Innovation and Risk Management

Consortium Study

Additional Insights

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1 Introduction

One of the first outputs from the study was the Insights Report. This report summarised the main findings from a literature review, seeking to uncover what organisations, researchers and writers had published in the area of Innovation and Risk management. It was in this report that, after a review of the information by the full project team, the ‘Achieving extraordinary performance through innovation and risk management framework’ was developed.

This report summarises some additional information that has come to the project team’s attention over the course of the study. The first section summarises the output from the analysis by providing the original framework together with the new insights that have been uncovered against each element of the framework. The second section provides a summary of the literature reviewed and the final section the references. These last two sections are additions to the Body of Knowledge.

2 Additional Insights

This section summarises the output from the review of the new literature. In the tables that follow, the original contents of the elements of the framework have been given, together with any new or supporting insights that were noted during the review.

2.1 Organisation and governance

Original Framework Details	New Supporting References
Clarity of organisational purpose and strategic direction/ objectives at board level;	23, 25, 34
First class leadership, recognising that the leadership style must change dependent on the stage of the innovation process;	12, 16, 23, 24, 25, 28
Agreed and embraced organisational values and principles;	34, 36
An organisational structure aligned to objectives that encourages innovation;	23, 25, 36
Well defined accountabilities for delivery and risk;	
A clear and transparent decision making process;	1, 6
Effective Stakeholder engagement that recognises different needs of customers/partners'	2, 10, 15
Well defined and supportive assurance mechanisms;	
Appropriate and aligned processes and well-defined control framework that: • Are understood and the benefits are appreciated; • Ensure performance measurement is linked to organisational objectives; • Support prioritisation for desired outcomes; • Facilitates innovation; • Align innovation and risks with strategic objectives; • Include risk and innovation maturity assessment supplied with appropriate performance metrics; • Has a senior champion with necessary attributes to secure implementation;	1, 6, 13
Alignment of HR strategy and policies to support achievement covering such areas as competency requirements, pay and reward, recognition, career and succession planning;	6, 18, 26, 32, 36

Balancing personal gain with the overall benefit to the organisation;	
Supporting openness and transparency, building trust in the organisation for people to identify and escalate risks and opportunities;	
Balancing innovation across the work of the organisation in the medium to long-term	
Additional Insights	
Balancing strategic and operational risk taking	1
Use of internal audits and risk committees to support risk taking	1, 16
Engagement in innovation with customers and suppliers (Open innovation)	3, 9, 19, 23
Risk management integrated into the business model	6
Appreciation of reputational risk	7, 11, 15
Understand the risks that an organisation faces	16
Provision of support for new ventures	9, 18
Provision of appropriate resources (budget and people)	11, 30, 31, 34
Understanding the drivers of innovation	9, 30, 33

2.2 Innovation and risk culture

Original Framework Details	New Supporting References
Values communicated across the organisation;	
Leaders who lead by example;	12, 23, 24, 28
Reward system consistent with values;	23
The ability to recognise and manage different cultures within the organisation;	
The wisdom of knowing when to stop innovation;	
The ability to learn from mistakes;	4
A culture that avoids blame;	25
An environment that encourages considered risk identification;	16, 25
Personal accountability linked to organisational objectives;	
Personal ownership of own behaviour;	
Implementation of appropriate HR systems (training, recruitment, objective setting etc);	21, 23, 32, 36
Awareness of token of contribution, paying lip service;	
Ensuring essential processes are followed	16
Additional Insights	
Risk management integrated into culture	13, 21
Contribution of team-working	24, 25, 35
Clearly defining the risk appetite	25

2.3 Innovation and risk processes

Original Framework Details	New Supporting References
An understanding of how innovation informs risk management;	29
Need to identify risks (how, where etc);	1,13, 14, 16
Risk management embedded in core processes;	13
Cost effective controls;	
Effective challenge as part of process;	
A measure of capacity, capability and timing;	
A strategy for countering innovation fatigue;	
A review of the effectiveness of mitigation;	
Documented risks;	
Awareness of how organisations use software to support decision making;	
Integration of performance and risk management;	
Integration of innovation and risk management at different levels;	29
A process for capturing ideas for future use;	25, 27
Awareness of the need to challenge assumptions;	34
Translating ideas, opportunities, innovation;	34

Visibility of risk management process;	
Toolkits for managing risks;	1, 7, 15, 22
Examples of presentational and monitoring material.	
Additional Insights	
Clear communication strategy including stakeholder engagement	2
Use of scenario planning to manage risks	5
A process to manage reputational risk	7
Use of systems thinking	26
Use on Innovation Coaches to support the innovation process	34

2.4 Learning and improvement

Original Framework Details	New Supporting References
Sharing not imposing good practice from internal and external sources;	25, 34
Learning from bad practice;	
Understanding of success factors;	
Networks and risks champions;	25
Learning from near misses;	
Clarity of what risk and innovation mean;	
Training on and off the job;	
Horizon scanning, what goes wrong;	
Understanding of end to end processes and RACI, good and bad practice;	
Understanding of own maturity in applying process;	
Learning built in to projects and processes;	4
Knowledge and learning available cross -functional, - team, - project;	
Awareness of different needs for different processes, generalist, specialist;	
Managing volume and pace of innovation;	
Getting buy-in from all levels of the organisation.	
Additional Insights	
Recognising the need for a developing process	13
Personal development through involvement	25

