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Innovation Inside

Tim Westall

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Abstract

When it comes to successful product and service innovation, the marketing team might have done a good job in developing a winning proposition, but unless they pay as much attention to organizational innovation to enable delivery, they may not get it off the ground.

Organizations exhibit two distinct behavioral cycles. The first is "business as usual"—a continuous improvement cycle focused on today's performance. The second is the innovation cycle—focused on externally scanning the horizon for future value opportunities.

Organization leaders know they need to perform and innovate but tend to be preoccupied with the former. Power and resource gravitate toward the performance cycle, making innovation sometimes an optional extra. Given the obvious importance of both, how should leadership teams ensure both cycles run smoothly and integrate?

Management thinkers talk of "performance engines" and "disruption engines," requiring very different skills, governance, and resources. The inherent friction between the two "engines" stalls many innovations. Lubrication is clearly required. Yet, they are not engines at all; they are teams of people working together to do their best. For successful "innovation inside," we believe leadership needs to adopt a more human-centric approach, actively managing the 'evolution cycle' between performance and innovation.

Keywords: organizational innovation, marketing, product development, innovation, change, innovation inside

1. Introduction

The author and colleagues at April Strategy have spent more than 20 years engaging with large organizations on assignments relating to strategy, innovation, organization design, and

change management. Assignments have spanned the public and private sectors, particularly in the CPG, automotive, and financial services and healthcare sectors.

This paper is informed principally by the team's collective direct experience as consulting practitioners and to a lesser extent from academic study.

On the topic of innovation, the received wisdom is that around 80% of initiatives fail for one reason or another. What are the reasons? Why is the failure rate so high? Is it inevitably something of a random process for which we have no choice but to tolerate 20% success, or are there more predictable and actionable reasons that organization leaders can do something about?

There has been a huge amount of energy expended around improving the innovation process itself and addressing points such as the importance of a strong customer insight, the clarity of the framing of the "customer job to be done" to inform ideation and design thinking, and the helpful rigor required to frame an innovation as "greenfield" investment proposition to potential investors.

Our observation is that rather less attention has been given to another significant cause of innovation's low strike rate—the ability of an organization to reshape itself so that it is able to effectively execute a new proposition.

Amidst all the talk of open innovation, partnering, and outsourcing, there is a concern about the ceding of value and control to third parties, but relatively little talk about how organizations can evolve their core—from the high-performance, dominant model that prevail today and toward what they need to become in the future to retain greater ownership of the value chain and build in greater responsiveness to customer opportunities.

This chapter explores the challenge of "innovation inside" and proposes a new way of framing a response from leadership. It should be emphasized that the thinking is embryonic and very much an "idea under study" with various pilots currently underway with clients. Therefore, the author would welcome feedback, challenge, and commentary.

2. The changing nature of innovation

2.1. Product innovation

There was a time when innovation was called new product development (NPD). All that mattered was product performance, with customers making rational choices based upon the attributes and relative performance of a product compared to alternatives. The job of NPD was to create a flow of new products (or more often existing products with new/improved features) that could be demonstrated to be superior and preferable.

Most of these new products were borne of the same capabilities and expertise as their predecessors. They were designed by the same teams and produced on the same lines. They were

mainly incremental innovations. The job of marketers was to stay abreast of what customers valued most about their products and then to package and position new products in a way that would emphasize those benefits. Competitors found themselves engaged in a "new/improved" arms race, sometimes choosing to differentiate on performance and sometimes on value.

As markets have matured, products have tended to converge. The same technology and know-how have become widely available. At the same time, the capacity to innovate has become more specialized and dispersed. Organizations are increasingly faced with the classic "Innovator's Dilemma" [1] where the capabilities that have taken an organization to a position of success become rigidities that can inhibit innovation, leaving the ground open to more flexible competitors.

2.2. Beyond product innovation

Twenty years ago, a car produced by one company could set itself apart from that of a competitor based on a number of physical differences. That is patently no longer the case. Value is found not just in what organizations offer but the experience that surrounds it. What might be called a postindustrial model is emphasizing customer experience as one of the few sustainable sources of competitive differentiation.

How have organizations broken out of the product convergence trap? Some have persevered with product innovation but with ever-diminishing returns. Some have tried to brand their way out of trouble, investing heavily to encourage loyalty and build durable emotional bonds with their customers. Others look beyond product, making the most of new digital technologies to innovate in channel, brand, and customer experience. There has also been a considerable "behind the scene" innovation in process and business model, again enabled by technology. Doblin, an innovation consultancy, estimates that while 80% of effort still goes into product innovation, 80% of returns come from innovation elsewhere in the value chain [2].

