disposable diapers.

Nonetheless, while radical innovation can create tectonic industry shifts, and put a company in the lead, investments in this arena need to be approached cautiously. Because radical innovations are by nature,

low-probability investments, investing too much, based on unrealistic expectations, can waste valuable resources that could be better employed on semi-radical or incremental innovations. The key is to maintain a balanced portfolio so that the investment matches business needs.

*It is not enough to choose the right strategy once. You have to keep choosing the strategies to remain successful. ... Starbucks provides a good example. ... Starbucks has continually adapted, experimented, and regenerated its image and its focus to maintain its edge in the industry.*

Sometimes companies combine two semi-radical innovations to create a blockbuster innovation that changes an industry fundamentally. Davila, Epstein, and Shelton call this phenomenon “ersatz radical innovation.” Apple Computers took the industry by surprise when it launched iTunes and iPod. It was not as though no one in the PC arena had ever thought of these innovations before but, no one had the radical idea of combining technology change and business-model change into this one-two innovation punch.

Selecting and integrating the priorities for business-model change and technology change, and defining the balance between the three types of innovation in the portfolio, constitute the basis for forming the innovation strategy and developing a portfolio aligned with the company’s overall business strategy. These are the fundamental responsibilities of senior management—ones that provide the context for decisions related to organizational design, the development of innovation networks, and the development and use of metrics and incentives to drive innovation.

Because there is no menu of generic strategies from which to choose, one of the first responsibilities of senior management is to craft an innovation strategy that supports the business strategy, adapts to changing conditions, and chooses the right time to make key moves. An organization may choose to devote most of its resources to a particular part of the innovation model or spread them out over the entire framework. Depending on the approach, one of two classes of innovation strategies can be considered—Playing-to-Win (PTW) or Playing-Not-to-Lose (PNTL).

If the goal is to produce significant competitive advantages a PTW strategy is required. PTW, a market-leading strategy that relies heavily on semi-radical innovation, is typical of high-technology startups. These companies are highly focused on bringing one new technology or business model to market. In fact, one new thing is almost all they have, and their future is almost entirely dependent on it.

The high failure rate for small companies following this strategy reflects the high risk involved with this approach—whether it comes from the technology delivering the value promised, from the market developing fast enough to value the technology, or from the management executing on the strategy.

The other key contributing factor in the high failure rate is a lack of depth in their innovation portfolios. The broader resources of larger, more established firms allow them to cover a larger portfolio of investments, providing a hedge that significantly lowers the risks. Many large firms (e.g., GE, Apple, and Sony) have clear PTW strategies aligned with their overall strategies. These companies have committed to an investment portfolio, designed to provide a formidable flow of innovations that promise to help them dominate their business sectors.

For some companies, an intense or uncertain competitive environment, and/or significant internal constraints, makes it more advantageous for them to adopt a PNTL strategy. This strategy typically includes more incremental innovation in the portfolio than a PTW strategy and aims to ensure that a company can stay in the game by moving quickly, taking calculated risks, sometimes moving first, or by matching or surpassing any moves by competitors.

Following a PNTL approach, an organization can watch for improvements in the external environment, make improvements in its internal capabilities, attempt to wear down the competition, and look for opportunities to shift to a PTW strategy at the appropriate time.

Sometimes PNTL strategies exist because management cannot commit to a clear PTW strategy; thus,

PNTL is a compromise among parts of the organization that do not have the same view of what should be done to succeed. This sort of compromise is, however, a very dangerous strategic choice because people cannot execute at maximum efficiency, speed, or effectiveness if they are getting confused signals. It is management's responsibility to clearly specify and communicate the innovation strategy throughout the company.

Although PNTL is sometimes, called the "fast-follower" strategy, PNTL is not limited to following another's move. To be successful, PNTL requires a mix of preemptive and reactive moves, all aimed at not relinquishing advantage and, whenever possible, causing competitors to expend more than their fair share of resources. Organizations focused on just following eventually become limited in their competitive mindsets and innovation capability.

Still, skilled fast-followers are often more successful than early innovators. They come behind PTW strategies, quickly deploying their own capabilities to copy and improve on successful innovations, and consequently beating the original innovator in the marketplace.

The best innovation strategy, whether PTW or PNTL shapes the portfolio, is ultimately determined by a number of internal and external factors, including: technical capabilities, organizational capabilities, success of the current business model, funding, top management vision, capabilities in the external network, industry structure, competition, and rate of technological change. These are the factors management must address when improving and updating the company's innovation strategy.

