Developing Agile Innovation Capabilities

A Roundtable Overview

Americas Chapter Discussion
Developing Agile Innovation Capabilities

Thought Leadership Roundtable on Digital Strategies
An executive roundtable series of the Center for Digital Strategies at the Tuck School of Business

Innovation is the lifeblood of corporate growth, providing the new products, services, and business models that keep a company competitive, increase market share, and challenge talented people. Traditionally one of the greatest challenges that companies face is how to capitalize on innovative ideas while running their core operations ever more efficiently; today the question often is, how can companies innovate intelligently, in a fast-paced environment?

Members of the European and Americas Chapters of the Roundtable on Digital Strategies convened at Chevron’s headquarters in Houston for a day-long discussion of sourcing, nurturing, and managing innovation, including current practices, their challenges, and ideas for how to improve.

Participants in the session included CIOs and innovation leaders from Eaton Corporation, Chevron, Coca-Cola Enterprises, Eastman Chemical Company, Tenaris, and Tetra Pak, along with innovation experts from consultancy Alvarez & Marsal, the Bauer College of Business at the University of Houston, and the Center for Digital Strategies of the Tuck School of Business at Dartmouth College.

Key Insights Discussed in This Article:

• **“Innovation” has no consistent definition – and possibly shouldn’t.** One company’s “continuous improvement” is another’s “breakthrough” innovation: Contexts and cultures vary so widely that no single template for tools, processes, rewards or other factors applies........ Pages 3–4, 8–9, 10

• **Successful management of innovation requires failure.** Corporate structures are (mostly) unintentionally designed to limit risk and discourage de-stabilizing change – exactly what innovation is supposed to promote. Companies can learn from the venture capital portfolio approach, which anticipates a high failure rate.............................................. Pages 2, 5, 8–9, 13

• **IT aspires to accelerate innovation, but is too often perceived as a blocker.** Long-cycle waterfall projects have their (diminishing) place, but innovation requires rapid and agile engagement from IT.................................................................................. Pages 9–11, 13, 15

• **Talent is the hardest part.** Not everyone can innovate, and spotting those who can, motivating them, and organizing them into high-performing teams, remains an art rather than a science – especially with the growing influence of Millennials in the workforce................................................................. Pages 7, 9, 11, 13, 15

• **Focus is critical.** Executive support for innovation is a prerequisite, but even the best leaders have to balance competing priorities. Protecting new ideas long enough for them to flourish is one of the key challenges................................................................. Pages 3, 6, 8, 14

• **We are improving.** From globalization to agile methodologies to social technologies, tools and approaches to improve innovation are starting to take root........ Pages 4, 6, 8, 11–12, 14
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Introduction: Reality Check

Few topics in business have generated more ink than innovation and how to succeed at it. Certain companies (3M, Apple), industries (the auto industry in the ‘50s, software and life science more recently) and even regions (Silicon Valley) seem to sustain successful and long-term cultures of innovation. Profiles of these examples, and management theories based on them, dominate business school case studies, business sections of online and retail bookstores, regional development boards (Silicon Alley, Silicon Bayou, Silicon Slopes, Skolkovo, Shenzen, et al.), corporate executive planning sessions, and management consultancies — and yet most of the time, attempts to emulate successful models fall well short, at great cost, with unflattering comparisons to characters in Dilbert.

A Harvard Business Review article from December 2014 summarizes the discouraging state of affairs:

Practically every company innovates. But few do so in an orderly, reliable way. In far too many organizations, the big breakthroughs happen despite the company. Successful innovations typically follow invisible development paths and require acts of individual heroism or a heavy dose of serendipity. Successive efforts to jump-start innovation through, say, hack-a-thons, cash prizes for incentive concepts, and on-again, off-again task forces frequently prove fruitless. Great ideas remain captive in the heads of employees, innovation initiatives take way too long, and the ideas that are developed are not necessarily the best efforts or the best fit with strategic priorities.

Most executives will freely admit that their innovation engine doesn’t hum the way they would like it to. But turning sundry innovation efforts into a function that operates consistently and at scale feels like a monumental task.¹

Among the reasons innovation is especially challenging for public corporations is the constant pressure to meet quarterly financial targets by doing better at what the company already does, which is hard enough in itself. Yet the landscape is littered with companies who failed to adapt to changing conditions — “to innovate” — and in spite of being expert at producing buggy whips, found themselves acquired, out of business, or for the lucky few, sustained by federal bailouts.

