INSEAD The Business School for the World®

KNOWLEDGE

Is Your Innovation Process a Corporate Illusion?

The six common blind spots that severely constrain the performance of innovation labs.

The term "innovation lab" evokes images of millennials engaged in creativity, play and quick-fire collaboration. You can often recognise such a venue by its trademark features: open spaces, funky furniture, eye-catching pictograms, tables littered with gadgets, boxes of Lego and LCD panels showing futuristic videos on an endless loop. You may even spot the odd robot poised for action.

Despite their visual and PR appeal, many innovation labs and other innovation centres (R&D accelerators and incubators) have generated poor innovation results and low investment returns. Accordingly, some companies have started to question their real value and continued existence.

Lab shutdowns at **Coca-Cola**, **Target**, **Adecco**, **Disney** and **Ogilvy** in recent years have cast doubt on the importance of innovation labs within an overall strategic product portfolio.

In theory, the concept seems sound. What company wouldn't want a central furnace that fires up new hypotheses and ideas and, better still, tests and validates those ideas in the marketplace, spawning unique disruptive advantages?

Innovation performance inhibitors

In practice, we have found six common blind spots that severely constrain the effective functioning of innovation labs, preventing them from realising their full potential.

1. Weak navigational direction

Many CEOs and executive teams struggle to articulate how their innovation lab is distinct from those of their competitors. In other words, the "why" and "what" underpinning the lab's existence is often unclear.

In a recent conversation with partners of a well-known professional services firm, one of the executives exclaimed: "We had to build one to catch up with our competitor! They built theirs five months ago and it's important that we at least try to reassure our shareholders that we're on top of disruption."

This reactive approach creates an illusion of innovation. In the absence of a clear remit with client-centred approaches and metrics, an innovation lab is nothing more than an expensive piece of PR furniture.

Moreover, an unclear purpose can create a lab operating with a culture expressed with comments such as: "We are different from the rest of the business. As a lab, ROI is not the primary purpose."

The takeaway: Innovation for its own sake is quite different from innovation that advances the purpose *and strategic goals of the company.*

2. A focus on tweaks and enhancements

Cuvva is a UK-based **disruptor in the insurance sector**. It was launched in October 2015 with an app-based product that allows people to purchase fast, easy, affordable coverage on a pay-as-you-go basis.

Its integrated set of processes enables mobile phone users to snap images of the vehicle they would like to insure and obtain almost instantaneous coverage. In a sector known for its conservatism, Cuvva's approach is an example of both business model and product transformation.

This contrasts dramatically with the outputs of many innovation labs, which often produce product tweaks and enhancements rather than creating radical new forms of value. These results are more likely when the company's core business units are more open to product tweaks than disruptive transformations.

The takeaway: Sparking the right dynamics between the innovation lab and the core business – as well as managing the expectations of both parties – is critical to creating new value.

3. Lack of credibility with the corporate core

In their efforts to promote a culture of creativity, companies may establish unintended physical and psychological distances between their main business operations and the innovation lab's activities.

Setting up the lab as a free-thinking island, or tasking it with forwarding critical initiatives, is a key strategic decision. Without a clear pathway for connecting to the core business units, the innovation lab can find itself generating orphan products that fall into no man's land. Even worse, the lab becomes nothing more than an expensive showcase, running public tours and hosting product demo kiosks.

The takeaway: An innovation lab needs solid executive sponsorship and advocates from mid-level management to effectively integrate solutions into the existing organisation.

4. Mismanagement of the fear associated with disruption

The fixation of many labs on disruption can easily generate negative perceptions within the parent organisation. In many industries, the word disruption rapidly triggers our internal panic button.

For many, disruption means cost reduction, job losses, personal redundancy, loss of status, loss of primary income and desperate futures. This can be true even at the board level. Both C-suite executives and the innovation lab must properly frame disruption, taking into account the concerns, perceptions and sensitivities of those involved.

An early focus on inclusion, interconnectedness and enhanced coordination is critical. Its importance increases when promising ideas from the innovation lab compete directly for funds with the existing business.

The takeaway: If the business views innovations as both strategically and financially supporting its agenda, the "invest for now" vs. "invest for the future" paradox is more likely to be resolved in favour of a partially-tested idea from the lab.

5. Failure to reconcile mindset differences

Corporate executives and entrepreneurs have radically different orientations. While the former are taught and trained to identify and manage risks, the latter thrive on limitless thinking and the excitement of a high-reward, high-risk paradigm. In other words, the two groups perceive, think, act and speak differently. Executives' and entrepreneurs' words and actions can soon become "lost in translation".

Take Coca-Cola Founders programme, an attempt to build a disruption platform. Experienced entrepreneurs were to benefit from Coca-Cola's funding, reach, relationships and global resources. In turn, the firm was to gain value from promising innovations that it could rapidly incubate and scale. The company closed the programme only three years after its high-profile launch.

Central to this decision was the difficulty Coca-Cola encountered in bridging the gap between the energy and enthusiasm of entrepreneurs and the solid business expectations of the core enterprise and its shareholders.

The takeaway: Effective collaboration with external partners requires clarity regarding the nature and objectives of the relationship, as well as a deep understanding of one another's business cases and success parameters.

6. Sheer impatience

For many, Netflix is the ultimate example of an entrepreneurial underdog that came out on top. The story of its ousting of the incumbent – video-rental giant Blockbuster – has been retold many times.

Whilst Netflix's success represents an incredible achievement, the decade or so it took for the start-up to turn the tables on Blockbuster seems like an eternity in the time horizons of most corporate executives.

An innovation process undoubtedly involves a long period of gestation that seems to produce little or no benefit for the parent company.

The takeaway: The parent company must define early on whether it views the innovation lab as a short-term experiment or a long-haul strategic initiative.

Leveraging the lab team's diversity of thought as a best practice

Founded in 1925, Bell Labs is one of the oldest and most productive innovation labs in history. Work completed there has generated no fewer than nine Nobel Prizes. Top achievements include the transistor, the first modern solar cell, the laser, the UNIX operating system as well as C and C++ programming languages. In short, Bell Labs' products have reached historic significance.

All of this was made possible by Bell Lab's **facilitative leadership** capabilities, which have allowed it to extract maximum potential from multi-disciplinary teams. Indeed, the ability to harness the diversity of thought provided by futurists, target clients, engineers, sales reps, business model analysts, operations experts and creatives is central to the success of any lab.

Besides factors such as lab team composition, interpersonal chemistry and execution skills, a key driver of lab team effectiveness is the quality and shape of the dialogue that takes place both within the lab and between the lab and the company's core business units. An effective innovation lab should be a platform for sharing ideas that focus on relevant industry topics and themes to uncover new opportunities. This is how businesses can powerfully couple imagination and ambition with reality.

__Vip Vyas__ is the CEO of __Distinctive Performance__. He is an advisor to boards and executive teams. He can be contacted at __vip.vyas@distinctive-performance.com__.

__Diego Nannicini__ (INSEAD MBA '14J) is an Associate Consultant at Distinctive Performance.