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**MICHAEL MOELLER, CORNELIA STOLLA, ALEXANDER DOUJAK**

# **STRATEGIC INNOVATION**

**BUILDING NEW  
GROWTH BUSINESSES**

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ISBN: 978-3-901880-##-#

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Telefon: +43 (0) 1 5054376-0  
E-Mail: [office@goldegg-verlag.at](mailto:office@goldegg-verlag.at)  
<http://www.goldegg-verlag.at>

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# FOREWORD

After the big wave of restructuring and downsizing in the late 90's and early 00's, many of our consulting clients are facing the challenge of finding new ways for future growth.

Our experience: conventional strategy projects produce conventional results. The introduction of new business models means: to search for and explore areas – so we started our search for new ideas, processes, interventions which seem to be more promising for building new growth businesses.

Our “journey” was initiated by the founding of the innovation center “Strategic Innovation” within Forschergruppe Neuwaldegg (thanks to Birgit Slotta-Bachmayr, Petra Spitznagl, Steffen Luetjen, who joined the group at this point of time, and to the colleagues of Beratergruppe Neuwaldegg who strongly supported our initiative). This group worked out the core research questions, defined the term “strategic innovation” and shaped the work of the first two years. In the summer camps 2005, 2006 and 2007 we worked with managers from different companies, consultants and researchers on their innovation cases, thus testing and further developing our first models (thanks to the participants and speakers of these summer camps!)

A big milestone in our work was the Symposium “Strategische Innovation” (November 2006, Vienna) with speakers from international corporations, innovation experts and artists. Their contributions were the basis for the articles and case studies in this book. (Thanks to Ruth Schotkowsky, Nicole Rimser, Christina Matuska, and their team for the professional support at this event).

Let us briefly introduce this reader to you:

As a start we present the concept of “Strategic Innovation” and offer options as to how to build growth business especially for established companies.

Case studies illustrate prototypical situations of strategic innovation:

- a market leader attacking a different market segment with a new business model (SAP),
- a market leader successfully defending its position against new market entrance (Lufthansa),
- a market leader diversifying through strategic innovation (Palfinger),
- a new entrance introducing a new business model (ONE).

The reader is complemented by the articles of two experts:

- Doris Rothauer offers the perspective of arts and innovation in the arts as a source for inspiration,
- Mark Sebell questions traditional approaches to innovation (“stage gate process”) and proposes to handle strategic innovation differently.

For us, the journey is not over yet. We will continue our work on strategic innovation in consulting and research. So we are more than happy to receive your comments, ideas, ...



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# **CHAPTER 1:** **STRATEGIC INNOVATION:** **BUILDING NEW GROWTH** **BUSINESSES**

**MICHAEL MOELLER, CORNELIA STOLLA, ALEXANDER DOUJAK**

## 1. WHAT MEANS STRATEGIC INNOVATION?

More than 80% of the Top Managers in the German speaking countries (Germany, Austria, Switzerland) stated in a recent Top Management Survey that their company is pursuing a clearly defined growth strategy. This shows that a majority of the companies in these countries wants to grow.

But then again, in the vast majority of today's industries supply is exceeding demand. This fact and the desire of most companies for continuous growth results in an unprecedented increase of the intensity of competition, leading to hyper competition, price wars and a commoditization of offers, products and services – and finally to more or less standardized, dominant business models in many industries.

The basic question is: how can companies grow within such a competitive environment? One way is to supplant the competitors by trying to win the price war. Another possibility – which probably generates more value in the long run – is to create new, differentiated businesses that initially bypass competition. New businesses marketing new offers and creating new markets render competition – at least for a while – irrelevant.

This notion is the basic idea of strategic innovation: fostering corporate growth and bypass competition by creating new business. Like Apple did with its music business, based on the iTunes Online Music Store and the iPod, a mobile device for playing music bought at the iTunes online store. Apple, a long-time player in the computer industry, a pioneer in the field of personal computing, started a completely new business with the iPod and iTunes some years ago. This strategic innovation of online music sales via the iTunes Online Music Shop, combined with a proprietary technology for distribution, digital rights management and a mobile music player, created since then a new multi-billion dollar business for the computer giant. In what started off as a tiny niche market in November 2001, Apple sold more than 100 million units of the iPod, equaling \$ 3.4 billion

in quarterly sales (1<sup>st</sup> quarter 2007). iTunes has sold, since its foundation till March 2007, more than 2.5 billion songs, accounting for a cumulated turnover of \$ 634 million in online music sales in the first quarter of 2007 alone. Further expansion in the online video and film distribution business as well as the entry in the video gaming market is well on their way.

What made Apples' approach so successful was not only the seamless integration of all major elements of the music distribution value chain, nor the mere ability to contract major music labels and, their bands and singers, but also the decision to sell single songs for at a fixed price (99 cents). Compared to the usual distribution model via CD, where clients and listeners are forced to buy the whole album, even if they only like one or two of its titles. The iTunes-iPod-tandem is an exciting new business example created by an established company by means of strategic innovation. Apple made use of an existing idea (online music sales) and implemented it in form of a newly invented, unprecedented business concept.

There are also other examples of strategic innovation, maybe less spectacular but not necessarily less successful: take Tchibo, a company well known for roasting and selling coffee founded in Germany after World War II. For several decades the core business used to be Coffee. Nowadays, Tchibo sells a lot more. Tchibo expanded into a retail company selling all kinds of different goods – especially electronic equipment like watches, alarm clocks, radios, DVD-players, but also giftware and clothes. Recently they added travel, financial services and mobile phone contracts to their product range.

These are just two examples of strategically innovative companies – and there are a lot more. Apple and Tchibo are rather the exception than the rule taking into account a world with millions of companies. That does not necessarily mean that strategic innovation does not happen. It seems to be a consistent pattern across many industries that strategic innovation is mostly pursued by start-up companies striving to enter into business and to out compete the incumbents.

The track record of start-ups in the field of creating new businesses is legend: eBay, Google, Yahoo, Amazon.com, YouTube, MySpace.com, AOL, Skype in the recent years or Microsoft, Sebell or SAP are examples from the IT/Internet industry. However, also in more traditional, bricks-and-mortar business, it are mostly newcomers that account for the creation of new businesses and markets, like Starbucks, Red Bull or Southwest/Ryan Air.