Hidden behind the media’s gushing over the latest category-killer from Apple or the latest addition to Fortune’s ‘Venture Unicorns’ list is the roster of those that didn’t succeed: “75 percent of start-ups never return a dime to their investors, and 50 percent fail to see their 4th birthday.”² It is estimated that as many as 90 percent of new corporate initiatives fail. What gets missed in these seemingly discouraging statistics is, this is the way it’s supposed to work. Apple’s innovation titan Steve Jobs said “Deciding what not to do is as important as deciding what to do” — and sometimes one needs to make a little progress before knowing which decision to make. As the pace and complexity of business continues to accelerate, at an accelerating rate, the challenge for companies and their IT groups is to create systems and cultures that source, nurture, and deliver innovations that matter. Since these will be different for each company, Alva Taylor, Faculty Director of the Center for Digital Strategies and moderator of the day’s Roundtable, started by asking the group what “innovation” actually means to each of them.

² Ibid.
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By Any Other Name

“The answer varies depending on how you break up the definition,” answered Michael Rhymes, Vice President of IT for Eaton Corporation’s Electrical Sector Americas.

We do “breakthrough” innovation, but it comes from the business units themselves, as opposed to some “Innovation Officer” thinking about it. For example, in our lighting business, we saw the LED change coming, we pushed into it, and we’ve gotten pretty explosive returns.

And we have a ton of interest in how people take traditional tools and approaches and say ‘Maybe we can do things in a little bit of a different way,” whether that be through process, partnering, or products, to come up with new business models that are more effective than what we have today.

Tom Black, Eaton’s Vice President of IT for Enterprise Information Management, added details to his colleague’s overview: “We have seven million saleable parts, and they’re all in a continuous state of incremental innovation. 98 percent of our focus is on making little steps very fast, and we do that quite well.”

Mark Meyer, Tetra Pak’s Head of Global Information Management, distinguished between different business functions:

If you use the word “innovation,” you’re drawn immediately to product and service. Whereas in IT, everything we do is about how we can deliver what we’ve been asked for better, faster, cheaper, and more effectively. We’re re-inventing how we do things all the time. For me, that’s “innovation,” even though I don’t touch the product. There are other places in Tetra Pak that are being pressed to be very innovative, but I don’t know that they use the term: They think of it as “continuous improvement.”

Bill Braun, CIO of Chevron Upstream Oil and Gas, echoed Meyer’s comments:

We don’t really use the word “innovation” much in the company, even though we do a lot of it. We’ve compartmentalized it in different ways: There are short-term Lean Sigma opportunities, which can be implemented in 90 days or less, and each business unit has a Lean Sigma advisor who is accountable for that continuous process improvement.

If it’s something that’s more disruptive to the work process, that changes how people work and has a longer time horizon for a bigger payout, we would tend to call that “upstream workflow transformation.”

“That’s very similar to Tetra Pak,” Meyer agreed. “If it’s under this amount of money, and within this box, then ‘Go!’ You drive it, and we measure how far you’re getting, but it’s not transformation. And as soon as you affect other people, or go over a certain amount of investment, then it’s a transformational activity.”
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“I wonder if there may be a tendency for this broad definition of ‘innovation’ — when we’re really talking about process improvements — to water down what innovation can truly mean for a company,” asked Twila Day of consultancy Alvarez & Marsal, and former CIO of Sysco.

You have to match the culture of your company with what you can accomplish, but at Sysco we thought of “innovation” as those really big and different ways of looking at customers, at the services we were offering, adjacencies in the business. That was “innovation,” not the day-in-day-out process improvements, because while we were changing, we really weren’t innovating.

“What do you mean by ‘changing but not innovating?’” Taylor asked.

“I can improve how Finance processes payables,” Day explained.

And there’s an improvement to their productivity, but that’s not really being innovative, that’s just improving daily processes. “Innovation” comes into play if we decide to outsource that capability: A completely new way of doing the function. Or, we go after a different customer set, and figure out what we need to do to support that effort. “Innovation” is how you accomplish those strategic goals.

“One company’s continuous improvement is going to be another’s breakthrough. I think that’s just the nature of it,” Braun proposed.

Esat Sezer, now the CIO of Coca-Cola Enterprises, related how his previous employer had tackled the problem:

Whirlpool was an engineering company, and innovation was really about operational excellence and continuous improvement. As commercialization timeframes shrank from 24 months to 6 months, we came to the realization that we had to have innovation as a core competency, not just in operations, but also in product features and functions, in the customer front-end, in overall processes.