2.5 Delivery

Original Framework Details	New Supporting References
The ability to sell the benefits of risks;	13, 20
Identification of quick wins - and winning;	
Established performance metrics;	
The ability to determine benefits/ organisational outcomes of innovation and risk management;	
Institutionalised innovation and risk management - making it part of everyone's day to day activities (Enterprise Risk Management);	7, 19, 34
Understanding of the critical success factors for specific organisations;	
Integrated risk management at all levels: strategic, programme and operational level;	1
Risk management as part of decision making;	6
Risk management as part of strategy;	
Processes to consider risk Vs rewards/benefits;	
An approach to prioritising innovation;	
Managing innovation, portfolio, choices, and use of tools.	
Additional Insights	
Customer-pull versus technology-push innovation	8
Creating networks to support innovation	8, 24, 25, 31, 34
Incremental versus radical innovation	12, 17, 24

3 Summaries of additional literature

1. Business success – new thinking on risk management. PricewaterhouseCoopers. Sunday Times. (Sept. 4, 2005).

- Get the right understanding of how operational risk and strategic risk affects your organisation.
- The most significant risk to most businesses, and one that leads to destruction of shareholder value, is strategic.
- Internal auditors must work across a business to ensure risks are identified and dealt with.
- A bold and creative approach to risk management is the key to success in the current business environment.
- Ways to manage risk:
  - Terminate it - prevent the risk from being an issue
  - Transfer it - enter into agreements with 3rd parties
  - Treat it - improve responses to reduce chance of it happening, or limit impact if it does
  - Take it - agree the risk is accepted.
- Every department in a company will benefit from a clear analysis of the risk factors it faces.
- Risk management involves a series of well-defined steps that support better decision-making, contributing to a greater insight into risks and their likely impacts.
- Risk management should not be a bureaucratic process, but a state of mind.

2. Communicating Risk. UK Resilience and GiCS (2003).

- Managing risk is increasingly central to managing risk in the business of Government, and an essential part of this is communication.
- 7 steps to creating a risk communication strategy:
  - Establish a team/network
  - Decide what you want to achieve
  - Get to know who the stakeholders are
  - Decide what form of consultation to use
  - Engage and involve the stakeholders

- Monitoring and evaluation of the strategy
- Maintaining the policy communication strategy

- In order to understand how risks affect the public, think of them in 5 ways:
    - Activities that can be a source of risk
    - Hazards
    - Events that could happen as a result of a risky activity or exposure to a hazard
    - Consequences of an event
    - Values people attach to potential consequences.

- Good communication is important in dealing with risk because it can:
    - Help prevent crises form developing
    - Lead to better decisions
    - Smooth implementation
    - Empower and reassure the public
    - Help build trust in the Government and in the information it provides.
- Communicating about risk has become so important because:
    - The nature of some risks has become far more complex and uncertain
    - Public attitudes towards risk and the Government have changed
    - The Government has made clear its commitment to better policy making
    - A number of recent cases have illustrated the limitations of traditional approaches to handling and communicating risk, e.g., BSE, Foot & Mouth.
- 5 Principles that Department must follow – Openness and transparency; Engagement; Proportionality; Evidence; Responsibility and choice.

3. FT Innovation. (Jun. 8, 2005).

- Open innovation dissolves the distinction between producers and consumers. It challenges companies to change innovation processes and mindsets.
- Open source innovation has forced those in charge of corporate spending to look far and wide.

- The creative process is different in Japan, where the emphasis is on harmony and balance. In 2004, Japan applied for over twice as many patents as the US.
- Every consumer need is already driven by 20 products; that's why innovation must be driven by marketing, not product design.

4. FT Mastering Risk – Part One. (Sept. 9, 2005).

- Financial risk management is not an activity that should be left to the corporate treasurer alone.
- Learning from success makes failure inevitable. Success narrows the focus of management and affects its attitudes.
- Learn to succeed from failure:
    - Focus on small and moderate failures
    - Risk failure deliberately
    - Falsify rather than justify
    - Benchmark 'worst practices'.
- Project risk management tools to keep projects on the rails: risk identification, risk assessment and risk management.
- Managing timeline risks is crucial in ensuring project success:
    - Buffer management
    - Budget risk analysis
    - Portfolio risk management.

5. FT Mastering Risk – Part Two. (Sept. 16, 2005).

- Successful managers in emerging markets rely on:
    - Anticipating contingencies
    - Sharing risk
    - Keeping a reserve
    - Diversifying
    - Picking the right people.

