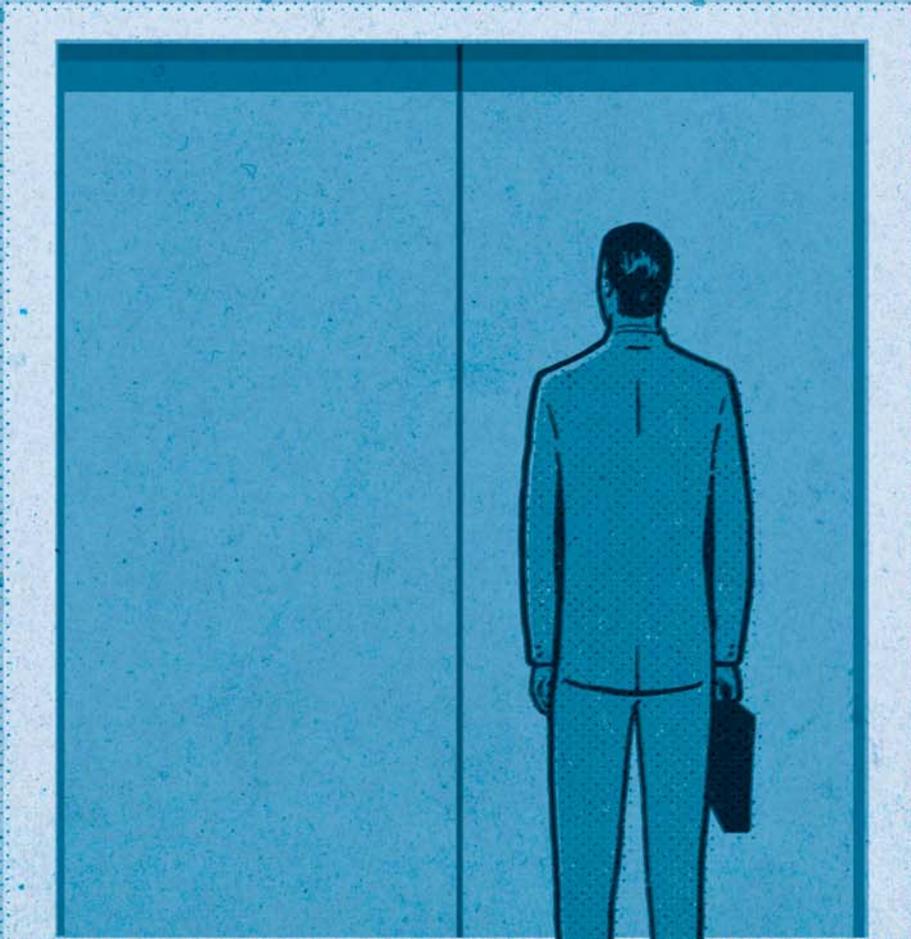


Cultivating business-led innovation

C-suite perspectives: Capitalising
on innovation failures

A report from the Economist Intelligence Unit



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C-suite perspectives: Capitalising on innovation failures

To innovate successfully, executives and employees must be prepared to fail—and to turn those failures into new opportunities, an Economist Intelligence Unit study finds.

The most innovative companies know failure is inevitable. Despite research and planning, one in three new products fail, according to the classic 1997 Research Technology Management article “3,000 raw ideas = 1 commercial success.” They also know that failure is valuable feedback that can lead to new opportunities.

However, many firms still see failure as a four-letter word and have difficulty harnessing it to drive their future success, Economist Intelligence Unit research has found. In an April 2012 survey of more than 200 business leaders worldwide, sponsored by Oracle, nearly half (49%) say their company has no system for capitalising on failed innovations. This suggests many companies are wasting resources, missing opportunities and allowing their internal innovators to grow needlessly discouraged.

A key source of ideas that appears particularly underutilised is companies’ own IT departments. These internal technology experts possess knowledge and skills to help their companies use new technologies to transform the business, yet their roles are often limited to implementing other

people’s ideas, rather than generating ideas themselves.

Our research identified several important strategies that effective companies use to turn out more and better ideas and foster innovation: They iterate until they find the best ideas, learn from both failures and successes, bring all employees into the innovation process, and maximise feedback to continue to generate ideas that move them forward.

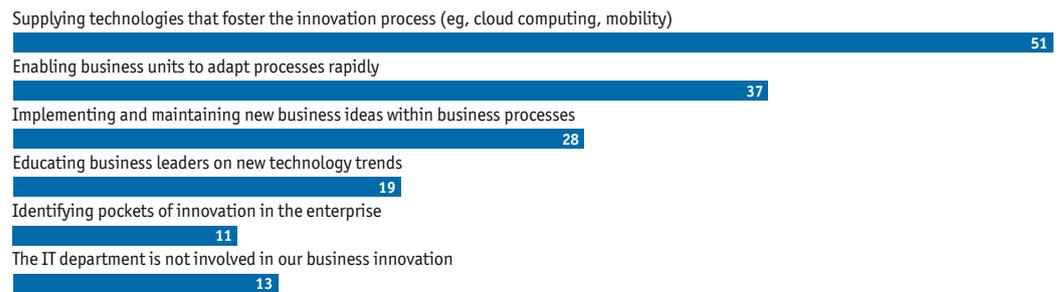
Adopting an iterative approach

Iteration allows teams to take on small projects and fine-tune ideas over time, rather than expect every innovation to be world-changing. By iterating, more useful innovations see the light of day and individual failures sting less. Teams are also less likely to travel too far down unproductive pathways before they find a better course.

