INVENTING GROWTH

Move past traditional means of aquiring growth for a company by developing an organization primed for innovation

BY JON KLEINMAN AND ROBERT E. JOHNSTON JR.

For the past decade or so, companies seeking to boost growth have had two primary options: mergers and acquisitions or innovation. Many executives and boards have opted to pursue mergers and acquisitions (M&A), convinced that increasing everything from their geographic reach to their amount of intellectual property will translate seamlessly into brisk and sustained growth. Indeed, last year alone saw over 40,000 M&A deals made worth $3.5 trillion worldwide, an increase of nearly 50 percent from 2013 and the most since the pre–Great Recession days of 2007.

But don't let the sheer popularity of M&A convince you that they're a foolproof blueprint for vigorous and sustainable growth. In fact, a vast body of research has shown that M&A are anything but a slam dunk. For a wide range of reasons — such as an inability to mesh disparate corporate cultures into one that is cohesive and effective — at least 50 percent of all M&As fail to achieve their objectives, which almost always include growth. Given that questionable track record, it's wise to carefully consider the primary non–M&A pathway to growth: innovation.

Though it may sound improbable, we argue that innovation approached properly — which is to say thoughtfully and

boldly — has a success rate bordering on 100 percent. Problem is, pursuing growth through innovation the right way is neither simple nor especially intuitive. By definition, establishing a culture with the capacity for the sort of innovation that continuously drives growth requires fundamentally reshaping how things are done and how people think in an organization. Though it will challenge the status-quo culture, which is often centered on maintaining and perpetuating a company's current products and processes, an innovation-oriented culture can yield dramatic results. This kind of company mind-set values new, original ideas and possibilities.

Growth through innovation is a journey that will vary from company to company and industry to industry. Yet it's important for leaders to understand some of the similarities, questions, and requirements involved with any successful quest for innovation-fueled growth. Here are a few:

DON'T DEFINE INNOVATION TOO NARROWLY

It's understandable why so many people both in and out of the business world immediately think of Apple when they hear the word innovation. The technology company's ability to consistently develop breakthrough products like the iPad and iPhone has allowed it to both capture the public's imagination and achieve enviably consistent growth. But while product innovation is undeniably one important aspect of innovation, it is hardly the only one. We define innovation as anything new or novel that creates or adds value. There are myriad examples of companies that have achieved truly breakthrough growth by innovating a variety of aspects of their business, including their business models, supply chains, or even their routes to market. Language matters in business, and having too limited a definition of innovation can unwittingly erect a formidable barrier to it.

A MANDATE FROM LEADERS

No matter whether it's product- or business-model innovation, the one essential ingredient for success is leadership. C-suite executives, in particular, need to establish a strong enough mandate for innovation, so that everyone — from the CEO to middle managers and factory workers — understands the basic concept: The company's future success depends on innovation. Obviously, this requires senior management to be aligned and consistently vocal about the central role innovation plays in the entire enterprise's fortunes. Innovation must be one of the stated top three priorities of the company. A couple of memos and a town-hall meeting isn't enough; this has to be an ongoing company-wide conversation that constantly reiterates the commitment to innovation.

Nevertheless, it's important to remember that words alone aren't enough. Leaders also need to be sure that their actions align with their message. Which means that the goal of innovation — the creation of new value — must be supported by the incentives, rewards and internal structures of a company. For example, we have worked with a large real estate investment trust (REIT) company that owns over 150 hotel properties all around the world. Not only has everyone from the chairman of the board to the CEO and executive vice president regularly trumpeted the importance of innovation at all of the company's properties, they have also created metrics, incentives, and training programs that actually recognize and incentivize everyday actions.

ENLIST EVERYONE IN THE EFFORT

Any effective executive team knows this: Good ideas come from everywhere. After all, it's logical that salespeople closest to your customers will have a good sense of their evolving needs and the opportunities that could arise by meeting them. Simply put, growth through innovation requires help and input from everyone. Fortunately, fostering a culture where people are encouraged and expected to contribute ideas that drive growth also significantly elevates employees' engagement and commitment. This is important. Although vital, incentives, training, and other programs designed to drive innovation are not sufficient by themselves. Decades of research — much of which is summarized in Daniel H. Pink's best-selling book *Drive* — demonstrates that what truly motivates people to perform is not money or fear but the very human desire to create and ultimately master new things, control and direct their own lives, and make a positive difference in the world.