Going "beyond product" for innovation does appear to be fertile territory from a customer value perspective, but it brings with it many new executional challenges. How to build or gain access to new capabilities, and how to successfully manage an extended network of partners, suppliers, outsource providers? How to retain sufficient value and control within a more complex network of participants? How to maintain some strategic alignment with core business purpose and values?

A global life insurance business found itself in a position where significant innovation opportunities had been identified in relation to healthcare. Rather than just giving people a lump-sum when they were diagnosed with a serious illness, why not go further and offer support across the entire care pathway, helping select the best qualified doctors and best performing hospitals for treatment, helping organize care and rehabilitation, and even helping them with ongoing healthier lifestyle nudges (that will help to reduce their insurance premiums)? This

proposition was highly appealing to customers, particularly in countries with less well-developed healthcare infrastructure and availability.

This convergence of financial protection with healthcare management might be an exciting and potentially valuable customer proposition, but how do you go about delivering it when your main competence is in actuarial science and product distribution through an agency model? For what healthcare and wellness services would you be a credible provider?

Insurance and healthcare are different sectors that are regulated separately and based on different capabilities. Therefore, it is tempting to respond to such questions with a start point of" we are in the business of insurance, not healthcare" and to preclude the option of organic organization development in favor of partnerships and alliances.

One could have made the same argument about automotive manufacture and distribution compared to vehicle finance and insurance. Yet, over the past 20–30 years, the major automotive brands have successfully evolved their organizations to include sizeable core banking operations.

2.3. Emerging approaches to innovation

There has been a trend toward more "open-source" innovation, encouraging participation from beyond the organization in order to access expertise that the company does not have and would struggle to develop organically. Notable players in this space include Unilever (Unilever Ventures and Unilever Foundry) and Coca-Cola (VEB) (see Section 3.2.6).

While large organizations have found new ways to generate innovative ideas, bringing them to fruition through the established organization remains a challenge. The focus of this paper is not on the identification of valuable innovation opportunities (innovation outside), but more on the challenges related to their realization and delivery (innovation inside).

3. Exploring current approaches to innovation

3.1. Performance cycle and innovation cycle

Most leadership teams are alive to the challenge of delivering for today while conceiving innovations for tomorrow. They are well aware that they need to address the questions of:

1. How can we improve what we do to drive **performance** in the short term? (focus on getting **BETTER**)

2. Where and how should we be **innovating** in the future to sustain value growth? (focus on being **DIFFERENT**)

They recognize that while the first question is always more pressing, some thought and effort need to be simultaneously dedicated to the second question.

Most established organizations are centered around the "performance cycle" (**Figure 1**). The performance cycle is what creates value for today. It is where core capabilities and processes reside, with focus on consistency, repeatability, targets, control, and strong governance. If the performance cycle is malfunctioning, resource will be drawn from elsewhere, sometimes sacrificing innovation.

For listed companies that need to report quarterly, leadership can become preoccupied with "feeding the monster," fueling, tweaking, and fettling the performance cycle to deliver ever more. The performance cycle attracts the lion's share of talent, resource, and political influence.

There is a separate requirement to ponder the future, to provide stimulation and inspiration, and to understand where future value growth is going to come from. Let us call this the innovation cycle (**Figure 2**). The innovation cycle takes into account trends in technology,
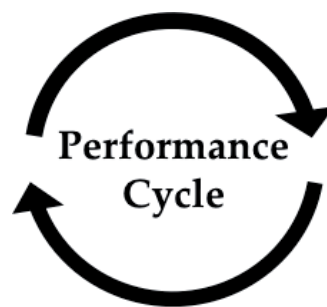
- Better
- Delivering
- Optimizing
- Improving

Figure 1. Performance Cycle.
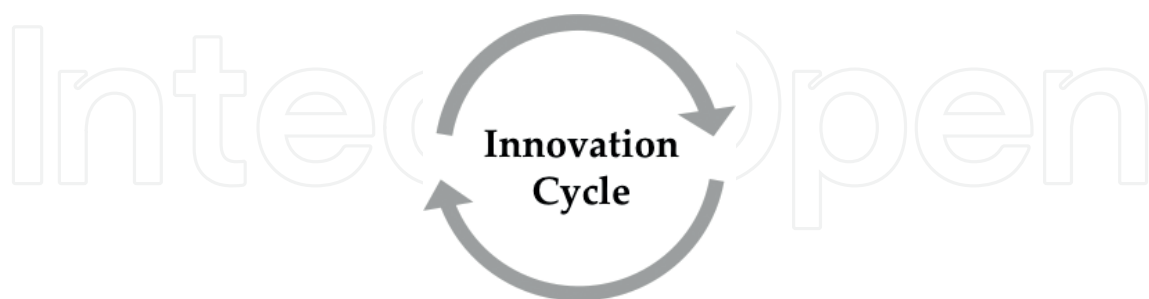
- Different
- Exploring
- Questioning
- Disrupting

Figure 2. Innovation Cycle.

competitor activity, regulatory change, and social/cultural influences. Most importantly, the innovation cycle explores how customers' needs are changing and their "jobs to be done."

