DIVERSITY AND INNOVATION:
WHY WE NEED BOTH TO GUARANTEE ECONOMIC SUCCESS?

THESES

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What is the definition for innovation?

According to the definition provided by the OECD and Eurostat, "an innovation is the implementation of a new or significantly improved product or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations."

A simpler definition of innovation suggests, "an innovation is something new that is successful in the market". The word 'new' is of key importance here: if what you are doing is not new to the market, it cannot be considered an innovation, no matter how important it is. At the same time, anything new isn't innovation unless it's successful. Ideas, that are not implemented successfully in the market, are inventions. They are still new, but they have never made it to the market. So another key word here is the word 'successful'. Innovation is a means to achieve companies' goals of being profitable and relevant to customers.

What are the different types of innovations?

In practice, there are many different ways to categorize innovation; for example the 10 types of innovations: **Business Model innovation, Network innovation, Structural innovation, Process innovation, Product Performance innovation, Product System innovation, Service Innovation, Channel Innovation, Brand Innovation, Customer engagement innovation**. Yet this is a rather complex way of looking at it.

The major distinction within the framework of innovation is between the two fundamentally different areas: **exploration** and **exploitation**. These two areas are very different with regards to mindset, working mode and KPIs. While exploiting is similar to the process of harvesting, exploring resembles the process of finding out what type of tree to plant.

3 various types of innovations can be matched to these 2 spaces. In the context of exploitation, the need for innovation is determined by increasing efficiency. This is known as **efficiency innovation**, otherwise referred to as incremental innovation. In this case, a company has a product, has a process, and tries to improve it using a new approach. So, it's an innovation based on small steps. Another type of innovation is **sustaining innovation**, which is at the intersection of exploration and exploitation. In this case, a company has a product/service/solution and develops it further by adding functionality it has never had before to increase its current value proposition. This way, companies try to remain relevant to their customers. And the last type of innovation is **transformative innovation**, otherwise known as radical innovation. The latter refers to the exploration continuum and aims to create a new value proposition in order to find very new business opportunities.

What is the relationship between your mindset and your innovation culture?

Managerial mindset is specific to exploitation culture in which management, systemic improvement, and growth of existing businesses are highly valued. The risk in this case is quite low. An entrepreneurial mindset corresponds to exploration culture. The latter is characterized by the discovery, validation and acceleration of ideas that are foreign to a company. In this case, the risk is very high.

How do the methods and tools differ in the areas of exploration and exploitation?

In big companies, when somebody has a new idea, the first question they get asked is: "Can you give me the business plan?". But this is the wrong mindset. A business plan belongs in the area of exploiting and is needed at the intersection between explore and exploit. But in the exploring phase, when a new, creative idea is proposed, the author can't tell how big the sales would be. He/she doesn't even know what the final solution will be. The authors of innovations are in continuous search: they build something, they test it, they change it, and they repeat their actions until they see clearly what their customers really need.

What are business mistakes companies make in the field of innovation?

The number one business mistake companies make when bringing something new to the market is "to build something nobody wants", which means that they do not take the real customer demand into consideration. The number two mistake is hiring the wrong people. Often, companies have wonderful ideas but lack the right people to drive them further.

Other mistakes are: lack of focus, failing at sales and marketing, not having the right co-founders, chasing investors and not customers, not making sure they have enough money, spending too much money, failing to ask for help, and ignoring social media.

The example of Amazon is quite interesting. Initially, Amazon built its web services platform, Amazon Web Services, for its own use only. But when they became successful, Amazon started selling them. Today, Amazon's web services make up 30% of Amazon's revenue. At the same time, many other ideas created by Amazon and introduced to the market, such as Amazon Local, Amazon Spark, or Amazon Fire, failed. This is the nature of innovation; you have to try out a lot of things before you can find new business.

> For every one of our failures, we had spreadsheets that looked awesome.
>
> **Scott Cook, American innovator**

How many projects do you need to start to get one mega success?

To achieve one mega-success like the Amazon web service, you need to start 250 innovation projects. Out of those 162 will just fail, 87 will be somewhat successful, and only 1 will be a mega success.

You can't pick the winner without investing in the losers. Because in the beginning, all projects you start look very promising, you can't see which one of them will be a big success. So, the only way of increasing your success rate is by increasing the number of projects you invest in.

What is the relationship between innovation and diversity?
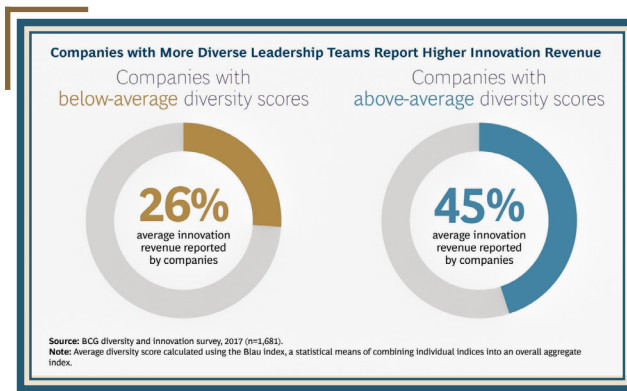
When the characteristics of the people involved in the innovation process of the company don't reflect the diversity of their customers, as all of them are of the same mindset, age, gender, and education, they won't be able to see the real needs of their customers.

To achieve success, companies should include people of very diverse backgrounds in their innovation process, so they will look at the same idea from different perspectives.

There are a lot of scientific studies that prove that there is a direct correlation between the diversity of a team and its success; the more diverse the innovation team is, the more successful it is.

What's even more striking is that you also need a diverse management team for innovation to be successful. According to the survey done by Boston Consulting Group, companies with below-average diversity scores in management teams have 26% average innovation revenue reported, while companies with above-average diversity scores in management teams have 45% average innovation revenue reported. So, it's a clear message to companies that by increasing the diversity of their management teams, they will ensure their financial success.

Boston Consulting Group also looked into different diversity criteria, such as age, gender, education, experience, and nationality, and found out that the one with the biggest revenue gain is indeed the previous industrial background. The second most important factor is gender, and the third one is different education.

Companies with More Diverse Leadership Teams Report Higher Innovation Revenue

Companies with below-average diversity scores

Companies with above-average diversity scores

26% average innovation revenue reported by companies

45% average innovation revenue reported by companies

Source: BCG diversity and innovation survey, 2017 (n=1,681).
Note: Average diversity score calculated using the Blau index, a statistical means of combining individual indices into an overall aggregate index.

Ulrike's experience at enhancing the participation of women in innovations at the German company KUKA

3 years ago, Ulrike's team initiated a major innovation campaign throughout the company and invited all employees to submit their innovative ideas. Approximately 500 ideas were submitted. Only two of them were submitted by women, while 20% of the company's employees were women. During the second campaign, only 3-4 ideas were proposed by women. The insufficient level of women participation was due to the fact that they did not think their voice would be heard. To improve women participation, Ulrike's team established clear rules promoting diversity within the organization and created a network for women as a platform through which they could speak their innovative ideas up. As a result, the participation of women in the innovative processes of the company increased by 180%. While it was difficult in the beginning to follow the rule that both genders need to be present in a team, gender balance is now the standard and enough women join the innovation projects.

A Chinese proverb says: "The best time to plant a tree was 20 years ago. The second best time is now".