In addition to crafting an innovation strategy, enterprises must choose, build, and prepare the right organization and the right people. However, many firms find that the organizational components of innovation are often rejected or marginalized by the antibodies of their mainstream organizations and, as a result:

- current project portfolios consist almost entirely of incremental innovations;

- innovation metrics use only capital-return tools such as Return On Investment and Discounted Cash Flow;
- innovation funding is available only annually rather than at regular intervals or whenever great ideas emerge;
- innovation is measured in terms of efficiency rather than in terms of the value of the portfolio;
- managers are complacent about good ideas;
- managers criticize and undermine innovators rather than serve as sounding boards, role models, and sponsors.

A key antidote would be the development of an internal marketplace where the ideas and functions of innovation can flourish. In this atmosphere, truly valuable innovations are funded and advanced from concept to commercial reality, no matter how threatening they may be to the existing business. Critical to creating such a marketplace is having a process for balancing creativity and value capture so that both thrive.

*For an organization to innovate successfully, it needs to foster a balance of creativity and value capture. Maintaining that balance requires support from metrics and rewards, and also has cultural components. However, the organization is at the core of the internal marketplace that provides for balanced creativity and value capture.*

The first step in this process involves developing platforms for the different types of innovation desired. These platforms are organizational units of networks nestled within a company that direct resources toward specific areas of innovation. They cut across business unit silos, provide an honest perspective on the value of all proposed innovations, and they include:

- broad areas of innovation that direct the platform's activities;
- both business-model and technological change;
- a portfolio of incremental, semi-radical, and radical innovations;
- networks of people inside and outside the organization, who can effectively contribute to different

aspects of innovation (idea creation, selection, development, and implementation) and who can also preserve the company's intellectual capital and knowledge during downsizing;

- metrics and rewards that focus resources on the potentially valuable areas of innovation, capture the organization's innovation performance, highlight gaps and areas of improvement, encourage the desired behavior and results, and mitigate organizational antibodies; and
- management systems that promote and use learning and change to improve strategy, processes, organization, and resources.

*Two organizations with the same structure will get very different ... results based in part on the systems they have in place and the consistency with which they are followed. [However] for innovation to happen successfully, there needs to be an explicit process in place to manage all the steps ... from design, to measurement, to reward.*

Balancing internal creative and commercial markets also involves creating portfolios of projects in each platform, and reviewing each project to ensure that the creative and commercialization markets are aligned and balanced. A portfolio overly rich in incremental projects signals an anemic market for creative ideas. A portfolio that has an over abundance of radical and breakthrough innovations signals a hyperactive creative process and an internal market that discounts commercialization.

In addition to developing innovation platforms and creating portfolios, management must also form internal and external partnerships and networks, ensure that internal markets for creativity and commercialization are open and transparent, and reallocate resources so as to guard against the reemergence of antibodies that may limit or destroy the company's rejuvenated creative markets and processes.

Innovation can also be organized according to the corporate venture capital (CVC) model, which is useful for promoting radical innovation without hindering incremental innovation. It works as a hybrid between an independent venture capital firm and an incubator

within the organization. The venture capital structure receives radical ideas, selects those with the most potential, funds them, and then sells them.

Another alternative is the "ambidextrous organization." It is a model in which the organization promotes innovation and operations within its architecture, through multiple groups, handling different types of innovation and operation projects. With this approach, different innovation cultures and processes are promoted, and radical innovators are kept separate from the traditionalists who run the core businesses.

Strategic decisions will guide where innovation efforts are focused, and structure will act as a foundation for the innovation process.

However, innovation can still fail if management systems are inadequate. Innovation management systems are established policies, procedures, and information mechanisms that facilitate the innovation process within and across organizations. They

determine the shape of daily staff interactions and decisions, the order in which work happens, how it is prioritized and evaluated daily, and how different parts of the organization use the organizational structure to communicate.

Many managers assume that structure and process are the natural foes of creativity; however, if they are built and used correctly, they can actually enhance creativity by fulfilling five important roles:

1. moving great ideas from concept to commercialization, quickly and with a minimum use of resources;
2. creating the appropriate lines of communication within the company, and with outside constituencies, so as to facilitate timely access to specialized knowledge;
3. facilitating optimum coordination between projects and teams;
4. learning (i.e., managing the knowledge that is constantly created in innovation); and
5. aligning the objectives of various constituencies and reinforcing the most favorable individual and



group behavior so as to foster optimal innovation performance through well-designed incentive and reward systems.

Management systems are, therefore, the key to balancing and managing the dualities of technology models and business models, radical and incremental innovation, creativity and value capture, and networks and platforms.

Innovation can be envisioned as a flow that starts with a multitude of great ideas, which are winnowed and refined until only the few best are brought to commercialization. Systems manage this flow.

The first stage, where management systems play a role is the ideation stage where ideas are generated and moved across the organization to where funding decisions are made—the second stage. Here, selected innovations receive initial funding to move ahead or are discarded. The last stage is the execution phase where the innovation project is commercialized.

