The Importance of Incorporating Innovation in a Firm

In this INSEAD Knowledge podcast, the author describes lessons from his work with innovation and multinationals.

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Bringing innovation inside an established firm, even one that has created novel ideas in the past, is not as simple as just purchasing bundled external knowledge and expecting it to work wonders at headquarters right away.

Enel CEO Francesco Starace's mandate was to create long-term sustainable value for all stakeholders. For the energy giant to incorporate novel products and ideas from outside its own business units, Chief Innovability Officer Ernesto Ciorra used open innovation, which required systemic changes in the culture and structure of the multinational. Ciorra's innovability teams – blending innovation with sustainability – were integrated into each business line.

These teams were just a jumping off point. As I detail in a recent **case study**, next, the firm began pulling external innovation into the company with a crowdsourcing innovation platform. Using "Open Innovability", thousands of "solvers" were able to contribute solutions to important challenges. Instead of thinking outside the box, the company invited people from the outside to consider problems in ways that hadn't yet been considered.

Enel is a stellar example of incorporating external innovation into a large firm. Over the years, I have studied how external knowledge is successfully transformed in multinational firms. This behaviour, which used to only be the domain of large firms, has now been co-opted by smaller firms, as the concept of buying external knowledge has grown in popularity. Of course, it's not as simple as just buying a product off the shelf – ideas from the outside need a safe place to land, as I describe in this INSEAD Knowledge podcast.

How to bring external knowledge in

Not every company is like Enel. In fact, most firms struggle to use external knowledge well. To bring it in, you need to give proper attention to your new information and give it room to flourish at headquarters.

First, pay attention to what you bring from outside. You can't assume that just bringing it in will make something happen from nothing. When managers encourage innovation, they must pay attention to the new concepts, but also be aware of their own confirmation biases in terms of looking for products/services/ideas that confirm what they already know. Without the **attention of management**, external knowledge can be like buying a book. If you just put it on your bookshelf, it will add to the ambiance of your room but unless you open it and find out what's inside, the book won't do all the good it could be doing.

An example of this is the **BT Group**, where Jean-Marc Frangos had to boost synergies between internal research and external innovation. He was able to evaluate how these play out over time for his firm and for telecommunications in general. Instead of having fuzzy goals around its innovation outposts, BT put together metrics and innovation dividends; how much new revenue or cost-saving those external ideas were bringing to the organisation.

Second, your firm needs to create an organisation that will allow it to fully benefit from external knowledge sourcing; it's the structure with incentives, processes and most importantly the culture that integrates outside ideas. Just building an innovation hub isn't enough, a large firm must develop an organisational mindset that welcomes new ideas and allows them to fit within the larger structure.

Enel, for example, started with a culture change. Innovation was not for its own sake, it needed to be tied to sustainability. For the energy sector, this is both revolutionary and kind of obvious. With open innovation and the UNSDGs, top managers changed the way their organisation sees the world. The fit between innovation and culture became much more open. Enel is far more the exception than the rule, but it is an excellent example of how to bring external knowledge into an established firm.

Problems in innovation outposts

My recent **work** on innovation outposts uncovers the idea of brokers – people who are highly connected to both the innovation ecosystem and their MNC. Brokers are often unique individuals, acting as a bridge from one group to another, serving the needs of disparate groups rather than their own. Effective brokers are not easy to find.

In fact, my co-authors and I found three types of ineffective brokers: the loners, the connected castaways and the VIP sightseers.

- Loners lacked connectivity at both ends. Parachuted into an innovative ecosystem, they didn't create strong ties with their new network or maintain strong bonds with headquarters. Because they were neither central to the entrepreneurial ecosystem nor to the strategy of the company, they lacked ties and were alone.
- Connected castaways were completely tuned into the innovation hotspot, but lacked connectivity to headquarters. They might be high-profile people, but were unable to transfer their connections back to base. This kind of innovation outpost had the additional challenge of trying to transmit a "not-invented-here culture" back to the company.
- VIP sightseers were closely connected to headquarters, but lacked connectivity to the local entrepreneurial ecosystem. They were often closely connected to the C-suite, so their ties to the MNC were strong, but they were referred to as "innovation tourists" who arrived in the innovation hotspot without contacts on the ground and were unable to create value.

Change the people or change the people

Ideas that are revolutionary or disruptive are less likely to land back at headquarters for two reasons. It can either be a lack of **absorptive capacity** or motivational problems.

Absorptive capacity is your capacity to absorb information. In this case, it could be that you don't have enough knowledge to really appreciate what you're seeing outside. For example, in class I ask, "Would you open a very expensive bottle of wine for people who have never tasted wine before?" Most people say, "No, I would not." When I ask why not, they reply that these people would not appreciate the fine wine. Now, imagine it's technology and managers who don't have a tech "palate". Sometimes companies don't act on new ideas because their managers don't understand new technology. They lack comparisons in that domain to appreciate what they see, like our non-wine drinkers.

Of course, the other reason people only see what they are familiar with is a lack of motivation. It's not that managers lack the capacity to understand something, it's that they don't want to see the new idea. Perhaps it challenges existing ideas about themselves and their firm, or they don't really want to change, or a new idea may impact their incentive package. Because if they are incentivised based on an old technology, innovations could disrupt that.

If the problem is absorptive capacity, the solution is education – teaching people about a new technology and encouraging them to develop their own capacities for learning. But, if external ideas are not accepted in the firm because of motivational issues, education won't help. In the words of one executive I've met, "You need to change the people or change the people." Either encourage different intrinsic motivations and modify incentives so that people change their view of innovation, or these people are no longer the right fit for your company.

Innovation isn't limited to the hotspots of Silicon Valley or Shenzhen. It's possible for new ideas to flourish anywhere, especially if they land in a welcoming organisational culture.

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