## 2. GROWTH OPTIONS FOR ESTABLISHED COMPANIES

For many reasons, start-up companies seem to walk through strategic innovation and business creation more easily than established companies. For the incumbents the question remains the same: how can established companies, with their over long time developed strategies, structures and cultures, equal the newbie's in successfully creating new businesses for future growth?

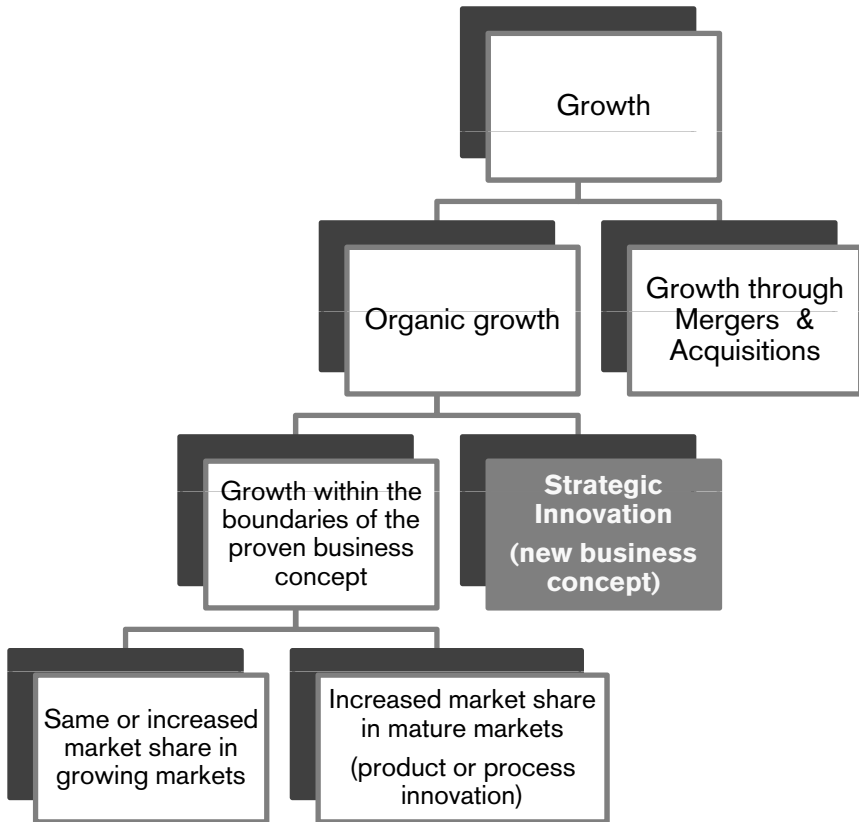
A rather common approach to growth is through mergers and acquisitions. Though many companies follow this path, the success equation of mergers and acquisitions is still mixed. More than 80 % of the mergers and acquisitions don't deliver the promised results in terms of growth, synergies and creation of client and shareholder value (Moeller/Heitger, 2005). Organic growth on the other hand, is easier to achieve when markets grow. It is of course easier to grow the existing business when there is a big enough and increasing demand for the products and services in a specific industry. Organic growth becomes more difficult when markets mature and the locus of competition moves to price wars between competitors offering more or less the same commoditized products and services. Process innovation (in order to reduce costs and cycle times) and product innovation (by adding more feature rich products to existing product lines) are often too dominating ways to preserve the company's competitive position.

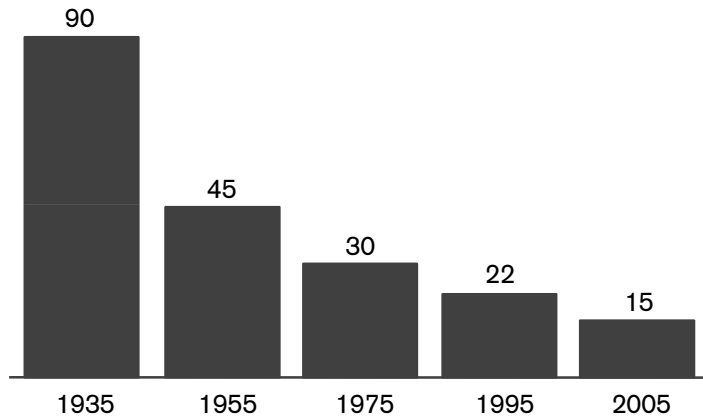
But there is another strategic option available to reinforce one company's growth potential: the creation of new businesses, creating new market space through

new business concepts. They might focus on a new set of client needs (like eBay did) or address new or meanwhile underserved customer segments (e.g. low cost carriers like RyanAir). Or they might introduce new forms of delivering value (e.g. Amazon.com).

Strategic innovation has always been part of business life. But the rate of change and the degree of maturity increased tremendously in many industries where hyper competition and consolidation reign. Surveys draw a clear picture of this acceleration of business change. While in 1935 companies listed in the American Standard & Poors 500 index could – on the average – look back on 90 year long membership in this index of leading public companies, their ability to play in the top-league of companies only lasted 15 years in 1995. In their study, Kaplan and Foster (Forster/Kaplan 2000) estimated that only half of the 500 companies listed in the index in the year 2000 would still be part of this Top-500-league in the year 2020. In other words: they expect that within the next 20 years, 250 great companies either go up in another entity through mergers and acquisitions, or go out of business, or simply fall behind for other reasons.