No matter which innovation systems an organization chooses, the systems must be effective in moving through all three stages from ideation to selection to execution and then on to commercialization.

Measurement is one of the most critical elements of success in innovation. When measurement systems are not aligned with the strategy, and not tailored to the portfolio's mix of incremental, semi-radical, and radical innovation, managers lose a key source of information. And, this loss translates into lower performance and decreased payoffs from investments in innovation.

However, measurement systems are not solutions but are managerial facilitators that fill three roles: (1) planning—defining and communicating strategy, (2) monitoring progress, and (3) learning—identifying new opportunities.

Enough variability must be built in to allow valuable measurement. Different innovation processes and different organizational levels need different measurement systems, and these can vary over time. Projects need measures that are consistent with the business unit but different enough to capture project-

specific innovation characteristics. The measures that are appropriate at the beginning of a project may not be adequate in the later stages.

It is also necessary to dissect measurement systems to ensure that they are confirming the right mix of planning, monitoring, and learning. Knowing the specific purpose of each type of measurement system is essential for keeping the innovation from trying to achieve too many objectives.

A corollary to knowing the specific purpose of each type of measurement is to keep it simple. Because too many can be more of a distraction than a help, it is better to have just five simple measures linked to the strategy and the innovation business model. Even if the additional measures provide a more complete picture, they will overwhelm the decision-makers. It is a case of quantity being the enemy of quality.

Finally, organizations must be aware of the limitations of measurement systems and understand that they do not replace good management—only enhance it.

Incentives and rewards are some of the most powerful management tools available. Incentives are designed before an innovation effort starts and link performance measures and rewards. Recognition rewards, which are based on subjective assessments of the value generated, occur after the outcomes of the project are available, even if there was no prior contract in place linking performance to rewards.

*A fundamental rule of innovation is that linking strategy to innovation measurement with a few sharp metrics provides a clear picture of performance. ... What gets measured gets done—so be careful what you measure.*

*Formal reward systems* are well-suited for incremental innovation, such as increasing the efficiency of a manufacturing plant or improving quality through quality circles. Incremental innovation projects have a clear problem to solve, and the solution to the problem can be translated into objectives and linked to rewards.

Radical innovations also rely more on recognition. Using recognition gives an organization the flexibility to adjust the reward to each individual project, team, and person. In particular, managers need to feel

rewarded for taking risks, even if the project is not successful. And, if it is, they must feel as though they received a fair share for the value generated from the project.

*Cash-based incentive* systems, using performance measures with a large component of formula-based evaluation, are best when innovation initiatives have short-term results, smaller impact on overall organization, easily measured performance, and expected performance is relatively easy to describe. As innovation initiatives incorporate a larger amount of radical innovation, incentive systems should be based on long-term incentives (stock-based incentive systems) and subjective evaluations.

In fast-changing environments, the ability to learn faster, better, and more cheaply than the competition can mean the difference between retaining market leadership and barely surviving. Because innovation is all about change—incremental, semi-radical, and radical change—driving innovation into the business mentality requires learning and change.

*Learning systems* are required to manage the balance between creativity and value capture; otherwise, one always dominates over the other. Information and learning are required to remodel and update innovation networks, which tend to become bureaucratic, cumbersome, and ineffective if not refurbished. Finally, learning systems and activities that allow the organization to differentiate good change from bad are needed to control organizational antibodies. Without this differentiation, the antibodies become unselective and attack and disrupt all change.

*You can't improve any part of innovation—not the framework, strategy, processes, organization metrics, or incentives—and expect to see good results unless you make sure that your organization knows how to learn and change.*

Properly conceived and executed, organizational learning can unleash powerful forces of creativity and the development of processes to focus them into successful commercial realities. In healthy innovative companies, leadership supports learning and puts in place the systems for it to happen. This includes “quick-and-dirty” diagnostics that are run to provide

critical insights into problems and opportunities and more complex learning systems that operate continually to provide feedback and guidance. It also includes:

- specific processes for learning and change that link to strategy and embody explicit and continual efforts to improve;
- a systems approach to complex organizational dynamics in which actions and reactions are understood in terms of causal loops (actions, reactions, and effects) rather than in terms of linear cause and effect;
- shared vision, which is critical for minimizing organizational antibodies;
- flexibility and agility that enhance changes and create an environment that is conducive to ongoing innovation;
- proactively anticipating challenges and threats;
- a collaborative but challenging environment that maximizes creative tension and minimizes destructive tension.

The tools of innovation are also affected by culture—the unwritten rules, shared beliefs, and mental models of the people. A powerful innovative culture can be a vital source of competitive energy for the organization as well as an energizing force for the people in the organization.