All these inputs are then the fodder for generation of ideas for new customer propositions which are then developed, filtered, and tested. The output from the innovation cycle will vary from an articulation of high-level opportunity areas through to headline business plans and implementation pathways.

3.2. Current approaches to innovation

Most organization leaders recognize that different resources, capabilities, and processes are needed for innovation. Where they differ is in their approach to handling innovation alongside "business as usual." Detailed below are some of the archetypal approaches we have observed, from the rudimentary to the more sophisticated. Notably, none of them fully address the inherent tensions between bridging performance and innovation.

3.2.1. Awayday innovation

The organization is entirely preoccupied with short-term performance and next quarter's results. Topics such as strategy and innovation only make it onto the annual awayday agenda as afterthoughts. They are discussed in an unstructured way and get sidelined if anything else overruns. No individual is specifically accountable for innovation; it is deemed to be a little bit of everybody's job, which of course ends up as nobody's job.

Real innovation happens either at the whim of a senior manager who has seen what a competitor is doing and thinks "we should be doing that" or in a state of panic when the organization faces existential crisis from, e.g., a new disruptive competitor or the loss of a major customer.

3.2.2. Suggestion box innovation

The CEO has read somewhere that innovation is everybody's job, which encourages suggestions from across the organization. The majority of suggestions will be about fixing operational issues and dealing with everyday gripes. If the suggestion box is supported by working groups to pick up the ideas, this can be a great way to channel a flow of improvements.

However, the usual outcome from such schemes is an initial flurry of enthusiasm and ideas, followed by organizational indigestion, silence, and disillusionment.

The main limitation of "suggestion box innovation" is that it will primarily provide incremental performance improvement ideas, which is really better considered as an underpinning of the performance cycle rather than the innovation cycle.

3.2.3. Side-of-desk innovation

The importance of innovation has been recognized, and somebody (usually a middle manager) is assigned responsibility for it, in addition to their regular core business responsibilities. It is supposed to be 50% of their time, but because of the prevailing power structure and

priorities, they struggle to dedicate even 20%. Innovation becomes consigned to the "important, but not urgent" quadrant of the organization's priorities. The innovation manager is more of a cheerleader than an impactful practitioner and will always default to operational matters when under pressure.

In many ways, side-of-desk innovation represents the worst of all worlds. Some resource is dedicated to it, and there is some level of expectation that "somebody is looking after it, so I don't have to." But under this setup, innovation is poorly handled, delivers little, and is visibly a low priority. Perhaps better not to bother at all.

3.2.4. Agency innovation

In a fast-moving industry, the organization recognizes that it needs external help to stay up to speed with what is happening in the world outside. Disruptive thinking is outsourced to an expensive innovation agency that is fantastic at idea generation and beard cultivation—but would struggle to boil an egg.

While they may be steeped in the language of design thinking and agile project management, they know little of the realities of business and what it takes to cross the bridge from idea to delivery.

Recently, technology and business process outsourcing consultants have been acquiring innovation agencies in the hope of owning the entire customer experience, leveraging digital technologies and getting into space that has traditionally been the domain of the large advertising groups. We are skeptical of treating core innovation as an outsourced service.

3.2.5. Semidetached innovation

Under the semidetached model (**Figure 3**), there is an explicit recognition that innovation is different from operations, needs proper resourcing, and should be a discrete unit. There is a team in a purpose-built location (often on the main business site) that enjoys the benefits of corporate resources but is not subject to the usual rigors of corporate governance.
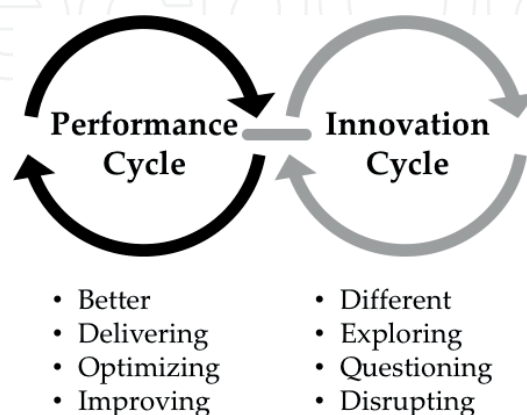

Performance Cycle
- Better
- Delivering
- Optimizing
- Improving

Innovation Cycle
- Different
- Exploring
- Questioning
- Disrupting

Figure 3. Semidetached innovation.

