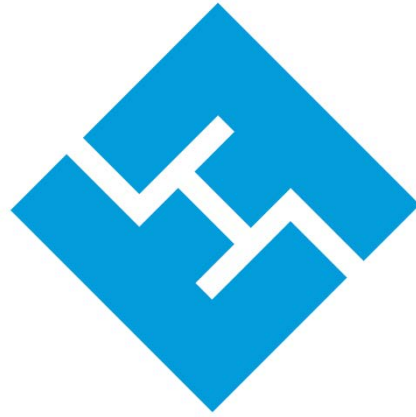


THE INNOVATION OPPORTUNITY WHITE PAPER

Innovation for owner-operated businesses



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EXECUTIVE SUMMARY

The Problem

Innovation is becoming an imperative for all businesses, yet smaller owner-operated businesses innovate less than their larger cousins. Owner operated business often struggle with:

- Knowing what to prioritise and where to focus innovation efforts
- A lack of training in business management and innovation and consequently, the 'do it yourself' approach to innovation being largely ineffective
- Finding the support and resources needed to get started on the innovation journey
- Capturing the opportunity presented by innovation.

The Solution

- Choosing to innovate and making the necessary trade-offs to prioritise and invest in innovation
- Undertaking the necessary preparatory work to avoid jeopardising the investment in innovation by commencing with misguided, large or high-risk innovation projects
- Finding the right resources and support and selecting a suitable initial project to start the innovation journey
- Over time, progressively undertaking larger and more complex innovation projects to hone innovation into a core business competency
- Engaging in ongoing innovation.

The Steps

- Breaking away from limiting beliefs
- Clarifying the owner's most important personal objectives
- Developing a clear business mission and vision that is aligned with the owner's personal objectives
- Developing and executing a winning business strategy for achieving the business' objectives and its owner's personal objectives
- Finding the right resources and support to develop an understanding of innovation
- Creating an innovation strategy that aligns with the business strategy

- Selecting a suitable initial project to commence developing the required innovation processes, routines, people management and leadership capabilities.

INTRODUCTION

For business owners, creating meaningful success involves answering two critical questions:

1. How can business owners get their business to deliver the outcomes they want?
2. How can business owners maximise and sustain the performance of their business?

Developing the answers to these questions is the innovation opportunity for owner-operated businesses. As illustrated in *Figure 1*, seizing the innovation opportunity involves the owner(s):

1. Finding ways to align their business goals with their personal aspirations
2. Choosing to innovate and building the fundamental business management and innovation practices required to engage in effective innovation
3. Engaging in ongoing innovation to sustain the performance needed to achieve personal aspirations, adapt to external changes and capture opportunities.



Figure 1 - The Innovation Opportunity

Business owners may seek health, happiness and prosperity; however, in reality their days are often consumed by activities that address immediate (and less important) demands. These demands are prioritised at the expense of what is truly most important to them.

When it comes to innovation, smaller businesses are trailing behind their larger cousins. Global statistics¹ show that the bigger the business, the greater the relative allocation of resources towards innovation activity. For owner-operated businesses this disparity is often attributed to:

- A lack of appreciation for the critical importance of innovation to sustaining competitive advantage
- A lack of in-house personnel trained in business management and innovation
- A lack of dedicated external resources, support and tools for smaller businesses to cost-effectively deploy innovation (and build their knowledge and skills) without overburdening their internal resources

- Failing to first implement the fundamentals required for effective innovation – resulting in ad hoc, misguided, large-scale or high-risk innovation activity that fails to generate a return on investment.

These issues and perceptions place profound and unnecessary limitations on these businesses. They result in a choice, often unconsciously, not to allocate and sustain the necessary resources to develop innovation into a competency.

Contrary to popular belief, large corporations with immense resources don't hold all the advantages when it comes to innovation. In reality, innovation activity is (for the most part) a resource allocation choice. It's a choice that **any** business can make, yet many fail to do so. When it comes to innovation, smaller businesses need to play to their strengths – using the speed, agility and ingenuity that comes from being smaller, and the increased creativity from having more limited resources to their advantage.

To drive long-term business performance, it's critical to give innovation a high priority; to know where to start and how to ensure these efforts are as effective as possible. This comes from:

1. Laying the foundations to effective innovation – overcoming limiting beliefs and making the choice to innovate, having a clear personal and business vision, and developing a winning business strategy
2. Understanding the fundamentals of innovation – allocating the internal resources and finding the right external resources and support to understand and apply the fundamentals of business management and innovation
3. Getting started with innovation – incrementally developing innovation as a core business competency.

Constant and effective innovation can only be secured when it's formed on a solid foundation of well-developed and executed business strategies and management practices. Otherwise, innovation efforts will lead business owners away from their goals, jeopardising precious resources and the longevity of their innovation efforts.

LAYING THE FOUNDATIONS FOR EFFECTIVE INNOVATION

MINDSET AND LIMITING BELIEFS

Mindset is the lens or perspective we use to interpret the world. It's based on the collection of deeply held assumptions and beliefs, both conscious and unconscious, which reflect our interpretation of reality. This frame of mind influences the *goals* we set and pursue, our *responses* to challenges and difficulties, the amount of *effort* we commit and the strategies we adopt in:

- Making the leap of faith required to get started with innovation and overcoming the barriers to innovation
- Promoting and maximising the creative thinking and behaviours required to fuel innovation
- Sustaining the effort needed to drive ongoing innovation.

The power of mindset lies in understanding that we have the ability to change our mindset, and through this, the ability to change our life and maximise innovation potential.

Failing to understand and manage our mindset, assumptions and beliefs (as illustrated in *Figure 2*) leads to the same pattern of behaviours and actions, resulting in similar outcomes. It leads to a learned habit that limits creativity and innovation potential.

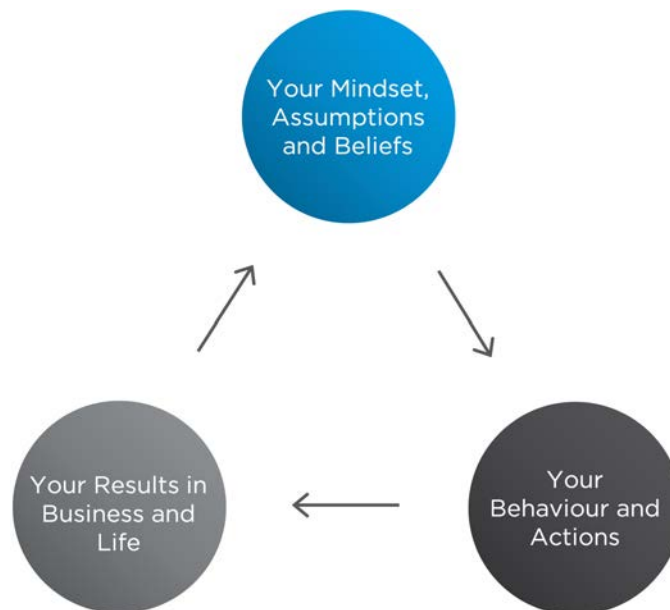


Figure 2 - The Mindset Cycle

Mindset is also critical to leadership, which plays a crucial role in developing a business' culture and the business' ability to innovate effectively and efficiently. Accordingly, being aware of what drives our emotions and behaviours *is key to choosing to innovate* - it allows for the development of creative ideas, encourages a culture of innovation and helps capture value from innovation.

FINDING PURPOSE AND HAVING IMPACT

Business owners are in a unique position to exercise a high degree of influence over their life by choosing how they integrate the management of the business with their personal goals. Achieving real success results from them knowing what makes them truly happy and pursuing the things that bring happiness - their purpose in life and vision of success. Yet they often become consumed by the events of everyday life and don't take the time to ask one of the most important questions in the world:

'What do I want from life?'

Establishing clear and meaningful personal goals:

- Enables owners to align their business goals (or choose a compatible business) with what they want from life

- Provides the focus and motivation needed to undertake effective innovation
- Provides a solid foundation on which to develop the leadership capabilities needed to inspire and motivate others along the innovation journey.

To discover and confirm personal purpose, it's necessary to consider the *values, personal characteristics, strengths, needs* and *what makes the owner happy*. After defining purpose, owners can establish what impact they will have from living out their purpose – a clear picture of a future position they wish to achieve. This involves owners examining their dreams and aspirations to find meaningful targets.

The pathway to achieving meaningful success involves knowing where to allocate the investment in innovation. As illustrated in *Figure 3*, a clear mission and vision will guide the development of underlying short- and medium-term personal goals and strategies needed to complete this journey.

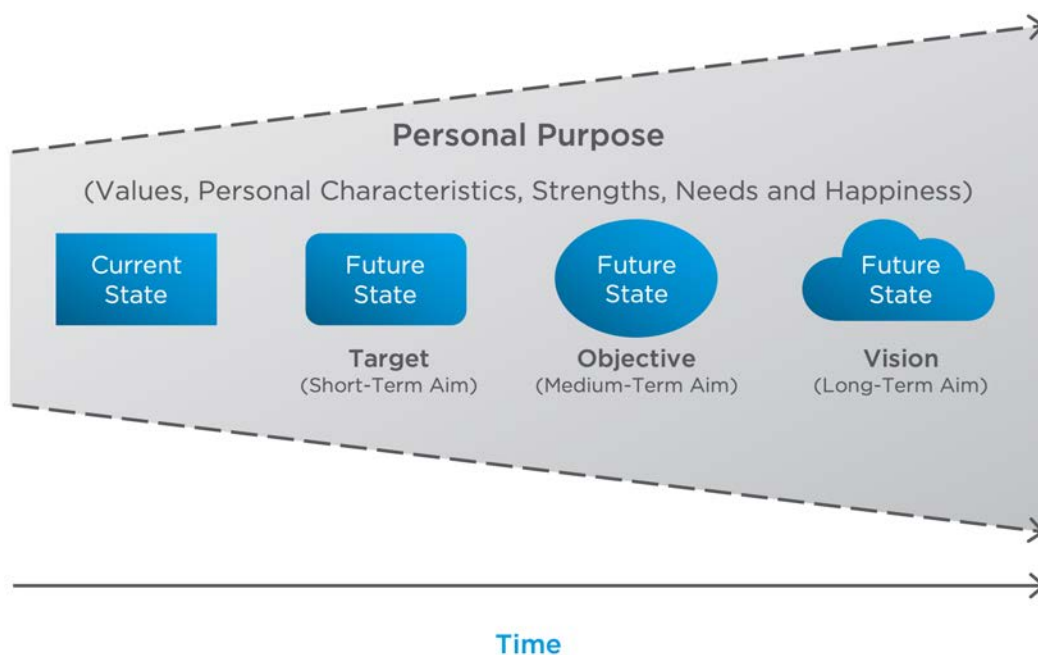


Figure 3 - Personal Goals and Vision

Being clear on a personal mission also helps establish an authentic, belief-based and purpose-driven leadership style. This is often a central aspect of inspiring

high-performance teams and building a culture of creativity that drives innovation.

PLANNING SUCCESS

Effective business management and innovation involves planning. Without appropriate planning, aligning the business and employees with the owner's goals is practically impossible. As plans deal with the future, they are based on assumptions and incorporate an inherent element of uncertainty, inaccuracy and potential for failure. This is not an excuse for failing to plan. Instead, plans must remain flexible and adaptable so that new information and ideas can be incorporated, as the gradual process of experimenting and learning proceeds and reality unfolds.

Care also must be taken to avoid rejecting information and ideas, or committing to a particular course prematurely. Instead, plan for learning by undertaking activities to search for, challenge, experiment with and analyse opportunities and threats. It's both the planned action and planned learning that drive innovation and business success.

As illustrated in *Figure 4*, planning involves four basic steps that can be applied to capturing opportunities and managing threats:

Identifying – knowing where to look; acknowledging the opportunities and threats relevant to achieving the business' goals.

Diagnosing – assessing and developing an understanding of the structure and underlying cause of the problem (avoiding unfounded assumptions).

Conceiving – generating, validating and selecting solutions to the problem.

Realising – taking action by employing the identified solutions, then evaluating the results and opportunities for improvement.



Figure 4 – Business Planning Framework

Together, the business mission and vision set the scene, providing direction and a filter for *identifying* relevant opportunities and threats – those that merit the *diagnosing*, *conceiving* and *realising* steps, and which need to be ignored.

Conceptually, the business mission and vision are the same as the owner’s personal purpose and vision. As illustrated in *Figure 5*, the business mission and vision provide a clear description of a business’:

Purpose – why the business exists.

Shared values – the core values guiding the pursuit of that purpose.

Strategic beliefs – the core beliefs guiding the pursuit of that purpose.

Area of focus – where the business should be focused (line of business, market, products, etc.).

Vision of success – what success looks like and what the business aspires to.

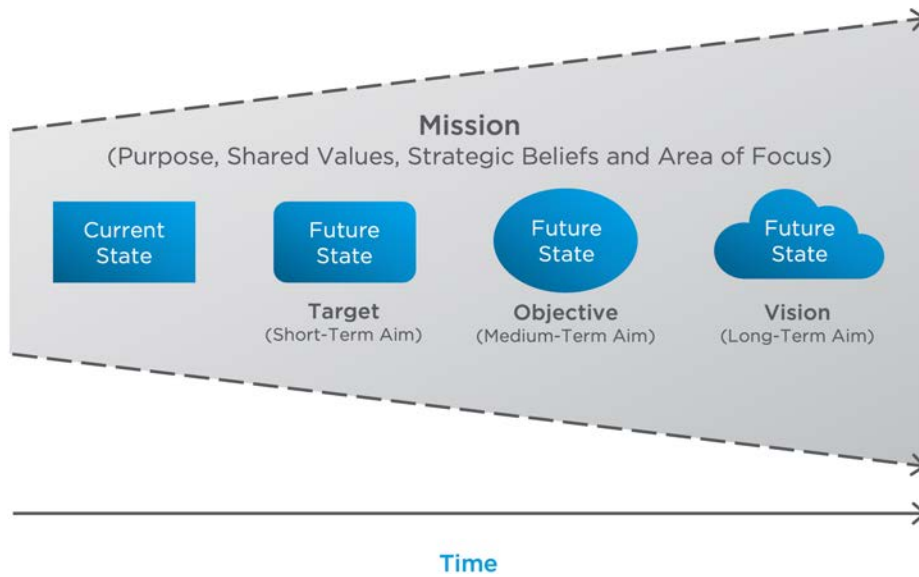


Figure 5 - Business Mission and Vision

Together they provide direction and challenge, improve decision-making, and reduce misalignment between the business and personal goals. They also help provide motivation, clarity, discipline and consistency on the activities that matter most to the owner's success - a solid foundation for culture and an essential step in developing effective business and innovation strategies.

DEVELOPING AND IMPLEMENTING BUSINESS STRATEGY

Sound business strategy is an essential prerequisite to ensuring that innovation efforts align with what's necessary for success. The purpose of business strategy is to create competitive advantage: being better than industry competitors at something valuable and unique rather than trying to serve all customers and needs.

Achieving a competitive advantage involves developing strategies that generate above-average industry profits. Ultimately, business performance is attributed to:

Industry performance - the industry in which the business operates, and its structure and performance.

Individual business performance – the strength and execution of the individual business' value proposition (product or service offering) and the quality of the resulting industry and market position achieved.

A business strategy is a set of key business decisions directed at achieving a larger than average gap between costs and the customers' willingness to pay. These key decisions need to form a set of deliberate, coherent and mutually reinforcing set of measures. A business strategy stems directly from the trade-offs and choices made about how to serve specific consumer groups and customer needs. These choices determine what to do as a business – and importantly, what not to do.

At its very core, achieving a competitive advantage emanates from the key choices around the:

- Targeted market segment
- Uniqueness of the specific customer needs served
- Combination of resources and activities employed to create and deliver that unique value
- Level of commitment to ongoing innovation and the calibre of the resulting innovation competencies.

Business strategy also involves developing a means of defending the competitive position from imitation. To do this, the fit between the business' value proposition, activities and resources must be coherent and mutually reinforcing in ways that create unique value that's difficult to imitate.

Given constant rivalry among businesses and the transience of competitive advantage, there is no one perfect strategy. Strategy development relies heavily on logic, intuition, inspiration, following an appropriate framework, and using the right tools. As illustrated in **Figure 6**, the key components of strategy development involve:

1. Understanding where the game is played and the rules of the game – examining and assessing the macro-business environment to understand

the key trends, determine the key factors that drive competition and industry's profitability, and establish the range of effective strategies

2. Understanding how the game is played – studying competitors and developing an appreciation for their strategies, capabilities and the dynamics at play
3. Playing to win – carefully assessing the market, competitors, resources and capabilities, then making the key choices that will set the business apart from the competition.