“But what did ‘innovation’ mean for us?” Sezer continued. “We came up with a pretty good definition:”

Whatever it is that drives shareholder value, whatever you do that the customer cherishes, and whatever you do that provides sustainable revenue growth and profit growth, is innovation.

So innovation can come from anywhere and everywhere. And we found that yes, you can learn innovation, and a lot of good innovation resulted. But it’s also worth noting that it took a lot more investment than the company executives expected.

“Are we talking about two tracks here?” asked Hans Brechbühl, Executive Director of the Center for Digital Strategies. “Incremental innovation that generally is not that risky, because you’re taking small steps and the outcomes are relatively predictable; and breakthrough growth innovation, that is unpredictable and causes risk?”
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John Parker, Senior VP of Strategic Initiatives at Coca Cola Enterprises disagreed: “It’s simply a different kind of disruption than breakthrough innovation causes. You’re not just changing once: You’re continually changing. So continuous improvements are highly disruptive because of their cumulative impact.”

“Process innovation also can be quite frightening.” observed Carlos Pappier, CIO of Tenaris. “We had huge problems in supply chain and inventory with a customer in Mexico. We changed our particular delivery process to get rid of the inefficiencies, and it was a great success. But it required us to change completely at our core, and it was very disruptive.”

“I had no idea the word ‘innovation’ had so much baggage. Maybe ‘ingenuity’ would be a better description?” marveled Dave Strait, Technology Manager for Chevron North America Exploration and Production.

“There ought to be a rule,” Parker proposed, “That you can’t use the word ‘innovation’ unless you hand out your definition when you say it. The ‘innovation thing’ sometimes gets in the way of communicating, which gets in the way of success.”

Funnel, Or Tunnel?

Meyer suggested a different perspective on the disruption question: “Continuous improvement is kind of easy, in that you identify the particular small problem that needs to be solved, and then you figure out a way to solve it. If they accumulate, then yes, they become disruptive. The breakthrough, though, is tricky, because you have no idea what you’re going to break through to. They wouldn’t be called ‘breakthroughs’ if you knew what the answers were in advance.”

“But aren’t they the same, if you’ve got a good process that helps you foster innovation?” asked Kala Marathi, Executive Director of Innovation at the Bauer College of Business at the University of Houston.

“I don’t think you put process in place to get breakthrough innovation,” countered Peter Grantinge, Director of Tetra Pak’s Engineering Capability Office. “The breakthrough innovation comes from ideas, and you have to make sure not to prioritize away the one that could be a breakthrough.”

Rhymes supported Grantinge: “We do struggle with ‘non-product’ innovation. We are a process-heavy company, which provides structure, but it also challenges us when we try to get out of our box and apply innovation across an entire business.”

“So do your processes really allow for innovation, or are they designed to extinguish innovation?” Braun asked.

“I can argue both sides of that,” Rhymes answered. “There is a process for innovation inside Eaton that defines the buckets by which you innovate. Then pushing those innovations into our culture competes with other standard processes. So in some cases, it absolutely limits us from taking new and creative approaches, because they don’t fit into our model.”
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Rhymes’ colleague Tom Black picked up the theme: “We struggle with prioritization. We have a tunnel, not a funnel: Everything that gets in just slows down. Eventually people yell, and then stuff starts coming out. I’d like to learn how VCs prioritize: That’s a key success factor, to kill the zombies earlier.”

“The game really is to not kill it,” Marathi suggested.

The game is to put it off to one side: “I’m not ready; you’re not ready; we’ll just see how you develop.” And so you’ve got your funnel, and a parking lot, or a staging area. You keep a toe in it, but you don’t have much invested. You meet with them quarterly: “You need to get to this stage before you become important,” or “…before you fit my metrics,” but you rarely say “No” unless it’s outside your scope.

“Isn’t that just a gentle way of killing it?” asked Luis German, Director of Business Process Management at Tenaris.

“You’re right,” Marathi answered, “But you don’t say ‘No,’ because you don’t know where it will go. If it dies, it dies; and if it grows, you’ve still got an option on it.”

“But this is the risk of putting processes and governance in place,” Grantinge objected. “When you have to keep a certain number of ideas going forward to satisfy some sort of demand. That prevents nurture of an innovation mindset.”