Innovation thus has time and space to flourish, within an environment that has at least an eye on migration of new ideas into the main business.

One of the biggest challenges to making this model work is finding the right team. Those who have risen up through the internal hierarchy will have done so because of their expertise in incremental performance improvement rather than disruptive innovation, and their corporate-received wisdom may in fact be a liability in this context. Conversely, those more unconventional types that fancy themselves as "intrapreneurs" or "creovator" in the spirit of Martin Lukes [3] might be good at getting new thinking off the ground but struggle to achieve traction because they are not taken seriously by their colleagues.

A manufacturer in the automotive industry set up a semidetached innovation unit with the task of plotting the course toward an electric-based, multichannel, mobility-driven future that looked very different to the current business model and infrastructure. The team leaders were high-potential managers picked from the existing business. They were given 6 months to develop their plans, with the expectation of presenting challenging and expansive new initiatives for the main board to consider.

Within a few months, it became clear that they had not escaped the gravitational pull of the mother ship. A more relaxed dress code could not prevent the building of new, insular siloes to match the old, insular siloes, and senior management soon reverted to type as "demanding, critical parents," firmly grounded in the performance cycle, and behaving as if their brief dalliance with innovative thinking had never happened.

3.2.6. Detached innovation

The detached model creates a separate innovation/ventures/incubator unit that is free from most of the governance constraints of the main organization and is often led by a real entrepreneur who might also be a shareholder in the new venture.

The unit may be sited on the campus of a leading-edge university, or in an edgy part of town, surrounded by an ambitious, creative, and mobile workforce.

There are numerous permutations of these "open innovation" models, with the role of the main organization varying from the minimum (provider of seed capital) through a full commercialization model (e.g., people, finance, brand, route to market).

The detached model is likely to attract more ambitious and creative people and to create a flow of genuinely innovative ideas. The downside risks of "detachment" are a dilution of shareholding and control, and the risk of new business ideas that have a limited fit with the core.

3.2.6.1. Case study: Unilever

Unilever is a multinational consumer goods firm with more than 400 brands focused on health and well-being.

Founded in 2002, Unilever Ventures is the venture capital and private equity arm of Unilever, investing in young, promising companies and accelerating their growth through access to Unilever's global ecosystem, assets, and expertise.

Unilever Ventures currently has 46 investments and 15 lead investments and has made 6 successful exits.

Founded in 2014, Unilever Foundry is Unilever's platform for start-ups and innovators to engage, collaborate, and explore business opportunities with Unilever and its 400+ brands. Start-ups can apply to address new briefs from Unilever and if successful will be provided with:

- Financial support for pilots and test models, with a focus on start-ups who are ready to scale up across geographies and brands

- Access to one of Unilever's 7000 marketers to help with development of brand positioning, marketing strategy, and a product roadmap

- Opportunities to participate in networking events, hacks, and competitions

The platform has launched over 100 pilots with start-ups, roughly 50 of which have been scaled based on metrics around effectiveness, efficiency, and sustainability.

Unilever Ventures works closely with the Unilever Foundry to provide technology innovators with access to paid pilot projects, mentorship, and growth financing.

3.2.6.2. Case study: Coca Cola

Founded in 2007, Coca Cola set up the Venturing & Emerging Brands (VEB) team.

VEB wears four different hats. First, VEB focuses on the future, identifying longer-term consumer opportunities. Then, they put on a venture capital hat, which means deciding where to make investments. Third, VEB acts as an incubator, bringing brands to market—or to a wider market. Finally, in the integrator role, VEB aims to "graduate" successful brands out of VEB into Coca Cola's larger portfolio.

In the 10 years since VEB launched, the unit has either built or invested in 42 brands. Honest Tea is one of the top success stories. VEB recognized that health and wellness were a growing trend and understood that consumers were looking for drinks that would align with healthier lifestyles. With Coca Cola's help, the brand has expanded to more than 100,000 locations in the United States and debuted in Great Britain in 2016.

4. Unlocking innovation inside

We have established that the performance cycle and the innovation cycle are very different in terms of objectives, capabilities, and processes.