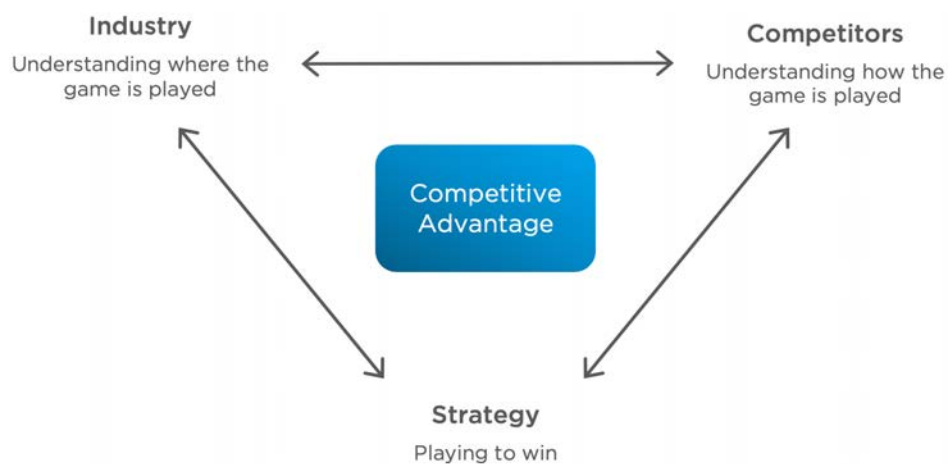


Figure 6 – Key Elements to Strategy Development

What matters next is implementation. This involves:

1. Establishing a shared understanding and support for the chosen strategy
2. Applying it consistently and continually
3. Developing appropriate metrics to measure, track and report on implementation performance
4. Monitoring, testing, learning and innovating continuously.

Having a well-formed, clearly articulated and effectively executed business strategy is how above-average profits are achieved, providing an essential

foundation to guide the development of innovation activities and competencies. In short, superior profits emanate from:

1. Choosing a unique position in the market – not duplicating or imitating others
2. Focusing on serving a particular target segment – not drifting from one target segment to another
3. Establishing and sustaining a unique position – being steadfast and developing sufficient knowledge and capability to outcompete rivals
4. Building ongoing commitment to the business strategy – sticking to and consistently applying the strategy
5. Measuring and reporting on implementation performance – doing what is needed and adjusting as required
6. Constantly testing the key assumptions that underlie business strategy, learning and innovating – allowing room for strategy to emerge while being refined.

Without these steps, innovation activity is at risk of being an ad hoc and misguided activity that misses opportunities and burns resources.

THE FUNDAMENTALS OF INNOVATION

Although innovation is a large and complex body of knowledge with a lot of hype and mystique surrounding it, *innovation isn't rocket science*.

Innovation does not only involve new-to-the-world ideas. Combining old ideas and applying them in new ways (or to different situations) is responsible for the lion's share of the value created by today's innovators.

In essence: **Innovation = Creativity + Commercialisation.**

Creativity is a cognitive activity that largely involves breaking away from the bounds of existing cognitive maps and exploring new alternatives, using both logical and intuitive thinking processes. It's a human endeavour that involves the use of imagination and ideas to create new value.

Overcoming some of the key barriers to creativity involves:

- Seeking out creative people, embracing *continuous learning* to develop and accumulate knowledge, and training the mind in the 'science' and 'art' of creativity
- Driving motivation, particularly from within (intrinsically) but also with a mutually reinforcing system of extrinsic motivators (incentives and rewards)
- Creating an environment and culture that fosters creativity and avoids its inhibitors
- Using the available creative tools and engaging in the creative process - *practising creativity builds creative capability*.

While innovation is dependent upon creativity and the ideas that flow from it, it's not simply a matter of developing new and creative ideas. The ideas must be both valuable and commercially viable, and then be put into practice to result in innovation. Accordingly, innovation is about understanding and managing the

process of creativity, and marshalling the resources and capability needed to **transform selected ideas** into commercial reality.

Innovation shouldn't be viewed as something that cannot be managed. Innovation needs to be more than a spontaneous one-off event. Ongoing innovation is a process of **learning**; it involves **searching, selecting, implementing** and **capturing** value from knowledge and ideas. It involves generating many ideas, followed by an elimination process, typically through experimentation or trial and error. Ultimately, the elimination process serves to narrow the options for ongoing development and refinement, until the idea emerges as a practical and valuable solution. Accordingly, innovation involves learning from failure (preferably quickly and cheaply) for the purpose of generating ideas, creating knowledge and capturing commercial value.

Much of the challenge faced in generating new and creative ideas revolves around knowing where to look for opportunity – and how to go about exploring and exploiting it effectively. This is particularly difficult when seeking to repeat the process. As illustrated in **Figure 7**, at its most fundamental level, the opportunity for innovation arises from one of the two following concepts.

Knowledge push – a focus on developing knowledge that can then be used to create new products, services, processes or ways of doing business.

Need pull – a focus on identifying needs for users or customers, followed by a process of developing a solution (in the form of new products, services, processes or ways of doing business) that will fulfil those needs.



Figure 7 – Sources of Innovation Opportunity

The knowledge push and need pull approaches to innovation opportunity reflect the two 'voices' of innovation:

Inventors – those who use or develop knowledge to create something of value and then seek a suitable market to capture value from that knowledge (market-driving innovation).

Customers – those who have unmet needs (whether expressed, implicit or latent) and require the development of solutions (knowledge) to satisfy those needs (market-driven innovation).

In this sense, market-driving innovation is akin to the concept of entrepreneurship; it relies on alertness, changes in environment and connecting the dots to create value. On the other hand, market-driven innovation is akin to the role of marketing – that is, focusing on customers with a view of fulfilling their unmet needs.

The two approaches are quite distinct; however, as illustrated in **Figure 8**, successful innovation incorporates both voices. Entrepreneur-led innovation relies significantly on input from inventors but also requires input from customers to ensure market desirability. Market-led innovation, on the other hand, starts with significant involvement from customers, followed by input from inventors to ensure the feasibility and viability of the solutions required to satisfy the market.

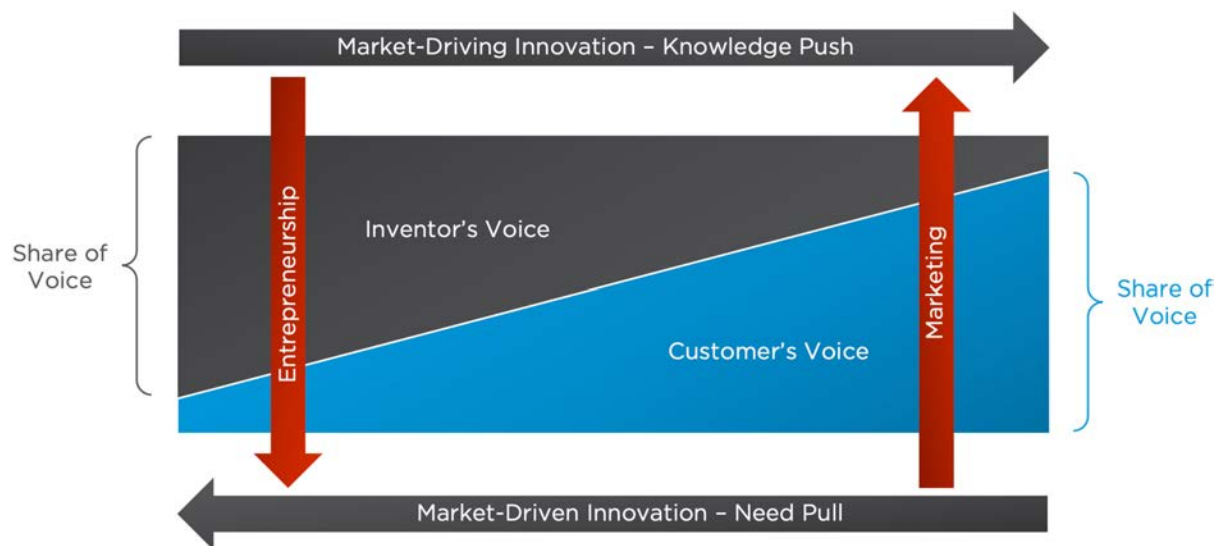


Figure 8 - The Two Voices of Innovation

Successful innovation is a two-sided affair and the systems for searching, selecting, implementing and capturing value from the business' innovation

activities needs to incorporate an element of both voices, regardless of whether it is market-driving or market-driven.

As illustrated in **Figure 9**, by adopting a slightly more granular approach, innovation can be further categorised into:ⁱⁱ

Process innovation – changing the way a product or service is created or delivered, which improves the efficiencies the business or its customers enjoy.

Product innovation – changes in a product or service that increase the actual or perceived value that customers enjoy.

Market position – changes in the way the product or service is positioned in the market, to attract new customers to use the product or service.

Business model – wholesale changes to the business model (its resources, activities and customer value proposition) that establish an entirely new way of doing business.

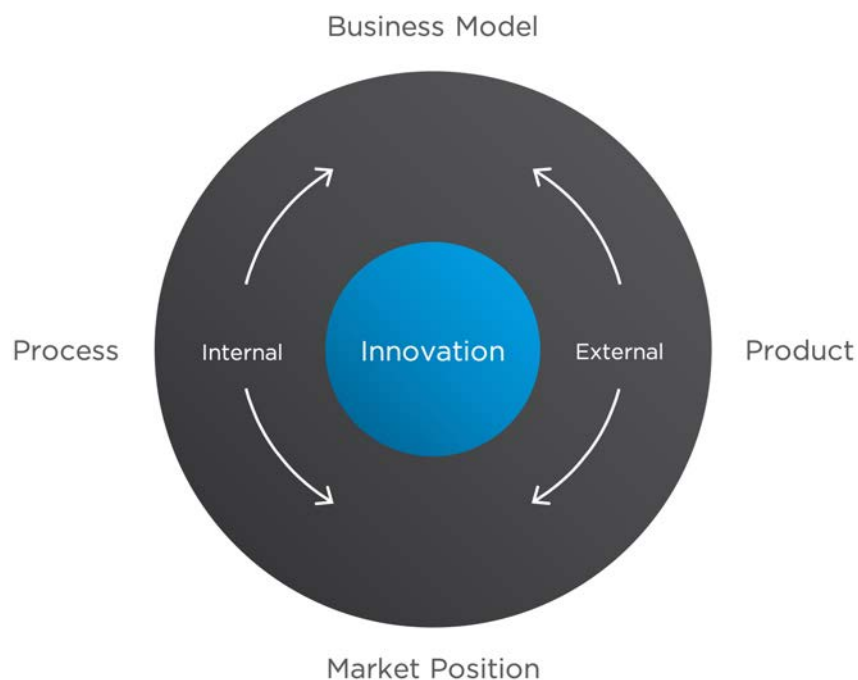


Figure 9 - Main Categories of Innovationⁱⁱⁱ

Innovation can be further defined in terms of the degree of ‘newness’ involved. As depicted in **Figure 10**, the nature of the change involved with innovation may be:

Incremental – typically a small degree of newness involving limited change.

Radical – typically a larger degree of newness that involves extensive change.

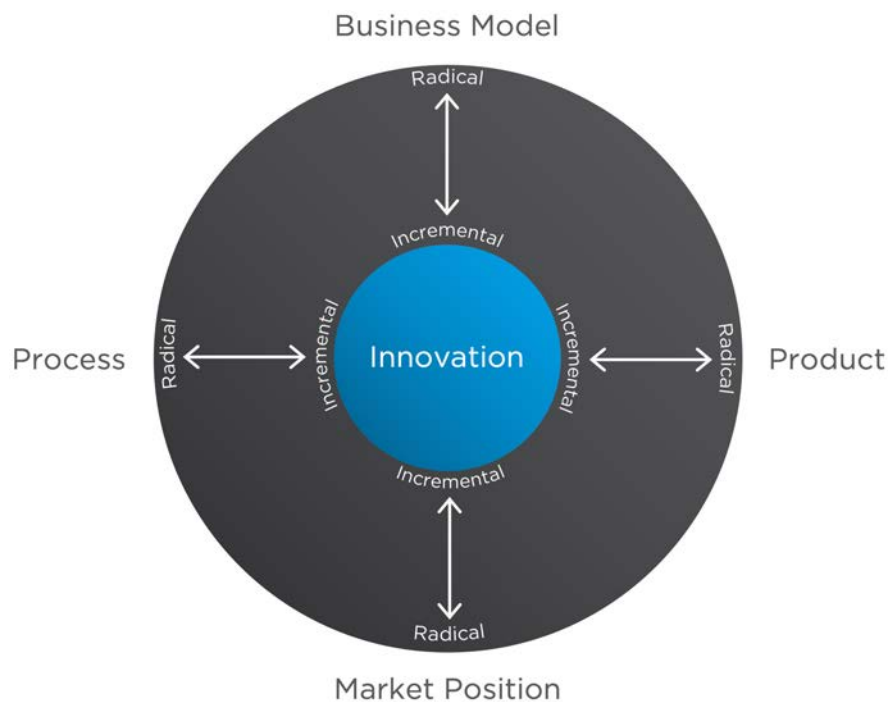


Figure 10 – Main Categories and Scale of Innovation^{iv}

The type of innovation and degree of newness involved leads to innovations of different scale. These, along with the breadth of change, are important factors in managing innovation, as larger scale, more pervasive change requires different management techniques and tools from narrowly focused incremental change.

The frequency of change is another dimension of innovation. As shown by **Figure 11**, innovation can occur with a low or high rate of frequency – infrequent versus frequent. While small-scale innovation can happen at either a low or high frequency, seeking out large-scale innovation at a high frequency is unrealistic. There is only so much accumulated change that a business can sustain before becoming inefficient and ineffective. Innovation scale and frequency become a

trade-off between managing the *maximum amount of accumulated change* the business can sustain, versus the *desire for maximum innovation*.

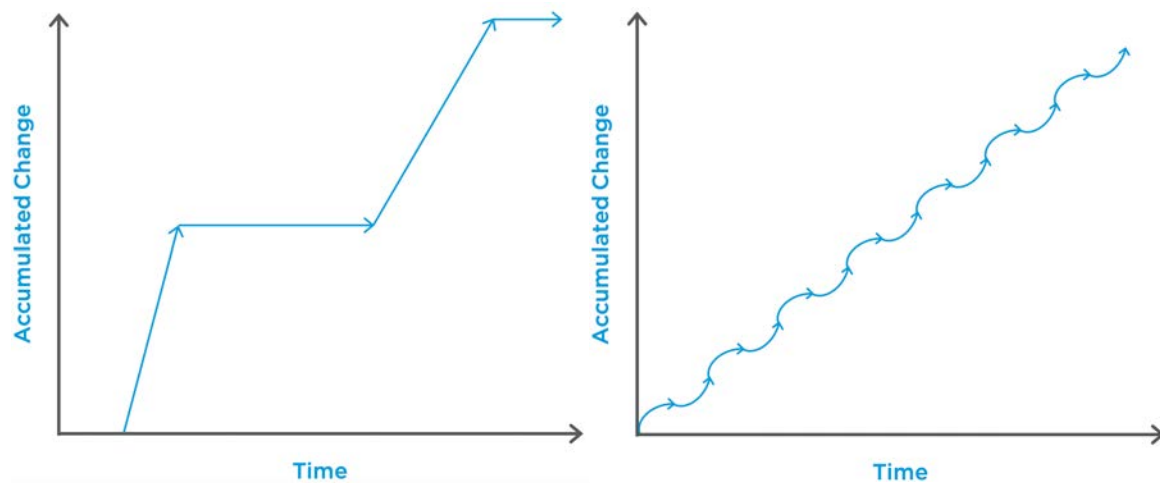


Figure 11 - Frequency and Scale of Change

Ultimately, as illustrated in *Figure 12*, to hone innovation into a core business competency, it must become ingrained into the business' mission, strategy and mode of operation. This requires:

- Developing and executing a sound *innovation strategy*
- Managing, motivating and leading *people* in a manner that promotes creativity, continuous learning, collaboration and knowledge development
- Creating the business *processes and procedures* (routines) that support creativity and the management of ongoing innovation.



Figure 12 - Key Competencies of Innovation

Each of these elements must be managed as a whole to get the most out of innovation efforts - excelling at one or two is not enough.

INNOVATION STRATEGY

Innovation strategy sets the context for innovation activities and ensures that resources are allocated in line with the overarching business strategy. It guides resource allocation and the nature of the expected outcomes, to ensure they align with the business goals and objectives – reducing wasted time and effort while promoting maximum success.