- Unlike traditional risk management tools, which are usually based around tangible and quantifiable issues, scenario thinking encourages executives to step into the unknown and imagine a range of possible futures.
- The changing nature of risk requires approaches that may initially be uncomfortable.
- Skilled scenario thinkers take a holistic view of risk, and so too, should organisations.
- Scenario planners are quick to warn that not using such a rigorous and progressive risk management approach may be the biggest risk of all.
- The goal of effective risk management for IT is not the elimination of security failures, but rather reducing their cost while empowering the business to take appropriate risks.

6. FT Mastering Risk – Part Three. (Sept. 23, 2005).

- When judging company performance, risk is rarely mentioned. But risk assessment is a crucial part of any decision-taking process and overall business success must be considered in light of how well it is managed.
- Areas where risk analysis is relevant to performance in the context of activities and functions include:
    - Identifying vulnerabilities and opportunities in strategy and budgeting
    - Assessing possibilities of cost and time overruns in managing projects
    - Incorporating risk analysis in target-setting and performance measures, e.g., balanced scorecard and key risk indicators.
    - Identifying risk likelihood and impact in continuing operations, e.g., using ‘heat charts’ with colours to show the relationship between the two.
- Company performance comparisons must incorporate a risk element in the measure or commentary.
- Risk management must be integrated into the business, not treated as an optional extra. Risk must be managed, not avoided, accepting that not all are quantifiable.
- Risk must be treated as an essential element in performance pay.
- An important recent development in risk management has been the adoption of economic capital models. These seek to assess the amount of capital needed to support business activities and absorb potential losses related to the different sources of risk that a company faces.
- Today’s competitive advantage lies in the successful integration of economic capital information into decision-making processes at all management levels.

7. FT Mastering Risk – Part Four. (Sept. 30, 2005).

- Reputational risk is a potential loss in reputation that could lead to negative publicity, loss of revenue, costly litigation, a decline in customer base or the exit of key employees. It can be amongst the most damaging a company can face.
- A comprehensive reputational risk assessment is an estimate of the organisation's current standing and its ability to operate successfully.
- Reputational risks fall into 3 categories – natural disasters, man-made fiascos and attacks from antagonists.
- Innovation in services boils down to improving workforce productivity. It promises greater job creation and higher living standards.
- To manage reputational risks, a company should:
    - Prepare for potential problems
    - Develop a crisis management process
    - Plan your responses
    - Analyse constituencies
    - Provide as much certainty as possible.
- Value at risk has brought transparency to market risk and has become widely used to measure, control and manage financial risk.
- The innovation process differs from other forms of project in that it typically entails higher levels of uncertainty. As a result, managers need to pay particular attention to risk.
- The 3 stages of risk assessment for innovation projects are:
    - Portfolio analysis – a suitable balance of low- and high-risk projects
    - Managing technical risk – can use failure modes and effects analysis (FMEA)
    - Scenario risk – assign probability to the several possible outcomes of the project.
- Enterprise risk management (ERM) refers to the management of financial and non-financial risks at the macro level. It provides a bottom-line view of risks, which considers their potential impact on the business as a whole.
- Companies should integrate measures and management of risk by:
    - Taking a stakeholder view of risk appetite
    - Constructing a risk tree of contributing processes that underpin strategic success.
- Develop a risk tree to allow stakeholders to estimate the impact each risk could have on strategic success, so all risks can be measured by the same yardstick.

8. FT Mastering Innovation – Part Two. (Sept. 24, 2004).

- The 7 myths, and realities, of innovation are:

Myth	Reality
Need more new ideas	Need more homes for ideas
Innovation is a department	Innovation is a company-wide competency
Let people loose to innovate	Enable people through structure and process
Innovation is a radical departure from the past	Innovation often creatively combines pieces of the past
Mistakes are costly	Early mistakes are profitable
Avoid the detours	Detours may be the destination
Innovating is about creating new things	There are many paths to innovation

- It is often assumed that innovation requires abundant resources, but as companies from developing countries have shown, creativity and commitment to solving customer problems can be just as powerful a force.
- There are 2 varieties of innovation – technology-push and customer-pull.
- The complexity of the innovation process leads many businesses to establish networks; such partnerships provide vital access to new ideas, perspectives and business practices.
- Typology of innovation networks:
    - New product or process development consortium
    - Sectoral forum
    - New technology development consortium
    - Emerging standards
    - Supply chain learning

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- Cluster
- Topic networks.

- Life cycle of an innovation network:
    - Set-up stage – establish momentum
    - Operating stage – establish a foundation of operating processes
    - Sustaining (or closure) stage – networks need not last forever.

9. FT Mastering Innovation – Part Three. (Oct. 1, 2004).

- External venturing is becoming an increasingly important part of innovation and growth strategies.
- Companies can no longer rely on technology to confer sustainable competitive advantage. Instead, they should focus their innovation efforts on how they interact and build relationships with their customers.
- Companies are innovating to achieve parity, not superiority.
- Intellectual property rights deserve close attention from top management, and even the appointment of an IP director, to manage rights internally and externally.