We have examined the types of responses from organizations to managing the innovation cycle alongside the performance cycle and found them to be less than ideal.

Where should we go next in pursuit of a solution? First, let us examine the prescriptions from other leading management thinkers.

4.1. Prescriptions

Christensen and Raynor [1] advocate the building of a "Disruptive Growth Engine" founded on the following principles:

- Start before you need to: invest in disruption when the company is still growing and create time to think.
- Put a senior manager in charge: to monitor the resource allocation process and to keep communication flowing across the disruptive-sustaining boundary.
- Assemble an expert team of movers and shakers: responsible for shaping ideas to fit the litmus test of disruption.
- Train the troops: team members who are close to the market and are trained to look in the right places and to send the right ideas into the process.

Govindarajan and Trimble [4] also argue for the purposeful separation of innovation initiatives from ongoing operations. They also argue that there is a gap between "committing to an innovative idea" and "making innovation happen," with a need to reassess the approach to organizing and planning in the same way that one would ordinarily do between strategy and execution.

Their recommendation is, for each innovation initiative, to build a team with a custom organizational model and a plan that is revised only through a rigorous learning process. The custom team works in parallel with ongoing operations, and the plan evolves through a series of disciplined "test and learn" experiments.

Outram [5] advocates three things behind organizing for a successful delivery of strategy (for which we read "organizational innovation" in this context):

- Choose the right people and organize them effectively—and do not be afraid to lose people who cannot or will not align with the strategy.
- Clarity from the top, often best achieved by a CEO surrounded by a loyal coterie of "true believers" who act in line with the strategy and can explain it to doubters (the Conspiracy Theory of Management).
- Communication to each and every person in the company—a "ripple" method which reaches each level in the business in a way which is relevant to them.

We would argue that these are sensible suggestions that are necessary but not sufficient. It is not enough to reach a point where a small team of smart people has done most of the thinking and then expect to be able to roll out/train the troops, with the assumption common in management thinking that it is simply a question of deterministic "execution."

4.2. Additional challenges

We believe there are additional challenges to be overcome:

4.2.1. Getting past the engineer's fallacy

The language used to describe the challenges we are discussing often betrays the mindset of the engineer. We are introduced to "engines," "systems," "transformations," "cycles," and "capabilities." These are mechanistic things that can be designed, controlled, taken apart, repaired, and reconfigured.

Yet, organizations are not machines; they are human organisms. Our understanding might be better served by insights from bioscience, psychology, and behavioral science rather than business, economics, and engineering.

It is something of a cliché to say that organizations stand or fall because of the people who work in them. Organizations are driven by human motivation, energy, ingenuity, perseverance, and collective endeavor.

They cannot be "transformed" from one state to another at the flick of switch; they cannot be restructured or reconfigured like some MBA version of Frankenstein's monster. Rather, sustainable organizations tend to evolve through thousands of small, individual changes, one day at a time.

4.2.2. Overcoming the innovator's impatience

Innovation leaders are naturally impatient and want to get on to the next thing. They can see it. Why cannot everybody else? Yet, within any large, established organization that is trying to do something different, the change will only come from many people doing many things differently.

Innovation leaders sometimes have a tendency to go around telling people what it is they need to do differently, taking it as read that changes are self-evident, desirable, and achievable.

There are two important counters to this way of thinking. First, the complexity of organizational change means that it is near impossible to figure out in advance the full implications of a significant innovation. They are not self-evident. We need a mechanism to work out "what this means for me/my team/my function."

Second, there is a human challenge to motivate and persuade. Nobody likes to be told what to do differently without also understanding "what's in it for me." Yet, many organizations are in such a hurry that they persuade themselves there is not time to engage and align their people.

4.3. Reframing the question

We can sum this up in the form of two further questions we need to address in order to successfully innovate inside:

1. How do we **evolve** our organization and get in shape to execute the innovations that we need to sustain value growth?