CCE’s Sezer reconciled the differing perspectives into the first lesson of the day: “You can’t make innovation big and wide and shallow. You’ll put in a lot of effort to govern and prioritize, but that still won’t handle the size and scale and complexities. What works is to create a focus for the innovation engine: Adopt a very simple innovation process, and focus on one or two domains.

“We did this last year,” Sezer continued, “And the ideas started to flow in. If you spread the peanut butter widely — ‘Go find everything, and bring it over’ — then you have to put together a prioritization process. Then you spend time and energy on the process, rather than the innovation itself.”

“So pick a domain,” he concluded, “Focus on it, bring in your ideas, experiment, solve it, and try out the answer. That will avoid a lot of prioritization issues.”

“That’s a really important word there, ‘focus,’” Sturgill commented. “We’ve struggled with a similar issue, and so we recently formed an Innovation Council. It includes very senior leaders of the company, and it’s their responsibility to say, ‘These are the top ten programs of the company, and these are what will get leadership support and funding.’”

Kissing Frogs For Fun And Profit

Taylor highlighted a contrast in priorities between small entrepreneurial companies and larger global companies:
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When I talk to the smaller companies about continuous improvement, they’re bored to death. When I talk to them about breakthrough, they get all excited. How do you get the influx of people who don’t just have the breakthrough ideas, but are also more likely to bring them up? How do you get those people into your organizations, despite your primary focus being process improvements?

“You buy them,” Marathi stated flatly, pointing out that many larger companies will let the risk of failure lie mainly with the startup, buying a more polished technology and, equally importantly, the management team and talented people. “You let them fail, you let them beat their heads against the wall. You then buy their technology, but you also buy the people.”

Sezer supported the strategy: “There are so many other ideas out there. If you can buy people like that, bring them in and help them connect to the ecosystem, then you can start to think about things in very breakthrough ways. It has very much opened our eyes.”

Beyond acquisitions and acqui-hires, “competitions have driven more innovation than anything else, especially in continuous process,” Parker volunteered.

People get excited to win company awards. There are formal contests. We have awards within functions, for people who went above and beyond in particular ways. Some nominations come from the workforce, which works particularly well. It’s not organized in the sense that “We want you to innovate,” but rather “We want you to win, so you have to innovate.”

“But where do the big ideas come from?” he asked. “Who’s in charge of strategic goals? The function that’s dealing with a topic, or a group of people charged with thinking big thoughts?”

Chevron’s Strait described a think-tank approach:

We have an Energy Technology Center innovation process, driven by 20-30 subject matter expert Fellows. This innovation team gets proposals quarterly, and they decide whether to fund them or not. If we do, it’s usually less than $100,000, which includes time for the employees to develop the concept to the next stage. One way we measure these innovations is if they get transferred “over the fence” and become tech development projects.

Day described a more decentralized approach at Sysco:

We always encouraged the business to take the lead, because they were closer to the customers and should be able to identify changes in the marketplace. But in the end they’re very focused on a narrow goal, and they don’t always have the discipline to think strategically. That’s when it comes back into the corporate level, and ideas get seeded from the executive team. It doesn’t matter where the ideas come from, we just don’t want to stifle them.

“The process of how you connect and get feedback from a customer, to solve that customer’s problem, is almost as important as the product innovation itself. Innovating in that space helps you make better decisions,” Sturgill agreed.
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But the fact is, we’re trying to hit year-over-year growth targets, while it takes years to develop a new molecule, or a new application. And we have all delivered some wonderful innovation that nobody cared about! It takes real patience and constancy of purpose to do both, and when times get lean, that’s tough to do.

Braun illustrated Sturgill’s point: “Chevron is grappling with the sudden collapse in commodity prices. It’s given us a real focus on efficiency and use of capital. So innovation isn’t a topic that immediately jumps to the top of our minds right now, and yet technological innovation is very critical to our success.”

“A near-death experience can help companies figure out that innovation is really important,” Black commented.

But if you haven’t had an NDE recently, complacency sets in. Within Eaton’s culture, you need a big business case to move on innovation. There’s no ‘try-and-fail’ mentality; rather, it’s ‘Where is the sponsor? Where is the business case? What’s the ROI? Who’s going to vouch for this?’ It’s tough: People have to see the value before they’re willing to sign up.”

“And it’s hard to find a single large transformation project if you’re coming from an efficiency mindset,” Tenaris’ German added. “It’s tough to break through the walls of your organization. Our core capability is manufacturing pipes. Our goal may be stated as ‘We want to have more products,’ but then we need to adopt an innovation objective within that.”