As illustrated in *Figure 13*, business and innovation strategies drive the actions needed to ‘live’ the business purpose and realise its vision. An innovation strategy is a subset of business strategy. It’s a coherent set of choices that define the investment in innovation and the value sought from it.

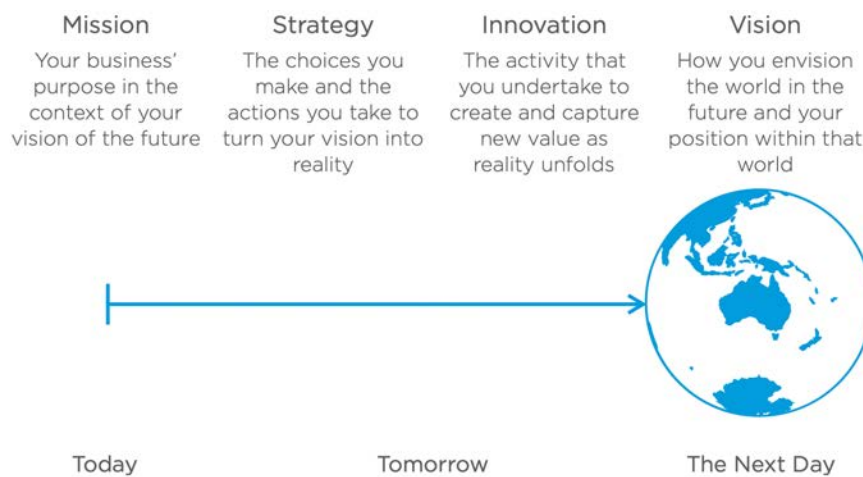


Figure 13 - The Role of a Mission, Strategy, Innovation and Vision

Innovation is not a passive investment; it must be **actively managed** and applied with appropriate skills and capabilities to generate quality returns. Those new to innovation may have few resources and existing capabilities to devote to appropriate processes. They may not initially be able to seek out large-scale, complex and high-value innovation projects. A business' innovation strategy needs to fit its internal business circumstances, as well as the external business environment and its growth targets. Ultimately, the business' innovation objectives need to be shaped by the:

1. Nature of the industry and the broader environment the business operates in

2. Goals the business has set
3. Business' current position, level of resources, appetite for risk and innovation proficiencies.

The faster the pace of change in the business environment, industry and market, and the more growth sought by the owner, the more **aggressive** the innovation strategy must be. While there are many approaches to strategy development, the following five-step process is recommended.

Step 1

Define the **context** in which innovation search activities must take place – what receives investment and what is off limits. Determine what high-level criteria innovation projects must satisfy based on the business mission, vision and strategy. This involves understanding the sources of innovation opportunity and then deciding which search methods best suit your circumstances and objectives.

Step 2

Establish the **innovation investment objectives** and priorities – establishing the investment's size and desired rate of return. As shown in **Figure 14**, the larger the gap between the current and future desired position, the greater the output required from the investment in innovation. Consequently, the more aggressive the objectives are, the greater the **commitment** to innovation must be.



Figure 14 – Innovation Investment

Notwithstanding the business' industry and aspirations, the innovation investment must reflect the current status of the business. The outcomes of the investment in innovation depend on the what the business can reasonably allocate given its resources, appetite for risk and existing innovation competencies.

While the overarching innovation investment objective may be to achieve the long-term growth targets, this may not necessarily be the highest priority at the beginning of the innovation journey. For example, some of the initial innovation investment objectives might include:

- Establishing key innovation skills
- Stretching innovation competencies, but not exceeding that capability so far as to put the business at unacceptable risk
- Capturing the value of specific pre-existing opportunities
- Addressing specific threats or imminent crises that the business may be facing.

Step 3

Consider innovation investment alternatives and establish an *investment portfolio weighting* – investment diversification and weighting. Managing a portfolio of innovation investments (projects) is much like farming; it must simultaneously harvest the current crop, prepare ground for next year's crop and search for new crops to grow in the future.

As can be seen in *Figure 15*, the investment in innovation needs to be spread across a range of investment classes or time horizons, including:

- Short-term investments focused on what the business does '*today*'
- Medium-term investments focused on what the business will do '*tomorrow*'

- Long-term investments focused on what the business will do *'the next day'*.

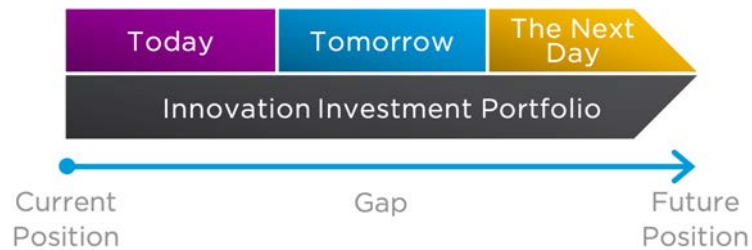


Figure 15 - Innovation Investment Timeframes

As innovation activities begin to scale, they need to become a diversified portfolio of investments to minimise risk and maximise returns – a pipeline of innovation projects spread across the three investment time horizons. If the business operates across a number of products, markets, business units or locations, it will also need to ensure the portfolio incorporates appropriate coverage of these.

As ideas are often opportunity-driven (i.e. knowledge- or need-driven), it's unlikely they will be solely determined by the classification and weightings used in the business' innovation portfolio. Nevertheless, these portfolio choices should be a result of a dialogue throughout the business. They should be used as a communication tool to provide clear guidance and clarify the idea-screening criteria that will be adopted.^v

Step 4

Set the innovation *investment performance metrics* – high-level performance standards for each class of innovation investment.

Like many aspects of business, to be efficient and effective, performance must be measured and proactively managed. In doing so, each investment time horizon requires different performance metrics. Also, as projects transition from one time horizon to another ('today', 'tomorrow', 'the next day'), they should only then be held accountable to the performance metrics of the shorter time horizon. That is, projects focused on:

Today – the current business activities can be held to account for an (almost) immediate return on investment. The returns that sought for short-term investments are likely to approach or exceed those currently being generated by the business.

Tomorrow – on-boarding the next generation of high-growth business opportunities cannot be expected to provide a material return on investment until they transition from young to established opportunities. The returns sought for the medium-term investments are likely to be well below those currently being generated by the established business(es).

The next day – opportunities that will sustain the business far into the future cannot be expected to provide any return until they become established.

If the business fails to hold medium- and long-term investments accountable to separate metrics, short-term investment metrics will kill off all but short-term projects and the business will fail to invest in the projects necessary to secure future success.

Step 5

Set an **investment review timeframe** – an innovation investment review cycle.

As noted earlier, an innovation strategy needs to change as circumstances change. For example, as innovation capabilities develop into a core competency, the business may be able to weight its innovation portfolio more evenly across the various investment time horizons. To facilitate this process, the business should conduct a **regular review** of its innovation investment strategy and the overarching performance of its innovation projects.

As illustrated in **Figure 16**, a well-developed innovation strategy articulates:

A winning aspiration – builds on the business mission and strategy, and provides an understanding of why and where innovation is needed to achieve the business vision.

Where to play – clearly communicates the innovation objectives so that everyone understands what types and scale of innovation are being sought and what is off limits.

How to win – assists in prioritising the investment in innovation, allocating resources to strategically relevant projects and extracting best return on investment.

The capabilities required – guides the selection, development and implementation of appropriate innovation processes, procedures and projects; in other words, which innovation competencies need to be developed and which projects can be executed effectively.

What management systems are required – allows for the assessment and monitoring required to ascertain current strengths and challenges, and what needs to be in place for innovation to be effectively managed.

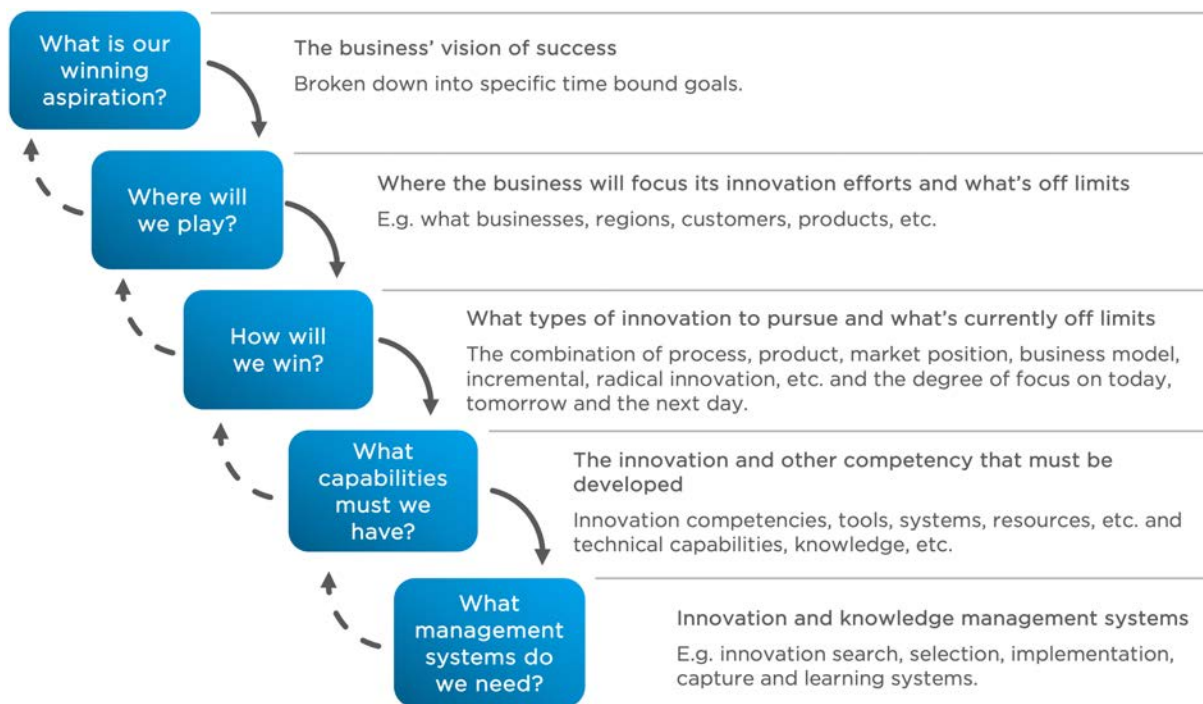


Figure 16 – Innovation Cascade

With a clear and well-constructed innovation strategy, the necessary human resources, management systems, processes and routines can be built. These resources lie at the heart of developing a business' innovation competency.

MANAGING PEOPLE AND LEADING INNOVATION

Given innovation is a human-centred activity, selecting the right people, incentives, leadership style, and management processes and procedures is vital to develop it as a core competency.

The way the people in the business think, act and perform is central to its success. Innovation requires a sound understanding of how best to structure the business to create an environment of full accountability, allowing personnel to make efficient and effective progress towards the business' goals. Everyone needs to be incentivised to perform their tasks to the best of their ability.

Innovation requires a focus on *people* to drive motivation, acquire suitable talent, encourage collaboration and creativity, and accumulate knowledge. This requires people with a degree of talent, willingness and energy to not only engage collaboratively in the creative process, but also sustain the level of effort required to drive innovation.

Talent Acquisition

It's critical to have the right people on board, all working as a team and heading in the same direction. This means that everyone needs to be clear on their roles and responsibilities, as well as what the business is striving to achieve. They need a sense of purpose, clear objectives, and to feel as if they're a part of the business and making a valuable contribution - not only for the success of the business, but also for themselves and others. In this sense, *innovation begins with recruitment*.

In seeking to maximise innovation, an important objective is to find and secure the people who:

1. Are the right fit for the business (they have matching values and beliefs)
2. Possess enough passion for the business purpose and vision (will strive to achieve the same aspirations)

3. Exhibit the necessary aptitude, intelligence and skills (a desirable personality, cognitive abilities and technical skills, or a willingness to learn and develop the required technical skills).

Talent Attributes for Innovation

Talent refers to subject matter knowledge, cognitive ability and creative skill. In recruiting talent for innovation, it's particularly important to understand the factors and personal characteristics that:

- Promote creativity, and exhibit characteristics such as:
 - Adaptability, flexibility and curiosity
 - A desire for new experiences and self-actualisation
 - Independence
 - Energy and playfulness (while remaining focused and realistic)
 - A balance between pride and modesty
 - A willingness to take reasonable risks
- Inhibit creativity, including assertiveness, stubbornness, cynicism, ego, etc.

Understanding these characteristics and what drives creativity will enable finding those who will advance innovation efforts while avoiding those who may inhibit them.

Maximising Employee Engagement and Performance

For most businesses, employees are a key asset and achieving the greatest return on this investment means keeping the right people – and shedding those who are not a good fit. Once the right people have been recruited, the next challenge is to train and motivate them in order to maximise their performance – and ultimately, retain them in the long term.

A central aspect of achieving this and fostering innovation is the employee reward system.

Unfortunately, too much focus is often placed on monetary rewards to the exclusion of other motivators – or, despite the best of intentions, the reward system itself is poorly structured and encourages the wrong behaviours. Achieving superior results requires an understanding of the two primary types of motivators:

1. Extrinsic (rewards external to the work itself)
2. Intrinsic (psychological rewards).

Extrinsic rewards typically take the form of salary or wage payments. They also include incentive programs or bonuses that are contingent on achieving certain goals or performance levels. These incentives or bonuses may take the form of additional monetary rewards, or they may be in kind (e.g. a paid long weekend away).

Extrinsic rewards are essential. However, when they are short-term focused, used in isolation or relied upon excessively, they:

- Can lower performance when past a certain point^{vi}
- Increase employment costs when seeking to address suboptimal motivation by offering greater monetary incentives (for little or no return on the additional expenditure)

- Lower the return on investment in people and increase opportunity cost by missing significant low-cost opportunities to enhance motivation (underutilised potential).

Maximising employee performance requires a mix of extrinsic and intrinsic rewards, matching their application to the particular situation and avoiding the overuse of short-term and high-powered rewards. Innovation is a long-term game and the reward systems need to be appropriately designed to reflect this.

In contrast to extrinsic motivators, intrinsic motivators drive motivation from within. They are the psychological rewards that employees gain from undertaking their job. As illustrated in *Figure 17*, intrinsic motivation stems from:^{vii}

Autonomy – the urge to direct our own lives and have a degree of freedom and flexibility about how we do our job.

Mastery – the desire to improve in something that matters to us.

Purpose – the yearning to do what we do in the service of something larger than ourselves, bringing meaning to work by connecting it to a higher cause.



Figure 17 – Intrinsic Rewards

Intrinsic rewards are the psychological rewards that employees gain from enjoying the freedom to undertake meaningful work and being able to perform it well.

Leadership

Innovation not only requires the choice to innovate, but also effective leadership.

While some people are considered to be born leaders, the reality is that for the large majority, leadership is a skill that's learnt through self-discovery, training and practice. In essence, leadership is about:

- Establishing a purpose and creating a vision that everyone understands and wants to follow – establishing direction and inspiring motivation
- Influencing and helping people to improve, so that they can apply themselves with maximum effect – developing others
- Maintaining the alignment of the business with its environment, industry and market – managing change.

Leadership is about influencing others and typically involves a process of self-development, learning how others perceive a leader and establishing a meaningful purpose and direction. Some fundamental leadership factors that are important to master, especially when seeking to manage both routine and innovation work, include:

- Inspiring a shared vision^{viii}
- Being in tune with the business' people and leading by example^{ix}
- Balancing the need for assertiveness and kindness^x
- Supporting progress and celebrating wins^{xi}
- Having employees' backs^{xii}

- Communicating effectively and constantly.

Teams and Innovation

A key to a successfully functioning workplace is the involvement and participation of all people working in the business. This emphasises the need for effective communication, consultation and support from management. Often, this is best accomplished by organising the workplace as a team (or teams) and involving them in the business' progress. In this way, both their ideas and their commitment are gained.

Organising the business as a single team or multiple teams allows improved communication, consultation and collaboration, in turn maximising creativity and innovation. Organising for innovation requires an understanding of how best to structure and manage collaborative teams.

When building teams to promote innovation, it is important to incorporate diversity and maximise collaboration, as this leads to greater creativity. In doing so, it's important to establish teams with the right mix of skills, personal characteristics and other factors (refer to *Figure 18*) that will provide diversity and a suitable range of information, knowledge and perspectives.

