

# Using Innovation to Enable Transformation

by Jeff Wong

*Harness continuous innovation to drive organizational evolution and ensure lasting success.*

## Innovation as a Catalyst to Transform

Did you know that 88% of companies that were on the Fortune 500 list in 1955 have disappeared from the list today? It's an incredible reminder of how essential adaptability and innovation are for long-term survival.

As the pace of change accelerates, companies must rapidly transform to remain competitive. Continuous innovation allows organizations to adapt, evolve, and thrive amidst shifting market dynamics, technological advancements, and customer expectations.



By fostering a culture of innovation, investing in research and development, and supporting new ideas, companies can transform their operations, products, and services, ensuring long-term success.



### Meet The Author

*Jeff Wong is a Senior Consultant, with a Big Four background (Deloitte) and more than 20 years' experience consulting in the healthcare industry, where he has led engagements involving operations improvement, process redesign, strategic planning, market analysis, systems assessment, change management, and organizational development/design.*

*Highly versatile, he has successfully collaborated with clients to stand up new initiatives and achieve concrete, quantifiable results in operations, supporting and transforming sales and service operations and leading compliance initiatives.*

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## Why Innovate?

Successful companies know that continuous innovation is key to staying relevant. Just look at Blockbuster, Kodak, BlackBerry, Toys "R" Us, and Nokia – examples of how quickly even the strongest brands can fade without it.

In his seminal book, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Clayton Christensen explains how many well-established management practices can actually hinder innovation when companies encounter disruptive technologies.

To stay ahead of disruption, we recommend the following approaches:

1. Cultivate a culture of innovation.
2. Invest in research and development.
3. Provide sufficient runway for growth.
4. Maintain a diverse innovation portfolio.





## Cultivate a Culture of Innovation

Building and sustaining a culture of innovation demands deliberate effort and a commitment to encouraging creativity at all levels. Leadership sets the tone by prioritizing innovation, clearly communicating its importance, and providing the necessary resources and support.

Practical approaches include establishing dedicated innovation teams and allowing employees time to explore new ideas, similar to Google's 20% time rule. This policy enables employees to spend up to 20% of their work week — about one day a week — on projects and ideas they are passionate about, even if they are not directly related to their primary job responsibilities.

Managers should foster creativity, encourage idea exchange, and promote experimentation and risk-taking, as failure is an essential part of the innovation process. For example, Thomas Edison recorded 2,774 failures before successfully designing a working design of an electric light bulb.

Creating a culture of innovation comes with its challenges. Resistance to change, fear of failure, and rigid organizational structures can stifle creativity. Striking a balance between fostering innovation and maintaining operational stability can be particularly tough. Additionally, siloed mindsets and internal competition can hinder collaboration and knowledge sharing. However, consistent messaging and strong, supportive leadership can go a long way in overcoming these obstacles.

## Invest in Research and Development

Beyond simply voicing their support for innovation within the organization, leadership must make tangible investments in research and development. Commonly known as R&D, research and development spending as a percentage of sales – known as R&D intensity – is a key financial metric that investors and analysts use to gauge a company's commitment to future growth and innovation.

By investing in R&D, companies make a strategic choice to develop new products or technologies, driving competitive differentiation and ensuring long-term sustainability.

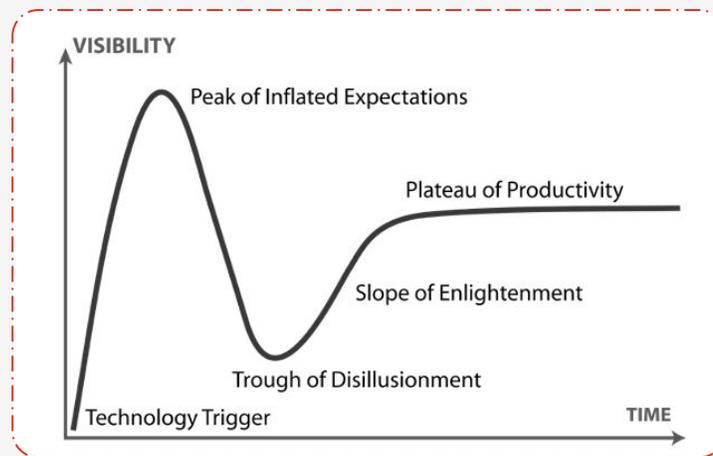


R&D intensity ratios vary widely by industry and specific company circumstances. Startups with relatively low revenues often have high R&D intensity ratios, while mature companies in industries with longer product life cycles, such as food or consumer goods, tend to have lower ratios. In sectors where technology evolves quickly, like software development, pharmaceuticals, and computers, R&D spending is generally much higher.

## Provide Sufficient Runway for Growth

It is important to allow enough time for innovations to mature, establish markets, and prove their value. Roy Amara, an American scientist, futurist and President of the Institute of the Future, captured this concept with Amara's Law: *"We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run."*

This phenomenon is reflected in Gartner's Hype Cycle, which illustrates the stages a technology undergoes – from the initial trigger, through a peak of inflated expectations, a trough of disillusionment, and eventually, the slope of enlightenment and plateau of productivity.



In ***The Innovator's Dilemma***, Christensen points out that innovation can be stifled when companies focus exclusively on customer feedback and delivering high-profit, high-quality products. Breakthrough technologies often face cautious customers who hesitate to adopt "unproven" products or services.

Product development and process improvement are iterative processes, with early products often yielding lower profits as refinements are made. Cars, airplanes, digital cameras, cell phones, and computers all required time to mature and establish markets before eventually surpassing previously dominant alternatives. Give ideas time to take root, improve, and realize their full potential.



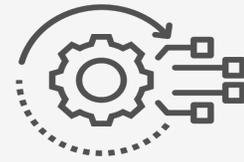
## Maintain A Diverse Portfolio

Not all innovations are created equally. Technologies can vary in terms of development risk, investment requirements, growth and profit potential, maturity levels, and implementation times. It is imperative to have a balanced research and development portfolio to manage these differences effectively..

To maximize growth while minimizing risk, organizations should keep their innovation pipeline full, with projects spanning the maturity spectrum. Quick wins and innovations that transition to mainstream products help establish credibility, generate enthusiasm, and drive revenue for those innovations still in development.

Inevitably, when building the future, some ideas may not pan out as hoped. It's important to understand the root causes of these failures and communicate the findings to the organization. Maintaining a diverse development portfolio will help minimize disruptions to the innovation pipeline and sustain the pace of introducing new products and services.

Periodically take a step back to evaluate and rebalance the current innovation portfolio. Add new R&D projects and sunset failing or low-potential avenues of exploration. In addition to monitoring developments in your industry, consider adjacent or downstream markets and innovations from suppliers that provide inputs to your products.



## Making It Happen

As an innovation evangelist, you will provide guidance, vision, and structure that energizes the entire organization. Establishing and maintaining the right conditions for innovation ensures the future growth of the company. Collaborate with leadership to foster a culture of innovation and provide adequate funding for research and development. A full pipeline of innovations maintains momentum, as does regular monitoring, replenishing, and rebalancing of the innovation portfolio.

Innovation is not merely a pathway to growth; it is the cornerstone of organizational transformation. By cultivating a culture of innovation, investing in R&D, providing a sufficient runway for growth, and maintaining a diverse portfolio, you drive continuous transformation.

These actions allow your organization to remain relevant and competitive in a rapidly changing world, paving the way for long-term success and sustainability. Embrace innovation as the catalyst for transformation, and your company will be well-positioned to meet future challenges and seize new opportunities.

**Written by Jeff Wong, Senior Consultant, Kissinger Group**