“Andy Grove at Intel believed that we have all these assumptions that we get locked into, that we don’t even know are there unless we have an out-of-body experience,” Taylor said. “So in order to drive breakthrough innovations, you can’t just want to sell ten percent more pipes: You have to have a goal consistent with fostering breakthrough ideas.”

“A burning platform is a wonderful motivator,” Parker agreed. “When things are going well, the hardest part is to change them. Larry Bossidy says, ‘The culture is a reflection of the actions of your leaders.’ When leaders say ‘I love innovation, I trust innovation,’ and they match the words to the music, then that behavior becomes the culture. If they don’t, it won’t.”

“And there are a lot more stories of failures than there are of ‘Gosh, that became the new part of our company,’” Braun mused. “So what’s the benefit of promoting innovation? Is it financial? Or are we making a corporate statement that innovation is important, that we do want to foster it and we will invest in it? So even if it fails, we’re signaling to the rest of the workforce ‘We want you thinking new thoughts, all the time.’”

“A lot depends on the constancy of purpose of leadership,” Sturgill repeated.

A consistent message, consistent communications of ‘This is important, not just this year but next year, and the following year, and the year after that.’ And making clear choices to invest in innovation in lean times as well as good times. And the hardest time to drive that urgency is when things are really good. But if we don’t drive that sense of urgency, they won’t be good for long! You’ve got to maintain a healthy paranoia.
Grantinge described Tetra Pak’s constancy: “We have spent the last ten years re-shaping our processes in chemical development and new products, and in how we handle issues with customers. We are continually changing course to improve productivity, and to make it easier for our engineers to bring new products to market. And now we are thinking more about completely new areas.”

“What I’m hearing,” Taylor observed, “Is a tendency to think about breakthroughs as projects with huge revenue potential. But if you do that, do you set the bar too high for every idea you evaluate? Is a ‘breakthrough’ really defined as an idea fundamentally different from the way you think now, that connects us to the customer better, or serves the customer better, independent of whether it’s a $100 million idea or not?”

“It is tough to find something that big,” Parker conceded. “There may not be a massive business model change out there. Our ‘breakthroughs’ consists of rapid, successful, changes on the margins of all kinds of things. Big ideas don’t always start at a Eureka! moment. If you accept that, then it totally changes how you look at things: We have to do a better job nurturing good small ideas so they grow into something bigger.”

“What many people don’t understand is that failure is the norm,” Marathi explained:

People come at these big plays, at these company-transforming ideas, thinking they’re 50-50 bets. They forgive one failure, or two, or even three. But what they have to understand is that to get something big, or even a medium-sized success, you have to cry a lot, and you have to pay a lot. Failure is the norm, nine times out of ten, 18 times out of 20: You have to kiss a lot of frogs.

“And then you have to separate them,” German suggested. “They have to spin off from the core culture – it doesn’t make any sense to keep them inside.”

“You can create set something off to the side, and create it as a separate business,” Parker agreed.

That way it doesn’t get sucked in, because it’s not a big enough part. But then the first time you have to cut funds at the end of the year, guess what gets cut every time? So how do you set it apart on its own two feet, with its own P&L, and its own budget that you protect? This idea of building a new business is harder than it seems.

“The problem is the gate is at the wrong place,” Rhymes answered.

If you’re evaluating whether something might be a breakthrough or not, in most cases you don’t know yet. It might be, you may have a perception that it is. But why make that assessment up front, and inherently add overhead and expectation? Maybe the trick is to nurture it and find out if something might be good or not before we say, “Oh my god, we’ve got to do these things differently because it’s breakthrough!”

“We don’t give things a chance to take life before we’ve already decided what they have to do,” Rhymes continued. “We just said that by definition in a portfolio model most of them are going to fail anyway. But does ‘fail’ mean it only makes $20 million, instead of $100 million?”
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“We sometimes need to have faith before we ask for proof,” Grantinge finished.

Staying Between the Guardrails

The group picked up the topic of the relationship between IT and innovation. “The hardwire between most IT projects and our Lean Sigma team doesn’t exist, and it frustrates me,” Braun began. “Chevron has a hard rule: It’s 90 days to value, or it’s not a Lean Sigma project. But people know they can’t get anything through the IT hopper in 90 days, so as a result, they won’t look at anything that requires an IT change. They just jettison it.”

