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USING PARADOX TO DRIVE INNOVATION

On the other side of Paradox lies true Innovation!

An article on Innovation these days is not in itself a breakthrough. Googling the word can bring forward 93,900,000 items! The paradoxical challenges of Innovation are also well discussed – 3,270,000 Google hits. What I wish to challenge readers with this issue however; is to use paradox itself as a mechanism to focus your innovation efforts, and to engage with tough questions and insightful exploration. In fact, I believe that the identification of paradox is an important way of identifying real opportunity for innovation, and an excellent approach to enhancing your enterprise's innovation strategy.

Paradox Exploration in Action
Several years ago I joined a Canadian subsidiary of a global company that distributes high tech networking components, cables, etc. As VP Sales, my challenge was to reverse slipping margins and restore profitability overall. The business was almost entirely dependent upon selling to systems integrators and construction contractors. All of our Top 40 Customers fell into this category. And, the paradox that presented itself was that the more we sold, the lower our margins would shrink. If we tried to raise our prices the contractors would buy elsewhere. Staring deeper into this classic *Profitability Paradox*, I realized that higher profitability could come if we could sell directly to the end-customer. However, this too had its problems – we would be expected to design network systems, and we would appear to be competing with our biggest customers. Then I started to realize that with the ever-increasing sophistication of our products, we were in fact the ones training the systems integrators & contractors on products, systems architecture, options and more. Unfortunately we weren't being recognized for this – another Paradox: The **Value-Add Paradox** being where the client doesn't recognize all your value-add elements, nor are they willing to pay extra for them.

On the other side of these two paradoxes we found our true innovation: a dual-channel sales strategy:
 (a) direct to the end-user, bringing along 'partner' integrators/contractors in a total solution approach; and
 (b) through the integrators/contractors where we helped them build multiple-option solutions for their clients
        with different price-points, while protecting margins for both us and our manufacturers.
For the sake of brevity, our need to recruit a new style of salesperson, our efforts with the manufacturers in training our people and the contractors, plus the major efforts in partnership-building and more are left out of this description. However, less than 2 years later our Top 40 Client list contained 15+ end-users and 25 integrator/contractors. Sales volume and margin (overall and in the Top 40) significantly improved, we were better respected in the entire industry, and our bottom-line was once again in the black.

Arguably we would not have been this successful if we hadn't fully explored both paradoxes, and had been willing to suspend judgement on what we could/couldn't do.

The Drive for Innovation
Most enterprises today recognize the crucial role innovation plays in not only their growth plans, but their maintenance of current positioning. In their 2005 research study on Supply Chain benchmarking, Delloite and Touche LLP have some reinforcing statistics regarding innovation from the 650 manufacturers they surveyed worldwide:

- Launching new products and services is the No. 1 planned driver of revenue growth
- By 2010, products representing more than 70% of 2007's sales will be obsolete
- New product revenue was expected to jump to 35% of total revenue in 2006, up from 21% in 1998

For all the talk about innovation, we (in companies, government or Not-for-profit organizations) are actually not very good at it. We are even worse at commercializing innovations into profitable pay-back and contribution toward future innovation efforts. 70%+ of new product introductions fail! (This is presumably after an internal screening process already tried to capture the ones with best potential.) Venture capitalists look (in a portfolio of 10 new ventures) for 1 grand-slam (300%+ return over 2-5 years), 1 or 2 minor successes and 7-8 duds.

When a company's shares trade for 25-35 times earnings, (not uncommon on the TSE, NYSE or LSE this past 6 months), shareholders are clearly betting on the fact that the Board and Management can deliver sustained profitability/innovation performance, and real growth over time. This puts enormous pressure on executives to drive innovation. Insight magazine's September 03 article "The Growth Paradox" estimated that only 1 in 10 companies can grow for more than a decade, while only 1 in 20 cos that experience a sales drop-off can re-start their growth! Finally, each innovation needs to be able to account for all its true costs, lifecycle aspects and waste elements produced.

