



Innovation isn't what it used to be

Innovating innovation

The world is changing rapidly. The competitive environment has changed. It is therefore natural that the way we innovate is also changing. Although business and public decision-makers recognize the existence of a new set of opportunities and threats, many don't know where and how to start. Only those who are aware of the changes in the way they innovate will succeed.

In addition, it is necessary to recognize from the outset that innovation is a complex challenge, which will only have sustainable effects if it involves the whole company and is based on transversal processes, with an impact on strategy, organizational structure and culture, among others. Simplistic models – "fountain" models, "static" models, "game" models, among others – generate disappointing expectations in decision-makers and organizations.



This article discusses five of the various factors that determine the success of business innovation today. The approach is not exhaustive, due to space limitations. Nor is it systematized in a theory of innovation management, but it is based on the pragmatic experience of implementing projects over the years in companies in Portugal and internationally, as well as regular direct interaction with innovation experts and leaders in Silicon Valley, US.

1. Innovation today

i) Innovating faster

In the past, innovation^{1 2} was almost optional. A company could survive on the market for many years without innovating. Today, those who don't innovate will perish much more quickly because of the speed of change in society and markets. A company could survive on the market for many years without innovating. Today, those who don't innovate will perish much more quickly, as the speed of change in society and business markets has been accelerated by the digital revolution and the globalization of markets. The average lifespan of companies belonging to the S&P 500 Index (the 500 largest companies registered in the world's largest economy – the USA) fell from 61 years in 1958 to just 15 years in 2017. At this rate, 75% of the current list of companies belonging to the S&P 500 could be replaced in the next... 10 years. Seven of the world's ten largest companies didn't exist 20 years ago. Some new companies with innovative models are growing exponentially rather than arithmetically as in the 20th century. This movement is more

¹ Innovation can be defined differently from various perspectives and models. The most accepted definition is that of the so-called "Oslo Manual", which is reproduced below in the adaptation made by COTEC Portugal - Associação Empresarial para a Inovação. "Innovation corresponds to the implementation of a new or significantly improved solution for the company – new product/service, process, organizational method, marketing – with the aim of strengthening its competitive position, increasing performance or knowledge." COTEC, "Manual for the Identification and Classification of RDI Activities"

In operational terms, it is important to classify, structure, implement and evaluate innovation in various categories, namely disruptive innovation (changes the business model) or incremental innovation (does not change the business model). Similarly, innovation has different challenges and approaches depending on whether it is business model innovation (internal or in the value chain), process innovation (system, core or simple), product innovation (product/service performance, customer service, product/service bundles) or market innovation (channel, user experience, brand/communication).

² Any better way of solving a problem, satisfying an aspiration or need, or achieving a goal, will be quickly adopted by the people concerned, whether they are business consumers or users of public services. In the context of an open and competitive economy, innovation is the decisive factor in the creation of value and the growth or stagnation and death of companies. Companies generate value through innovation, i.e., the generation and implementation of new business ideas, products, services and processes. In this way, they stimulate economic growth and increase society's quality of life.

evident in the US than in Europe. But the statistics are overwhelming anywhere in the world.

It is now well known that established companies, especially the larger ones, find it extremely difficult to innovate. They are built to be good executors of their business, focused on operational optimization, and not to be creative and innovative.

Even in traditional sectors, and in small and medium-sized enterprises (SMEs), we see companies disappearing rapidly, and regions falling into economic depression for lack of innovation. How many cases are there of well-established family businesses, in which the first generation starts by building a solid company in terms of a competitive offer, loyal customers, a robust financial situation, and ends up handing over to the next generation a company that is uncompetitive and in great financial difficulty.

The message is clear: the game now is not just to innovate, but to innovate faster or... disappear.



Developments in Portugal

The last 20 years have seen a huge evolution in innovation in Portugal, in large companies, in various economic sectors, in SMEs, in universities, in the public sector and in the entrepreneurship ecosystem.

In established companies, we already have examples that are world leaders in their sector, such as EDP (electric utilities company) and Brisa (infrastructure and mobility operator). In new companies, we also have world-leading examples such as OutSystems (low-code development platform), Talkdesk (provides artificial intelligence-powered contact center software solutions) and Feedzai (cloud platform for managing financial risk). Several traditional sectors have innovated substantially, taking on world technological leadership, such as footwear and molds.