“Failed projects and failed experiments should be ended and then iterated on,” says Greg Linden, founder of consultancy Geeky Ventures and a former executive at Amazon and Microsoft. “A new project or experiment, often very similar to the

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Q In your opinion, what is the role of your IT department in cultivating business innovation? (% respondents)



Source: Economist Intelligence Unit survey, April 2012.

previous [one], should come from what was learned from the failure.”

Many organisations iterate by leveraging new technologies and technology trends. For instance, by analysing big data, they can derive new insights about customer behaviour, product performance and market trends, and use them to develop new hypotheses and adapt development and implementation plans. Or they can use social media and “crowdsourcing” to gather ideas for design improvements from customers, creative professionals and suppliers and to test iterations.

IT departments could be instrumental in helping their companies capitalise on technology trends, yet few C-suite respondents say educating business leaders about these trends (20%) is a key role that their IT department plays in cultivating business innovation. Indeed, top executives are much more likely to cite roles related to implementation; 57% say IT’s primary role is to supply technologies that foster innovation, while 42% say it is to enable business units to adapt processes rapidly and 32% say it is to implement and maintain new business ideas. Seven percent of C-suite respondents say IT is not involved in business innovation at all.

Celebrating failure and mining success

In too many companies, failure is something to be avoided. But it ought to be celebrated as a daring new idea that could point the way to future success, much as Apple’s Newton personal digital assistant contributed to the development of the

iPad, a blockbuster hit.

To encourage its employees to think boldly, Grey New York, a division of US advertising firm Grey Group, known for the E-Trade “talking baby” ads, awards employees a quarterly “Heroic Failure of the Year” award—a garish, two-foot-tall trophy—for taking a big, edgy risk. President and Chief Creative Officer Tor Myhren started handing out the award last year because he was worried fast growth at the agency was making employees too conservative. The firm has since been named one of the most innovative companies in the world by *Fast Company* magazine.

Successful projects should get as much, if not more, scrutiny than failed ones, so executives and team members can identify what processes work and why and develop best practices.

Spreading the learning

Many companies think of teams as static, although that can promote “groupthink” that stands in the way of breakthroughs. Successful innovators involve employees across the company in generating ideas, because good ideas can come from anywhere. Some also reshuffle people in new combinations to stimulate fresh thinking and collaboration. Half of survey respondents at IT companies—whose industry is built on innovation—cited re-arranging staff as a key strategy for kickstarting innovation after a failure, compared to 23% for all respondents.

FedEx, a US-based international freight and shipping company, clusters internal experts from

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Michael Raynor, director at consultancy Deloitte.

the research, business, design, engineering and technology departments to focus on identifying customers' future needs and ways to meet them in a team called FedEx Innovation. These employees then take ideas back to their departments where they help drive an accelerated process of prototyping, incubation and commercialisation.

Maximising feedback

Collecting feedback is a key way to generate lots of ideas. Volume is important because, according to Dean Keith Simonton, a psychology professor at the University of California at Davis and author of 12 books on creativity and innovation, the most innovative people generate the most ideas—good and bad—before focusing on the best ones.

Scandinavian furniture manufacturer IKEA uses a flat organisational structure to help maximise employee feedback. Its CEO has a cubicle, rather than a spacious private office, to make him more accessible. Everyone is expected to contribute ideas, and good ones are transmitted quickly throughout the company.

Effective innovation also requires objective metrics for success, such as sales targets, according to our research. Both IKEA and Amazon

nurture innovation by soliciting employee feedback, encouraging them to generate new ideas and gauging the results.

Formulas for success

Nobody likes failure, but being overly cautious in an effort to avoid it can hamstring innovation. What's important is to have processes in place to learn from failures, apply those learnings to future projects and remain constantly open to new ideas.

“Innovation and effective learning are inextricably intertwined, and the only complete failure is the one you do not learn from,” says Michael Raynor, a director at consultancy Deloitte.

But be warned: processes for turning failures into successes cannot be lifted from successful organisations and applied in unsuccessful ones. Our survey polled four primary industries—manufacturing, healthcare, IT and professional services—and found significant divergences in their views about what business processes aid innovation, technologies of most interest, business units most likely to produce innovation, and barriers to implementation. Each company must create a system tailor-made to fit its needs and culture. ■

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