

Leeds University Business School – Research and Innovation Podcast

Episode 11: Corporate innovation challenges

Speakers: Professor Krsto Pandza and Tony Morgan

Krsto Pandza: Hello, I am Krsto Pandza, I am professor of strategy and innovation and director of the Centre for Technology, Innovation and Engagement, so the group is dedicated to investigating innovation processes in different types of organisations.

Tony Morgan: And I'm Tony Morgan. I'm currently an associate professor in innovation management practice. Before this, I worked in industry for about 30 years. For the last 20 that was at IBM where I held senior roles in technology and innovation. For example, I was the chief innovation officer of one of IBM's business units for the UK and Ireland. So, I'm an academic, but also an innovation practitioner at heart. Today, on the Leeds University Business School Research and Innovation Podcast, we're going to talk about corporate innovation, and particularly the strategic challenges of balancing innovation in the core business whilst also developing the new opportunities of tomorrow. I think a good place to start would be to discuss what we really mean by corporate innovation. Krsto, how do academics define corporate innovation?

Krsto Pandza: Well we see the corporate innovation is being about consistently and systematically building a portfolio of new businesses with the potential to replace, potentially replace, existing businesses. So, the emphasis is on, actually, two aspects: corporate innovation is not just about building a new product, or just a new service, because not every new product or new service requires developing an entire new business. Developing a new business will definitely require developing a new product, or developing a new service, and the other aspect is, of course, you would like to do this consistently and systematically.

Tony, as you know, innovation very often happens by chance, there is a lot of serendipity going on, and we have to live with that, but in the corporate context you would like to create the environment that these chance events happen a little bit more systematically. So, I know that is a little bit of an oxymoron, but this is one of the challenges of corporate innovation. I can, for example, give you a case of Ericsson, which we work very

closely for a couple of... now four years, how they see corporate innovation. For example, Ericsson's manufacture of advanced networking equipment in the telecoms sector, they have business units, the business units of course are closely aligned with the customers. Their large R&D department is closely aligned with the business units.

So, they are extremely efficient in innovating for their existing customer within their well-defined specification. And, of course, using... improving their products. But they realised that they are less successful in really exploring these new market opportunities that are very uncertain. They are maybe less good in exploring this novel technology like, in their case, IoT because they are very... these things are obviously often associated with very ambiguous business, small, or they have to deal with emerging ecosystems, where the potential partners are not the partners they are used to.

And they thought that, well, they are somehow not performing that well in this type of innovation, and so that suggests that one of the challenges for corporates is to deal with these different types of innovation, because where there are different degrees of market uncertainty, technological uncertainty, you know, different types of business models. And of course, on the very strategic level, the corporates, of course, as you know from your IBM past, they have to protect the legacy, the consistency with the past, because, of course, they are large because they were successful. They also have to perform well in the present because of all this quarterly reporting. But they need to think about how to stay relevant in the future, and the future might not necessarily be the same as the past. So, Tony, I assume that IBM experienced similar challenges, do you agree?

Tony Morgan:

Oh yes, sure. I think IBM is a fascinating example, really, of a company that drives disruptive innovation, but has also been disrupted itself a number of times. IBM is an incumbent, as you say, in a lot of markets, and in those businesses there is a huge focus on innovation in the existing core business, looking to drive efficiency, improve customer satisfaction and so on. But another key part of IBM's strategy is also constantly focussed on what the company calls "restless reinvention", and that's about approaches like technology horizon scanning, market scanning, to find, develop and really commercialise the next big thing.

And if we want to talk about examples, I think a great example is IBM Watson, that's IBM's set of artificial intelligence capabilities. Following an initial research project, IBM has created an emerging technology business unit to develop Watson in line with customer needs and take it to market. And at the start, the revenues were small, effectively it was an investment unit, but now it's a core part of IBM's business, and the profit or loss makes it critical to IBM's overall results. I think another great example is quantum computing - at a very early stage at the moment, but watch this space, because quantum is really one of IBM's big technology bets for the future. So, Krsto, I know you've mentioned already you've worked a lot with Ericsson, how are they responding to these challenges?