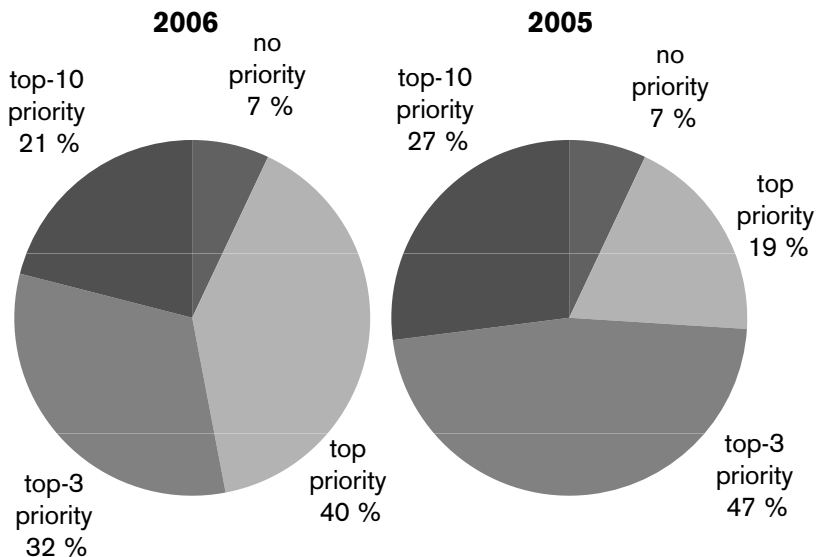
OPTIONS FOR GROWTH



**FIGURE 2****CONTINUANCE IN S&P 500 IN YEARS****3. INNOVATION IS TOP-PRIORITY – BUT COMPANIES SHOULD INNOVATE BEYOND PRODUCTS AND PROCESSES**

The ongoing and ever accelerating process of creative destruction – a concept first introduced by Joseph Schumpeter in 1942 – transforms entire industries through radical innovation. Driven by entrepreneurial action – based on new technologies, new business concepts, the empowerment of consumers and the emergence of new markets – it will create new opportunities for start-ups as well as for established companies.

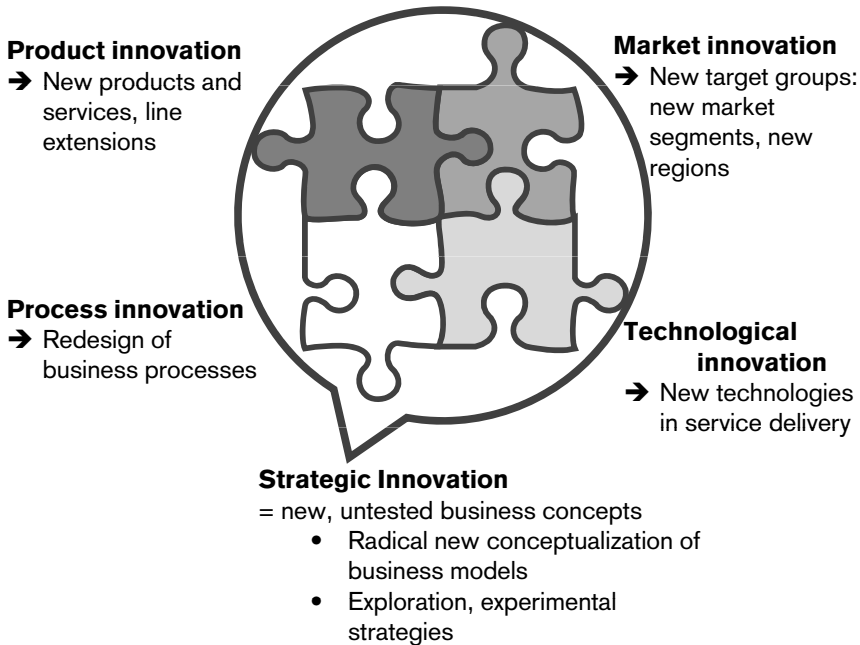
Thus innovation has returned on the top of the management agenda. Five years ago cost cutting and efficiency dictated the agenda. A study published by Business Week in autumn 2006 shows that in 2005, innovation was already one of the top-3 priorities in more than 60% of the companies. In 2006 it was mentioned to be the top-priority in 40% of the companies (Business Week 2006).

**FIGURE 3****INNOVATION IS A TOP-PRIORITY –  
AGAIN (BUSINESS WEEK 2006)**

While innovation is experiencing a renaissance in management, many managers still tend to associate innovation with new products and product line extensions, better and more efficient processes or geographical expansion in (emerging, Asian) foreign markets. From our experience, these approaches are important but not enough for creating sustainable new growth businesses. To create sustainable growth businesses, companies will have to focus more on strategic innovation that integrates and transcends all these dimensions of innovation in an explorative quest for new business concepts.

**FIGURE 4**

**FORMS OF INNOVATION**



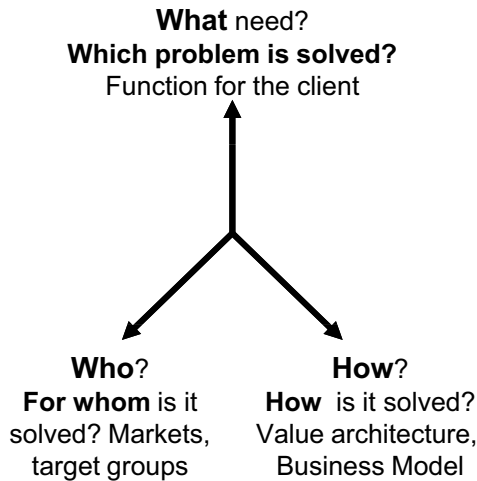
Strategic innovation means experimenting with new strategies, with new combinations of the What, Who and How of a business. Strategically innovative companies explore new business opportunities and concepts and a continuous process of experimenting, learning and improving new strategies in these three dimensions:

- What is the need of the customer that he/she wants to satisfy by buying a product/service? What is the value proposition, the offer?
- Who is this customer?
- How will this customer's need be satisfied and the value proposition be delivered?

Strategic Innovation means testing unproven and significantly different answers to at least one of these three fundamental questions of strategy.