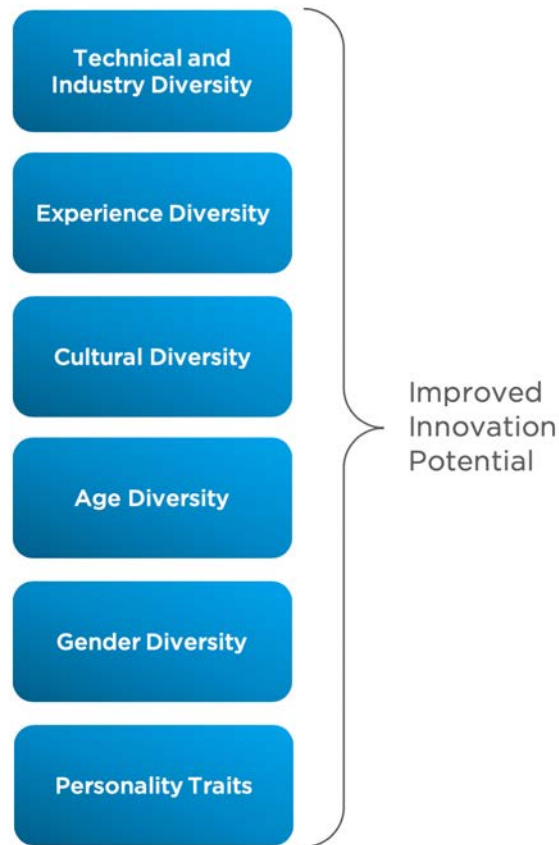


Figure 18 - Key Factors of Team Diversity

While diversity has the potential to significantly improve organisational creativity, it's not a fait accompli. Leaders must be able to get the individual team members to open up and share their different perspectives, assimilate them, and manage the increased conflict that comes with differences in opinion. As illustrated in *Figure 19*, this involves creating an environment that:^{xiii}

- Is prepared for and anticipates alternative views
- Promotes feelings of safety and being valued
- Has a predisposition to learning
- Provides adequate time to process new information and perspectives.

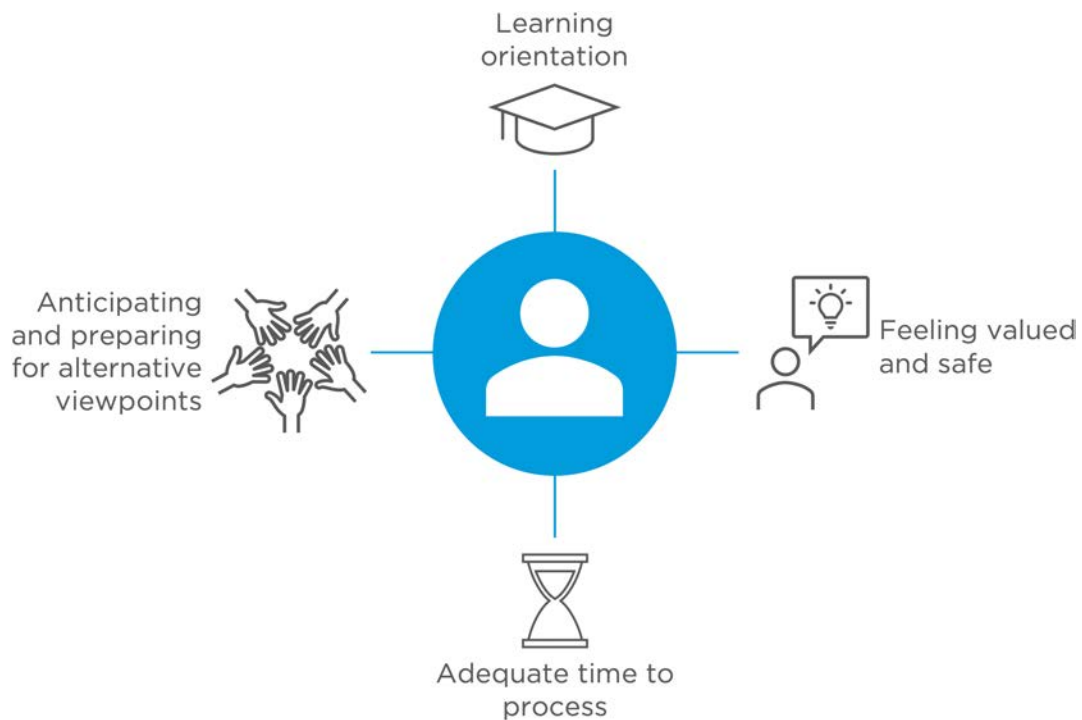


Figure 19 - Extracting Information from Members of Diverse Teams^{xiv}

Once leaders have encouraged the sharing of perspectives, the challenge is to integrate them into useful outcomes. This can be a challenge, as problems are seen and interpreted by any given individual based on their background, training and experience. Individual context can create representational gaps that need to be overcome when seeking to integrate a variety of perspectives.

Overcoming representational gaps involves effective communication, where other's perspectives are accepted as legitimate and the value of their contributions is understood. Accordingly, as illustrated in **Figure 20**, integrating the additional information and knowledge that comes from diverse teams involves:^{xv}

- Understanding the relevance of each perspective and finding common ground
- Overcoming differences in how problems are represented because of the diversities in background, training, expertise, etc.
- Committing time to integration - building understanding and working through disparities.



Figure 20 - Integrating Information from Diverse Teams^{xvi}

The more effectively leaders can extract a range of perspectives from the individual members and integrate them throughout the team, the more creativity and innovation potential they will harness. This largely comes down to having the right values, behaviours and processes in place.

While diversity is a key ingredient to innovation, the greater the diversity, the greater the differences in opinion - and therefore, potential for conflict. This raises the question, 'Is conflict good or bad?' The answer is that a finite level of certain types of conflict actually enhances creativity, whereas other forms of conflict inhibit it and destroy team performance.

As illustrated in *Figure 21*, within teams there are two primary types of conflict:^{xvii}

Affective conflict - personal conflict and emotional disagreement characterised by anger or hostility.

Task conflict - content-focused disagreement over what is to be accomplished and how it's to be achieved (goals, methodologies, solutions, etc.).



Figure 21 – Conflict Interrelationship^{xviii}

Affective conflict is detrimental to organisational culture, performance and creativity, and shouldn't be tolerated. However, a degree of task conflict actually promotes greater creativity and leads to improved innovation capability. This is often referred to as **creative conflict**; the conflict involved in challenging the status quo and developing new solutions.

To secure the benefits of diversity, avoid all forms of affective conflict. Instead, seek to establish low-intensity task conflict: where latent disagreement and differences are explored, but don't transcend into active disagreement, with people taking sides or forming entrenched positions. Task conflict should not escalate to moderate and high-intensity levels, where it will threaten performance, creativity and innovation by virtue of becoming unconstructive or destructive.

Creating a climate in which people will share and collaborate effectively has its challenges, in particular ensuring that:

- An 'us versus them' culture does not develop, promoting fear and preventing people from sharing their perspectives, knowledge, information and ideas
- Incentives and rewards aren't misaligned, thereby inhibiting sharing and collaboration.

As depicted in **Figure 22**, central to avoiding the development of an 'us versus them' culture, promoting a team spirit and maximising collaboration involves:^{xix}

- Creating a shared identity (vision)
- Building trust

- Providing psychological safety (a shared belief that the team is safe for interpersonal risk-taking).

These factors are interrelated.

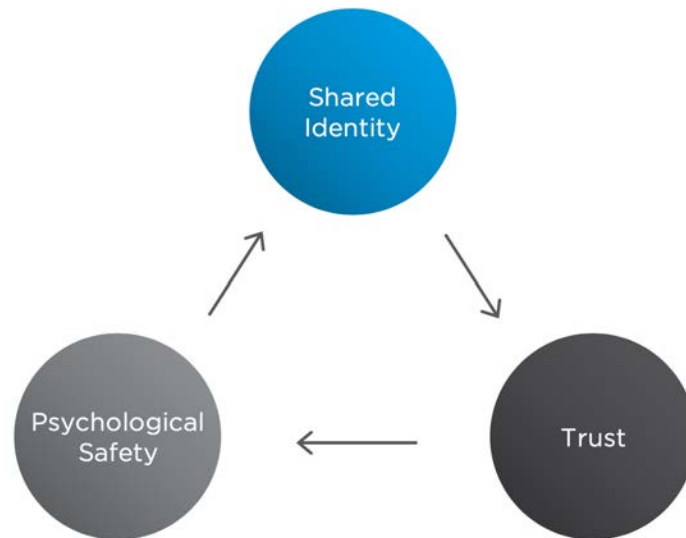


Figure 22 - Factors of a Collaborative Climate

For any team leader, a key task is to establish psychological safety among team members. This requires a clear team structure, promoting appropriate values and behaviours (respect, listening, deferment of judgement, etc.), actively managing conflict, and responding appropriately to failure.

Ultimately, the people recruited and retained within the business – including their capabilities, how they treat each other, and how they collaborate – play a significant role in how ideas are generated and how the value of those ideas is extracted.

BUILDING ROUTINES AND CAPTURING OPPORTUNITIES

Being able to repeat the innovation process is the essence of sustaining a business' long-term competitive advantage, growth and profits. This requires developing the *processes and procedures* to search, select and implement ideas to capture value and learn (build knowledge and capability).

Specific innovation management processes and procedures can be developed for the business, with ideas adapted from established innovation management models and practices. Management processes don't need to reinvent the wheel, but rather understand what already exists and how current wisdom can be applied to a specific situation.

A considerable part of developing innovation capability is dependent on:

- Technical capability (the people, knowledge, competencies, financial resources, etc.)
- An ability to manage technical capability in a manner that fosters creativity and innovation.

Managing ongoing innovation requires an understanding of the frameworks available and establishing the key routines that promote it. In this context, 'routines' refers to the ongoing patterns of behaviour and activity that take place within the business. These patterns are reflected in the shared beliefs about how things work and what's important to the business (what's sacred and what's taboo) and are learnt from the example set by:

- The business owner(s), and the way they lead the business
- The way the owner(s) organise the management of the business
- The formal and informal structures, procedures and processes within the business.

When these frameworks and routines are understood, adapted and applied correctly, they can become an integral and effective part of business operations – placing innovation within reach without having to reinvent the wheel. As illustrated in *Figure 23*, effectively managing innovation involves knowing:^{xx}

1. The **context** in which the business operates and its area of focus – having an innovation strategy based on a well-developed business strategy, flagging where innovation efforts ought to be focused
2. Where to **search** for innovation opportunity and how to manage this process. Ultimately, the search for innovation opportunities and ideas required to develop a portfolio of innovation projects must be systemised. Different types of innovation require different search routines, and to develop the right type of search routine to match search objectives
3. How to **select** the right ideas to pursue. The goal is to develop a structured approach with clear learning activities, decision points and agreed rules about when to proceed and when to desist. By matching each project’s uncertainty level with the selection methods that avoid over-commitment to suboptimal or failing projects, investments can be appropriately metred as uncertainty is reduced
4. The key methods to adopt when seeking to **implement** the selected ideas. This involves balancing the need for control and flexibility, while employing the appropriate tactics to exploit the current business model and explore for new ones. Key tactics include the use of simple rules, focusing on growing beyond the core, exploring the future, managing change and overcoming the barriers to innovation
5. How to **capture** maximum value from innovation efforts by engaging in sound knowledge management practices (cultivating, harvesting and utilising knowledge), protecting the intellectual property created, understanding the innovation adoption process and accelerating demand
6. How to promote ongoing **learning** by accelerating the learning curve at both the individual and business level.



Figure 23 - Innovation Management Framework^{xxi}

Context

Before committing material resources to any investment in innovation, the opportunities that the business is searching for must be strategically relevant. If they are not relevant to the attainment of the business' goals, the endeavour will waste time, effort and resources – placing the future of the business' innovation activity at risk.

Saying no to strategically irrelevant opportunities, despite their apparent value, can avoid distractions and deviations. Establishing a clear context where everyone in the business understands *where to look*, and *what is off limits*, is essential to managing innovation as a repeatable process efficiently and effectively.

To a large extent, the context of an innovation search space is determined by the business mission, vision, and business and innovation strategies. Together, these provide essential, high-level guidance to everyone in the business as to which innovation opportunities are strategically relevant, and the key selection criteria these opportunities must satisfy.

By clearly articulating where the business is heading, how it intends to get there and why, it ensures the innovation opportunities are focused on the business'

purpose and delivering on relevant goals. Setting the context for innovation has been outlined earlier in this paper and is covered in detail in Book 2 of: *The Innovation Opportunity – Growing your business and laying the foundations for effective innovation!*

Innovation Search Areas

In the search phase of the innovation management process, the key question to answer is, ‘How will the business find opportunities for innovation?’ The essential point to managing innovation is to ensure that the process of searching for ideas (knowledge and needs) is deliberate rather than an ad hoc task that’s simply left to chance.

There are many places where to search for ideas. As illustrated in *Figure 24*, key search areas can be broadly considered as internally within the business itself, or externally with customers and the broader business environment.

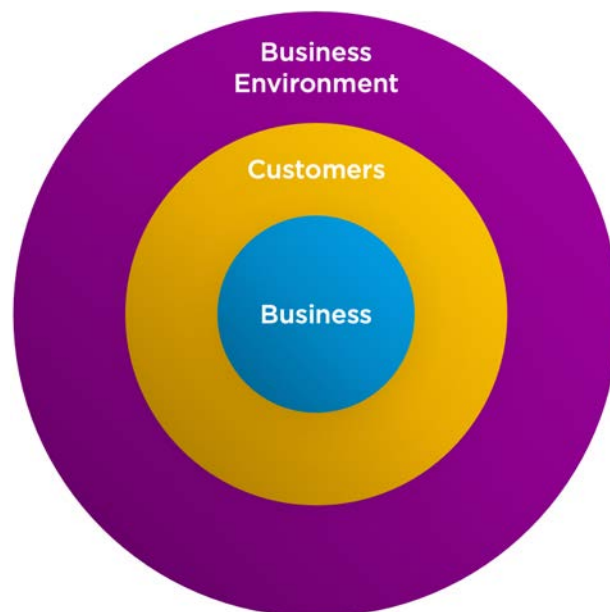


Figure 24 – Primary Areas of Innovation Opportunity

While a business may begin its innovation journey searching in one area, in the long run, it should search for ideas in each of these areas.

While the objective of the search process is to find ideas that serve as opportunities for innovation, there are a number of dimensions to this search space. In addition to the degree of focus placed on incremental versus radical innovation, as can be seen from *Figure 25*, consideration also needs to be given to:

Exploiting the current business model – the degree of reliance on the established ways of thinking (what the business does today).

Exploring new business models – the degree of focus on new ways of thinking and the next business model that will serve to provide income and profits in the long term (what the business will do tomorrow and the next day).

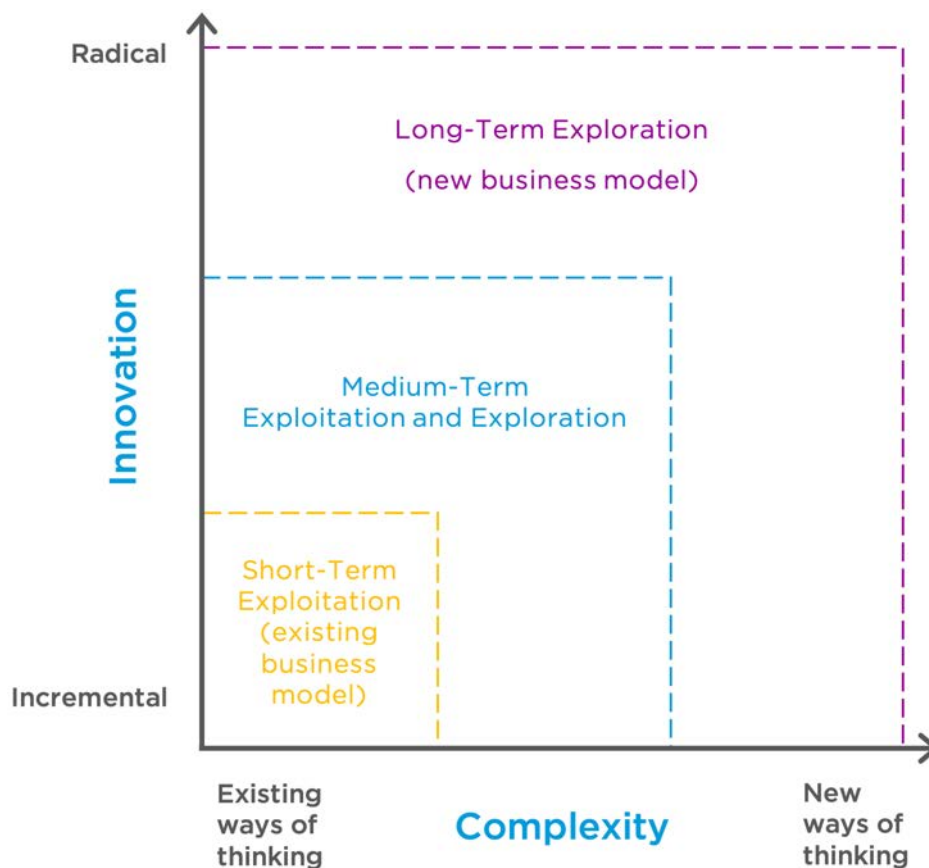


Figure 25 – Innovation Search Dimensions

The best place to search for innovation opportunity should be determined by how far along the business is on its innovation journey and its current innovation strategy.

