Organizational Development -
Four Approaches to Fostering Companies’ Innovation Capability

by Carmen Kobe & Ina Goller
EXECUTIVE SUMMARY

For many companies being and continuing to be innovative is essential. But how can companies become ‘more’ innovative? The following interventions are aimed at developing companies’ innovation capabilities, and focus on the ability to develop new products, services and processes and bring them successfully to market:

1. selection and training of human resources;
2. implementation of new structures and practices;
3. creation and implementation of innovation ideas;
4. establishing new values and norms.

The outcomes of interventions aimed at innovation will depend on the company’s strategies, abilities and resources. Sustainable innovation activity requires a combination of efforts and abilities. Change requires ongoing, sustained efforts to change based on thorough analysis of existing systems, establishment of new goals, changes and time for effects to emerge. The pace of change in people and everyday behaviours will be moderate, but even small improvements in innovation capability can produce greatly improved results.

ABOUT THE AUTHORS

CARMEN KOBE
Dr Carmen Kobe leads the Creativity and Innovation research group at Autonomous Systems Lab (ASL), ETH, Zurich. She researches and teaches innovation processes, front end innovation, and development of companies’ and employees’ innovation capability. In 2008 she founded Kobe Consulting, a spinoff of ETH that focuses on supporting technical companies to become more innovative (www.kobeconsulting.ch).

INA GOLLER
Ina Goller has worked in consulting organizational and HR issues in national and international organizations for 12 years. Her interest is in changing systems and people. She is a partner in PTA Praxis für teamorientierte Arbeitsgestaltung GmbH (www.pta-zuerich.com) and part of the Creativity and Innovation research group at ASL, ETH Zurich.
The Mammut Sports Group is a world supplier of mountaineering, climbing, outdoor and winter sports equipment (see www.mammut.ch). The history of Mammut Sports Group AG was established in 1862, when Kaspar Tanner began a craftsman rope making business. The company’s growth has been based on a clear market strategy involving acquisitions and innovation. In 2009 had around 350 employees and a net revenue of over CHF 215 million.

**DECISION TO IMPROVE INNOVATION CAPABILITY**

In 2003 the Mammut Sports Group AG decided it needed to improve its innovation capability. Its reputation and innovations in sports equipment had made it a leading company; remaining in this position would require continued growth and technological achievement. Its core business is the development and sale of high-quality sports equipment, which implies a business model based on innovation.

The sports equipment market is highly competitive and growing. The market has three types of incumbents: low end providers that offer low priced goods, high end competitors that operate under the protection of copyright and branding, fast followers that rely on imitation and invest highly in marketing. The Mammut Sports Group operates in the high end market. New competitors enter niche markets only, for example, in new sports trends. The existing market is following a consolidation trend. Similar to its competitors, the Mammut Sports Group follows a consequent growth strategy to profit from market leverage effects.

The Mammut Sports Group has undertaken a systematic change process to improve its innovative capabilities and implement supporting management practices.

**IMPROVEMENTS**

The Mammut Sports Group used a structure-focused assessment tool, I-Puls, to assess its existing innovation system and this has led to the following improvements.

Preparation, selection, implementation and execution of innovation projects have been formalized within a coherent innovation process which operates under new project management rules and a reorganized departmental structure. Several innovation projects have been implemented under the new structure and two additional members of staff employed. An ideas management system has been implemented.

During the setting up of the new innovation structure, the Mammut Sports Group prioritized an ongoing elaboration of the company’s innovation strategy. It is important to have not only a long term innovation strategy, but to apply it at the operational decision making level based on a medium term strategy, search field definitions and roadmaps.

To speed the pace of change in the company, and to speed the rate of innovation, the new strategy was communicated in depth to both managers and other employees. An innovation award scheme has been established to focus attention on this area.