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**FIGURE 5**  
**THE THREE DIMENSIONS OF A BUSINESS**



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Introduced by Abell, this basic definition of a business along these three dimensions is more than a tool for strategy development and strategic innovation. Most companies and managers have a clear insight on what their business is all about. The perception of the nature and scope of the business however is rather more implicit than explicit. Ideas outside of this scope are likely to be considered as irrelevant, strange or not related to the own business. The explicit and implicit assumption of the borders of one company's business often also sets an unaddressed limit to the thinking and the imagination of managers and entrepreneurs. This simple framework models what is within the strategic scope and what not, what might be reasonable to consider and what is out of the box. The shared understanding of the company's business is therefore maybe the biggest mental model

of an organization (Markides 1999). Strategic options outside of this business definition are therefore rarely considered and pursued by established companies with a well-developed understanding of their business. They own their business – but they are also owned by its definition. Think about the personal computer industry and its well thought-out multi-level sales model including the OEM, the wholesalers, value added resellers and retailers. DELL introduced a new model of direct sales to the consumer and corporate clients via internet and call centers, bypassing several levels of intermediary sellers and getting directly in touch with its clients and their clients' needs. For several years, DELL out competed the well-established industry leaders like Hewlett-Packard, Compaq and IBM that were bound by their mental models of how to be successful in the pc-industry, their vested interests and valuable business relations with thousands of partners in their sales value chain.

### **The Nespresso Case**

A good example for a successful strategic innovation by an incumbent is Nespresso. Nestlé, headquartered in Vevey/Switzerland was founded in 1866 and is today the world's biggest food and beverage company. In 1970 the Nestlé research and development center invented a new breed of espresso technology, consisting of an easy-to-use espresso machine and complementing aluminum capsules, containing one portion of espresso each and conserving the flavor of the coffee powder inside. It took them another 16 years (!) to define the entire business concept and to make it market-ready. They decided to target the classic espresso markets of the time: Italian restaurants and bars, entering the market in the Italian and French speaking part of Switzerland. Despite the fact that they were using a new technology and a new, innovative product, their market entry strategy was based on the well-established business concept and definition of the espresso industry: sell machines and coffee powder as an integrated system (What) to restaurants, bars and hotels (Who) via your own direct sales force in a business-to-business approach (How). Despite their new product technology and their efforts to adapt it to the industries best practices, the venture failed.

In 1988 Nestlé had to rethink the Nespresso business concept or to shut it down. Fortunately they went for the first and remodeled the product innovation into a strategic innovation. Nespresso further on focused on households as their primary target group, concentrating itself on producing and selling coffee instead of marketing an integrated system. They licensed the technology of the coffee machine to selected OEM's, which developed, manufactured and marketed the machines independently via premium retail chains. Nespresso itself innovated its go-to-market-model by the invention of the Nespresso Club, which exclusively sells the coffee capsules via call center, internet and exclusive Nespresso boutiques in major cities. The new What, Who and How of doing the business turned out to be a smart and successful strategic innovation. In 2006 Nespresso, for the first time, reached more than CHF 1 billion in sales (CHF 1163 million), selling more than 2 billion coffee capsules per year.

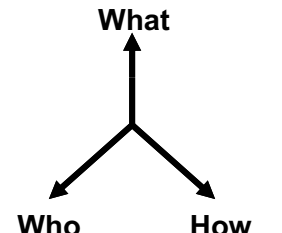
## **Sources for Strategic Innovation**

The Nespresso Case exhibits that there are several opportunities for strategic innovation along the three dimensions of a business. A shift of client preferences or the emergence of new needs (e.g. emerging demand for high-quality espresso at home through a shift in lifestyle patterns) can stimulate a new What (e.g. use-to-use espresso machines and capsules for home usage) and create a new Who (e.g. households) as well. A new How, i.e. new forms of manufacturing, distribution, sales or service delivery are often enabled by new technologies, like the direct sales of the capsules via internet and call center.

Generally speaking, the sources and directions of strategic innovation are many-fold (see figure). Demographical shifts in western society create new combinations of What and Who, like easy-to-use, low-tech mobile phones or personal computers for elderly people. Existing preferences becoming more important might also become a source for strategic innovation, e.g. today's working environments demand more and more an effective use of management time to deal with the tons of daily E-Mails. Blackberry invented a new What to this increasing demand, enabling managers to follow-up their E-Mails even when they only have

small snippets of time available, e.g. while queuing at the check-in counter at the airport. Or think about low-cost airlines offering more and more people the opportunity to go for a cheap weekend trip to foreign cities. The fragmentation of mass markets is another example for a source for strategic innovation. Take the car industry that developed from a one size fits all offer (e.g. the black and only black Model T) into an industry providing a full portfolio for the different life style segments in the market, ranging from family cars to fun cars, from luxury cars to practical city vehicles, from convertibles to SUVs.

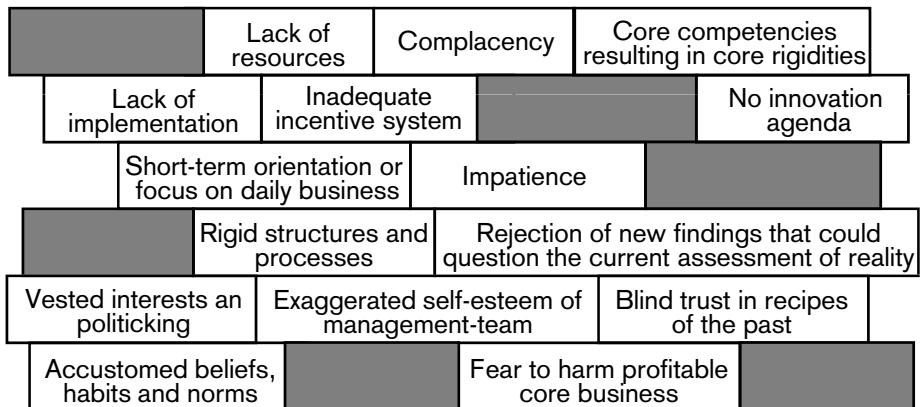
**TABLE 1: SOURCES AND FIELDS OF STRATEGIC INNOVATION (MARKIDES 1999)**

<p><b>What</b></p>	<p>New Needs</p> <ul style="list-style-type: none"> <li>■ Through shift of customer preferences or demografic changes</li> <li>■ Create through marketing tactics</li> </ul> <p>Existing client preferences</p> <ul style="list-style-type: none"> <li>■ Gaining importance of becoming “hot”</li> <li>■ Neglected by competitors</li> </ul>	
<p><b>Who</b></p>	<p>Emerging customer segements</p> <ul style="list-style-type: none"> <li>■ Through a shift of client preferences or demographvic changes</li> <li>■ Through fragementation of a mass market</li> <li>■ Through creative resegmentation of the existing client base</li> </ul> <p>Existing customer segements</p> <ul style="list-style-type: none"> <li>■ Neglected by competitors</li> <li>■ Exploding of all sudden</li> </ul>	
<p><b>How</b></p>	<p>New forms of manufacturing, distribution, sales or service delivery (often enabled by new technologies)</p>	

## 4. BARRIERS TO STRATEGIC INNOVATION

The definition of a business defines and limits how a company competes in a given market. On the one hand it needs to be clearly defined to provide orientation and to clearly position the company strategically. On the other hand it sets boundaries to the strategic imagination and keenness to experiment with innovations out of its scope. But there are also other barriers to innovation. Lack of resources and implementation, inadequate incentive systems, short-term orientation or focus on daily business, rigid structures and processes, vested interests and politicking and the fear to harm the profitable core business are only some of these often mentioned barriers.