Selecting the Right Opportunities

Managing innovation requires the ability to say no to many potentially good opportunities, in order to pursue those within the bounds of the business' resources, capabilities and strategic direction.

As demonstrated by *Figure 26*, the objective of the selection phase is to filter those opportunities into a suitable 'portfolio' of innovation projects.

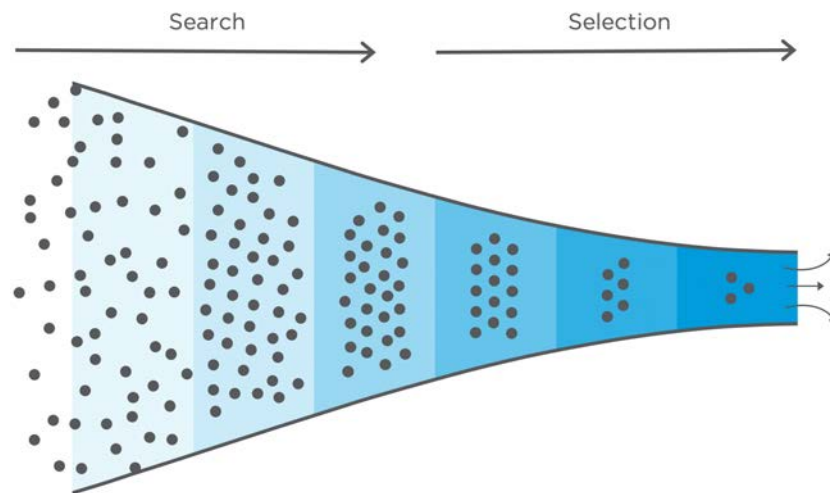


Figure 26 - Innovation Opportunity Selection

Innovation is best conducted by generating a large number of ideas and filtering them into a portfolio of innovation investments that align with the business and innovation strategies. Only those that make it through the entire selection process are launched. In many ways, idea selection can be more challenging than idea generation, as it requires weeding out those ideas that:

- Don't have sufficient merit
- Don't currently meet the business' needs, but need to be saved for later
- Meet the business' needs, but must be 'killed' because the business has limited resources and must focus on only a few things at once.

During early-stage innovation, uncertainty about an idea's future prospects is typically high or extreme. It's only with additional time, and the commitment of the further resources required to investigate and develop the idea, that uncertainty about its future prospects reduces. **Figure 27** illustrates that uncertainty only reduces as time passes and increasing resources are committed to learning about the key uncertainties involved. However, as the business commits increasing resources to reduce uncertainty (exploring the potential of an innovation), this creates lock-in from an unwillingness and/or inability to pursue other alternatives.

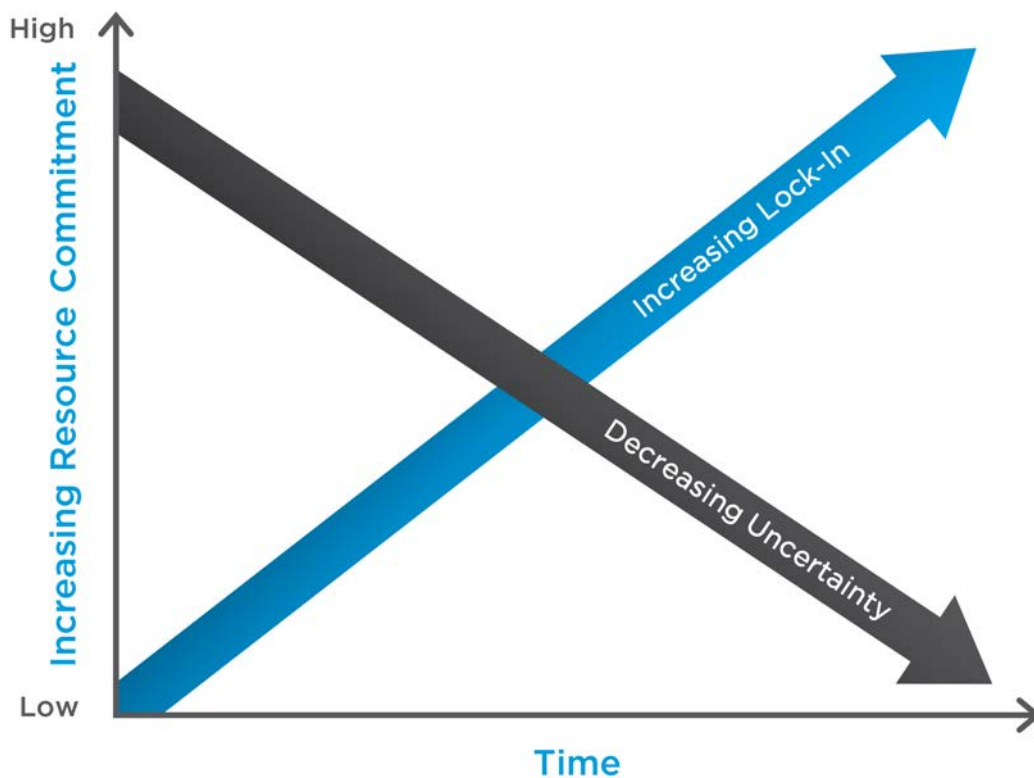


Figure 27 - Resource Commitment and Uncertainty

Learning is the key to minimising uncertainty. Businesses must research, experiment and test in order to learn, build knowledge and ultimately reduce uncertainty and risk. They must make the unknown known.

As **Figure 28** illustrates, learning takes place through:

Action - taking action in the form of research, experimentation, testing, etc.

Reflection – reflecting on the outcomes of that action.

Revised action – revising the action taken and continuing this process in order to build knowledge, skill and competency.

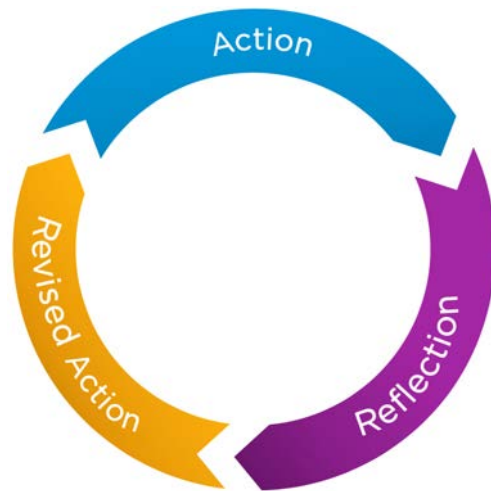


Figure 28 – The Learning Process

The quicker and more cost-effective a business undertakes the learning process, the more efficiently uncertainty and risk can be reduced. As can be seen from **Figure 29**, idea selection needs to involve a process of progressive learning and filtering, coupled with measured and controlled resource commitment.

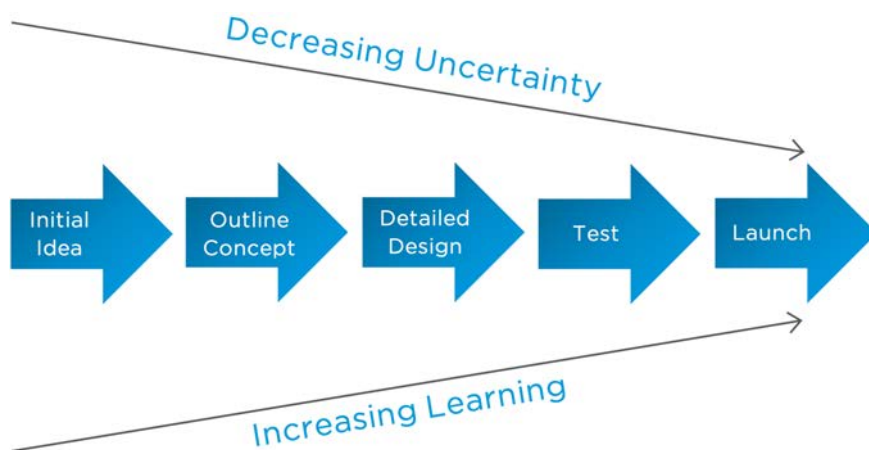


Figure 29 – Managing Uncertainty and Project Development Through Learning

As learning progresses, projects that satisfy the requirements for continued investment can be allocated additional resources (such as funding, time, etc.). Those that don't can be filtered out (or filed for later use, perhaps in a different context).

Ultimately, managing innovation involves a fine balance between:

- The cost of continuing to invest in a project that may ultimately be unsuccessful and a diversion of resources away from other, more promising opportunities
- The danger of closing down a project too early and potentially eliminating high-value opportunities.

Accordingly, it's best to move away from making these decisions on an ad hoc basis and, where practical, establish a structured approach with clear decision points and agreed rules about when to proceed and when to desist.

Innovation Implementation

Out of a desire to maximise efficiency, most businesses are structured in a manner that's primarily focused on daily operational needs. They are typically not structured with sufficient consideration of the business' innovation search, selection and implementation needs. This is critical to success, as implementation is where the rubber meets the road!

As we have already covered, the effective implementation of innovation requires a strong commitment from the business owner(s) and leader(s), a clear and stable vision, and an ability to manage both routine and non-routine projects. This section of the chapter provides guidance on:

1. The tactics that can be used to implement an innovation strategy across the 'today', 'tomorrow' and 'the next day' timeframes
2. How to manage the change needed to implement innovation

3. How to manage the barriers that can get in the way of implementing innovation.

Tactics for Today, Tomorrow and the Next Day

Tactics for Today

The greater the pace of industry change, or the more aggressively the business wants to outperform average industry performance, the more flexible it must be. This requires balancing the trade-off between having sufficient control over the business' activities to promote efficiency and effectiveness, and the need for flexibility to innovate and exploit changing knowledge and needs.

It's essential to strike a balance between control and flexibility without falling into chaos (losing effectiveness and efficiency) or stifling innovation (putting the business' future at risk). One process for accomplishing this involves:^{xxii}

- Developing simple rules within which innovation activity must take place
- Focusing on identifying and eliminating bottlenecks within the business
- Using real-time business information to measure performance and identify opportunities for innovation.

The implementation of the business and innovation strategies – and a range of other business objectives – can be accomplished through the use of simple rules.

Simple Rules

Simple rules are just that – basic rules that guide decision-making and activity. They guide decisions as to what to do, what's most important to do and what to stop doing. They help with making meaningful progress by improving task efficiencies and outcomes.

With a handful of strategically significant but simple rules for owners and staff to follow, the business can provide guidance while allowing ample freedom and

flexibility to innovate. Simple rules enable direction to be defined (without confining it) by:^{xxiii}

- Conferring flexibility to pursue new opportunities while maintaining consistency
- Improving decisions and choices
- Synchronising activities, even in dynamic and fluid situations.

In short, they save time, focus attention and simplify thinking. They can be used to great effect in implementing innovation strategy. It's likely that the business already uses them a great deal. However, much of this is typically undertaken unconsciously. By gaining a deeper understanding of simple rules, making them explicit and consciously managing them, businesses can extract far greater value from them. They are highly valuable in managing the innovation activity for 'today'.

Characteristics of Simple Rules

Simple rules are:^{xxiv}

- Both simple and limited in number (between two and seven for any given activity)
- Unique to each business and its circumstances (there are no 'one size fits all' rules)
- Related to a specific activity (innovation being the focus at present, but they can be used for a wide variety of other activities or processes).

For simple rules to work effectively, they must not be too:^{xxv}

- Broad – they are to encourage flexibility and innovation, but they must provide concrete guidance
- Vague – they must establish meaningful priorities

- Complex – they must be easy to understand and implement
- Stale – they must be removed and replaced if they no longer work.

For example, the rule ‘recognise and reward quality improvement practices’ is too broad and vague to be effective. Avoid motherhood statements that don’t provide guidance for decision-making or appropriate action. Simple rules need to be explicit and concrete. When they are easy to put into practice, simple rules can induce action without unnecessarily limiting options.

Tactics for Tomorrow

Medium-term growth is a challenge for many businesses, with many ‘growth initiatives’ failing to generate sustained profitable growth. However, without medium-term growth, there is no long-term!

If a business is not growing and innovating at least as fast as its competitors, it’s being left behind and placing its future at risk.

The key to achieving above-average performance in the medium term is to first develop a strong core business, then find ways to grow beyond the core business. This is often a sound approach to medium-term innovation efforts. It involves identifying and evolving the core business competencies, then applying them more broadly, allowing the business into adjacent spaces.

There are many ways to grow beyond the core business:

- Entering new geographic regions
- Servicing new customer segments – often by modifying existing products, services or technology
- Creating new products or services
- Using new distribution channels

- Expanding along the value chain (vertical or horizontal integration)
- Transferring an existing strong capability into an adjacent industry.

Achieving efficient and effective growth outside the core business requires core competencies to evolve over time and the development of a repeatable formula for making these growth moves. The evolution of the existing core competencies is a process of 'gene sequencing'. Developing a repeatable process for growing beyond the core is a matter of creating simple rules that enable the replication of the growth process.

Core Competencies

Competencies can be likened to a set of 'genes' that go through an ongoing process of selection (sequencing) in order to adapt and evolve into new competencies over time. For example, a business may be great at operating in one location, but to grow beyond its core business, it may need to expand geographically and develop competencies in:

- Identifying market gaps in other regions (what space to grow in)
- Attracting and retaining new and high-quality talent (resourcing acquisition in a new location)
- Efficiently deploying management and operational practices (applying existing best practice to new locations).

By working on core competencies and focusing on their development into new sequences, a business can develop the capability needed to expand into adjacent spaces and capture middle-term growth.

Gene Sequencing

Gene sequencing refers to the process of identifying a business' core competencies and how they may need to evolve over time to meet its growth aspirations.^{xxvi} This involves considering growth options, brainstorming the potential gene (competency) changes required and identifying the barriers to

change. The key objectives of middle-term innovation and gene sequencing are to:^{xxvii}

- Combine new ideas, processes, products and businesses with old ones. Innovation is, to a large extent, a matter of recombining existing ideas and peppering them with new ones. Rarely does a business need to have an entirely clean slate or create entirely new knowledge to innovate in the middle term
- Explore multiple growth paths to find out which one(s) will suit the business best
- Occasionally exit from old businesses or practices when they have come to the end of their useful life, so that there is the capacity to focus on new growth options.

Identifying the Barriers

Once a business has identified some possible alternatives for growth, the next step is to identify the barriers to change. These are the obstacles it must overcome in order to develop the new competencies (gene sequence).

There are many potential barriers to making the necessary change, ranging from limited capacity or resources, a lack of technical know-how, resistance to change and market conditions. Identifying these barriers will better position the business to develop solutions to them, and to ultimately achieve the required gene sequence and growth outcomes.

Repeatable Formula

Having identified and overcome the barriers, and with competencies evolving as required, there is a need to distil the growth process into a repeatable formula. Businesses must:

- Hone their core business to a high standard
- Find a suitable path for growth

- Explore the key factors for a successful journey down that path
- Distil the results of their exploration into a simple, repeatable formula.

Ideally, the formula will embody the concepts discussed above in relation to crafting simple rules. Uncovering the formula and distilling it into a set of rules is a task specific to each business and its circumstances. Nevertheless, some of the fundamental rules for growing outside the core are:

- Never put the entire core business at risk
- Pursue one opportunity at a time (to maximise learning and progress)
- Change only one variable at a time (establish cause and effect to develop an accurate and reliable formula).

The benefits of developing a repeatable formula include accelerating the learning curve, reducing complexity and speeding up the pace of growth.

Tactics for the Next Day

With rapid advances in technology and intense competition, the only constant is that everything is changing. To prosper in a fast-changing environment, businesses need to take advantage of change and not let it take advantage of them. Businesses need to perpetually probe the future to learn and build foresight – they must not only react, but anticipate and even shape the future.

Foresight is the ability to predict and plan for the future. By developing an ability to anticipate events before they happen, businesses can prepare for different futures to better secure their position. Two common errors that businesses typically encounter are:

- Simply projecting the past forward, rather than actively probing and exploring the future

- Making assumptions about critical aspects of the future and committing significant resources based on those assumptions, without first testing them!