**RESULTS**

Organizational development - four approaches to fostering companies’ innovation capability

Innovation capability, understood here as the ability to develop new products, services and processes and bring them successfully to market, is generally accepted to be a source of competitive advantage. There is a huge stream in the literature on the success factors in product innovation (see e.g. Ernst, 2002 for a summary). However, we need to know how companies can implement these and achieve superiority. Research has provided checklists, but not methodologies (Jensen/Harmsen, 2001).

The competence perspective suggests that the long-term success of a company relies on bundles of so-called core competences or capabilities (Prahalad/Hamel, 1990, Leonard-Barton, 1992). Core capabilities are bundled knowledge, skills, technical systems, managerial systems, values and norms that can be identified and described, but are not easily translated from company to company (see figure 1). There are no implementation guidelines for increasing the innovation capability of companies.

Figure 1: Interacting ingredients of companies’ core capabilities
Some companies manage to increase their innovation capability. This success is experienced by firm employees and partners, and is eventually measurable in terms of innovation output and success in new products and services.

The four approaches to increasing innovation capability outlined below were identified from interviews with ten innovation and organizational development consultants (C1-C10) and four top and innovation managers (M1-M4) working on increasing the innovation capability of manufacturing companies.

FOUR TYPES OF INTERVENTION

We began our interviews by asking how managers or external consultants could help to develop the innovation capabilities of companies. We wanted to find out how innovation could be fostered. We were interested not in lists of success factors for innovation in products, processes and services but in the mechanisms enabling successful innovation, because ‘there is relatively little information, except in case studies, about how that understanding might be built up, or of how some firms are able to do so more consistently and effectively than others’ (Bessant and Francis 1997, p. 191).

Information from interviewees pointed to the following four types of interventions (see figure 2):

- selection and training of human resources in order to improve the knowledge and skills of employees;
- implementation of new organizational structures to change and optimize technical and managerial systems;
- holding ideas generation workshops and implementing new product development projects,
- establishing values and norms such as initiative, openness and innovative thinking, and implementing technical and managerial systems (training, incentives) to support them.

Figure 2: Four types of intervention practices
None of these interventions on their own will be enough, but phases of organizational development aimed at improving innovation capability could focus on one or more of these areas.

**SELECTION AND TRAINING OF HUMAN RESOURCES**

Interviewee C1 (an external trainer/coach) and interviewee M1 (a manager in a technical company) provided their perspectives. C1 was an external consultant to an organizational development project in M1’s company. C1 is a process consultant who helps clients to implement new structures (e.g. a new innovation process) within existing routines. The training in M1’s company was targeted at shop floor workers, and was designed to give them a clearer understanding of their job context and encourage initiative and innovative behaviour. Without the training innovations (enabled by new processes and strategies), would have been blocked.

Other HR strategies to support innovation include:

- training in creative problem solving, team working, better communication;
- training in new structures;
- raining in new technologies and marketing;
- training to support a better understand of the firm’s work context and business model;
- including skills such as creative problem solving, entrepreneurialism, leadership, team working in hiring criteria.

**IMPLEMENTING NEW STRUCTURES**

C5 is a member of a consulting group that helps companies to define and implement (stage gate) innovation processes. The group combines the roles of expert and process consultant. It designs customized innovation processes in partnership with clients. C5 was of the view that it was worth trying to establish a new innovation process (including reporting and decision rules) only if a firm had several innovation projects in the pipeline to which it could be applied.

M4 is a project leader responsible for the design and implementation of a new business development process – including resources and projects. He is an expert in innovation processes and organizational development. He focuses on getting the whole firm to accept new structures by talking to and involving key employees.

Structures that support innovation include:

- creative methods and facilities (as rooms and material) for idea workshops and project workshops;
- communication tools which support communication within and across innovation projects,
- forums for proposing and discussing ideas;
- setting of and communicating strategic goals;
- establishing an innovation process (including reporting and decision rules);
- identifying and discussing information on new technologies, customer needs and competitors;
- processes to coordinate innovation ideas and projects.