10. FT Mastering Innovation – Part Four. (Oct. 8, 2004).

- Collaborative relationships are helping companies to avoid the supply chain failures that so often undermine successful innovation.
- There are 3 management lessons on how to collaborate better:
    - Collaboration cannot be an afterthought
    - A company's suppliers might not be its best collaborators
    - There is no single collaboration tool.
- Learning from experiments is an essential part of innovation, and yet this approach is at odds with the traditional approach to business planning.
- The 7 principles of theory-focused planning to improve the odds of learning quickly:
    - Minimise detail
    - Focus on theory, not numbers
    - Predict trends

- Mind your history
- Iterate through plans quickly
- Identify non-financial performance measures
- Hold innovation leaders accountable for learning, not results.

- A company's capacity to innovate is a function of 4 broad and inter-related factors:
  - Culture – the companies rules, values and norms; puts high value on innovation, creativity and experimentation.
  - Resources – time, money, human and physical, devoted to innovation-related activities.
  - Competence – appropriate to be able to exploit its innovative ideas.
  - Networks – essential to the ability to innovate, acting as a vehicle for importing external knowledge.

11. FT Risk Management. (Oct. 18, 2005).

- The amount of staffing resources dedicated to risk management in organisations is on the rise, but the extent to which this is increasing the management of risk is more debatable.
- The number of companies in the UK with risk management/insurance departments has risen from 54% in 2003 to 84% n 2005.
- There are 3 key areas of focus for risk – reputational, regulatory, and IT/digital.

12. Management agenda – strategies for leading innovation. Professional Manager. (July 2005).

- To be successful innovators companies must learn 3 leadership lessons:
  - Leaders make innovation possible in 2 ways – they inspire and create the context or environment
  - Innovation can be incremental or radical; it also goes though distinct stages – exploration, exploitation and commercialisation. Each type and stage requires a different type of leadership
  - The way organisations develop, support and reward leaders must be tailored to the type and stage of innovation the leader is responsible for.
- AXA Insurance Ireland's innovative quadrants - improve (40%), create (10%), eliminate (40%) and re-use (10%).

13. Risk management standard. Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM). (2002).

The standard ensures there is an agreed terminology related to the words used, a process by which risk management can be carried out, organisation structure for risk management and objective for risk management. It also recognises that risk has both an upside and a downside, and that risk management is not just something for corporations or public organisations, but for any activity, whether short- or long-term. The standard is not prescriptive, but does represent best practice against which organisations can measure themselves. Key points from the standard include:

- Risk management should be a continuous and developing process that runs throughout the organisations strategy and the implementation of that strategy. It should methodically address all the risks surrounding the organisation's activities, past, present and in particular, future.
- Risk management must be integrated into the culture of the organisation with an effective policy and a programme led by the most senior management.
- Externally driven risks include interest rates, foreign exchange, credit, competition, customer changes, industry changes, customer demand, regulations, culture, board composition, contracts, natural events, suppliers and the environment.
- Internally driven risks include recruitment, supply chain, public access, employees, properties, products & services, accounting controls, information systems, R&D, intellectual capital, liquidity & cash flow.
- The risk management process comprises: Strategic objectives, Risk assessment (analysis - identification, description, estimation), Risk evaluation, Risk reporting, Decision, Risk treatment, Residual risk reporting, Monitoring.
- Risk management protects and adds value to the organisation and its stakeholders through supporting the organisation's objectives, by:
    - Providing a framework that enables activity to take place in a consistent and controlled manner
    - Improving decision-making, planning and prioritisation
    - Contributing to more efficient use/allocation of capital and resources
    - Reducing volatility in the non-essential areas of the business
    - Protecting and enhancing assets
    - Developing and supporting people, and the knowledge base
    - Optimising operational efficiency

14. Successfully facing the challenges of corporate business process audit. ICICI Bank. (2005).

- Risk-based audit plan at ICIC Bank (India):
    - Assess the risks – operational, financial, legal, reputation, regulatory, IT
    - Evaluate controls – every process given a controls score of 1-6 for the 6 types of risk

  - Compute residual risk – residual risk score indicates that portion of risk not covered by existing controls
  - Compute exposure – exposure of the audit unit as % of the Assets or Income of the category
  - Deliverable – risk map, plots Exposure (low, medium, high) against Residual Risk (low, medium, high) and colour codes boxes (red, amber, green).

15. Archer, R., van Zon. M. and McAtominey, S. (2005). The EFQM framework for risk management – driving excellence in risk management. EFQM and DNV Consulting.

- The EFQM Framework for risk management is about meeting stakeholders' expectations through seizing business opportunities, improving tangible and intangible assets (including reputation) and reducing financial loss.
- The EFQM Framework for risk management is a practical tool for driving excellence in risk management, and can be used in a number of ways:
  - As a tool for self-assessment
  - As a way to benchmark against other organisations
  - As a guide to identify areas for improvement
  - As a basis for common vocabulary and a way of thinking
  - As a framework around which the risk management capability can be developed.