**FIGURE 6**  
**BARRIERS TO INNOVATION**



The question is how can companies overcome these barriers and the limits of their mental model?

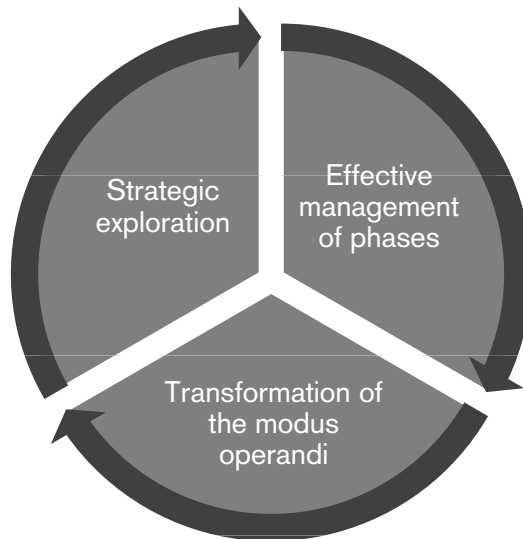
## 5. THREE APPROACHES FOR STRATEGIC INNOVATION

There are three levers or approaches to improve an organizations' ability to innovate strategically and to overcome the barriers to innovation:

1. A continuous and consistent strategic exploration of options along the three dimensions of the definition of the business
2. An improved management of the different phases of an innovation from idea to concept development to market introduction to sustainable market success
3. A transformation of an organizations' modus operandi for revitalizing the organizational capabilities to innovate

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**FIGURE 7**  
**THE THREE LEVERS FOR STRATEGIC INNOVATION**



## 5.1 Strategic exploration

Strategic exploration means to generate and evaluate new ideas for the redefinition, extension or creation of a business concept. To think over the actual definition of the What, Who and How of its business and to systematically evaluate alternative definitions, should be an integral part of strategic planning processes. At least once a year, a strategic management team should check the viability of the existing business model and alternative definitions. The exhibit shows some dimensions that could be evaluated, in the quest for new definitions of the What, Who and How of a business.

Management teams might want to explore where existing market segments are underserved in one or the other aspect or that are just emerging. Or they might want to check if there are any emerging or shifting needs in the market? Or assess if platform strategies or a focus on solutions could create new market opportunities? How could the interactions with our customers be designed differently? How could we create a new form of value capture by changing our revenue model, e.g. from selling a product to pay per use? How could we radically redesign the value chain, create new forms of distribution or points of presence or change the overall function of our company?

Strategic exploration means to focus “on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space” (Kim/Mauborgne 2005, p. 12). Instead of focusing on the competition and on how to beat it, strategists need to focus on the customer and on value innovation. From our experience, a good starting point for strategic exploration is drawing the strategic profile that depicts the relevant dimensions of buyer value and that compares the company’s offerings with that of the competitors. By exploring different paths in order to come up with innovative value profiles, companies can innovate strategically. What new and relevant dimensions of value could we create? What dimensions could be enhanced, reduced or eliminated at all, to create a new market? By exploring these alternative strategic profiles and by improving them based on feedback

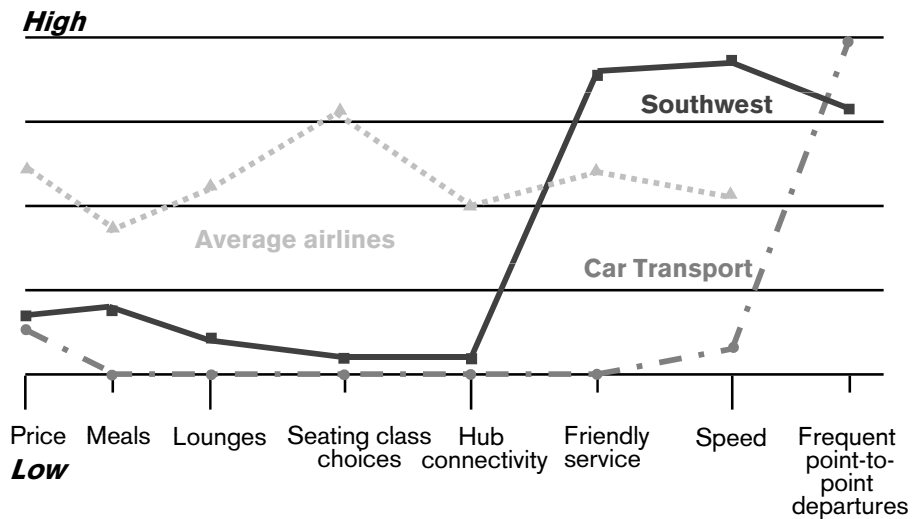
**TABLE 2:****CHECKLIST FOR STRATEGIC EXPLORATION:  
WHAT BUSINESS COULD WE AND DO WE WANT TO BE IN?**

(SAWHNEY/WOLCOTT/ARRONIZ 2006)

