Why Innovate: The Link Between Strategy and Innovation

By Langdon Morris   InnovationManagement.se

The "why" of innovation is simple: change is accelerating and we don't know what's coming in the future, which means that we must innovate to both prepare for change, and to make change.

If things didn't change, then your company could keep on doing what it's always done, and there would be no need for innovation. If markets were stable, if customers were predictable, if competitors didn't come up with new products and services, and if technology stayed constant, then we could all just keep going as we did yesterday.

But all the evidence shows that change is racing at you faster and faster, which means many new types of vulnerabilities. Technology advances relentlessly, altering the rules of business in all the markets that it touches, which is of course every market. Markets are not stable, customers are completely fickle, and competitors are aggressively targeting *your* share of the pie. So please ask yourself, "Are we managing with the realities of change in mind? And are we handing uncertainty?"

Since the alternatives are either to "make change" or to "be changed," and making change brings considerable advantages while being changed carries a huge load of negative consequences, then the choice isn't really much of a choice at all. You've got to pursue innovation, and you've got to do it to obtain long lasting benefits.

The decisions to be made focus on how best to prepare for future markets, and the actions relate to transforming the innovation mindset into meaningful work throughout the organization, work that results in the development of innovations that impact the market, and improve the position of the organization relative to its competitors. This means, finally, an organization-wide commitment to designing *and* implementing your version of the innovation master plan.

So what we're talking about here is the practice of innovation as a vital aspect of corporate or organizational strategy. When Steve Jobs was asked to return to Apple as CEO in 1997 after an absence of more than ten years, the company was, to put it bluntly, a mess. If you thought that the PC market was a war between Apple and Microsoft, it was clear that Microsoft had won big.

Apple's market share was about 5% and shrinking, and to many observers it seemed that the company was fading away. Its product line was an incoherent collection of 11 different computers, and there didn't seem to be a clear vision guiding the company forward. The board of directors was desperate.

But did Jobs have a vision for the 21st century, as he had had in the 1970s? Did he still have the magic? We know today that he did, but imagine that it's 1997 and you're Steve Jobs, and you have to figure out how to turn Apple Computer around. What do you do?

Today Apple's share of the US PC market is growing, although it's still less than 10%. But the iPod is the undisputed MP3 world leader, with 70% of the market, the iPhone became the world standard design for smart phones immediately upon its launch, and the iPad may do the same in the tablet market. And 13 years after Jobs returned, Apple's total market capitalization recently achieved an insider milestone when the company's total stock value surpassed arch-rival Microsoft.

To summarize, without a focused and successful effort at innovation Apple surely would not have survived; the quality of its innovative efforts led not only to survival, but leadership. Innovation was thus essential to the company's strategy, and it was in fact how the strategy was executed, so much so that we simply can't imagine "Apple" without thinking about "innovation."

Innovation plays the same role for many firms.

Do you admire Google? Then ask yourself what role innovation plays in Google's strategy. It's obvious that we wouldn't admire Google, and in fact we wouldn't even know about Google if it weren't for innovation. The very existence of the company is based on a single strategic insight and on two critical innovations that made the strategy real. The insight was that as the number of web pages grew, the internet's potential as an information resource was surpassing all other resources for scale, speed, and convenience, but it was getting progressively more difficult for people to find the information they were looking for. People therefore came to value better search results, and Google's first innovation to address that need was its PageRank system, developed in 1995, an algorithm for internet searches that returned better results than any other search engine at the time.

The second innovation was a business model innovation, which turned the company into a financial success along with its technical search success. When Google's leaders realized in 2000 that they could sell advertising space at auction in conjunction with key words that Google users searched for, they unleashed a multi-billion dollar profit machine. The integration of these two innovations provided a multiplicative advantage, and Google's competitors are falling by the wayside as the company continues to dominate.

What other companies do you like? Do you also admire Starbucks? Or Disney? Or Sony? Or Toyota? Or BMW? They're certainly innovators, and many of us appreciate them precisely because of it.

So the relationship between strategy and innovation is vital, and the important role that innovation plays in transforming the concepts of strategy into realities in the marketplace tells us that none of these companies could have succeeded without innovation.

This is the “why” of innovation.