A failure to explore the future and test critical assumptions leaves businesses in the perilous position of being reactionary and over-committed to a course of action that contains flawed assumptions.

From a practical perspective, longer-term innovation activities need to involve surveying the future. This assists in deciding which opportunities to explore and which threats to take seriously (and those to ignore).

Conducting exploratory activities targeted at generating knowledge about the future results in improved insight, reduced uncertainty and superior outcomes. By actively investigating the future, this avoids the common pitfalls of:

- Creating long-term strategic plans that are flawed because of a lack of foresight, or that are based on unfounded assumptions
- Creating long-term strategic plans that are then simply ignored
- Allowing short-term performance to take priority and crowd out long-term thinking.

To maximise long-term success, businesses must explore the future and learn about the options and choices they have to shape it to their advantage.

Probing

Probing involves exploring the future by conducting a range of early and cheap tests that are critical to establishing the success of long-term innovation investments. It's any activity that leads to increased knowledge about the future by determining whether a hypothesis or assumption is true or false. Having a well-developed hypothesis lies at the heart of effective probing.

By testing a hypothesis using an early and cheap process, businesses are able to accelerate their learning and avoid expensive mistakes. Probing can be conducted using a variety of activities (research, experiments and tests) to match the needs,

circumstances and learning preferences of the business and user. In short, they are an effective means of:^{xxviii}

- Amplifying learning
- Fleshing out the understanding of an idea
- Stepping outside the business' 'echo chamber' and exploring the future.

Types of Probes

There are many activities that facilitate learning and the development of knowledge. Some of the common types of probes include:

- Experimentation or testing, including:
 - Trial and error experiments
 - Prototyping (a way of approaching problem-solving rather than building miniaturised versions of a final solution)
 - Product trials
- R&D activities focused on understanding and testing the future, such as:
 - Interviews with customers, experts, lead users, etc.
 - Observation of users, customers and others
 - Focus groups
 - Market research
 - Literature research

- Test websites, landing pages, surveys, etc.
- Building alliances and networks
- Engaging with knowledge brokers.

The most appropriate approach for a business depends on its circumstances; however, if owners, leaders and staff adopt the appropriate mindset, these activities can often be done cheaply. The objective is to explore the future, learn early and keep the cost of failure low. This requires an attitude of experimentation, turning failure into learning to reduce/eliminate risk early.

Managing Change

In today's business environment, change occurs constantly. It's an ongoing dynamic process that must be actively managed to maintain alignment with the business environment and achieve maximum success. ***Businesses must adapt or risk dying young.***

Whether change is driven by external or internal triggers, there is always space for choice. Ultimately, it's the decision-making process that shapes the outcomes achieved from change. In this sense, innovation is a choice about what changes will be proactively initiated. These choices and how they are implemented determines how much value are extract from them.

Managing change is a critical aspect of successful innovation implementation. Businesses must move from the relative safety of the known and familiar and effectively navigate the change process to where new value lies. They must move beyond slow and reluctant compliance. However, a sudden focus on innovation by businesses looking to drive growth can shock those who must engage in the change process. The barriers to change must be proactively tackled.

Scale and Types of Change

As with innovation, change can be small-scale (incremental), large-scale (radical) or anywhere in between. In addition, change can also be reactive and in response to some unforeseen event, or proactive in the form of a pre-emptive strike to capture an opportunity or minimise a threat.

As illustrated by *Figure 30*, change can be:

Incremental and reactive – e.g. where a business needs to adjust its product offering (price, service levels and so forth) in response to competitive pressures.

Incremental and proactive – e.g. where a business purposefully sets out to improve the current way it undertakes tasks.

Radical and reactive – e.g. where there has been a significant event that necessitates large-scale change to ensure the business' survival.

Radical and proactive – e.g. where a business transforms in an entirely different strategic direction.

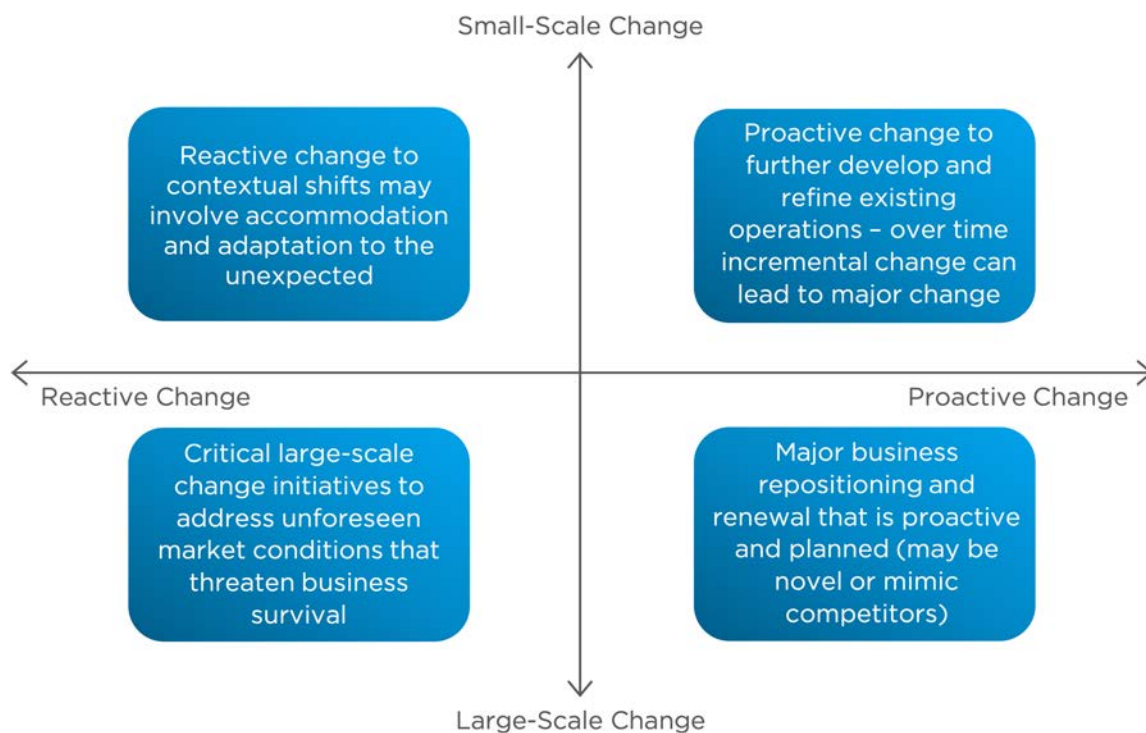


Figure 30 - Scale and Types of Change

Other dimensions of change include the:

- Scope of change (team, departmental, business-wide, etc.)

- Timeframe for change (short versus long timeframe for moving from the existing to the new)
- Impact of change on job structures, relationships, authority, etc.

It's important to consider these factors of change, as they shape how change will be perceived and how it can be best managed to allow for effective innovation implementation.

Key Challenges to Change

As can be seen from **Figure 31**, the two key components required for businesses to adapt or proactively instigate change involve making changes to the business' routines (processes and procedures) and to its people (their beliefs, values, attitudes and ultimately their behaviours). People must change, and businesses must provide them with the ability to change (the training, resources, systems and processes required to adopt the proposed change).

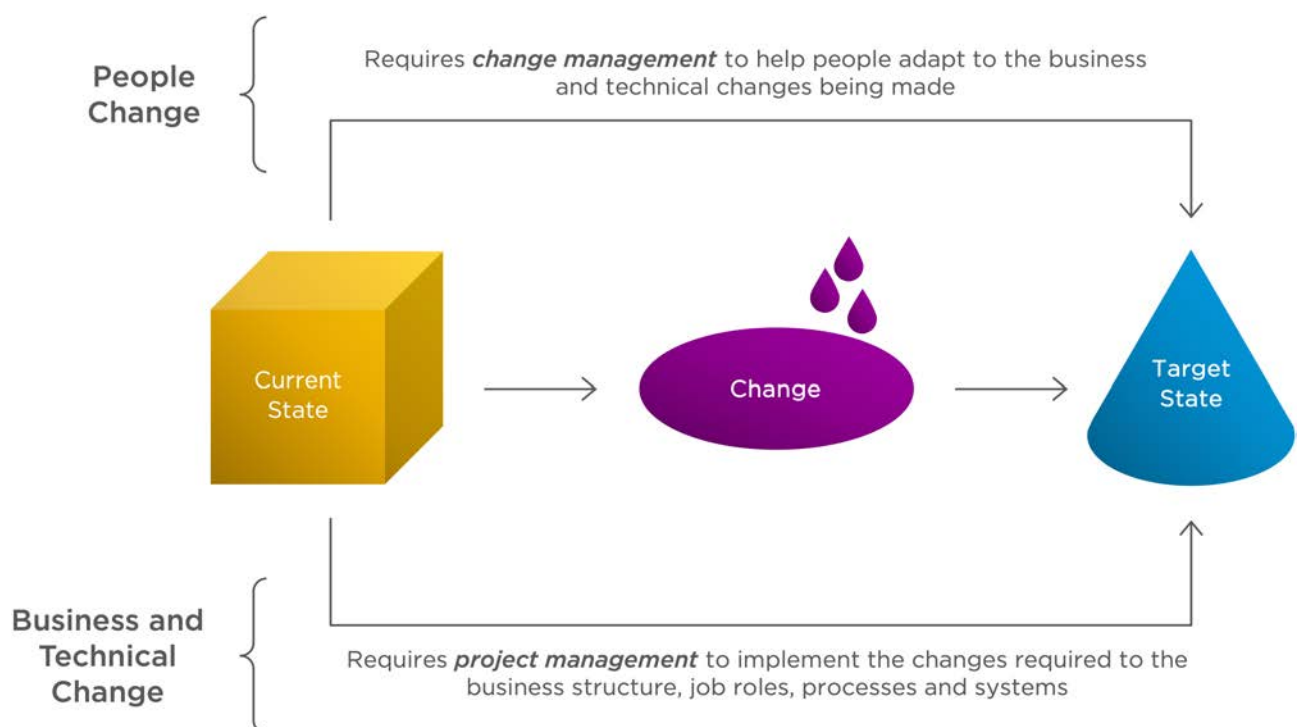


Figure 31 - Key Components of Change

Generally speaking, people don't like change. People who have been doing things a certain way for a long time don't like to be told that they now have to do things differently. Accordingly, managing change can be difficult; it involves preventing and overcoming the negative perceptions of change that lead to resistance. The business must break down the barriers to change while building commitment and facilitating its implementation. The business must avoid:^{xxix}

- Negative **perception**, as this leads to resistance to change
- Poor **communication**, as this leads to negative perception and resistance – people fill in the gaps created by poor communication with harsh attributions
- Poor **planning and execution** of the change program, as this can limit people's ability to adopt the proposed change (even if they want to), resulting in both limited change and negative perception.

Effective change management (innovation implementation) involves both people and project management. The reason for change must have merit and the team's underlying concerns must be understood, their perceptions shaped through communication and change implementation facilitated through appropriate project planning and execution.

Managing the Barriers to Innovation

At a conceptual level, some of the high-level barriers to innovation include fixed mindsets and the approach taken to risk.

As described in **Figure 32**, each individual team member's outlook on life – fixed versus growth mindset – plays a significant role in how they manage uncertainty, approach new experiences, and utilise what they've learned.

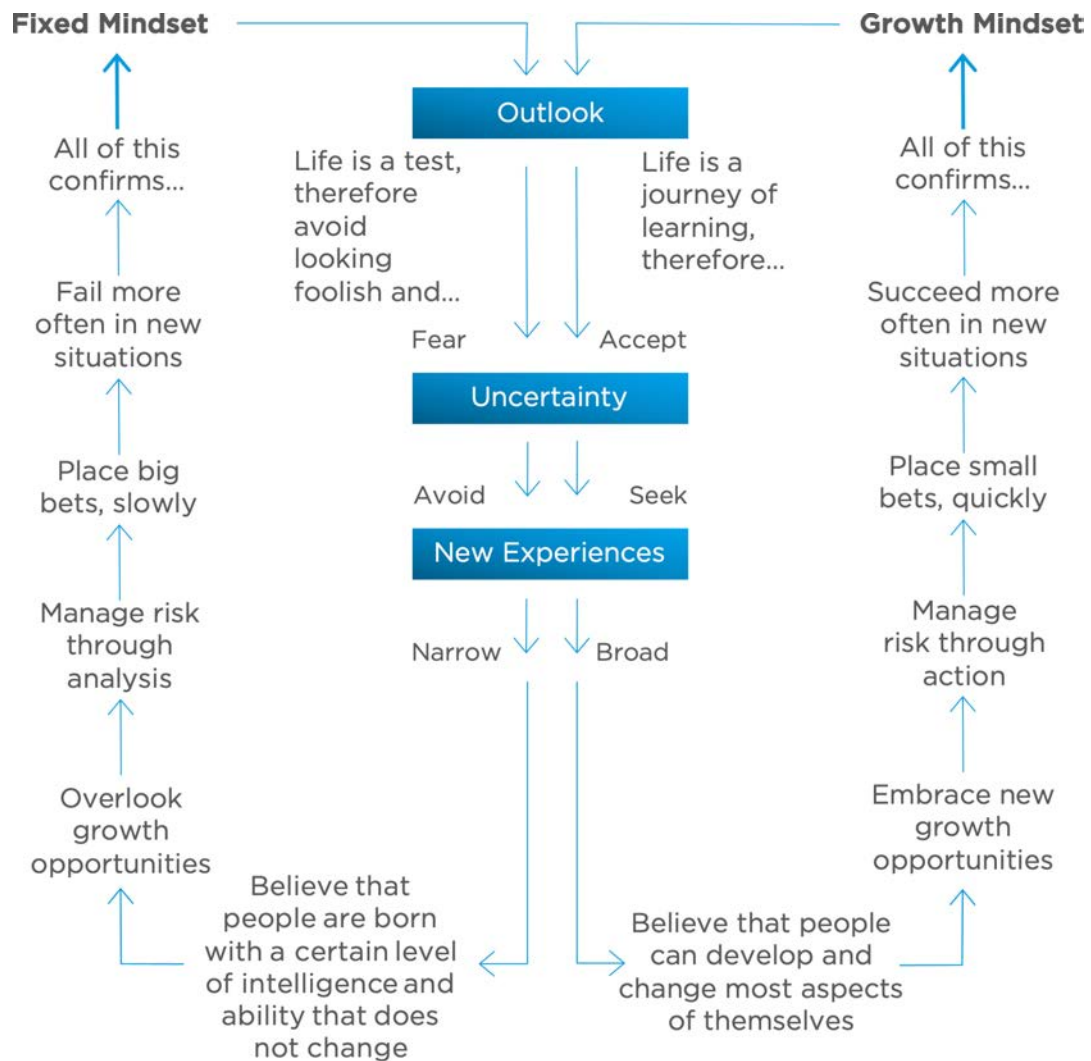


Figure 32 - The Impact of Mindset on Creativity and Innovation^{xxx}

Critically, mindset plays a significant role in innovation in two key respects:

1. How people respond to uncertainty and failure
2. The amount of effort they apply to learning and building knowledge.

Both of these factors play a critical role in a person's level of creativity, their commitment to learning and their intrinsic motivation – their ability to apply the knowledge and effort required to fuel innovation efforts. Managing the issues associated with fixed mindsets and encouraging growth mindsets is a large part of what separates the innovators and entrepreneurs from the rest of the population.

How risk management is approached, particularly in relation to innovation investment, plays a significant role in the outcomes achieved. If a business risks (gambles) its entire operation on one idea rather than taking measured risk, its:

- Response to failure is likely to be negative (i.e. focusing on the failed outcomes, rather than on the quality of the process adopted in the pursuit of that outcome), making it unwilling to take future risks and incapable of engaging in effective innovation
- Staff's unwillingness to take risks (because they are fearful of the response) will stifle their creativity, risk-taking and in turn, innovation.

Instead, a business needs to take measured risks by:

- Not putting all its innovation investment eggs into the one basket
- Increasing its innovation investments progressively as it learns and reduces uncertainty
- Focusing on establishing the appropriate strategy, internal business environment, systems and procedures
- Accepting failed outcomes, but not failing to adhere to the innovation strategy or the required innovation processes, procedures and behaviours.

Other practical tips for managing the barriers to innovation include:

- Treating innovation as a team sport, not as a top-down dictate
- Having a clear innovation strategy to avoid unfocused and ad hoc innovation activity
- Having appropriate resource allocation to provide sufficient tools and resources to support the desired commitment to innovation

- Avoiding poor communication and establishing sound change management practices
- Addressing and removing any counterproductive performance measures and rewards.