<b>What</b>	<p><b>Offerings:</b> Develop innovative new products or services, e. g. iPod/iTunes</p> <p><b>Platform:</b> Use common components to create derivative offerings, e. g. Merchandising, Disney animated movies</p> <p><b>Solutions:</b> Create offerings that solve end-to-end customer problems, e. g. SAP, UPS Supply Chain Solutions</p> <p><b>Brand:</b> Leverage a brand into new domains, e. g. Virgin, Easy Group, Tchibo</p> <p><b>Emergent needs:</b> Discover unmet needs or identify underserved customer segments, e. g. Low-cost airlines</p>
<b>Who</b>	<p><b>Emerging segments:</b> Discover emerging customer segments, e. g. Green energy, Green Investing</p> <p><b>Underserved segments:</b> Explore existing customer segments, neglected by competitors or exploding all of a sudden, e. g. Nespresso</p>
<b>How</b>	<p><b>Customer Experience:</b> Redesign customer interactions, e. g. Dell, convenience shopping</p> <p><b>Value Capture:</b> Create new revenue streams and models, Online Advertising, Pay-per-view</p> <p><b>Processes:</b> Reengineer business processes, e. g. Toyota Production System, GE Six Sigma</p> <p><b>Organization:</b> Change function or activity scope of the firm, e. g. Adidas, Cisco networked virtual organization</p> <p><b>Supply Chain:</b> Redesign sourcing and fulfillment, e. g. Covisint, Cisco</p> <p><b>Distribution:</b> Create new channels or points of presence, e. g. music CD sales in Starbucks coffee stores</p> <p><b>Networking:</b> Create network-centric intelligent and integrated offerings, e. g. Otis Remote Elevator Monitoring service</p>

from the field (e.g. customers, non-customers and customers of competitors) companies increase the probability that strategy processes lead to strategic innovation.

**FIGURE 8**  
**STRATEGY PROFILE OF SOUTHWEST AIRLINES**  
**AND ITS COMPETITION** (KIM/MAUBORGNE 2005, P. 38)



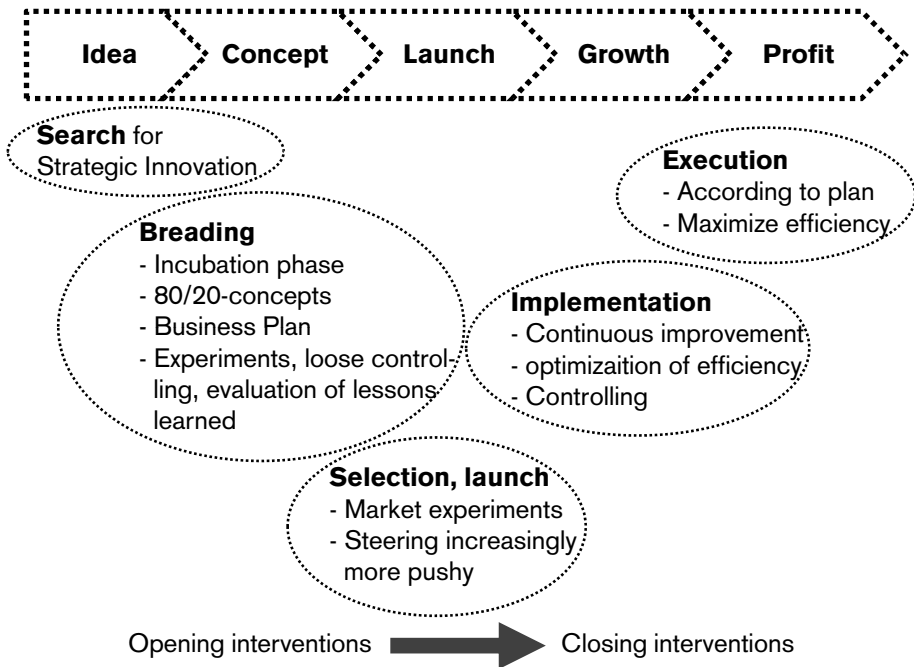
## 5.2 Improving the management of the phases of one innovation

Managers are used to differentiate an innovation process in different phases, ranging from the emergence of an idea to developing a concept, a prototype and a business plan to market launch and continuous improvement to growth and – hopefully – to profit. What tends to make it difficult to turn an idea into a profitable business is the experience that the different phases require totally different approaches in terms of leadership and management – often described as the or-

ganizational dilemma of innovation. While idea generation and concept development profit from a creative and open management style, the management of growth and profitability of a launched business, demand efficiency and focus. On the one hand creativity puts such imperatives like think outside the box, explore the new and unknown, anticipate future client needs, allow for and support emergence, give freedom, enable flexibility and allow unstructured communication on top of the leadership agenda. Efficiency, on the other hand, often means stick to core competencies, use what you know, satisfy current customer needs, plan carefully and execute according to the plan, ask for commitment and impose compulsory processes and structures.

Managers therefore need to adapt their style as to how they manage tasks and lead the people as well as the organizational structures and processes according to the specific needs of the different phases of an innovation process. Idea generation and concept development need to be managed loosely, providing freedom to the people working on the concepts but with a continuous evaluation of the lessons learned. Opening interventions, injecting new ideas and perspectives are more productive than insisting questioning and demanding perfectly thought through solutions. Experimenting with ideas and concepts, open dialogue that progressively develops ideas, might be more productive than discussing the pros and cons of semi-finished concepts. The more developed the concepts become, the more the mode of communication may shift into a discussion, evaluating the value and selecting options. Nevertheless, experimenting and generating lessons learned should still be the dominant approach in the launch phase. But after a successful launch, when sales and market share grow, managers should shift the mode of management and leadership continuously towards a more directive style, a tighter planning of activities and controlling of outcomes. Now they can make use of all the well-defined tools, methodologies and systems of efficient management.

**FIGURE 9**



### 5.3 Transformation of the modus operandi

From a systemic perspective, organizations are seen as a permanent, lively process of communication and decisions. The flow of communication and the process of decision-making (e.g. what is decided, who is involved, what criteria are used, when are decisions made and what are the steps towards a decision) are guided by a mode of operation specific to the individual organization. Organizations develop and form their modus operandi or patterns along their paths of life. What proved to be useful in communication and decision making is going to be embedded within the structures of generalized expectations, like rules, norms, principles, guidelines, patterns, relations or mental models. All of them influence which and how decisions are made, affect even what is considered relevant. On the basis of these historically developed structures the organizational live un-

fold. Thereby the structures or the dominant modus operandi set boundaries to the communication and decisions within the organization, e.g. boundaries for what could be considered as possible definitions of the business or for how an innovation is managed.