16. Buehler, K. and Pritsch, G. (2003). Running with risk. The McKinsey Quarterly, 2003, Number 4.

- A 2002 survey by McKinsey showed that 36% of participating directors did not fully understand the major risks their businesses faced, 24% said their Board processes for overseeing risk management were ineffective, and 19% said their Board had no processes.
- To ensure effective board oversight of risk management:
  - It must decide whether it is vested with an existing committee, a new committee or divided among a number.
  - Reports to the Board must go beyond raw data, e.g., set out where the key risk-return trade-offs might be; data alone won't reveal the real issues.
  - Training programmes might be needed for current and new board members; also decide if they need new members with risk-management expertise.
- Boards need to review the effectiveness of their risk-management processes periodically; look at committee structures and how well members understand risk policies. Reviews should be annual.
- Define risk broadly to include any event that might push a company's financial performance below expectations.
- Essential elements to manage risk:

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- Achieve transparency – companies need to know exactly what risks they face.
- Decide on a strategy - high concentrations of risk aren't necessarily bad, it depends on the company's appetite for it.
- Create a high-performing risk-management group – to identify, measure and assess risk.
- Encourage a risk culture – need formal company-wide process to review risk. (16)

- CEO of a Fortune 500 corporation explained the company's declining performance as the "lack of a culture of risk taking, so that the company was unable to create innovative and successful products."
- Risk comes in 4 main varieties – market risk, credit risk, operational risk and business-volume risk. Companies need to achieve a transparent, integrated view, and to do this, they can use a heat map, with colour coding.
- A 2002 survey by McKinsey showed that 24% of participating directors said their board processes for overseeing risk management were ineffective, and 19% said their Board had no processes.

17. Christensen, C. and Raynor, M.E. (2003). The innovator's solution – creating and sustaining successful growth. Soundview Executive Book Summaries.

- 3 Critical elements of disruption:
    - A rate of improvement that customers can fully use or absorb
    - A rate of improvement that goes beyond what customers can fully use or absorb
    - A distinction between sustaining (for demanding, high-end customers with better performance than previously available) and disruptive (introduces products and services that are not as good as existing products, but are simpler, more convenient and cheaper) innovation.
- Disruption as part of the process has 4 critical components:
    - Start before you need to
    - Put a senior manager in charge
    - Create an expert team of movers and shapers
    - Train the troops.

18. Day, J., Mang, P., Richter, A. and Roberts, J. (2004). The innovative organisation – why new ventures need more than a room of their own. The McKinsey Quarterly, 8 Nov, 2004.

- Managers who have no strong financial incentives won't take risks or make the extra effort needed to develop and promote emerging businesses.

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- New ventures do need their own space to develop. Without their own resources, performance metrics, and a distinctive organisation design, they fail to develop the necessary entrepreneurial spirit.

19. Gates, S. and Hexter, E. (2004). From Risk Management to Risk Strategy. The Conference Board, Inc.

Enterprise Risk Management (ERM) has gained wide acceptance as a method for analysing and confronting risk and is characterised as:

A process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

- The addition of ERM to strategy is likely to result in:
    - Greater enterprise-level risk information
    - A more commonly held risk terminology and set of standards
    - Improved risk integration across all functions and business units
    - Quantifying risks to the greatest extent possible
    - Reduced risk of non-compliance
    - Better tracking of the costs of compliance
    - Increased employee understanding of accountability.
- To understand the robustness of a company's risk management strategy, use a risk analytical framework - Risk governance, Risk management, Risk analysis and quantification, Risk infrastructure and intelligence.
- In a survey 91% respondents are either positively disposed towards accepting enterprise risk management (ERM) or are actively preparing, developing or implementing the practice.
- Companies expect moderate increases in external and internal risks over the next 5 years.
- 89% of companies surveyed are still in the initial stages of applying ERM.
- Firms with fully integrated ERM are experiencing a number of additional benefits.
- ERM is gaining wider currency with business managers as a comprehensive approach for evaluating activities and assessing the multitude of risks – strategic, operational, financial, hazard and legal – associated with conducting business.

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20. Godin, S. (2005). Free prize inside – the next big marketing idea. Soundview Executive Book Summaries.

- The Godin curve plots revenue against media spend and technology spend, and identifies the likely profit and also the free-prize zone, where a different kind of innovation lives.
- 2 Ideologies that every product struggling not to be a commodity stands on:
  - Build something no-one else can build, so you can charge enough to make a profit
  - Advertise it like mad, to build a brand, so you can charge enough to make a profit.
- When marketing is built into a product, creating products that are innovative is cheaper than advertising average products.
- The fulcrum of innovation - a leverage point that magnifies your efforts and ideas and turns them into reality. Building that fulcrum is a challenge and results from the answers to 3 questions:
  - Is it going to be successful?
  - Is it worth doing?
  - Is this person able to champion the project?
- Idea-selling tactics:
  - Ask questions
  - Ask obligating questions
  - Think like an artist
  - Sell to individuals, not the organisation
  - Dare them to improve your idea
  - Acknowledge the status quo
  - Build a prototype
  - Invent a vocabulary
  - Paint a portrait of the future.