Capturing Value

In the context of innovation, 'capturing value' refers to how a business will extract the commercial benefit from its innovation efforts. Capturing maximum value requires sound knowledge management, intellectual property protection, an understanding of the innovation adoption process and the development of demand creation capabilities.

Knowledge Management

Given innovation is the commercialisation of new ideas, knowledge plays a pivotal role in both the development and commercialisation of ideas. This emphasises the need for knowledge management – the cultivation, harvesting and utilisation of knowledge.

Knowledge can be gained through experience, experimentation or acquisition – and as illustrated in **Figure 33**, is built on: ^{xxxi}

Data – discrete pieces of raw observations, numbers, words, records, etc. that have no meaning without additional context.

Information – data that has additional context (it can be organised, grouped, categorised into some pattern) that gives it greater meaning.

Knowledge – deeper and richer information that has been contextualised so that it has greater meaning, leading to improved understanding and greater value.

Wisdom – knowledge that leads to the ability to make better decisions and achieve better outcomes.

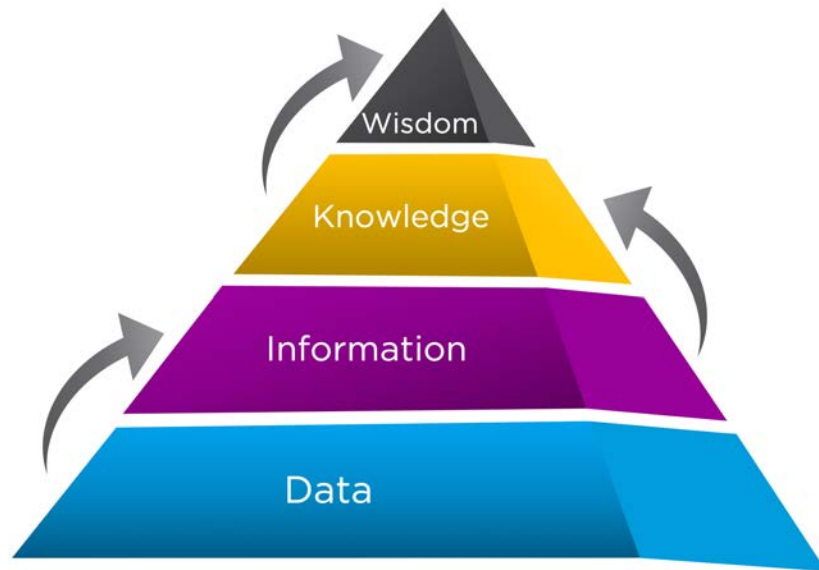


Figure 33 - The Knowledge Pyramid

Knowledge management aims to help build knowledge, and ultimately wisdom, which can be used to enhance business operations and innovation capability.

As illustrated in *Figure 34*, knowledge can be divided into two broad categories:

Explicit knowledge - knowledge that we are aware of and can codify.

Tacit knowledge - knowledge that we possess but are not aware we know, or that's difficult to explain (i.e. codify).

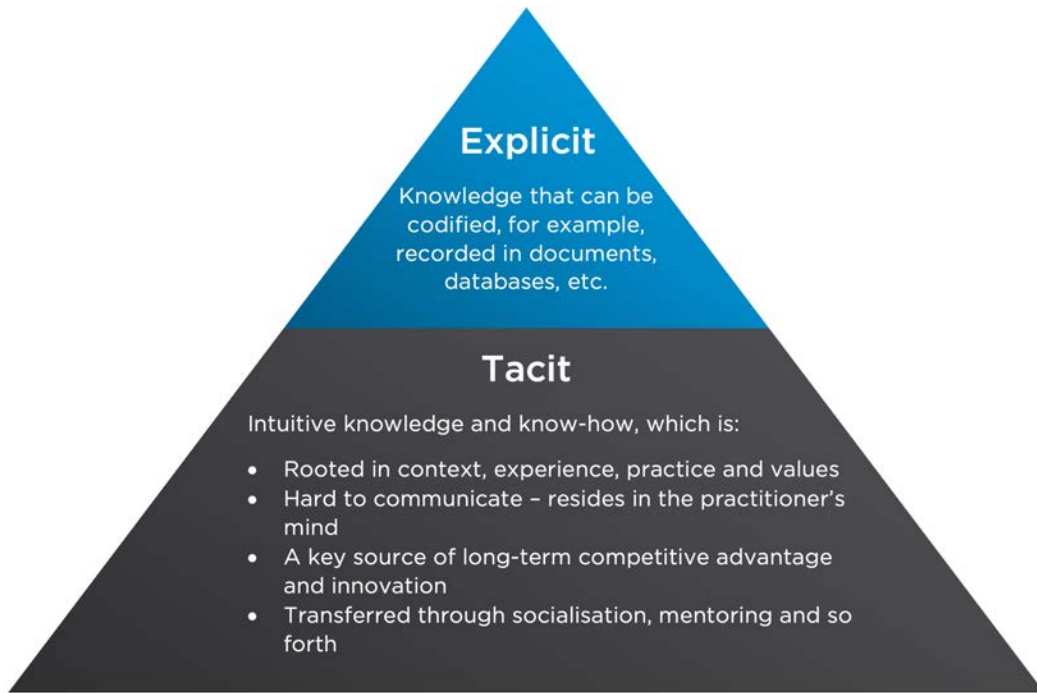


Figure 34 - Explicit Versus Tacit Knowledge

Typically, a great deal of the knowledge in a business is tacit, sitting below the surface (see *Figure 35*) and not easily accessible.

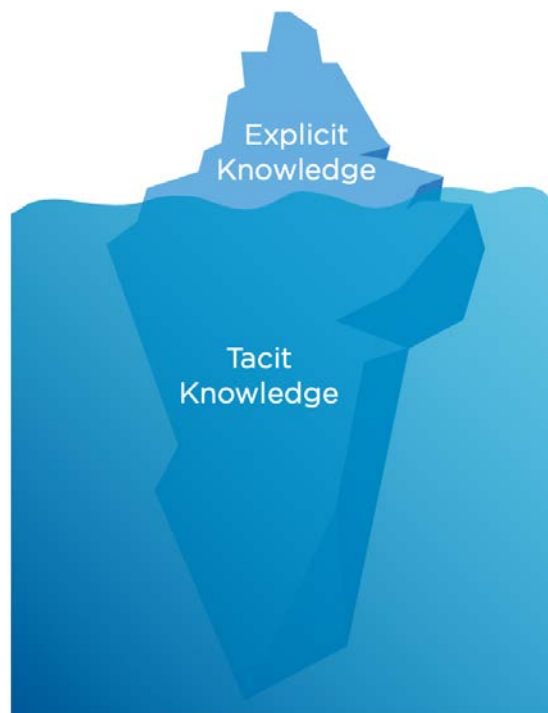


Figure 35 - Accessibility of Knowledge

The more tacit knowledge is codified into explicit knowledge, the easier it can be shared and the greater value derived from it. By codifying knowledge, we refer to converting tacit knowledge into explicit knowledge. For example, knowledge can be codified into:

- Policies and procedures
- Practice statements
- Operational manuals
- Resource guides
- Welcome packs
- Training guides
- Work practices
- Expert reports
- White papers.

If knowledge cannot be accessed and shared, its use and value is greatly limited.

Knowledge Management Process

As illustrated in *Figure 36*, the knowledge management process involves a number of key steps, including:^{xxxii}

1. Identifying and codifying existing knowledge
2. Generating and acquiring new knowledge
3. Storing and retrieving knowledge

4. Sharing and distributing knowledge
5. Exploiting and embedding knowledge into processes, products and services.



Figure 36 – Knowledge Management Process

When a business effectively manages each of these factors, it will enhance its knowledge and innovation capability.

Facilitating Continuous Learning

For maximum benefit, learning must occur at both the individual level and the business level – and in both cases, be continuous. This requires facilitating both individual and collective learning.

One of the most powerful and cost-effective ways to do this is by promoting individual and group reflection. This can be achieved by conducting ‘lessons learnt’ assessments before, during and after all material events, initiatives and programs, and recording the learnings.

Importantly, remember that reflection needs to occur **before** and **during**, rather than just **after** the event, initiative or program has come to an end. As noted earlier, pre-mortems can be just as valuable as post-mortems. Other opportunities for facilitating continuous learning include:

- Promoting team-building exercises (to build trust and the willingness to share ideas)
- Promoting formal and social gatherings where people can share ideas and explore opportunities
- Promoting experts, expert teams, knowledge networks, centres of excellence, etc.
- Investing in internal and external training, personal and professional development, mentoring, and coaching programs.

Intellectual Property

A business' resources consist of both tangible and intangible assets. In today's business environment, differences in intangible assets (knowledge-based assets and intellectual property) typically account for the majority of competitive advantage, superior profits and business value.

Physical assets are no longer the predominant factor in creating competitive advantage and maximising value. Businesses need to focus on creating knowledge, whilst also protecting that knowledge by securing ownership and limiting competitor access.

Too often, businesses focus on protecting physical assets and fail to take adequate steps to protect their most valuable assets – intangible property. While not all intangible assets are easily protected by law, with some effort much can be done to guard these assets and capture the full value from the business' innovation efforts.

There are two basic approaches to protecting intangible assets and innovation investments: by keeping them secret to ensure 'commercial in confidence' protection is established, or (where possible and appropriate) by seeking formal legal protection. At a more granular level, protection can be achieved in a number of ways, including:

- Using the various intellectual property rights granted by the law. Depending on the jurisdiction, these may include patents, trademarks,

copyright, circuit layouts, design rights, plant breeder's rights, domain name registrations, etc.

- Limiting access to proprietary information, where formal intellectual property right protection is limited or otherwise not viable, by:
 - Keeping it secret (for example, not disclosing the information to anyone else or, where necessary, only disclosing discrete parts to unrelated parties, etc.)
 - Using confidentiality, nondisclosure and restrictive covenants in respect to:
 - Employment arrangements (e.g. ensuring intellectual property created by the employee in the course of their duties is retained by the business and kept confidential)
 - Supplier arrangements
 - Customer arrangements
- Adopting good business practices to protect relationships and reputation (protecting the value of the goodwill created).

A business needs to determine the most appropriate method for protecting its knowledge and intellectual property in order to maximise its current and future value. When deciding on intangible asset protection, some considerations include the:

- Adequacy of 'commercial in confidence' protection
- Level of protection achieved
- Geographical region's intellectual property laws

- Ease with which an innovation may be ‘reverse engineered’ or a patent worked around
- Cost of legal protection
- Cost of the failure to protect the asset
- Cost of enforcing legal rights (if someone breaches the business’ rights)
- Ability to access insurance for any litigation costs incurred.

Innovation Adoption

Regardless of whether innovation efforts are internally or externally focused, businesses must drive its adoption. For an internally focused innovation (e.g. a process innovation), much of what it takes to drive adoption relates to managing change. For an externally focused innovation (e.g. a new product innovation), its successful commercialisation is typically dependent upon the ability to encourage market adoption at a rate sufficient to:

- Achieve the required breakeven point
- Drive market share to the required levels for the desired return on investment.

Accordingly, it’s important to understand the key factors that influence the uptake of innovation and its rate of diffusion. The more novel an innovation, the more important this understanding becomes. The Diffusion of Innovation Model^{xxxiii} describes the process and key factors that influence the rate of adoption of any given innovation.

As illustrated in *Figure 37*, potential adopters of an innovation can be segmented into five categories, in accordance with their degree of innovativeness and how they interact and influence the diffusion of innovations. The adaptor segments include the innovators, early adaptors, early majority, late majority and the laggards. At one extreme are the innovators, who are *internally driven* to seek out

the latest innovations, and at the other are the laggards, who only *reluctantly* adopt an innovation.

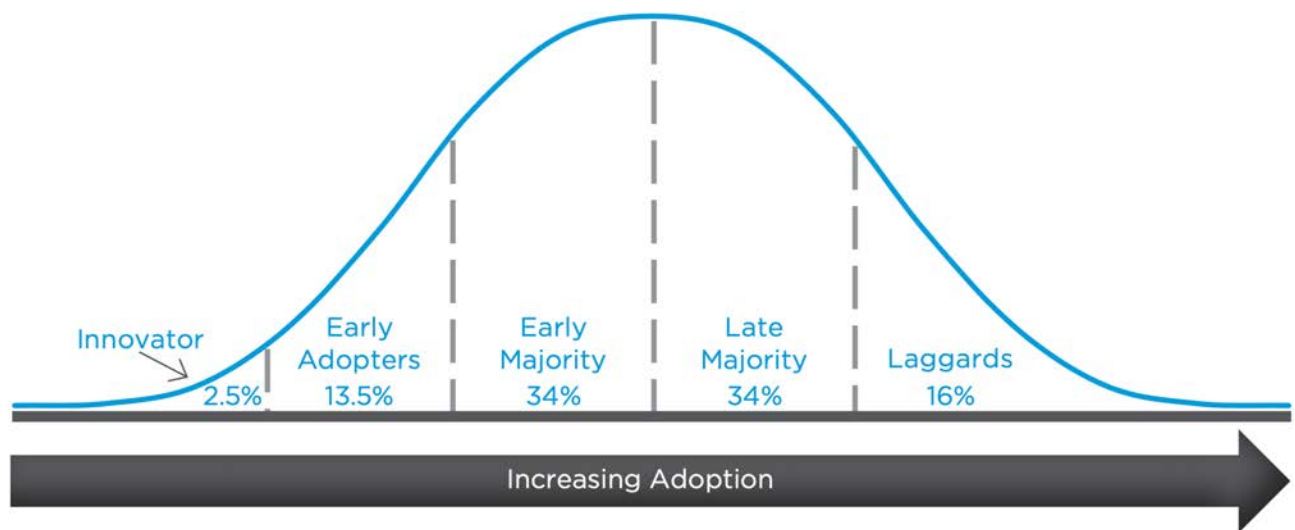


Figure 37 - Segmentation of Innovation Adopters

The diffusion of innovation is a process whereby:

- The details of an innovation are communicated across selected channels to potential adopters of the innovation
- Potential adopters seek to reduce uncertainty about the advantages and disadvantages of the innovation
- Potential adopters then decide whether to adopt the innovation or not.

The purpose of the model is to assist in understanding how to speed up the rate of adoption of innovation and maximise the value captured. In deciding whether or not to adopt any particular innovation, potential adopters go through a five-stage process of:

1. Gaining awareness and knowledge of the innovation
2. Forming a favourable or unfavourable attitude towards the innovation

3. Actively evaluating and making an initial decision about whether or not to adopt the innovation
4. Trialling the innovation
5. Confirming ongoing use or rejection of the innovation.

By understanding the adoption process, segmenting adopters (market) and targeting the business' marketing message to the preferences of the targeted adopter segment, demand for the business' products or services can be accelerated. This is accomplished by:

1. Considering where an innovation (product, service, etc.) is situated in its lifecycle to understand what segment of the market is best targeted to drive demand, and evaluating:
 - a. The likely market conditions that will be faced
 - b. Who to target, their characteristics and how best to appeal to them
 - c. The nature of the message that needs to be communicated to encourage a higher rate of adoption
 - d. The most suitable channel(s) to deliver the marketing message and encourage a higher rate of adoption
2. Comparing actual market adoption to the model, to know when the marketing strategy and marketing mix need to shift focus to the next adopter (market) segment.

By understanding these factors, and as illustrated by *Figure 38*, businesses can select the most appropriate marketing channel, target the marketing message to the characteristics of the specific adopter segment (innovators, early adopters, the early majority, etc.) and accelerate the rate of adoption for their innovations.

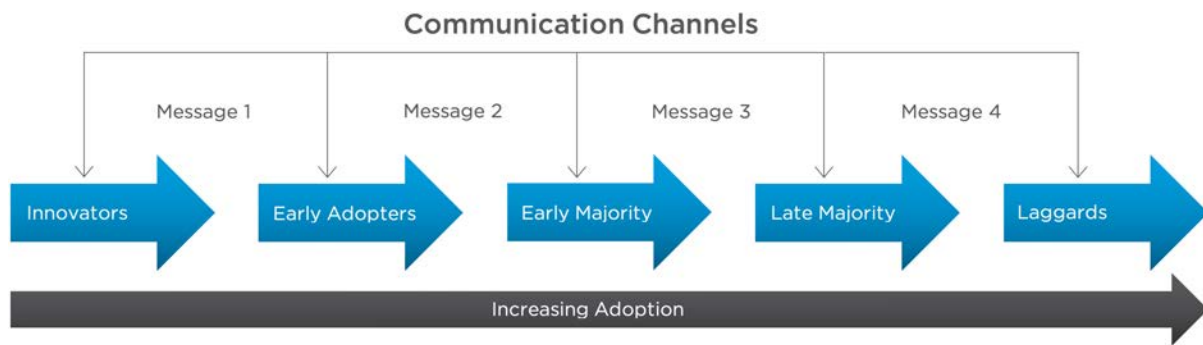


Figure 38 - Diffusion of Innovation^{xxxiv}

As with all predictive models, the Diffusion of Innovation Model has a number of limitations that may affect the actual adopter decision-making process and rate of adoption. In particular, the:

- Simplified adopter categorisation may not faithfully reflect the decisions that the individuals within the market might apply to a particular innovation
- Model describes the process of the diffusion of innovation, but is not predictive of the rate of adoption
- Nature of the particular innovation can significantly impact the rate of adoption.