But if we compare this evolution with that of other countries and, decisively, with the challenges, threats and opportunities of the coming years, it's required to accelerate even more.

ii) Understanding technological disruption

The technological revolution, particularly the digital revolution, is accelerating and deepening the change in our lives. Each technology on its own has a highly disruptive effect. But the combined result of these technologies has an even more disruptive effect.

In addition to the already recorded impact of the internet, mobile, social media and a wide range of emerging technologies – such as big data, the cloud, blockchain, the internet of things, artificial intelligence, robotics, intelligent work automation, additive manufacturing (including 3D printing), technologically advanced materials, drones, autonomous cars, new ways of producing and storing energy – many business models are being turned upside down. Fintechs are challenging traditional banking; autonomous cars will transform the automotive sector and cities. Industry 4.0 will converge the physical world with the digital world, where equipment and machines will autonomously manage and optimize operations throughout the value chain. BIM (building information modeling) is progressively digitizing all physical infrastructures – buildings, roads, houses, pipelines, etc.

This technological revolution has changed the challenge of innovation, which has become more disruptive and demands much more from each decision-maker and each organization in terms of strategic priority, necessary skills, structured effort, allocated resources and mentality.

The message is clear: innovation is more complex. And approaching innovation amateurishly, or as has been done in the past, will not work.

iii) Ensuring that innovation is strategic

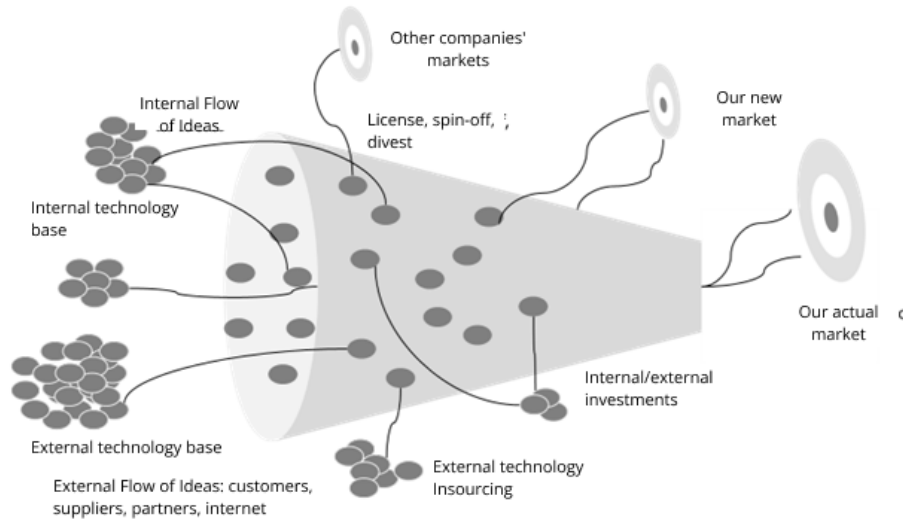
Many companies allow their innovation processes to drift away from their fundamental strategic dimension, which is to create value for the customer and profits for the company. Innovation is not creativity, which deals with cognitive processes (ideas). Innovation is not invention, which deals with technological processes (technology). Both are critical to innovation, but they are not innovation – which is about business processes (market). Even today, many innovation models are distracted by creativity, technology and the idiosyncrasies of innovation agents, who are instruments and not ends in themselves. Innovation is a **continuous process** aimed at **creating value**, which turns an **idea into value for the customer and profits for the company**.

The message is clear: the innovation effort must have a strong strategic focus and be an economically useful change for the company. The only measure of innovation success is satisfied customers/users and profits/benefits for the company.

iv) Developing open innovation

In the past, innovation was essentially internal. Today, innovation is happening outside the company rather than inside it.

"Open innovation is the use of outward and inward knowledge flows to accelerate innovation, expand markets, and improve results",
Henry Chesbrough



There is no time to wait for internal processes alone. Even internal creativity can't cover all the big challenges that require fast and complex responses. The sooner decision-makers realize this, the sooner they will be able to innovate successfully. In addition, innovations that affect the value chain – the business ecosystem in which the company operates – have a much greater impact than those developed for the company alone.

Companies that are recognized as innovative acquire most of their innovation from the outside, through acquisitions of talent and technology start-ups, collaborations with suppliers and even competitors, research from universities and specialized research centers, and direct engagement with consumers.