We also know from experience that not all innovations are equal. In fact, Board members and executives should explicitly understand the different innovation strategies being used in each project of their portfolio or division of their organization, and risk assess/ manage the situations differently. "Innovation" in accounting practices, lending practices, and portfolio valuation, led to the global economic collapse of 2009, and the biggest national debt levels ever in the history of USA, UK, Italy, Greece, Ireland, etc. Clearly risk was not well managed in past 5-10 years.

In the July/August 2004 Top-Line Growth Issue of Harvard Business Review, Geoffrey A Moore describes a particularly useful approach in his article: "Darwin and the Demon – Innovating within Established Enterprises". He takes a product life-cycle approach and breaks it down, identifying the type of innovation required at each stage along with the most appropriate executive to lead/champion it. Innovation types include: *Disruptive*, *Application*, *Product*, *Process*, *Experience-enhancing*, *Marketing*, *Business Model*, and *Structural*. This is valuable insight for executives and Board members alike.

Assessing the Kind of Innovation Required for your Organizational Challenges
Knowing how to assess what kind of innovation is needed in your enterprise thus becomes an important skill set for today's executives. As described above, Moore's lifecycle approach is one tool. I would also suggest that taking a Paradox Identification approach is something that allows you to go beyond a product focus, and view the overall business, organizational positioning and marketplace dynamics. Paradox Identification is less specific than product lifecycle. However, it allows for different organization to choose different responses, based on their enterprise strategy considerations.

In my earlier example, while the dual sales channel innovation was risky (all innovation has risk), we were probably uniquely able to pull it off compared to others in our industry. We arguably had the widest product portfolio, the strongest manufacturer relationships, and thus the ability to take a solutions approach that could truly deliver many different, credible options at different price/performance points. In Moore's language, we simultaneously took a Marketing Innovation, plus Business Model Innovation, plus Application Innovation approach. Of course we didn't call it that at the time! And, we would not have been so comprehensive in our strategy if we had not fully explored the Profitability and Value-Add Paradoxes.

10 Paradoxes that can Drive Your Innovation Strategy
From personal experience as an executive and consultant in several different industry segments, here are 10 paradox "signals" for innovation opportunity. Some are more fully described than others.

1. **VALUE PARADOX**
    Real Growth means starting ←------------------------------------→ Most new businesses fail
    new businesses   vs.

> How do we create a new business that drives significant new value to our Balance Sheet? How do we create an environment that embraces failure as a necessary pre-cursor to success? How do we ensure net-new markets, customers and flow of products to market, beyond what simple acquisitions or replacement products provide?
>
> Let's say a pharmaceutical company has some 50 innovation projects in its portfolio. The challenge comes when executives talk about their innovation processes; often the picture which comes to "common mind" is the process involving their current leading product. Everyone assumes that "innovation" is the same thing. Their current leading product technology is likely spawning new innovation off-shoots, leveraging existing technology, and doing so on a fairly predictable timeline. (Product Innovation) Meanwhile, a human genomics product innovation is breaking completely new ground. (Disruptive Innovation) To assume that the innovation processes, or timelines for the genomics innovations will be the same as their existing product is folly.
>
> But it is more complicated than simply a product life-cycle approach. Looking more deeply into this Value Paradox, you might decide strategically to ensure your innovation portfolio has a balance of predictable product innovations to sustain market-share and cover those products dropping off the lifecycle, along with some disruptive innovations that will layer real growth and whole new markets on top in the future.
>
> To grow real value, enterprises need a portfolio of different kinds of innovation, and they have to be managed differently, with different accountability parameters.

2. **SUSTAINABILITY PARADOX**
    Growth means use of more ←---→ Depletion of resources threatens
    resources, investment, risk   vs.   organization, community, capacity
      Short-term results/dividends impact   Energy of people over long-term
      Stock Value growth/ P-E ratios   Natural resources, CO_2

> This is a challenge for every enterprise from auto manufacturing to oil & gas, to telecommunications, to healthcare. And it is the Paradox challenge of the Kyoto protocol & global warming. However, it is also the huge opportunity for innovation and new-found profitability.