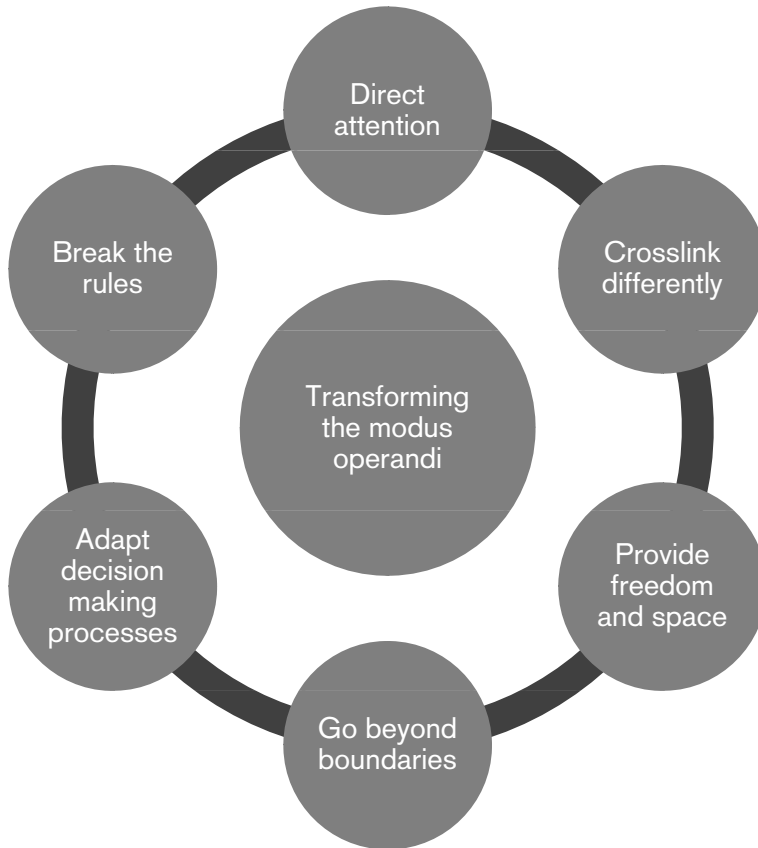
Companies that strive to become growth generators by innovating strategically and by consistently creating and developing new businesses obviously need a modus operandi that is strategic innovation friendly. As research shows, there is no blueprint for such an innovation friendly modus of operation. Organizational structures, processes, strategies and cultures may vary as well as personalities and profiles of people working for them. Nevertheless, based on our research and our consulting work with clients we have found 6 different directions useful for transforming an organization into a strategic innovator. They help to transform the modus operandi and thus the underlying structures of communication and decision making of the organization.

### **Direct attention to new combinations of Who/What/How**

Companies that want to become strategic innovators need to the attention of the organization, its managers and its employees on that issue. Paying lip service to innovation, but focusing in meetings and daily communication on the incremental improvements of quality and efficiency is not enough. Put first things first. If strategic innovation is the chosen growth strategy than the management agenda must be set accordingly.

Complacency, satisfaction with the status quo and strategic shortsightedness are major obstacles for innovation. Increasing the strategic alertness and the ambitions is therefore important for directing the attention towards growth and new combinations of Who, What and How. Andy Grove, the former CEO of Intel predicted that only the paranoid survive. Developing future scenarios, trend research, intense communication with researchers and innovative social subcultures as well as learning journeys that search for conventional ideas that are better than best practice, have proven to be useful for many organizations. But also in-

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ternal events, like future labs or marketplaces, that bring together a crowd of employees from different professional backgrounds, departments and levels, have helped to conceive new ideas for future businesses. In strategy processes phases that explore up and downstream usage of existing products and complementary services, may open up new horizons as well as the examination of similar industries or different strategic positions (e.g. functional vs. emotional positioning).

### **Cross-link differently: people, stakeholders, units**

Transforming the modus operandi not only means to change the content of communication but also who communicates with whom and how this communication happens. Client parliaments have proven to be a very effective form of intense communication between companies and their clients, and a supreme injector of new ideas and perspectives in an organization. Client parliaments are a specific form of workshop where clients are invited to discuss their perceptions of the company and its products, how they see their markets or lives develop in the future and what they would need from their suppliers. As the organizations' management team is only allowed to listen and to try to understand their clients' perspectives, the in-depth insights into markets and clients while clients feel valued by the intense attention a company pays to their needs.

Internally, large group interventions, cross-functional teams as well as taking and providing time for informal conversations may help to establish new inner company networks and possibilities for exchanging ideas with colleagues. Internal training programs could often be used more consciously to create such networks.

The fluid reallocation and utilization of capital and other resources is essential for a lively flow of ideas and an innovation friendly modus operandi. Job rotation, internal internships and cross-divisional and cross-functional career paths help to increase the mobility of people and knowledge and to enable strategic innovation. Modular structures, mentoring of innovators by senior executives and a fast lane, providing direct access to the top-management for top ideas, are helpful to overcome vested interests and politicking as well as rigid structures and processes.

### **Provide freedom and space**

One of the most crucial issues in strategic innovation is the thoughtful management of the relationship between the existing core business and the new business. This is definitely a top management duty. Christensen and Raynor have shown that disruptive innovations need to be managed independently and need protec-

tion from (the possibly cannibalized) core business. Sustaining innovations flourish more likely on the basis of an intensive support with experience and resources as well as steering out of the core business. This said, there is no general rule to how independent a new business must be and how much coordination between the businesses is needed. Therefore top management should regularly evaluate and develop the degree and extend of the relationship between core business and new businesses.

A part from that, elastic and even fuzzy structures, parallel organizations, venture teams and the provision of time and budgets for innovation activities have often been useful structures to increase the innovation potential of an organization. Managing innovations as a portfolio of learning experiences and providing funding on the basis of a milestone principle help to steer innovation processes and to avoid the typical traps: to put all one's eggs in one basket and to fail to draw back from failed concepts in due time. As a cultural enabler for such an approach, leaders should look for a caring meritocracy: reward success but also care for those who have taken risks and failed.