The most successful efforts to hardwire innovation into a company both understand that idea and grasp the notion that employees are most likely to support and perpetuate a culture that they helped create. We have seen that dynamic in our work with a packaged-goods company. After committing to putting innovation at the core of the company, senior leaders decided to form 20 innovation teams to explore business growth ideas and challenges that had been identified by executives. Participation was open to everyone at the company, and it was all volunteer work, meaning that employees had all of their regular duties in addition to the time commitment involved with the innovation teams. Not only did a lot of employees opt to work on the innovation teams, many volunteered to work with more than one team. At the end of one year, the company CEO gathered the 20 teams together to thank them for all of their work. During the gathering, though, one of the team leaders took the microphone from the CEO and thanked him for providing the opportunity for employees to express their creativity.

KNOW WHERE YOU'RE GOING, AND LET INNOVATION HELP YOU GET THERE

Successful growth through innovation requires the input of everyone at a company, but it is incumbent on leaders to establish where all of this effort should be headed. This is less obvious than it may seem. Companies have a tendency to imagine their future based on their past. Instead, what is more conducive to growth is to chart a future course based on developing or recognizing unrealized opportunities and letting innovation lead you to that envisioned future. A classic lesson about the perils of looking backward rather than having foresight comes from history. Railroad executives at the turn of the last century undoubtedly believed they had bright prospects. And it's easy to see why: Trains had established a virtual monopoly on long-distance travel.

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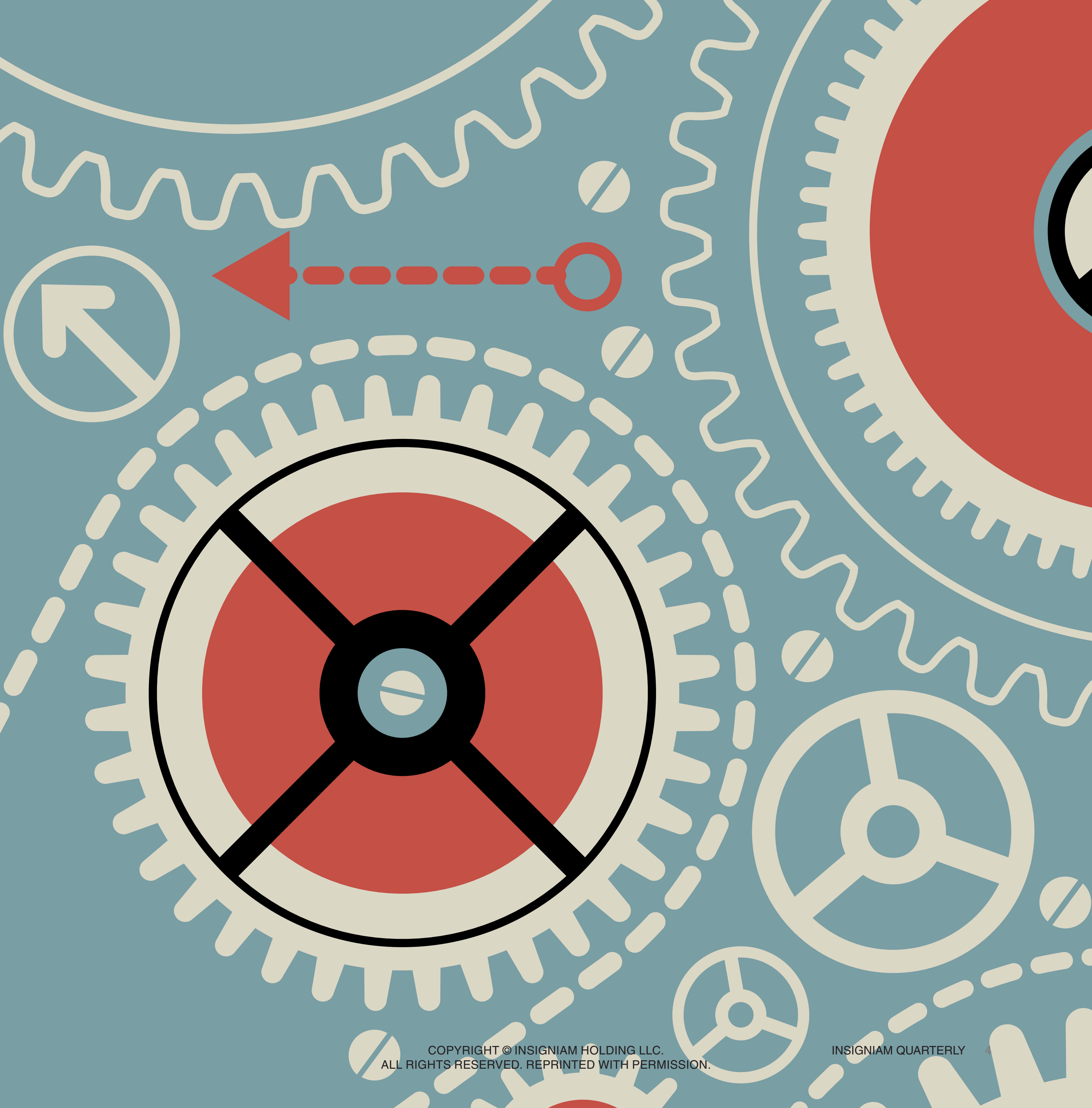