“But IT has to be involved, somewhere along the way,” Tetra Pak’s Meyer argued. “Without IT there is only a chaotic inability to execute. You’re going to need IT after you finish, so it’s better to bring them into the funnel now. But it’s very hard to get IT to look and feel like an accelerant.”

“Once you complete a Six-Sigma initiative, you’re not finished until you have a control system, and that almost always means an IT solution,” Sturgill agreed. Making matters more difficult, he added,

There are times when IT has to say “No” to a bad idea. Someone has an idea for the consumer tool of the day, and it’s bad from an intellectual property perspective, and/or it’s bad from a security perspective. We have to stand up and say “No.”

“And we often have to say ‘No’ to a good idea, because we wind up with more good ideas than we can actually do,” Parker continued. ‘Here’s the list of things, and they’re all good, but we have only this much money, this much time, and this much resource. What’s in, and what’s out?’ And usually IT is the crux of the issue, because it’s a limited resource, and it winds up being the determinant of what you can and can’t do.”

“And you can’t just get rid of traditional IT,” Meyer pointed out. “The supply chain is the supply chain – If you’re going to change trade flows between countries, you’re not doing that in a sprint. You’re going to do a waterfall, with lots of protection.”

Sturgill distinguished between the two scenarios: “There are areas where if you want to, you can move fast, and it’s okay to break stuff. There are other areas where if you break things, you will die.”

“The key point is to let your people know which risks are okay to take, and which ones are not,” Pappier said. “There’s a lot of talk about two-speed IT, one pace for ERP projects, and one pace for innovative technologies. You apply different skills and methodologies in each basket. And in the standardized basket you accept some innovation, and in the innovative basket you accept some standards.”

“Think of it like guardrails on a highway,” Sturgill suggested. “We want to make sure you stay on this highway, going in this direction. But you have a lot of flexibility, so long as you stay within those guardrails. That’s how we try to distinguish ‘process’ from ‘innovation.’”
Braun described how Chevron has implemented a guardrail concept: “We use something called ‘black language, blue language.’ Things will be written in that color ink. If it’s black, you don’t get to touch it, you really don’t have any choices. If it’s blue ink, that’s where you can make modifications.”

Taylor returned to the role of the IT group. “What’s IT’s role in supporting and fostering continuous improvement? Is it a drag because of the cycle time? Is IT a bottleneck or an accelerant?”

“Both,” Parker answered. “It depends. The perception is probably more of a bottleneck than a facilitator. One of the big challenges is to not be seen as an impediment to change.”

Sezer suggested that the picture of IT as painted until now is changing:

In the technology space, we are coming from the world of projects in ERP, SCM, CRM, all with client-server architectures — multi-year, cross-functional, and costly, with high failure rates and questionable value propositions, especially as perceived by the business units. The ERP and CRM productivity gains were real, but mostly internal. That’s created a perception of IT as being slow, as being a barrier for quick changes and continuous improvements. You can’t blame the business units: That is the world that IT is coming from.

Now in the last eight years, IT has been going through tremendous transformation, with all the maturing technologies in mobility, cloud, social and collaborative, big data, and then services wrapped around all of these. These technologies connect the brand with consumers; they allow you to go after advertising in a whole different way. There are a ton of external productivities to be gained, and a whole new bucket of growth.

So the challenge to my IT team is, “How do we spearhead the discussion with the businesses about the next-generation productivities and growth platforms?” We aren’t talking about months and quarters and years for ERP anymore, we are talking about weeks and days and hours to build apps.

And the second part is, “How do we create team structures so that IT is not independent from business?” We grew up with waterfall methods for ERP etc. Now we need IT organizations that are smart, fast, nimble, and agile. Like it or not, the next-generation CIO has to wrap IT into the business and create continuously-evolving capabilities based on feedback from customers and consumers.

“So when’s the last time any of us walked into a branch bank?” Rhymes asked.

Banking is an example of an industry where the IT function has become a core part of the product, like reservation systems. How do you change the engagement model, when IT can’t say “We’ve got all the time in the world; bummer if it’s a month late?” When the whole approach has changed fundamentally, and it’s become: “This is the critical thing that our CEO has committed us to as a company?”

“IT process innovation is lagging; it follows, rather than leads,” Black agreed. “A lot of innovation goes on in the enterprise, but I struggle with the relationship between enterprise product and IT process. There’s so much that we should be doing, in Big Data and IoT and other areas.”
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“You have to structure yourself differently,” Sezer answered.