It is, therefore, ironic that the biggest threat to innovation is success. The very organizations that are riding high on the success of their innovation efforts are often the organizations most in danger of falling prey to complacency. Successful innovators also risk succumbing to dogma. The same values that initially promoted innovation and success in an organization can be the demise of that organization if they are not evaluated and adjusted on an ongoing basis.

According to the authors, managing innovation while delivering performance is a paradoxical process. The organization must be stable in its identity and strategy and yet open to constant change. Success requires managing this paradox by recognizing and managing

the levers of culture that positions the organization on a spectrum between conflicting goals. An innovative culture embraces:

- balance and disequilibria
- periods of stability and periods of change
- focus and diversity
- discipline and surprise
- confidence and paranoia
- conservatism and risk-taking
- guidance and freedom
- control and trust

Nonetheless, it is the people in an organization who adopt, adhere to, change, or reject a culture. People are the vehicles through which a culture has impact and through which innovation happens. Thus, the organization's human resources strategies (recruiting the right people, managing them to ensure satisfaction and ongoing motivation, and ensuring that leaders fulfill a role that promotes innovation) are critically important.



## FEATURES OF THE BOOK

**Reading Time:** 30-32 hours, 350 pp.

Because there seem to be so many half-truths and myths surrounding innovation that have made it appear more complex than it actually is, Davila, Epstein, and Shelton present **Making Innovation Work**, offered to challenge prevalent misconceptions and to lay out the tools and processes necessary for an organization to harness and execute innovation.

The authors' analyses of these tools and processes show that the execution of innovation is no more or less difficult than the execution of any other management activity. Thus, we see innovation is not about secret formulas; it is about good management, driven by the Seven Innovation Rules.

Essentially, we are shown that there is not much that is truly new about innovation—the basics have not changed, only the way innovation is managed. By analyzing what has worked well and what has not,

the book provides new insights into how to execute innovation and parses this *how* into manageable pieces that can be applied by any company.

The lessons learned by this approach include:

- innovation does not require a revolution inside companies;
- innovation is not primarily about creativity and having a “creative culture,” nor is it just about processes and “stage-gate” tools;
- innovation does not focus exclusively on cool new technology;
- innovation is not something every company needs in large quantities.

Because the how of innovation is so critical in determining results, **Making Innovation Work** does what, according to the authors, books focused on innovation *strategy* cannot—offer the context, framework, tools, and operating guidelines for successfully implementing innovation throughout one's organization. Moreover, it provides the means for tailoring innovation to any company's particular situation, business strategy, culture, technological acumen, and appetite for risk. Thus, as Jean-François Manzoni (Professor of Leadership and Organizational Development, IMD) stated in his praise of the book, “If you're interested in improving your organization's innovation performance and potential, this book will tell you how. If you're not, it will tell you why you should be!”

With that said, we must issue a caveat—this time in the words of Lew Platt (chairman of Boeing, former chairman and CEO of HP, and former CEO of Kendall-Jackson Wine Estates), “It's *crammed* [our emphasis] with examples and practical ideas that can trigger improvements in innovation, starting tomorrow!” **Making Innovation Work** is so densely packed with so much information, that our reading estimate probably far underestimates the time it will take for you to *fully* assimilate the ideas and examples, within the context of the framework, so that your innovation improvements can “start tomorrow.”

Using chapter 2 as a representative example, we find that each chapter contains a plethora of significant insights:

- Figure 2.1—“The Six Levers of Innovation”

- Research Bite—“Innovation in Product Offerings”
- CEO Considerations
- Figure 2.2—“The Innovation Framework”
- Figure 2.3—“The Levers for the Three Types of Innovation”
- Research Bite—“Incremental, Semi-Radical, and Radical Innovation Investments”
- Case Study—“Approaches to Incremental Innovation: Magna International”
- Case Studies—“Semi-Radical Innovation: Southwest Airlines and Apple Computer”
- Research Bites—“Enablers and Blockers of Radical Innovation”
- Case Study—“Radical Innovation: Microsoft and its .NET Initiative”
- CEO Diagnostic—“Using the Innovation Framework to Understand How Your Company Plays the Innovation Game”

The best strategy is to read the entire book in the order presented (unless otherwise indicated). The framework, tools, and operating guidelines are so tightly integrated that skipping, skimming, or the least bit of inattention will get you *hopelessly* lost in the thickets.

As you come across the various boxed and highlighted sections (Research Bites, Case Studies, CEO Considerations/Diagnostics, etc.), stop and read them carefully before continuing on with the primary text. Occasionally, these sections will refer you to other chapters or topics elsewhere in the book. When this happens, follow where the trail leads. As for the wealth of figures and tables, these are also not to be taken lightly. Stop, study them carefully and, when called for, follow where they lead you.

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Chapter 3: How to Design a Winning Innovation Strategy

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