### **Go beyond boundaries**

Transformation means to go beyond the boundaries of the current organization – strategically, socially, structurally and culturally. In order to do so an organization and its leaders need to become aware of these boundaries by assessing the organizations' patterns, its modus operandi and mental model. Systemic consultants have developed a full range of methodologies and tools for this aim (e.g. Königswieser/Exner (2000), Heitger/Doujak (2002)). On the basis of such a sound and honest diagnosis, organizations should get rid of innovation constraints – even if they are best practice – and strengthen their generative capabilities by improving learning and knowledge management processes – especially communication and exchange of tacit knowledge between and within project teams, departments and other organizational units – as well as strategy-making processes (see Moeller (2005)). Charting strategy profiles along the three dimension of the What, Who and How and evaluating alternative profiles will be an

indispensable tool in innovation and growth-oriented strategy making. Broadening the strategic focus by inviting key players and partners of a company's business ecosystem (e.g. key clients, suppliers or providers of complementary products and services) to a joint strategy making effort might be more effective in an intensively networked business environment than the traditional approach of the individual firm, developing a (confidential) strategy of its own.

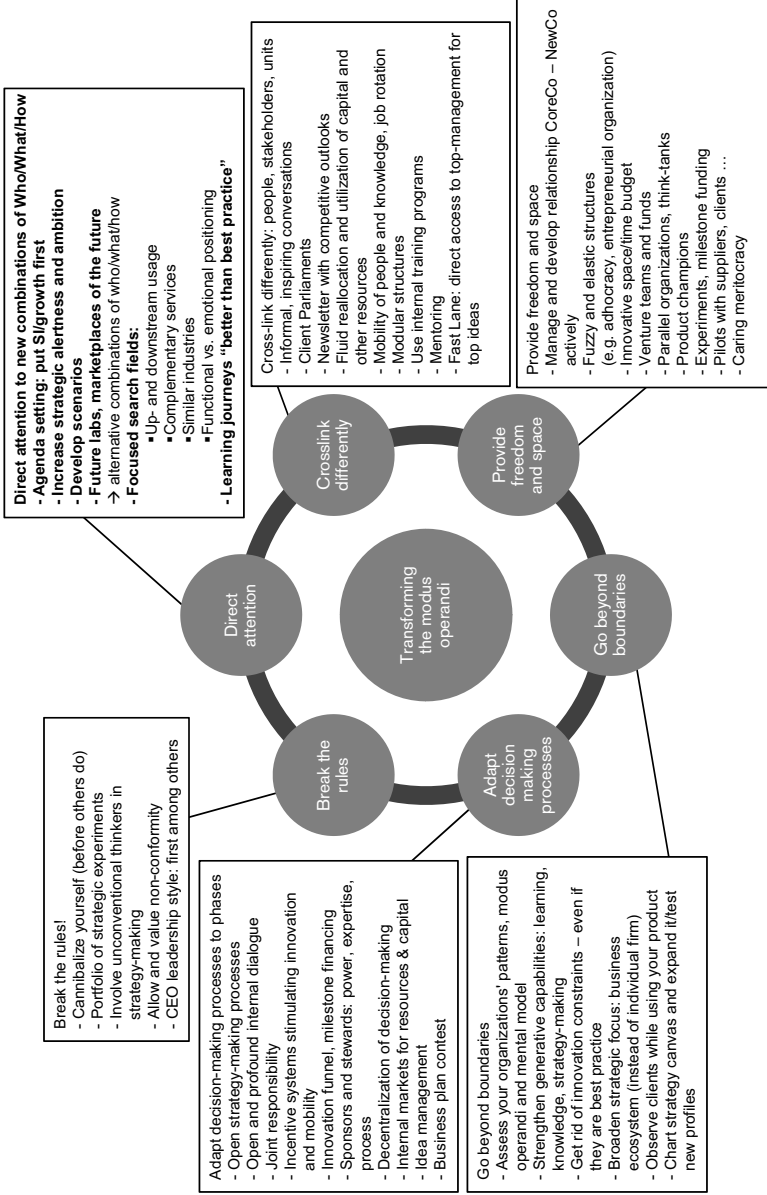
### **Adapt decision-making processes**

Transforming the modus operandi essentially means to change the way decisions are made and executed within the organization. For strategic innovation, especially the adaptation of the strategy making process is key. To drive strategic innovation forward, strategy making needs to emphasize creative destruction and needs to involve employees, clients, experts and other stakeholders rather than focusing on the further development of what already exists and on the small group of board members. An open and profound internal dialogue is a key success factor for such strategy processes. Strategy making processes need to become open – content wise as well as in terms of who is involved. By focusing on the big picture rather than numbers, strategy processes will generate a clearer picture of the actual situation and the future opportunities of a business. The regular exploration of strategic options supported by tools like the What/How/How-framework and the strategic profile lies in the center of such a strategy making approach (see also “Strategic exploration”).

However, decision-making is not limited to the strategy process. Moreover, what has proven to be helpful for changing the general modus operandi are adaptations of incentive systems, so that they stimulate innovation and mobility, the decentralization of decision-making power and internal markets for resources and capital or business plan contests. Sponsors and stewards that add power and expertise and that support and steer innovations through their creation process may also influence the modus operandi of how and organization decides on strategic innovations.

## **Break the rules!**

One of the major hurdles for established companies in strategic innovation is to innovate and create something new while it is still successful in its existing businesses. The mindset of managers and the modus operandi of (still) successful companies are focused on the protection of the existing business and the prolongation of its success. This often results in the suppression of innovations that could have a negative impact on the core business. Innovative competitors and start-ups do not face these hurdles. They will not hesitate to take actions that threaten the company's core business. Taking this into account, companies need to adapt their mindset: "Cannibalize yourself before others do" should be the motto. Therefore their cultures should allow and value non-conformity and experimentation. By involving unconventional thinkers in decision making processes may change the company's culture and attitude over time from protecting the core to creating the future business. A CEO and top managers that understand their role as first among others and as a steward for the future development of the company (rather than a defender of the existing rules) might also have a great influence on the innovation potential of a corporate culture.



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