You bring the operations team as close to the development team as you can. You adopt different language — “stand-ups” and “sprints.” You adopt different methods: minimum documentation, and direct testing as you develop the business. It’s a very different mindset: You are always thinking about a workable product outcome in whatever sprint period you have selected.

Holy mackerel, this is a big cultural change: In a meeting with our agile coaches, we were tasked to develop a cashless payment system — in one hour. I’ve never done any development; I’m a security guy. But in one hour we built a cashless payment application. It’s not perfect, but it’s a workable product.

“It’s not magic,” Sezer concluded. “It’s just getting the right people, co-located, and in the mindset of the sprint. Second release, improve it. Third release, improve it. The ‘good enough’ culture is so important.”

“If instead of your leadership team you’d had a group of 20-year-olds, you would have had it in 30 minutes,” Parker asserted. “There is this incredible wellspring of gifted people that’s coming up, whose expectation is, ‘Of course you can do that.’ They don’t know ‘You can’t do stuff like that.’ One of the interesting questions for IT is how to tap into those expectations and skills.”

Tools You Can Use

The discussion turned to how to nurture innovation. Sezer offered an example of the benefits to innovation of being global:

Sweden is a great source of innovation when it comes to adoption: The consumers there are titillated by technology, and they adopt it in their lives pretty significantly. They’re not scared about it at all. You can do things in Sweden much more easily than in France, for example. So you develop a gamification pilot in Sweden, and then think about how to make it different for France. Being able to capture all these different strengths, and different ideas that might be nurtured in different cultures, and then adopt them in relevant ways in other markets is hugely powerful.

“Romania as well,” Pappier added. “People there have been though so much, they are always ready to embrace change. For us it has been a powerful place to test innovations.”

“Does anyone look for innovation in places where conditions might be a lot different?” Brechbuhl asked. “For instance, the International Red Cross and Red Crescent Society learns in emerging markets about how to deal with emergency situations where there’s no electricity, or no connectivity. They’ve found a way, because that’s the standard in those poorer countries.”

The same dynamic has been successful at Tetra Pak, Grantinge affirmed. “We have machine platforms developed in emerging markets where the engineers have to be innovative because of costs. We have
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learned from these organizations and brought those capabilities and knowledge into developed markets. It’s been a huge benefit that we hadn’t seen before.”

“What do social tools add?” Sturgill asked. “Used appropriately, I believe they can help mature an idea faster in a global environment than we’ve traditionally been able to. We are trying to get to the point where if you’re trying to solve a customer problem, one of the first things you do is to go to your social network, to get your global peers to help.”

“Although I have to say,” he laughed, “That getting adoption of social technologies among Ph. D. chemists has been — shall we say — a ‘challenge’ to get them to see value. It could really change the game, but it’s hard to break out of traditions.”

“Traditions are hard to break through,” Tetra Pak’s Meyer agreed, “But social media and the 24/7 global working environment can definitely accelerate things. And somehow it’s okay to say things on social media that you might not bring up in a meeting. When a sub-culture is having the discussion, it does go faster.”

“But even if you have a global team,” Meyer continued, “There’s still competition, still ‘Us and Them.’ On the one hand that’s good, because a little competition can drive results, but at the same time we fight hard to get rid of it, because you want them to play together nicely. Teams that are physically close to each other will group up under pressure, so you have to be careful that anything you say to promote, say, Singapore, isn’t taken as demotivation for people somewhere else.”

Brechbühl cited a successful example of social technologies usage from a previous Roundtable:

ABB has completely re-done their intranet around social collaborative principles. When a discussion is wide-open for the whole company, the results are kind of blah. But if something is relatively focused, and 20 or 30 people from different places around the world are gnawing on it, they’ve had some real success. They feel that social has created vibrancy and productivity, and a movement of ideas that people wouldn’t otherwise have known existed.

“Some companies do have concerted efforts with the employee base,” Day acknowledged. “‘Here’s a problem we’re trying to solve, and we’re going to use social media to collect all of your suggestions.’”

“But that’s not guided,” Tenaris’ German objected. “We’ve had bright young people contribute to those discussions, but to be honest, I haven’t really found anything that helps me transform the company from that process.”