Krsto Pandza:

Well, I think that in the last decade Ericsson tried with very, very, very different responses, but broadly I think that what they did is what most organisations actually do. We call this structural ambidexterity, which means that they somehow try to separate the units that are more focussed on core business, on core customers, even if this requires really advanced technologies, but they are somehow working in the area that, from a market and technological perspective, that they know, and they separate these units from, maybe, smaller units that are somehow exploring new markets and maybe new technologies. The difference in Ericsson was that in the... the big change they made, in the past these exploration efforts were relatively fragmented, so the business units had different sub-units that would do this.

But with the recent strategic change at Ericsson, when they decided to focus a little bit, focus more strategically, the outcome was that they somehow centralised this exploration effort. So, they established a new, relatively large business unit, with the name Business Area Technology and Emerging Businesses. So, there is a bigger unit which is now really focussed on exploring, with a clear mandate, on exploring beyond their core businesses. So, in Ericsson's case, they would look at different IoT applications, focus on cloud and edge computing and also autonomous vehicles. So, our group tried to investigate how this unit is managed, and I think that, of course, we came with some overall framework which we call "seven pillars of corporate innovation". This unit has to have, again, clear strategy. There are strategic challenges, how focussed is this exploration going to be, or are you really going to pursue multiple opportunities?

It's interesting that, on the corporate level, this is very often not just about the problem solving for a customer, it's much more about market creation, because the customers do not really know about these new categories.

Now, you want to have also a corporate entrepreneurship engine, so you want to have systems that people actually can come with new ideas and you can develop these new ideas from the very beginning to the commercialisation, in these strategic areas that they decided to explore. A lot of here is about collaboration, it's about openness, but not just a typical R&D collaboration with universities, or maybe with your customers, but also try to look for different types of companies that, for example, Ericsson didn't collaborate before. There are a lot of questions about the business models and, of course, not surprisingly, about the culture. But I would emphasise one aspect: in the corporate context if you want to run such units it is a lot about having management talent. Not just engineering talents, not just entrepreneurial talents, but also management talent.

Tony Morgan:

It's really interesting that you mention management talent. From my own experience, managing innovation is a key skillset in itself, I know we both think that. A good innovation manager has got a really wide range of skills: facilitation, design thinking, collaboration, change management, and we shouldn't forget the commercial expertise. They also have a very kitbag of tools and techniques for managing, developing and delivering innovation, and I think, from my perspective, it's great to see innovation management being valued much more highly these days and across so many industries, not just in technology.

If you're a startup, an SME, a large, established organisation, managing innovation is really critical to your business. So, looking forward it's going to be really interesting to see how many organisations invest in innovation management skills and resources as they look to innovate rather than cost-cut their way out of the current crisis. So, Krsto, it has been a great conversation, but looking at my watch I think we are running out of time. How would you summarise the main messages from our discussion?

Krsto Pandza:

Well, for me, always when it comes to corporate innovation, the main message is that companies have to understand this as a

management challenge and as a strategic challenge. So, this is not just an engineering challenge or a scientific challenge, but you have to have, you know, managerial capacity to organise for innovation and it's very important that organisations get this right. And if this is a management challenge then it's very obvious that you have to have this managerial talent, managerial capacity to successfully run an innovative company.

Tony Morgan: Yes, and I think innovation managers, as we said, have specialist, unique and valuable skills.

Krsto Pandza: Well we would definitely like to keep this conversation going. If you're interested in finding out more, including about our research in this area, or would you like just to get in touch, our contact details are available in the episode description.

Tony Morgan: Thank you Krsto, I've, as always, enjoyed talking to you. And thanks to everyone for listening to this episode.