According to statistics from the Crunchbase platform, Google (Alphabet), Amazon, Apple, Facebook and Microsoft alone have bought between 50 and 70 well-established companies each year since 2010, not including emerging start-ups (Google alone has acquired close to 100 in the last five years). According to Crunchbase, Amazon spent 15 million dollars on acquisitions in 2017. According to CB Insights, these same five companies have acquired 35 artificial intelligence companies in the last five years.

The message is clear: innovation will have a greater impact if it is essentially collaborative, both inside and outside the organization, and if it is focused on the company's ecosystem and not just on the company itself.

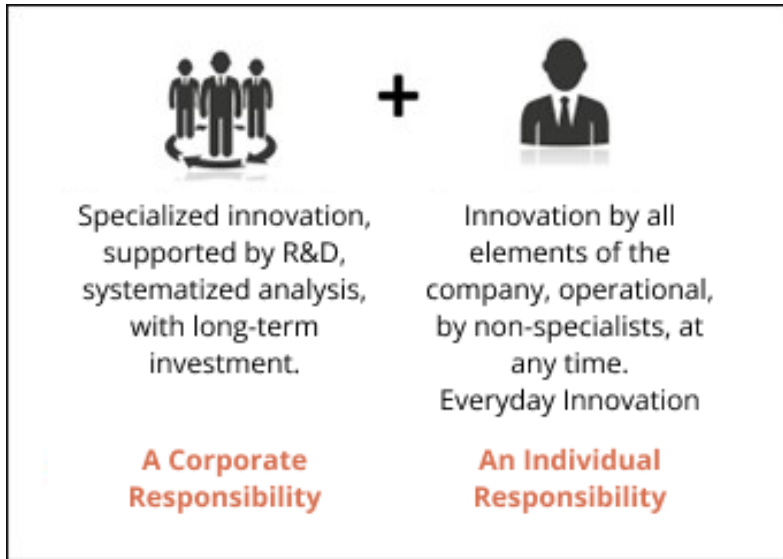
This requires new models for managing partnerships, joint management of intellectual property, a collaborative culture and trusting behaviors that companies are not always used to.

v) Massify and accelerate innovation processes

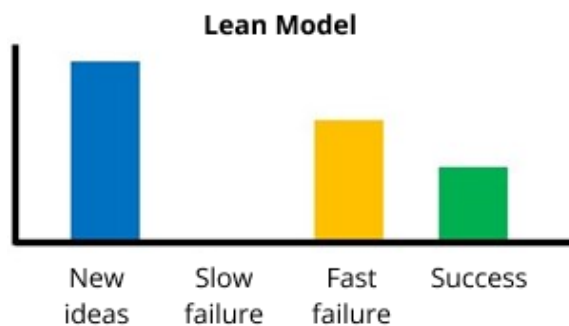
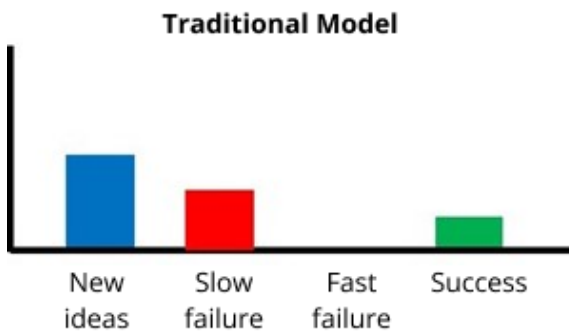
Previously, the innovation department dealt with the bulk of a company's innovation challenges. Today, this is no longer enough. Innovation needs to be widespread throughout the company and happen every day. Internal and external digital tools involve more people and require responses, changes and new solutions for customers at a much faster pace.

If the challenge of innovating products, services, processes and business models is already complex, setting up and managing processes for the challenge of "everyday innovation" is far more complex.

The message is clear: companies need to establish innovation processes that involve the entire organization and all employees in the development of innovation. At the same time, faster processes are needed to develop new solutions.



The most successful companies in innovation have shown that fail fast, based on lean models, is a model that reduces the waste of resources, allows more ideas to be generated more quickly and increases the effectiveness of the innovation process.



Adobe designed an innovation strategy that was essentially based on identifying and removing blockages to innovation and fail fast. For example, anyone who had an innovative idea approved became the "CEO of their idea" and didn't have to administratively justify the money they were given or how they spent their time. At the same time, they democratized innovation by making a kit – Adobe Kickbox – that provided the basic tools for the entire organization. Financial allocations dropped from a few highly funded projects to many low-funded ones. The results were very positive.



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Embrace **Transformation**

and **Deliver** a better world

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