21. Grulke, W. Innovation Management – What's new pussycat? People Management. (27 Oct. 2005).

- Managing individuals with a bent for radical innovation is the equivalent of herding cats, and to herd cats:
  - Learn to thrive on chaos and uncertainty; it's the new way of the world

- Get ready to have the cats question every aspect of your business
    - Replace the hierarchy of management with a philosophy of networked leadership
    - Create an open corporate environment in which entrepreneurs can thrive
    - Spin out radical new ventures to create a 'white space' culture
    - Learn from those who win and those who step into quicksand
    - Remember that, in a fragmented and interconnected world, its relationships, rather than people, that are your biggest assets.

22. Jacobs, P. (2003). Why most management tools don't work. Harvard Management Update. Harvard Business School Publishing.

- Most management tools have little effect on business results - firms can become blinded by the silver-bullet appeal of a new practice. There is no meaningful link between most practices and long-term performance.
- High-performing companies do very well in 4 primary management practices, and well in at least 2 of 4 secondary management practices, referred to as the 4+2 formula.
- See reference 23 for details of the book reviewed in reference 22.

23. Joyce, W., Nohria, N. and Robertson, B. (2004). What really works. Soundview Executive Book Summaries.

- The primary management practices are:
    - Strategy - clear, focused, well-communicated, understood
    - Execution – display flawless operational execution
    - Culture - performance-oriented
    - Structure – possess, build and maintain a flat, flexible organisational structure.
- The secondary management practices are:
    - Talent – find and retain talented employees
    - Leadership - demonstrate strong commitment from leaders and directors
    - Innovation - keep generating innovative products and services, and anticipate disruptive events

- Mergers and partnerships – 2 or 3 small deals each year rather than a large deal occasionally to be successful.

24. Lynn, G.S. and Reilly, R.R. (2003). Blockbusters – the five keys to developing great new products. Soundview Executive Book Summaries.

- 5 Critical practices that teams must follow for creating a winning new product are:
    - Commitment not contribution of senior management
    - Clear and stable vision for a new product
    - Information exchange
    - Improvisation
    - Collaboration under pressure.

25. McLaughlin, P., Bessant, J. and Smart, P. (2004). An organization culture to facilitate radical innovation. Cranfield University School of Management.

- 9 Themes and key constructs of an innovation culture influence 'radicalness' in new product development ventures:
    - Freedom/latitude – opportunity to take autonomous action
    - Attitude to risk – within the team
    - Growth/development – gaining knowledge/experience, exploration of potential solutions
    - External confidence – team's view about how perceived by company/top management
    - Internal confidence – team's belief in itself and confidence to resolve problems
    - External perception – team interfacing with environments outside the company
    - Clear objectives – having a clear and well defined objective for the development project
    - Team constitution - nature, skill-set and composition of team members
    - Company infrastructure – around the development team, resources made available.
- The interrelationship between these themes resulted in a model that incorporates 2 'ideal' archetypal forms of innovation culture - Incremental 'do better' maintain, and Radical 'do different' explore.
- Assess the innovation climate and culture based on 6 dimensions -Challenging work, Freedom, Resources, Work Group support, Supervisory encouragement and Organisational support.
- Interventions to facilitate radical innovation are:

- Better time management, to allow slack
- Develop team members be permitted and supported to undertake personal development projects
- Resource allocation made available to support personal (radical) development projects
- Visits to external sources for ideas – companies, suppliers, customers, universities
- Exposure to Sales Team members and customers to understand potential issues
- Management to work with the Development Team to facilitate actions and demonstrate trust in the team.

- Other interventions to facilitate radical innovation (from literature):
    - Resource provision to support experimentation
    - Idea gathering and sharing process
    - Experimentation and learning
    - Team membership to promote “do-different” behaviour
    - Product champion for radical innovation projects
    - Segregation of radical innovation activities from the routine.
- Interventions from case studies (BMW, Harley-Davidson, Hewlett-Packard, Mattel and 3M):
    - Idea gathering process used to amass new ideas
    - Knowledge exchange process to share ideas
    - Use of external sources for ideas
    - Allocation of resources made to approved projects
    - Idea selection and prioritisation process
    - Commercial focus for innovations
    - Limit to number of projects that are allowed to run
    - Team selection to promote “do-different” capabilities
    - Creation of a sense of urgency or time pressure in the project
    - Innovation leadership from top management
    - Recognition of “radical” as different from incremental.

26. Megson, L. (2004). Deep change: how operational innovation can transform your company. Harvard Business Review. Harvard Business School Publishing.

- Operational innovation isn't widespread because:
    - Operations are under-valued, are out of sight and out of mind, and no-one owns them
    - Unaddressed paradigm conflicts
    - Poor systems thinking
    - Insufficient time for organisational design.
- To promote operational innovation, put greater emphasis on systems thinking and design in managerial education, both in business schools and in companies' management development programmes.
- It will not be easy to change how managers think, but those who continue to avoid getting engaged in operational innovation will have trouble surviving against those who embrace it.