Ultimately, building all the management systems, routines and capabilities lies at the heart of being able to repeat the innovation process time and time again. As illustrated in **Figure 39**, all the key elements of the business systems must integrate with one another and match the demands of the operating environment. They must also reinforce the business strategy, maintain strategic alignment and facilitate ongoing innovation. These choices are fundamental to shaping behaviour and innovation capability.

People operate within a system and structure that results in a unique culture and way of accomplishing tasks. This plays a significant role in how ideas are generated and how the value of those ideas is extracted.

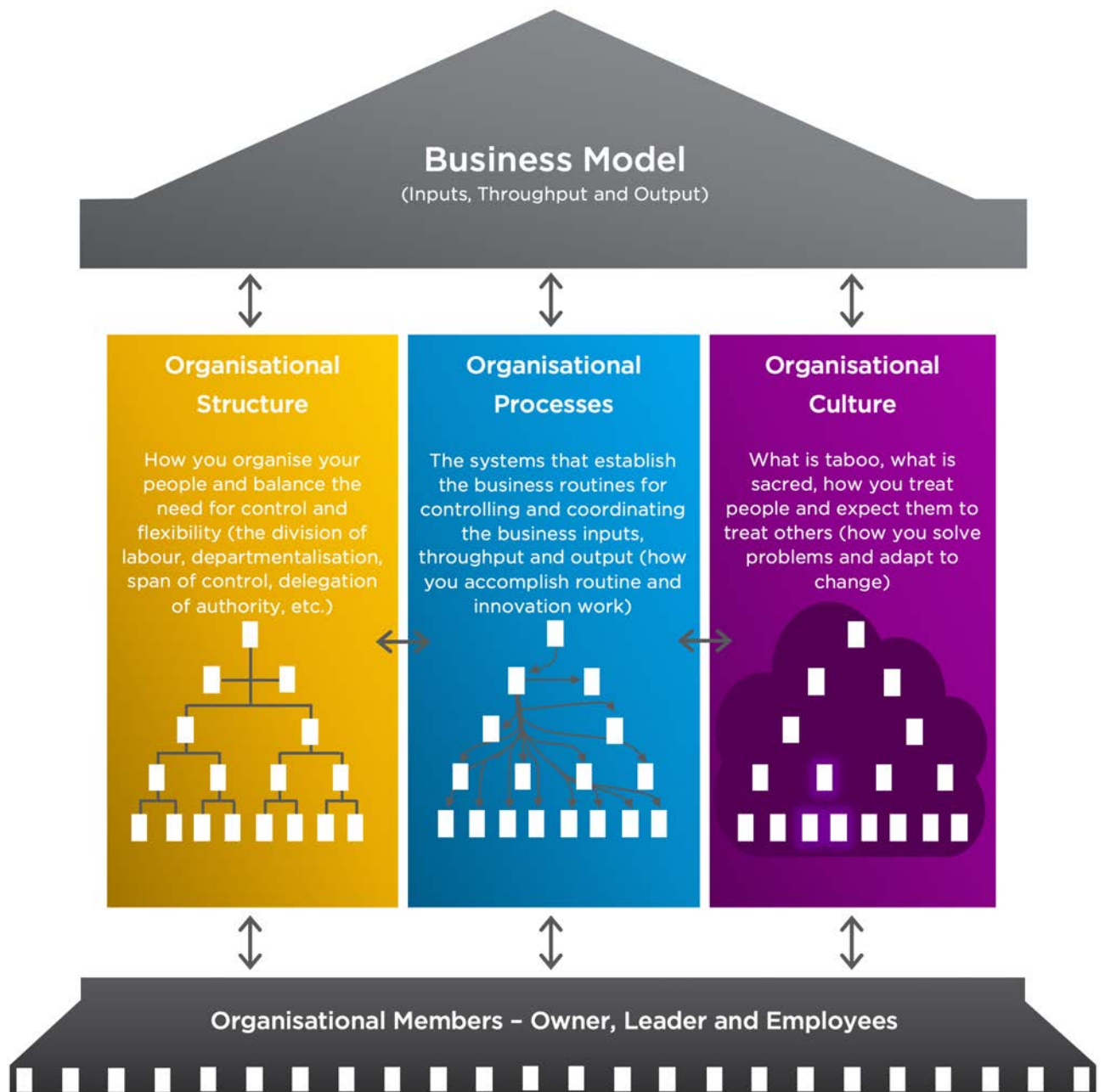


Figure 39 - Business Model and Detailed Business Systems^{xxxv}

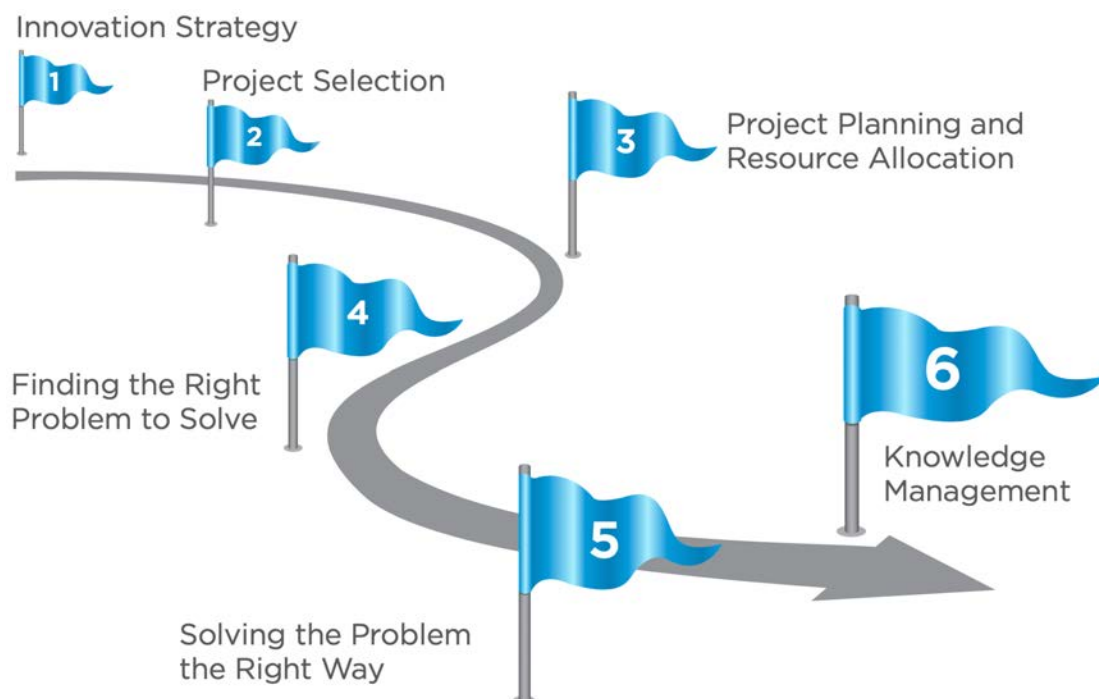
GETTING STARTED WITH INNOVATION

Once the prerequisites to effective innovation have been completed, getting started is typically best accomplished by assembling a small cross-functional team to identify and implement an initial innovation project. This project will ideally allow some traction, while minimising the size of the initial investment and the

risks involved. Obtaining external professional help is often the most cost-effective and timely approach to developing innovation capabilities.

As illustrated by **Figure 40**, depending on the current progress of the innovation journey, this involves:

1. Starting with a clear and well-developed innovation strategy
2. Selecting a project that has the potential to provide meaningful benefits without being all-consuming
3. Planning the project and allocating the resources necessary to accomplish it
4. Ensuring the right problem is being addressed
5. Solving problems the right way by exploring, testing, validating and refining potential solutions before seeking to implement them
6. Managing knowledge, and improving innovation processes and capabilities as projects proceed.



Ultimately, successful innovation requires the accumulation of *knowledge* and *management capabilities*. These are best developed over time with some professional assistance and through training, practice and hands-on learning. The key steps to starting innovating are set out as follows.

Step 1 – Innovation Strategy

Assuming the business and innovation strategies have been developed, the business owner(s) should have a clear idea of where to look for the first innovation opportunity. Innovation efforts need to be focused where they can deliver on goals and objectives – otherwise, time and money is wasted, putting the development of the business' innovation capability at risk.

While innovation is essential to long-term success, if it's not established on a solid foundation, it can do more harm than good. To be efficient and effective, a clear and compelling innovation strategy will drive activity where it counts.

Step 2 – Project Selection

Start small – but start soon. That way, the mindset and skills of innovation can be developed before putting serious dollars and time at risk.

The projects to start with are the 'low-hanging fruit' – opportunities or problems that are within easy reach, provide a good return on investment and are likely to enjoy widespread support. Typically, these types of innovation projects will focus on either process or product innovation, involve only modest levels of change and be more short-term.

It's likely that an initial innovation project will be easy to identify. If not, professional assistance can be sought. Either way, the business should start with a suitable project so that it can begin to develop innovation competencies.

Step 3 – Planning and Resource Allocation

Once a project is chosen, the next step is to plan the project and allocate the necessary resources to complete it. A great place to start is to put together a project plan that sets out the:

1. Objective of the project (a clearly framed innovation challenge)
2. Expected outcome of the project
3. Vision of success and how it will be measured
4. Key project deliverables and milestones
5. Management and reporting requirements (i.e. management structure, individual accountabilities, reporting frequency and requirements)
6. Key resources required to complete the project, including the project team, consultants, budget, etc.
7. Timeline for the project
8. Key risks, dependencies, constraints and assumptions – and strategies for overcoming these.

For most businesses, a key challenge is providing the project team with sufficient capacity. Simply adding projects to the existing workload is unlikely to be effective.

Developing innovation as a core competency will require carefully managing the constraints faced by those engaged in the innovation process. A lack of commitment to providing basic resource requirements is likely to be interpreted as being disingenuous, and will fail to attract the support needed to motivate change. There are no half measures to effective innovation.

Steps 4 and 5 – Finding and Solving the Problem

A key aspect of innovation involves:

1. Exploring the problem the innovation opportunity aims to address, in order to build understanding and ensure the right problem is being solved
2. Ensuring the right approach is taken to explore the range of potential solutions and arriving at superior solutions
3. Capturing the commercial value of the preferred solution by taking it to market, establishing adoption and driving demand.

Again, the first innovation project shouldn't set the bar too high; its success shouldn't be dependent on the highly skilled execution of these practices or the associated innovation frameworks and tools. Instead, it should provide an opportunity to practice using the various innovation frameworks and tools, and developing the necessary competencies.

The goal should be to expose the team to the overarching framework, practices and tools provided – and in particular, to the concepts of reserving judgement and finding the right problem to solve, then going about solving it in the right way.

Step 6 – Knowledge Management

As a final step, after the first innovation project has been implemented, it's time to reflect on and analyse what worked well and what could have been improved to enhance the business' knowledge and management capabilities. By capturing and sharing this knowledge, specific technical and innovation management knowledge can be identified for use in later projects, thereby developing the business' innovation capability.

During each innovation project, a simple process is to engage in reflection; for example, conducting a 'lessons learnt' exercise by:

1. Identifying what worked well and opportunities for improvement
2. Analysing and documenting the lessons to be learnt
3. Storing and sharing the lessons learnt, ensuring they are incorporated into the next project.

This doesn't require a significant investment, yet it can be a very valuable process.

'We do not learn from experience. We learn from reflection on experience.' – **John Dewey**

By embracing learning through action and reflection, learning is accelerated and innovation capabilities are improved.^{xxxvi} When coupled with appropriate creativity and management practices, this hones innovation capability over time, fuels innovation, and drives long-term competitive advantage and success.

By being prudent about how to commence the innovation journey, practising the core elements of innovation, and engaging in increasingly more complex and valuable innovation projects, knowledge and skill can be honed into a competency. This is an important step in creating innovation as a continuous and effective business process.

CONCLUSION

Business survival and success are directly related to the ability to engage in *constant* and *effective innovation*. Nevertheless, innovation is a **choice**.

Innovation is not the exclusive domain of large corporations. While they may have abundant resources, they don't have all the advantage. Being smaller can come with huge advantages, including greater:

- Speed at which decisions can be made
- Flexibility and agility in changing or adapting to circumstances
- Ease with which a shared vision and purpose can be built – that has a greater personal connection and ability to unite, inspire and focus business activity where it matters most
- Ability to keep everyone informed with what's going on
- Closeness of customer relationships.

Once the choice is made, innovation is *within reach*. Choosing to innovate, achieving superior business profits and maximising success means:

1. Helping those with fixed mindsets overcome their limiting beliefs and encouraging everyone in the business to adopt a growth mindset – *providing 'mindset' training*
2. Knowing why the business exists – being clear about its deeper purpose and *why change is needed*
3. Establishing a challenging and crystal-clear vision of the future – something capable of *inspiring significant and sustained effort*
4. Communicating purpose, vision and strategy at every opportunity – *sharing it with those who support the attainment of these goals*

5. Developing and implementing sound business and innovation strategies capable of achieving the vision of the future – ***establishing and sustaining a competitive advantage***

6. Securing the right talent and leading staff in a manner that promotes learning, creativity, collaboration and the willingness to share perspectives and ideas for the business' advancement – ***maximising learning, creativity and collaboration to fuel innovation efforts***

7. Implementing the processes and procedures that establish and manage ongoing innovation – ***the ability to continually innovate through a deliberate process of searching for, selecting, implementing and capturing new value***

8. Communicating the business' progress, including its successes and failures alongside the underlying reasons for these outcomes, and encouraging everyone in the business to change and adopt new ways of doing business – ***measuring performance, learning progressively, celebrating wins and implementing change.***

When handled correctly, innovation does not threaten a business' ability to function – rather, it enhances its performance and prospects, and is the only way to sustain success in the long term. Remember:

- While it has been long recognised that innovation is the only activity that sustains competitive advantage, the pace of innovation is accelerating – ***we are in a technology arms race***

- Innovation is a resource allocation choice – ***a choice must be made to survive and thrive***

- The foundations for effective innovation must be laid at the beginning – ***sound business strategies and management practices are essential to continuous and effective innovation***

- The training, practices, tools and support needed to accelerate the development of innovation management competencies should be secured

quickly – *start sooner rather than later and building capabilities on the go*

- Innovation is the engine room of the economy and social wellbeing, and *the pathway to long-term success.*

ENDNOTES

ⁱ For example, UNESCO Institute for Statistics, Eurostat and the Australian Bureau of Statistics.

ⁱⁱ Adapted from Tidd, J & Bessant, J (2013). *Managing Innovation*, 5th Edition. John Wiley & Sons.

ⁱⁱⁱ *ibid.*

^{iv} *ibid.*

^v HEC Paris. 'New Product Development'. Masters of Science in Innovation and Entrepreneurship.

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^{vii} *ibid.*

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^x *ibid.*

^{xi} Amabile, T; Kramer, S (2011). *The Progress Principle: Using Small Wins to Ignite Joy, Engagement and Creativity at Work*. Harvard Business Review Press.

^{xii} Stanford University, 'Leading Innovation' op cit.

^{xiii} Stanford University, 'Leading Collaborative Teams'. Stanford Innovation and Entrepreneurship Certificate.

^{xiv} Adapted from Stanford University, 'Leading Collaborative Teams' op cit.

^{xv} *ibid.*

^{xvi} *ibid.*

^{xvii} *ibid.*

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xx^x Tidd, J; Bessant, J (2013) *op cit.*

xxiⁱ Adapted from Tidd, J; Bessant, J (2013) *op cit.*

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xxvii^{vii} *ibid.*

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xxxii^{xii} *ibid.*

xxxiii^{xiii} Rogers, E (2003). *Diffusion of Innovations*, 5th ed. New York: Free Press.

xxxiv *ibid.*

xxxv De Wit, B & Meyer, R (2014). 'Strategy: An International Perspective' 5th Ed, Cengage Learning EMEA.

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