**CREATION AND IMPLEMENTATION OF INNOVATION IDEAS - LEARNING BY DOING**

C8 and C9 work for a business consulting company that supports clients in new business ideas, new business development and new business launch. The company provides a written description of a business launch process, which it refers to as ‘launch in a box’ and is designed to help clients manage on their own. The client company’s innovation capabilities increased resulting in new business and new product launches.

C2 is a consultant who specializes in front end innovation processes and innovation projects. Instead of providing a series of chronological steps, he coaches the project team to enable them to develop the business idea. His contribution is in motivating team members and encouraging them to
reflect on the process in depth. He is aware that new things can only evolve when also the innovation and development process itself is open for change. His exhaustive repertoire of workshop methodologies includes also analogue methods as sculptures and constellation works.

C2 and C5 emphasized that new ways of doing things preceded the establishment of formal routines for innovation projects.

Ways to foster innovation in a learning-by-doing style include:

- Experimenting with new methods for generating and collecting ideas;
- Collecting and evaluating ideas;
- Experimenting with new decision making rules and settings for idea evaluation and project choice;
- Exploiting external sources in ideation and in the project phase;
- Experimenting with different project budgets and resources;
- Changing the environment (e.g. new room arrangement).

NEW VALUES AND NORMS

M2 is a senior manager who is trying to induce higher innovation capability in the company through changes in everyday activities. He talks to employees in the hope of motivating them and also to identify people with ideas. He is keen to encourage employees and is convinced of their potential to contribute. He believes that to foster innovation requires a new steer. Management decisions will be required to generate visible changes to the organization.

C4 coaches management teams on the implementation of new formulated sets of values. She encourages managers to identify inconsistencies in the value system and between objectives, values and actual behaviour. Managers are made to re-evaluate their actions in the light of the formal company culture. This is the first step to translating values into actual behaviour.

Other approaches to implementing values and norms to foster innovation include:

- management workshops to establish a company culture,
- checking and adapting the company’s compensation and promotion rules to support these values,
- checking day-to-day practices regarding innovation, against the formal culture (as described above),
- implementing management workshops to highlight behaviour that requires change (e.g. decision making or reaction to failure),
- workshops for employees on problem solving and communication.

CHANGE MUST BE ONGOING

From our interviews we identified a process of sequential steps required to transform a company from pre-status (process input) to post-status (process output). Some interviewees used ideal reference processes to describe their experiences and practices. Others described practices and intentions that could be related to the process steps referred to in other interviews.

We can identify a general process model for fostering innovation (see figure 3).

- Pre-Step: Recognition and decision to change
- Step 1: Analyse the system in place
- Step 2: Set change goals
- Step 3: Plan change interventions
- Step 4: Implement change interventions
- Step 5: Wait for reactions in the system
- Review the change by analysing the system (i.e. repeating Step 1) and reentering the change cycle.
This improvement cycle is similar to Deming’s (1986) classic Plan-Do-Check-Act cycle. Some interviewees emphasized the importance of repeating change to achieve superiority. Others referred to the importance of reviews and after-state analyses, not always part of real life projects.

Planning varied from very intense (e.g. drafting a complete innovation system and deriving all the steps required to implement it) to very basic (e.g. planning only some starting steps to improve the innovation system).

‘Recognition and decision to change’ occurs before the change process begins. It can be actively driven if it is induced by strategic analysis and goal setting. The decision to change the innovation system can also be a passive reaction to events such as lost innovation opportunities, market losses or the appointment of a new manager.

A focus on all four intervention modes, or on just one, can be included in the decision to change step. Which analysis methods and tools are chosen is influenced by preliminary improvement areas and goals, and greater insight into potential improvements can only be gained through analysis. The analysis may start with all four dimensions (human resources for innovation, innovation management structures, product and service portfolio and R&D roadmap, innovation related values and norms) or focus on just one of these areas. In succeeding cycles, the focus can be on the same mode, or a different complementary one. When to start the next improvement round depends on the improvement activities identified and agreed in the first round, and the timeline of reactions in the system. An average cycle time is one to two years.