Interface Inc., the world's largest producer of carpets and interior furnishings stared into this paradox a few years ago. Ray Anderson, Founder and Chairman, took up the challenge to Interface become the world's first truly sustainable corporation. They are aggressively looking at material flows, recycling, and use of waste from one process to be "food' for another. Their target of 2020 for the achievement of this goal recognizes their intention to do this in a responsible way for their shareholders as well – a balance of their corporate obligations and their societal obligations. We need every other corporation in the world to follow this example!

3.
PRODUCTVITY PARADOX

Innovation & creativity with reduced cycle-times, a dynamic environment ←--→ vs. Efficient implementation of new structures or methods with quick attainment of profitability

Described by colleague Debra Amidon, of ENTOVATION International; in her 1997 book "Innovation strategy for the Knowledge Economy". With reducing product lifecycles for goods and services, we still have to find a way to adjust our manufacturing processes, or service-staffing models so that we can adjust to the changed product/service offering quickly and find the 'groove' to be both productive and profitable.

Once upon a time, I could write a business case with a 3-year pay-back term. Today it has to be a lot shorter. OK, easy to say, but as a senior leader, how do you actually do it?

Dig-in, engage the people, re-asses or re-draw your processes, build flexible systems or communities of practice that can redeploy or be re-constituted as required – and hire smart! This is not the same thing as quality improvement. While there is an important place for QI, this is about re-invention, implementation, achievement of quality new processes, and ensuring profitability in short order all at once.

This takes adaptable knowledge workers with a network or systems thinking perspective, led appropriately, and the institution of accurate/ motivating accountability mechanisms that will cross-connect and align interests plus resources as priorities shift. Not easy, and requiring a different kind of innovation thinking and leadership from earlier paradox examples.

4.
CULTURE PARADOX

Quality focus, error-free, follow rules, power by position ←------------------------------→ vs. Mavericks, exploratory ventures, mistakes-learning-advancement, power by track-record

5.
OWNERSHIP PARADOX

Control and ownership of assets, innovations to maximize profitability ←-------------------------------→ vs. Engagement of networks, non-traditional arrangements, incentives, profit sharing, shared intellectual capital for leverage

6.
CHANGE PARADOX

Motivating, humanizing environ to nurture success, loyalty, stability ←-------------------------------→ vs. Performance focus, longer hours? work-life balance challenges, continuous innovation/change

7.
SALES PARADOX

Market research, customer-focus & insight, take time to engage clients ←-------------------------------→ vs. Actual adoption & implementation patterns, ability to deliver on promises to market

Market research is crucial. It keeps the company on its toes and engages you with clients regularly so you know how and why their desires/requirements shift. Sometimes, all the market research in the world is useless. You deliver exactly what they asked for, but they don't buy!

This can create great battles between Sales and Marketing departments. Or, you take this paradox and delve into its depths. Information has to flow in all directions with front-line sales intelligence just as valuable as market research. And, the product has to deliver what the sales team is promising, so you link Manufacturing and Quality into the loop too. As time to market lengthens, quality/feature expectations rise and change. This is a dynamic innovation process vs. a controlled one. Maybe sales can contribute to initial product design, and manufacturing can shape the promise/ adoption pattern of the customer. Your innovation in this area can really be a positioning and value-/ profit-enhancing effort. Go down the rabbit hole!

8.
POSITIONING/BRAND PARADOX

Sustained, growing reputation, mind-share and differentiation. Investment in look, brand and promotion. ←---→ vs. Flexibility as markets shift, demands change, product/ services adjust, new markets explored, old ones exited.

Position your Value Proposition, vs. specific products or services. Position your innovation style and the way you deliver or will deliver value consistently, the kind of people you have and your intellectual capital potential.

9. **LEADERSHIP – MANAGEMENT PARADOX**

Natural business/ service ←--→ Focus on process improvement
evolution phases (Exploration,   vs.   skill sets, required, questions
Experimentation, Expansion,   to address, reporting/tracking
Integration)

10. **TEAM PARADOX**

Task completion, project mgt., ←-------------------------------------→ Team energy, synergies, self-
sustained 'drive' by leader,   vs.   direction, super achievement
delegation-focus   empowerment focus.