But brain science now tells us that our current perceptions are shaped by past experiences. Unfortunately, the result of that is often a severe case of corporate myopia that makes it difficult to envision a different and better future. Instead of thinking of themselves as being in the transportation business, the railroad executives of yore doggedly hung on to the notion of being exclusively in the train business, even as other faster and more convenient modes of transportation emerged. That lack of foresight spelled the end of the big train companies. Being clear on the future you want to build opens the door to the kind of innovations required to get there — preferably at the speed of a jet plane, not Amtrak.

We've witnessed the power of foresight in our work with the medical products division of a large conglomerate. One key component of our collaboration with the company's executives was outlining what its preferred future would be and then devising an innovation-led roadmap to make it a reality. In other words, we collectively charted where the company wanted to be in 10 years and then worked backward to create milestones that needed to be achieved to get there, including the development of new products. The result: One year into its plan, the company was approached by a global medical products giant interested in an acquisition. We later learned that the amount the acquirer paid was twice the original offer, because the vision and strategy for the future that the company laid out was so compelling.

INNOVATION DEFINED: ANYTHING NEW OR NOVEL THAT CREATES OR ADDS VALUE.

MEASUREMENT MATTERS

It's often said that we measure what we value. If innovation is the tool to spur growth, then companies need to commit to measuring its effectiveness, especially in relation to achieving their envisioned futures. Part of what distinguishes innovation from creativity is the fact that the value created by innovation is measurable. In the case of the REIT client we worked with, executives established clear black-and-white metrics about revenue increases at each property, based on its size and the new

ideas being implemented. While metrics are important, it's also paramount that they not be too limiting. This is especially so when it comes to evaluating new ideas. We once worked with a company that was looking to generate more breakthrough ideas to fuel its growth. While this company had a legacy of innovation and leadership that consistently espoused its importance, we discovered that they were too quick to discard ideas. Early in development, potentially game-changing, breakthrough ideas often won't appear that way, and it's important to keep that in mind when evaluating them.

SCHOOL DAZE

Business schools are good at a lot of things, but teaching managers and executives about innovation is not one of them. As a rule, business school students learn how to manage a company's existing products and business lines with a goal of getting the most out of them. While that is a mandate that C-suite executives have, they also are charged with creating a company's future. All too often, these responsibilities are in direct conflict. Leaders must recognize how the corporate immune system and corporate gravity work against implementing even the most promising new ideas. Corporate gravity — the real and perceived barriers to doing anything counter to the current business model — must be countered with decision-making structures that ensure ideas are approved and funded quickly or put into an actively managed system for consideration again later. The corporate immune system that manifests itself in the bureaucracy, turf, and hierarchy that kill off most ideas must be replaced by structures that turn ideas into realities so that everyone feels emboldened to take risks and propose innovations.

What happens when innovation becomes the engine for growth? We've seen impressive results time and again. For instance, a packaged-goods company asked us to work with its executives and board four years ago to assist its effort to instill a company-wide spirit of innovation. Fast-forward, and this year, the company will launch 100 new products; meanwhile its factory leadership has identified improvements in its manufacturing process worth millions of dollars.

This is the norm when companies make innovation the centerpiece of their plan for growth. But remember, a haphazard approach to innovation won't yield the many benefits and sustainable growth that are possible. Put simply, smart innovation requires a company-wide commitment, diligent planning and measurement, and the imagination to glimpse a better future. If that's not a commitment executives are willing to make, then the 50-50 crapshoot of M&As just might be the better choice.

BY THE NUMBERS

LAST YEAR ALONE SAW

40,000

M&A DEALS MADE, WHICH WERE WORTH

$3.5 TRILLION

WORLDWIDE, AN INCREASE OF NEARLY

50%

FROM 2013, AND THE MOST SINCE THE GREAT RECESSION OF 2008

BUT AT LEAST

HALF

OF ALL M&AS FAIL TO ACHIEVE THEIR OBJECTIVES