



## The Nano Effect: Building a Culture of Innovation

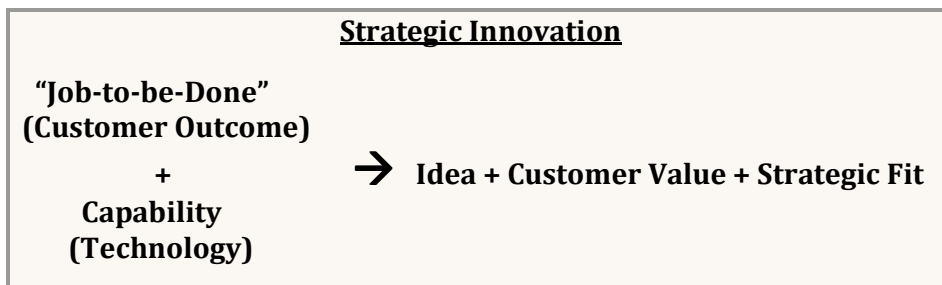
The wait is now over. The Nano has been launched. The perception of India as a creator of innovative products and solutions in the world has been notched up. Tata Motors with their capable people led by Chairman, Ratan Tata have proved their sceptics wrong. They have delivered a car for Rs. 1,00,000 (approximately USD 2500) which meets all safety and emission requirements. This marks a new wave in the world of automobiles just as Ford Model T did in the early 20<sup>th</sup> century. Many Indian companies will get motivated to take on similar challenges and lead their markets with new innovations in years to come.



But how does a company build a culture of innovation? What does it take to make such creative disruptions as part of an operating culture?

### What is Innovation?

The American Heritage Dictionary defines Innovation as “the act of introducing something new”. The Department of Trade and Industry in the UK defines Innovation as “the successful exploitation of ideas”. At BMG, we define strategic innovation as the ability of an organization to create customer value by effectively delivering the “**Job-to-be-Done**” through the transformation of creative ideas and thereby growing the business. In the case of the Nano, the “**Job-to-be-Done**” was to provide safe transportation to individuals at low cost. Tata Motors then used the power of innovation to create a product that is priced at less than 50% of what is available today. Creating and delivering new innovations for many companies will depend on their ability to define the “**Job-to-be-Done**” for their customers.



### Building an Innovation Culture

Several companies are able to bring out small innovations at different periods of their existence to bring new life to their businesses. Companies such as Kodak, Motorola, and

Xerox have come back from the dead in such attempts only to see themselves struggling yet again after a few years. The key challenge is not one big or one new idea every few years. It is about churning out new ideas year after year as part of the operating culture to stay ahead in the marketplace. Companies such as 3M, Apple, Toyota, Intel and others have been able to exactly this. They have been able to empower people to generate and implement new ideas at regular intervals to ensure their competitive edge in the market place.

**What are the various characteristics in these organizations that foster an innovative culture? How do the leaders in these organizations position each characteristic to create the necessary infrastructure and culture to promote innovation?**

**Characteristics that foster innovative culture...**

- **Setting the Direction**
- **Risk-taking Ability**
- **Ability to Abandon Projects**
- **Balanced Portfolio**
- **Methodology and Tools**
- **Short-term versus Long-term**

**Setting the Direction:**

Innovation fuels growth in business. It is therefore critical that for promoting innovation, organizations must articulate and communicate their BHAGS (Big Hairy Audacious Goals) clearly. This will provide the people within the organization the context and motivation to work towards innovation. The entire Tata Group has over the last few years set ambitious global targets for itself that none in the Group would have even imagined a decade ago.

Without such clear direction, it would not have been possible for Tata Steel to acquire Corus or for that matter for Tata Motors to develop the Nano. Setting a clear direction for the overall business and revisiting it time and again are essential to drive the motivation for innovation.

**Risk-taking Ability:**

Taking risk is not new to business. Risks of innovation are beyond just the financial. Four years ago when Ratan Tata set the goal of developing and delivering a car for under Rs. 1,00,000 (USD 2500), he took a huge personal risk and also raised the stakes within the business in terms of their engineering capabilities. The willingness of organizations to take on resource risks (sometimes huge financial risks), personal risk (of the leader), business reputation risks (staking the business)-all these motivate innovation teams to think out of the ordinary and make radical departures from current beliefs and practices. Over time these risks only increase. At the recent MacWorld show Steve Jobs introduced the MacAir Laptop. It fell short of expectations as the company has built a reputation of bringing to the market radical new innovations at rapid frequency.