“You have to have somebody monitor, to identify good ideas,” Day clarified. “You can use it in a less-than-perfect aspect, but it takes the right person to say, ‘Hey, this one needs to be institutionalized.’ The power of the tools is the ability to understand so much more about the information, more quickly. But you have to put some effort behind it.”

“So ‘the right person’ is innovative, and willing to take risks. Does anyone bake that into performance evaluations, or into hiring decisions?” Taylor asked.

“I’ve never seen it in a performance evaluation, ever,” Marathi declared.
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It’s a method of reaching the goal; it’s not the goal. Even in the most innovative companies I’ve never seen it measured. And add this question, “Are you compensating for innovation?” At most companies: Heck no! In fact, many key innovators leave companies because they think, “I just added $50 million to the bottom line, and I got a $10,000 bonus. I can take my ideas, start my own company, and be directly compensated.” So there’s yet another question, “How do you keep the best performers?” The R&D element is really kind of leaving big companies.

“There are certain people who think in the particular way,” Parker suggested. “We need to identify those people, pull them out, and then rely on them, as opposed to saying that ‘All our people should be strategic.’ We shouldn’t expect that: We should be glad that we can get two people out of ten. You use those two differently — because the others are important, but those two are really important.”

Roaring Bonfires From Small Flames Grow

“Our Six-Sigma group calls those folks ‘people with a positive edge,’” Sturgill said.

Executives have opinions about just about everything, and they may be spot-on, or they may be dead wrong. If you’re building a bonfire, you start with a very small flame, and it’s really easy for a skeptical executive to blow it out. The people with a positive edge are a core set of people who have the courage and the skill set to use data and structure to challenge executives: “You may think X, but when you really do the analysis, it says something else.” It’s working well.

“You do have to be able to explain the benefit to the business so that they can see it,” Day emphasized. “They read about all this cool technology, but they don’t understand how I can apply it to solve this business problem for you. It’s our responsibility to educate the business team in what the possibilities are.”

“That’s the approach we took when we formed our data science organization,” Sturgill agreed. “We incubated it for a year or more, showed the value, and then exposed its power to our executive levels. Now that small flame is a roaring bonfire.”

“So the opportunity, almost the obligation, for corporate IT is to aspire to a broader mission,” he continued. “Because we’re not about operation and efficiency anymore; we’re about making our organizations and our people more effective every day at how they do their job. And if our leaders believe IT is about automation and efficiency, then it’s our job to change that mindset.”

“How do you get people to be willing to try things, to experiment, knowing that only one out of ten will work?” Taylor asked.

“That is the key,” Day agreed. “You’re going to try all these innovative ideas, and some of them aren’t going to work. It has to be okay that you took the time on money on those. That’s very difficult for companies that aren’t used to spending money on things that don’t work, but they have to not just send the message, but also live it.”
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“We have to pay a lot of attention to the words we use when we are dealing with innovation,” German stated. “We have to eradicate the concept of ‘failure’ from the whole process.”

Parker described the organizational change that has to happen for innovation to thrive:

There is a career pyramid, and on the bottom layer we have technically gifted subject matter experts. They’re smart, they work hard, they know what they’re doing, they give critical advice, they’re highly responsive, they’re close to their clients. Phenomenal. And if that’s what your IT department is, you’re not getting it. That’s why you’re not getting gas on the fire.

The next level up is advisors, and the top of the pyramid is counselors. What differentiates you as you move to advisor and then counselor, are the soft skills: leadership, understanding of business; knowing the culture — What’s our risk appetite? Where can we move the needle? Who’s winning, and who’s losing? It’s not technical skills; it’s the other stuff that moves you to counselors. And when you move to that stage then you totally transform, because you’re not getting IT recognition, you’re finding solutions.

“If you believe the future really is tied to digital and technology innovation,” Parker finished, “Then you’d best turn your corporate structure upside-down. The pyramid needs to flip the other way, because the people coming in on the bottom are light-years ahead of the people sitting at the top. The companies that figure out how to do this are going to be wildly more successful.”

Sezer summed up the dilemma posed by the day’s discussions of breakthrough versus continuous, product versus process, loose versus tight, of how to find and keep the innovators:

Corporations, and especially public companies, get rewarded for being sustainable and predictable, for being risk-averse. Yet innovation is unpredictable. Companies are designed to kill innovation: They want to eliminate risk, to make things as predictable as possible. So how do you allow predictability to get screwed up, which innovation will do from time to time, and avoid risk at the same time? That’s really the secret sauce. And it takes a lot more than you expect to make it successful.
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