Figure 3: Improvement cycle: ongoing process of building an innovation system
Concluding remarks

We identified interventions for improved innovation in firms from interviews with experienced practitioners (managers and consultants): human resources selection and training, implementing new structures, new activities and new values and norms.

This paper fills a gap: the literature discusses success factors but does not describe how they can be implemented in companies.

Potential pitfalls

When supporting companies to become and stay innovative, we experienced potential pitfalls:

**Goals:** Innovation needs to be defined in terms of whether it means improved products, services and practices, the development of new products, services and practices (which may require substantial resources) or a totally new business model (which may be incompatible with existing company rules and values).

**Change:** Innovation capability must be fostered within the company. External experts, new models, new methods can be catalysts for change, but there is no single intervention that will make a firm more innovative.

**External consultants cannot guarantee success** if the will to change does not exist in the company. A good external consultant or firm manager requires good knowledge, excellent interaction and communication skills, and innovative thinking.

**Human resources selection and training:** many companies focus on the technical abilities of potential employees and overlook the importance of skills such as ability for team working.

**Implementing new structures:** involves not just implementation of organizational structures, but also involvement of employees in the change process. Change will only occur if applied to day-to-day business.

**Doing new things:** Most important for innovation practice is anticipating problems. Without sponsors the initial euphoria may turn into resistance to changes when problems occur.

**Implementing values and norms is a long term activity.** Implementing values that cannot be incorporated into everyday processes and standards will be worthless.
Managerial implications
For managers and consultants who want to improve the innovation capability of companies.

- Start by agreeing a target project portfolio: Should innovation projects be similar in terms of innovation level and project type, to what the company has done before or totally new?

- After accumulation of experience in an innovation project type, efficiency can be improved by changing the structures (innovation process, IT tools, etc.).

- When the innovation portfolio includes project types new to the company, this must be accompanied by the development of new structures.

- Establishing new structures and starting new projects are not the only ways of improving innovation capability. Training and selection to improve the skills and knowledge of employees and increase awareness of values and norms will also contribute.

- The pace of change is dictated by the interdependencies between structures, activities, skills and knowledge of employees, values and norms. Radical change cannot be achieved without all of these aspects.

- Post-change evaluation is important in order to learn from and improve on the process.

- Since competitive advantage relies on the unique capabilities of companies, the development of an innovation system in a company is an ongoing task.

Welcome to the forum
The InnovationManagementForum.com provides a platform and channel of communication exclusively dedicated to innovation management. You are invited to discuss questions that you might have about how to implement the knowledge presented in this article in your organization. This is a valuable opportunity to exchange experiences with the like-minded and with colleagues from around the world. The author of this article will also take part in these discussions.

www.innovationmanagementforum.com
Further reading

Suggestions of further reading to help the interested reader explore the presented knowledge further.

- **Ernst, H. (2002) Success Factors of New Product Development: A Review of the Empirical Literature. International Journal of Management Reviews, 4, 1, 1-40** summarizes success factor research in new product development. But the success factor research is focused on structures and practices and does not identify how these were implemented.

  This missing link is described in:

  - **Jensen, B. and Harmsen, H. (2001) Implementation of success factors in new product development – the missing links? European Journal of Innovation Management, 4, 1, 37-52**, which views structures and practices as only one of four dimensions of capabilities. To increase innovation capability requires attention to the other three dimensions: technical systems, human resources, and norms and values.

Jensen and Harmsen refer to:


- **Prahalad, C. K./Hamel, G. (1990) The core competence of the corporation. Harvard Business Review, 68, 3, 79-91** introduces the concept of core competences and explains that companies’ long-term success is based on core competences, but gives no guide as to how to develop them.


To order please visit www.InnoavationManagement.se

For general enquiries, please send us an e-mail: info@innovationmanagement.se