**Ability to Abandon Projects:**

To successfully innovate requires emotional energy. While working on innovation projects,

teams get very emotional on the work that they are involved in. They invest endless time and energy to make things happen. Passions run high. Therefore, managing such groups is very critical. The ability of an organization to nurture projects effectively at various stages of creation, make tough decisions and manage the consequences is essential for building a successful innovation culture. It is therefore not surprising that at innovative companies the ratio of success to abandonment of projects may be as high as 1:10

### **Balanced Portfolio:**

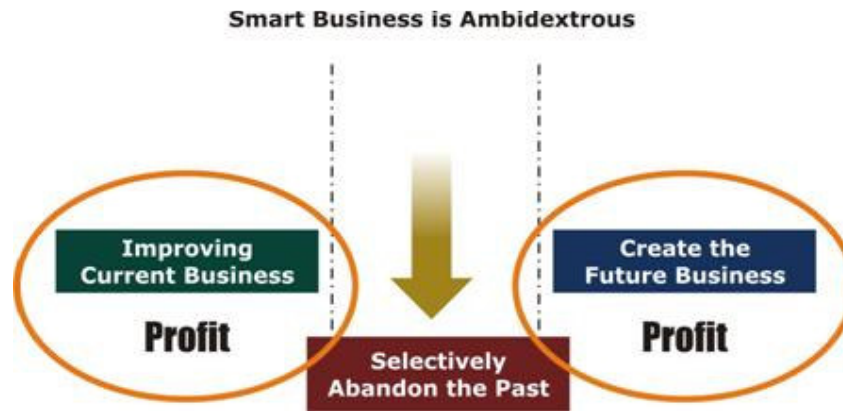
Not all innovation in business needs to be radical, the more radical the innovation the more the risks involved. Just as adding new product feature in a novel way for example the FM radio to the mobile phone can be considered an innovation, so can be a new method of delivery of service to the customer. An example of the latter is Citibank's Suvidha account in India. Innovation needs to be balanced across a continuum on business from incremental at one end to radical at the other. Further not all innovation has to be product-based. Much is written about the success of the iPod as an innovative product. A key factor that has been responsible for the soaring success of the iPod has been a business model innovation called iTunes. The infrastructure in the organization should work to promote, recognize and create a balanced portfolio of projects across the continuum to ensure greater participation, managed risks and ensure long-term growth of the business.

### **Methodology and Tools:**

Is there a method to the madness? Can innovation be taught? Or is innovation only the responsibility of the creative people in business? At BMG, we believe that like improvement, innovation has a methodology and there are tools and techniques that can be used to enable everyone in the organization participate on innovation projects. True some people are more creative than others and are able to generate radical ideas, however there are different expertises required to get new ideas to the market. We also need the logical thinkers who are perceptive to distinguish good ideas from others and are able to take these good ideas and convert them into a value for the customer. All this would require the company adopting a disciplined approach to innovation.

### **Short-term versus Long-term:**

Many innovation projects are investments in the longer-term and very often do not augur well on the company short-term performance. After all, the likely investment of over USD 1 billion on the Nano car project is a huge capital cost over the short-term and has only long-term benefits. It is quite unlikely that the investment will pay off within three years. This is not the first time that Tata Motors has taken a long-term view. In 1997, it bet on the Indica, their first foray into the passenger car market. Several investors and industry analysts downgraded the company. It is quite interesting that this time around, the same investors and industry analysts have given the company a strong positive rating. In his second stint at Apple, Steve Jobs took some time to establish the cycle of innovation going. Over the last 3 to 4 years, the company has rewarded shareowners handsomely in terms of market capitalization alone. Building an innovation culture requires managements to be able to balance the long-term with the short-term and make more radical investments in periods of short-term success.



Each of the above characteristics is important to build an innovation culture in business. It is quite likely that innovative ideas – small and radical will drive future growth in business and enhance your organization’s competitiveness. Is your organization ready to make the necessary investments to build and foster an innovative culture? As leaders of businesses, are you ready for it?

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**One in a series of thought articles from Breakthrough Management Group**

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