2. How do we **engage** people across the organization so that they will enthusiastically participate on the journey?

4.4. Evolution and engagement

Our response to these questions contains two discrete, complementary elements:
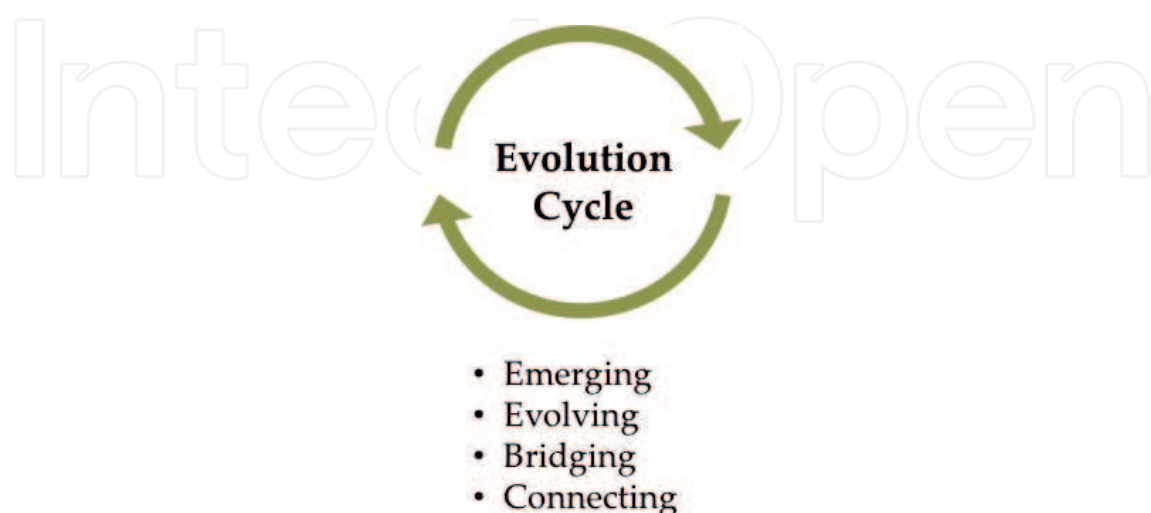
4.4.1. Evolution Cycle

The **evolution cycle** is a new process that should sit between the performance cycle and the innovation cycle. It enables the continuous innovation of the established performance cycle catalyzed by the stimulus, ideas, and business plans that are outputs from the innovation cycle.

The evolution cycle (**Figure 4**) does much more than just manages the friction at the interface between the Performance and innovation cycles. It also determines what new capabilities and activities should be added, what core processes should be changed, and what should be stopped or outsourced (framing the task of change management).

The evolution cycle is appreciatively disruptive: building on what's working and what's valuable while infusing innovative ideas and challenging received wisdom. The evolution cycle creates a movement for change through involving a broad cross section of people in the co-discovery of the strategic, operational, and behavioral consequences of an innovative proposition.

We have encountered aspects of the evolution cycle in our work, although it has never been called out in its entirety. It has been variously talked about as:

- The "diamond cog" that sits between legacy operations and future innovation, fusing an appreciative understanding of the established business with a customer-centric view of where future value lies

- The "membrane" that wraps around the entire organization, maintaining the integrity of the whole and preventing the new ideas from never getting off the ground in the first place, drifting away, or being picked off by competitors

- The "bridge" between strategy and execution, ensuring that organizational delivery is fully considered as part of the formulation of strategy, with both domains viewed as part of a continuum rather than as discrete activities

Figure 4. Evolution Cycle.

- The change management capability that helps the established organization to continuously evolve toward what it needs to become in order to deliver a full business plan for a new, innovative initiative

Whatever we choose to call it, we can describe the essential characteristics in terms of resources, processes, and values. Our non-exhaustive checklist covers the following elements:

Resource: a dedicated team providing:

- Leadership that is energetic, positive, persuasive, and collaborative—from a leader who is known by and commands respect in the core organization

- Deep knowledge and appreciation of the performance cycle (core business operations, assets, capabilities, and "how we do things around here")—as a grounding for the bridging of "business as usual" with innovation

- Expertise in disruption and innovation—fully appreciative of fresh thinking and new ideas, driven by customer insight, based on observation of the world outside and congruent with the organization's purpose and values. In other words, able to intelligently assimilate input from the innovation cycle

- Expertise in organization development and change management—covering the structural, political, diplomatic, and technical domains of organizational change

- Expertise in scaling up the outcomes and learning from tests and prototypes

Process: integrated, interlocking processes (**Figure 5**) providing:

- Strategic and operational connection between the dynamic pipeline process of the innovation cycle and the mid−/long-term strategy and planning process of the performance cycle—to ensure that organization innovation to deliver proposition innovation is a regular topic on the leadership team agenda
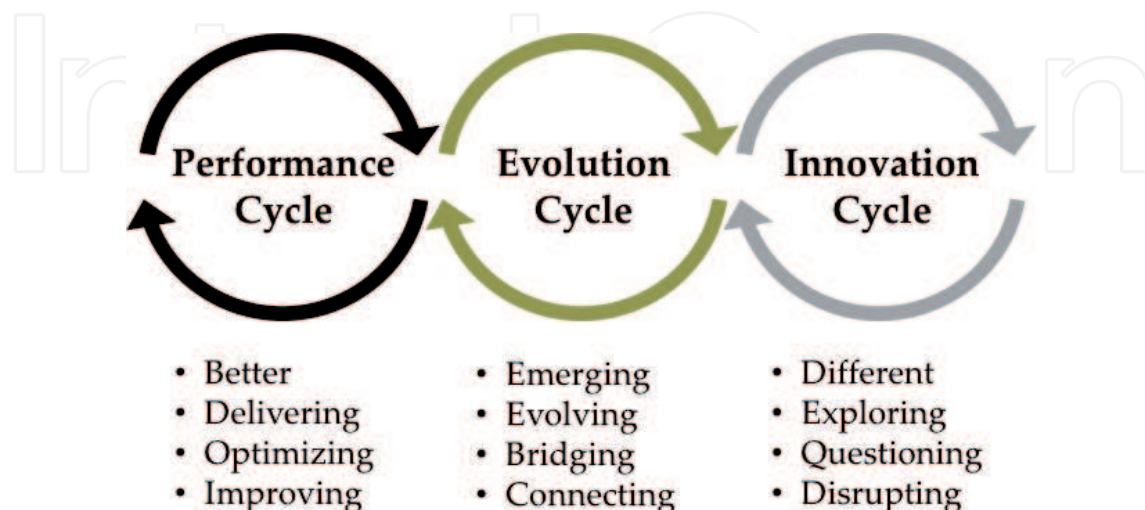

Figure 5. Integrated processes.

- Active, structured facilitation of the conversation to manage the inherent tension and conflicting priorities of the "improvers" versus the "disrupters"—making explicit the criteria being applied, the choices being made, the goals and KPIs being agreed, and the issues that need to be elevated for executive discussion

- A regime for continuous development of prototypes, formulation of experiments, and live testing of new ideas—to ensure consistency, shared learning, and habituation of the process of evolution. This particular process may be part of the innovation cycle, depending on the scope and capability of the dedicated innovation team

Values: a foundation of common purpose and culture.

To maintain the integrity of the organization overall, it may seem obvious that purpose and values must be aligned across the performance cycle and innovation cycle. However, it is a natural consequence of an effective innovation cycle that new opportunities and new ways of working will emerge and challenge the ideological underpinnings of the core business.

Automotive manufacturers used to think of themselves as being in the business of selling as many cars as possible and needing to compete vigorously with other manufacturers for share of market. Nowadays, they are all in the process of reframing their purpose toward "provision of mobility solutions," where access to mobility becomes more important than ownership of a car. This requires major industry players to collaborate more extensively with another one on industry challenges such as electric vehicle standards and charging infrastructure.

Constant sense check of alignment is therefore integral to the evolution cycle process. The innovation cycle can and should continuously stretch and test the legacy purpose and established values of the performance cycle.

To emphasize, the proposed evolution cycle is not a reframing of the innovation cycle or an upgrade to the performance cycle. It is a new process that explicitly concerns itself with the challenge of evolving the established organization, fusing performance and innovation perspectives into a continuous process of organization change.

4.4.2. Active engagement

Engage the organization: tap into the latent potential of the established organization in driving change.

How should leadership think about evolving the organization? There is one way of looking at it which is to consider the core organization as an obstacle that does not want to change, a deadweight impeding progress that requires intervention.

There is another way of looking at it which is to view the people in the organization as a source of energy and inspiration, a latent competitive advantage with the potential to be engaged and energized behind a new direction.

Our experience is that in reality, most people want to go to work and to do a good job. Most desire to understand how to give their best. Most care about their role and their organization's success—and want to know what they can do to best contribute. Yet, a lack of investment in engaging people's enthusiasm and helping them realize their potential means they can lose

their "sense of purpose." Instead, they "float" in the organization and withhold their discretionary effort. Shared aspirations are lost and opportunities are squandered.

Our work [6] has revealed four conditions for positive engagement (**Figure 6**) that leadership can create and promote.

Condition 1: Alignment to purpose

People have a clear sense of what the organization is about (and share this belief) and understand how they are a meaningful part of this. People's behaviors are aligned with the expectations held within their organization. Hence, people work toward a meaningful, common purpose, in an authentic manner. This condition underpins engagement:

• Shared values and behaviors are collectively translated into purposeful action.

• The efforts of an engaged workforce are harnessed toward organizational goals.

• People feel part of, and proud of, their organization—becoming powerful advocates.