27. Robinson, A.G. and Schroeder, D.M. (2004). Ideas are free – how the idea revolution is liberating people and transforming organisations. Soundview Executive Book Summaries.

- 5 Guerrilla tactics to take to get more and better ideas:
    - Train, train, train
    - Get out of the office
    - Record exceptions
    - Rotate your people
    - Encourage diverse perspectives.
- High-performing ideas system:
    - Ideas are encouraged and welcomed
    - Submitting ideas is simple
    - Evaluation of ideas is quick and effective
    - Feedback is timely, constructive and informative
    - Implementation is rapid and smooth
    - Ideas are reviewed for additional potential

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- People are recognised and success is celebrated
- Ideas system performance is measured, reviewed and improved.

28. Ross, J.A. (2004). Innovation inside. Harvard Management Update. Harvard Business School Publishing.

- New ideas pressure-test corporate strategy, and add to the variety of alternatives available to an organisation.
- Even with the right vision and plan, a culture shift that puts innovation at a company's core for the first time is no easy sell. Simply changing the organisation's mindset around failure can be a huge task. But, with leadership support, the commitment to innovation can insinuate itself into every corner of an organisation.

29. Zyman, S. with Brott, A.A. (2005). Renovate before you innovate – why doing the *new* thing may *not* be the *right* thing. Soundview Executive Book Summaries.

- Most companies that consider innovation make one or more of these major mistakes:
    - They focus on leveraging their core competencies instead of their core essence
    - They pursue creativity at any cost and treat all new ideas as potentially equal
    - They limit their innovation to only new products, forgetting that innovation is about creating new value for customers, consumers and the business
    - They grow horizontally, rather than vertically
    - They try to innovate by acquiring other companies, rather than growing organically.
- A truly effective business renovation involves over-hauling:
    - The way you think
    - Your destination
    - Your competitive frame
    - Your segmentation, or how you think about customers
    - Your customers' brand experience.
- Innovation and risk taking isn't the right way to drive organic growth for most companies. They should renovate with existing assets and competencies, but do better things with them instead.

30. Holzer, M. and Callahan, K. (1998). Government at work. London: Sage.

- The results of a survey of two-thirds of 140 winners of the EXSL, which were awards sponsored by the National Centre for Public Productivity suggested that award winners had a tendency to see themselves as better resourced than similar agencies in other districts or states, but having funds available was much less important than having the support of top agency executives and political officials, and having committed personnel in pursuing the innovation.
- Ranking the motivations for pursuing the innovation for which the award had been received, motivation 'to save money' was quite important, but it ranked behind a desire 'to do the right thing' and the desire 'to respond to citizen demands'. The motivation 'to respond to budget cut-backs' came very low down on the list of motivations.
- Adequate funding can neither be dismissed nor confirmed as a precondition of innovation, but inadequate funding may limit resources available for experimentation and innovation. The weaknesses associated with funding factors may suggest that the management cutback and privatisation proponents are on the wrong path. A public service ethic that is backed by the support of the top executives and politicians, and support in the form of committed personnel, is needed for innovation in the public services.

31. Jaruzelski, B., Dehoff, K. and Bordia, R. (2005). The Booz Allen Hamilton Global Innovation 1000: Money Isn't Everything. New York, NY.

- Major findings from a survey, which tracked the 1,000 of the biggest investors in innovation:
    - Money doesn't buy results – there is no relationship between R&D spending and the primary measures of economic or corporate success.
    - Size matters – scale leads to advantage; large organisations can spend a smaller % of revenue on R&D than can smaller organisations and take no discernible performance hit.
    - You can be too rich or too thin – spending more does not necessarily help, but spending too little will hurt.
    - It's the process, not the pocketbook – superior results, in most cases, seem to be a function of the quality of an organisation's innovation process, rather than the magnitude of its spending.
    - Collaboration is key – the link between spending and performance trends is strongest in those areas under the control of the R&D silo, and weakest in those areas where cross-functional collaboration is most difficult, such as commercialisation.

32. Adapted from Schuler and Jackson (1987) Legge (1995). Legge, K. (1995). Human resources management. London, MacMillan Press Ltd. Schuler, R. and S. E. Jackson (2005). A quarter-century review of human resource management in the U.S.: The growth in importance of the international perspective. Management Revue 16(1): 11-35.

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- Schuler and Jackson's model of employee role behaviour and HRM policies associated with a strategy of innovation:

Strategy	**Employee role behaviour**	**HRM policies**
Innovation	A high degree of creative behaviour Longer term focus A relatively high level of co-operative, interdependent behaviour A moderate degree of concern for quality A moderate concern for quantity An equal degree of concern for process and results A greater degree of risk taking A high tolerance of ambiguity and unpredictability	Jobs that require close interaction and co-ordination among groups of individuals Performance appraisals that are more likely to reflect longer-term and group-based achievements Jobs that allow employees to develop skills that can be used in other positions in the firm Pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components that make up their pay package Broad career paths to reinforce the development of a broad range of skills

33. Hood, C. The new public management in the 1980's: variation on a theme. Accounting, Organisations and Society, Vol. 20, No. 2/3, pp 93 - 109, 1995. Elsevier Science Ltd.