> We so often talk "team" but deliver a group. We reward individual
> performance or create inequalities even as we champion that everyone is
> an equal to the team. Taking control of decision by the leader is faster,
> more reliable, and easier to demonstrate to senior management and Board.
> Yet, truly empowered and self-goaled teams can outperform and give
> executives back the time they need to get out of the tactical and become
> more strategic. But, it is oh so hard to give up the power and yet remain
> accountable. Don't give in! keep working into the muddle of this paradox
> for breakthrough structures, motivations, accountabilities, and results!

Focusing Attention on Paradox

To an executive or Board member, many of these paradoxes will be recognizable. They may even stimulate additional examples in your mind.

Too often however, these are written-off or passed-by as the situations that naturally come with innovation, and that our people will figure it out. In reality, leadership should take the time themselves and facilitate a thorough exploration of the assumptions, knowledge in the network, and the understanding we have behind the key paradoxes of our enterprises. Challenge breakthrough thinking, and set the goal of enhancing the organization's core value proposition in the marketplace/community.

When we talk about creating the environment for innovation in an organization, we can address the issues of:
- Providing time and space for thinking
- Building mechanisms for knowledge exchange
- Encouraging the acceptance of failure as a step in the path to success

While these are important, they aren't enough.

F. Scott Fitzgerald is generally recognized as having described the test of a first-rate intelligence as "the ability to simultaneously hold two or more opposing ideas in ones mind, and not be paralyzed by it".

Charles handy in his book "The Age of Paradox", encourages us all to live with paradox and enjoy the ride. He also suggested that if we can manage paradox we can manage change, and understand that in a complex world we may never be able to find the "right" answer to anything.

However, more than just holding opposing ideas in our mind, or learning to accept paradox; I would suggest we as leaders need to be able to facilitate in-depth exploration of paradox. We can and should help our people take a disciplined pursuit of the truth and opportunity behind our key organizational paradoxes. The great "aha's" of science, technology, business, art and culture have all come from this disciplined inquisitiveness into things that didn't make sense!

Exploring the Web!

This month, the connections below take you to sites with more perspectives, commentary and discussions of Innovation and Paradox:

Mastering the Innovation Paradox – Deloitte & Touche LLP Pre-release Summary of findings from their study on Global Manufacturing Supply Chain Benchmarking – January 2005
http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Mastering%20Innovation%20Exploiting%20Ideas%20for%20Profitable%20Growth.pdf

"The Innovation Paradox: The Success of Failure and the Failure of Success"; by Farson & Keys – Summary
http://www.ralphkeyes.com/innovation/

Interface Inc. – the world's largest manufacturer of carpeting and interior furnishings – their Vision and Sustainability Paradox Overview.
http://www.ifsia.com/goals/vision.html   and http://www.interfaceglobal.com/Sustainability/What-is-Sustainability-.aspx

Fast Company January 2004 – "If He's So Smart… Steve Jobs, Apple, and the Limits of Innovation"; by Carleen Hawn   http://www.fastcompany.com/magazine/78/jobs.html

Commentary on Canada's Innovation Strategy for a global economy (2008)
http://www.stic-csti.ca/eic/site/stic-csti.nsf/vwapj/08-141_IC_SOTN_EN_Final_no_trans2.pdf/$FILE/08-141_IC_SOTN_EN_Final_no_trans2.pdf

Innovation and Entropy Within the Global Economy; Dr. Charles M Gastle explores the nature of innovation amid declining value propositions caused by global trade forces. http://www.esteycentre.ca/Entropy%20paper.pdf

Harvard Business Review Article: "Darwin and the Demon – Innovating Within Established Enterprises"; by Geoffrey A. Moore http://apps.business.ualberta.ca/mlounsbury/techcom/readings/darwin%20and%20demon.pdf

Debra Amidon's slide presentation on the 'Prosperity Paradox'.
http://www.entovation.com/whatsnew/prosperity-paradox.pdf

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