Condition 2: Connected across boundaries

Through visible and accessible leadership and effective communication channels, people are connected with colleagues across boundaries (i.e., hierarchal, professional, departmental) and are aware of, and appreciate, the interdependence of different roles and what's happening across their organization:

• Ideas, knowledge, and best practices are shared—developing individuals and processes.

• People learn of the strengths, and good, in others—encouraging consistency and teamwork.

• Shared experiences help people build more positive working relationships.

Condition 3: Enabled to contribute

People are enabled to voice opinions about organizational issues, input new ideas, and positively influence how they perform their roles. Leaders believe that staff contributions are integral to success and foster an environment of true collaboration:
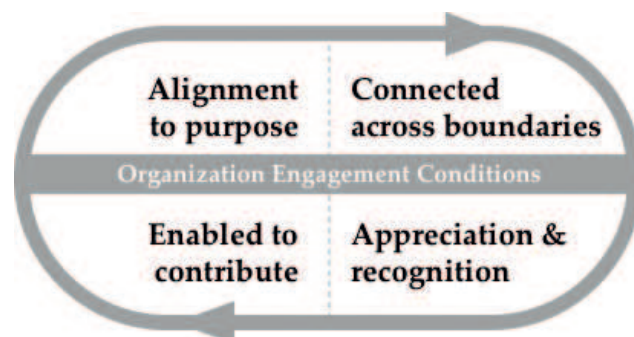
Figure 6. Conditions for engagement.

- Contributions from different roles, giving different ideas and perspectives.

- Change led by those "who know" directs resources to areas that need them most and creates an inbuilt ability to adapt to rapidly changing circumstances.

- Increased autonomy encourages people to see tasks from start to finish, promoting productivity and job satisfaction.

Condition 4: Appreciation and recognition

Leaders and managers regularly and consistently notice and appreciate the contributions and achievements of staff. This can be through implementing contributions, saying "thank you," personal feedback, or corporate recognition. Contributions are made meaningful to the individual and the organization, and a "feedback loop" ensures that staff know that they are valued:

- Recognition increases, morale, productivity, competitiveness, and pride and singles out those not meeting expectations.

- Leader appreciation encourages peer-peer appreciation—fostering a culture of value and respect.

- Ideas are translated into action, improving the performance of the organization and accelerating innovation.

- A positive value exchange is created, where positive rewards shape positive behavior (positive reinforcement).

5. Conclusions

For any innovative customer proposition that goes beyond incremental, innovation to the delivery model is often required at the same time. Whether this is done through acquiring new assets, developing new capabilities, or working with partners, you will need to innovate within your own organization.

The central question we are addressing is how best to evolve an existing organization focused on delivering today's proposition? While most people recognize the difference between the performance cycle (delivering results today) and the innovation cycle (identifying sources of future value growth), many pay insufficient attention to the challenge of connecting the two. In other words, we know what our future value proposition might look like, but we do not know how we will evolve our existing organization to deliver it. Consequently, many exciting innovations are either mothballed or executed elsewhere, often by nimbler start-ups or competitors.

Our view is that established organizations can do a better job at "innovating inside." The conventional combination of performance cycle and innovation cycle needs to be bolstered by an evolution cycle (specifically focused on organizational innovation) and an active approach to
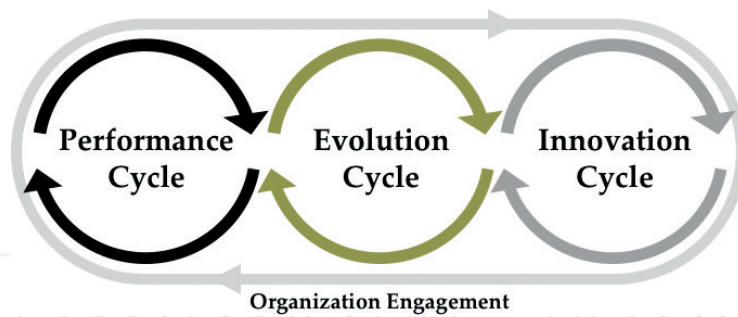
Figure 7. Complete model for "innovation inside.".

organization engagement, enabling the whole organization to evolve in a joined-up, strategi-cally sustainable manner (**Figure 7**). While much time and energy have been dedicated to the performance cycle and innovation cycle, we are still at the relatively early stages of exploring the evolutionary process that connects the two.

The benefits that one should expect from a fully functional evolution cycle include:

- A more reflexive and dynamic organization that is in the habit of change

- Greater retention of business and customer value (as opposed to the dissipation that can occur through open innovation and extensive outsourcing)

- Greater enterprise cohesion, with people better aligned and engaged

Acknowledgements

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