- Changes in public sector accounting in a number of OECD countries over the 1980's were central to the rise of "New Public Management" (NPM), and its associated doctrines of public accountability and organisational best practice.

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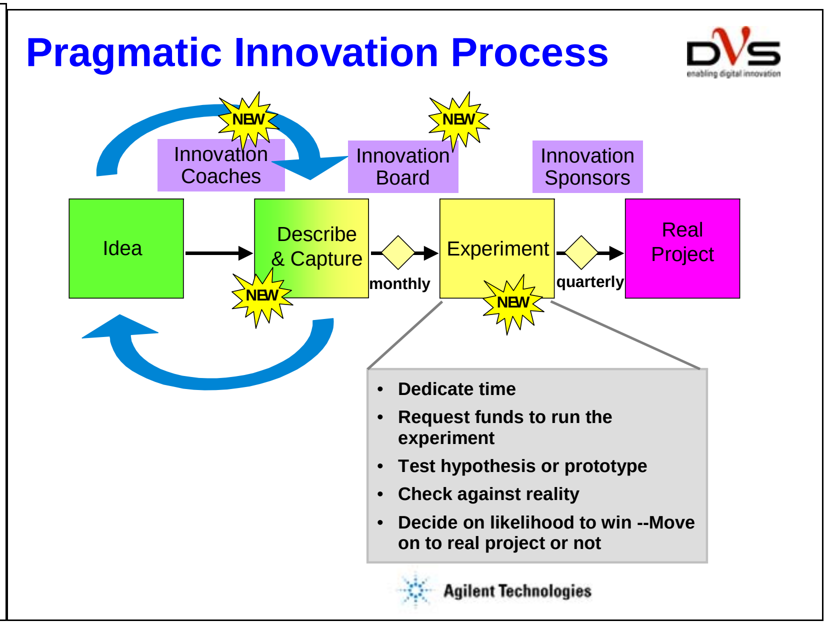
- In spite of allegations of internationalisation and the adoption of a new global paradigm in public management, there was considerable variation in the extent to which different OECD countries adopted NPM over the 1980s.
- Conventional explanations of the rise of NPM ("Englishness", party political incumbency, economic performance record and government size) seem hard to sustain even from a relatively brief inspection of such cross-national data as are available, and an explanation based on initial endowment may give a different perspective on those changes.

34. Edge, T., Schulz, J. and Jauch, T., Innovate the Way we Innovate, SoL 2nd Global Forum, Vienna September 2005.



Innovation coaches

- Acts as an active catalyst, has an 'ear' in the organisation
- Foster innovation culture
- Initiates innovation workshop
- Understands his own segment/ function
- Technical expertise and business sector know-how
- Has own time to allocate to help others
- Connected in networks
- Member of Innovation Board

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Innovation Board

- Formed by all the Innovation Coaches
- Evaluates and selects ideas
- Sponsors experiments
- Reviews status of programmes
- Decides on investments

Agilent Technologies

35. Taatila, T., Innovation Mechanisms in Network Economy, SoL 2nd Global Forum, Vienna September 2005.

Innovation vs. Social networks:

- Innovation is an important phenomenon both for individuals, organizations and nations
- Traditional picture of an individual innovator working alone is wrong – the innovations are created by social networks
- "…the most important individual aspect – and the least studied – in the success story of Silicon Valley is its social network

Some terminology:

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- ”Innovation” refers to a phenomenon where a new idea has been implemented into action
- Economical innovation refers to an innovation that has created economic success to its producer. This success may take place because of increased revenues or decreased costs
- The new idea does not have to be globally new. It may be new only on a specific business branch or geographical area
- Example: a cheap, self-service hotel is not a global innovation, but it is a local innovation in Finland

36. Nostra, C., How Knowledge Management Induces Organisational Learning - and Vice Versa, SoL 2nd Global Forum, Vienna September 2005.

Results of a group exercise:

- Which factors build a bridge between knowledge management and organisational learning?
    - Summary Results: 2 clusters
        - Cluster A: structural factors such as: goals, structure, documentation
        - Cluster B: cultural factors such as: motivation, sharing, support & understanding, awareness, trust
- Which key factors describe a successful corporate culture?
    - Summary Results: 2 clusters
        - Cluster A: internal environment such as: values, sharing, open mind, dialogs, motivation, team work
        - Cluster B: external environment such as: goals, results, clients
- Which social parts/roles do organisations play?
    - Summary Results: 1 cluster
        - Cluster A: internal roles (focus on the employees) such as: enabler, communication centre, offering set of opportunities, influencing status and culture, impose communication patterns, money box.

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36	How Knowledge Management Induces Organisational Learning - and Vice Versa, Causa Nostra, SoL 2nd Global Forum, Vienna September 2005.