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Book essay on Unrelenting Innovation: How to create a culture for market dominance

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ABSTRACT

The book Unrelenting Innovation by Tellis (2013) is about building a culture of innovation within firms. This book essay makes an attempt to summarize, compare the propositions in the book that culture is the answer to achieving continuous innovation in firms. The well-researched book looks at three traits and three practices to reach to the right culture in an organization. The traits are developed over years of market dominance and the practices can be used to push the organizations towards the path of continuous innovation. The book is backed with research and case studies from firms which have succeeded at innovation and those which have failed. An alternate solution to the incumbent's curse!

1. Introduction

Understanding what makes firms successful is a question that researchers continue to try to answer. And the role of innovation in a firm's success was acknowledged by Peter Drucker in 1950s when he identified it as one of the two most important functions for a business (Drucker, 1954). Through the 80s and 90s there was a genre of books starting from 'In Search of Excellence' (Peters & Robert, 1982) to 'Built to Last' (Collins & Porras, 2002) which tried to answer the question. The book Unrelenting Innovation is one more attempt in the same direction.

The value of the book stems from the fact that the author has gone beyond the generic descriptors of innovation inhibitors to specific organizational wide initiatives which need to be adopted to promote innovation. According to the author culture is the answer to the innovation woes of a firm and building the right culture can promote innovation within a firm. Though this might seem as a one-stop solution to the complex problem of sustained innovation but then the solution itself is multidimensional and has been broken down into three traits and three practices.

The book tries to address the issue of continuous innovation through an inside-out perspective versus the usual outside-in perspective. Which essentially means that the solution to the challenge lies within the organization and not outside. The use of many psychological theories to explain the human angle of why people fail to produce innovations makes the book more readable. The book is also different from innovation studies specific to individual firms like a 3 M or a P&G, as it improves its generalizability.

Tellis (2013) manages to make serious academic research accessible to a practitioner who might not have access to academic journals or have the inclination to read through them. For a practitioner who wants to dig deeper into any issue, the extensive references given at the end of the book would help. The book essay after the brief overview of the book moves into the details of each of the chapters, which have been summarized, compared with similar work and towards the end an attempt is made to identify some of the shortcomings of the book.

2. Book structure

The book is organized into eight chapters over close to 250 pages with 40 pages of notes and references. The first chapter introduces the readers to the core proposition of culture of a firm. Tellis goes on to elaborate the culture thesis through a set of three traits and three practices. The three traits within a firm's culture is willingness to cannibalize current (successful) products, embrace risks and focus on future markets. And the three practices are empowering innovation champions, providing incentives and fostering internal markets. The remaining chapters elaborate each of these three traits and three practices along with cases and examples. The last chapter is devoted to comparing the culture theory with other popular theories on innovation.

The traits are the result of market dominance or "incumbent's curse" and gets built up over years of market dominance. The three practices can be promoted by senior management within the firms to try and build the right culture of innovation. The author says that the culture of a firm is very difficult to change and no managerial fiat can change the same so he recommends that the practices should move the firm

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in the direction of the desired culture. The general pattern of each of the chapter is that the first part is devoted to explaining the basic idea and then it is backed with elaborating elaborate case histories which support the idea proposed in the beginning of the chapter.

The author and his colleague's extensive work in the area of innovation management over the years forms the skeleton of the book, wherein each theme within the book is derived from one or two major researches which the author has conducted. The challenges faced in fostering innovation at the larger organizational level boil down to human challenges and the author therefore falls back on theories from psychology to explain the reasons and remedies. The next section details out the three traits and practices.

3. Book details

The first trait is the willingness to cannibalize successful products, which firms typically find it very difficult to do. A firm needs to cannibalize its own products because current products can only provide limited growth, along with issues related to the rate change of innovation, and the limitations of the acquisition model. There is a set of economic and organizational reasons which justify this inertia in firms. The issue has been identified by others also in their previous research, be it at a 3 M struggling with the issue (Von Hippel, Thomke, & Sonnack, 1999) or a Kanter (2006) identifying it as a tension.

The economic reasons stem from the upfront investment needed, long gestation periods and high failure rates. At the organizational level issues revolve around resistance from internal stakeholders and bureaucratic processes within organizations. Through the chapter the author does speak about the level of innovation, platform, design and component level, but the treatment given to the issue seems inadequate.

One of the key prescriptions which comes out of the discussion on the patterns of evolution is that one needs to support or at least monitor a portfolio of technologies rather than focus on one single technology. Another interesting observation is that in many cases the initial technology was with the incumbent firms and they failed to commercialize it. The examples used at the end of the chapter link up the concepts discussed with actual happenings within firms like Kodak and Sony. And result of successful handling of innovation at Gillette is also highlighted to show what can be achieved if enough attention is given to the issue.

The second trait Tellis discusses is the issue of embracing risk. Reasons for risk aversion originate from financial concerns that are associated with breeding innovation, in terms of investing without any assured returns. Five sources of risk have been identified; most of them concerned with increasing expenditure along with no assurance of returns or success, and longer waiting periods associated with most innovation projects.

Tellis brings in a series of psychological explanations like reflection effect, hot-stove effect and the expectation effect to explain the underlying reasons for risk aversion. Further in the chapter the three effects link up with type II error of missed innovations which are rated more serious than type I error of failed innovations. The three effects force more attention on avoiding type I errors and as a consequence end up making more type II errors. As with the earlier chapter, examples are used to reinforce the concepts starting with Toyota's success in the hybrid car space, Amazon and Facebook's success.

The third trait is ensuring a focus on the markets of the future. To emphasize this examples of many niche products which eventually went on to become mass market products are given at the beginning of the chapter. And the chapter also makes it clear initially itself that focusing on the future is not easy, and uses the help of four psychological biases for explaining why. The psychological biases described are the hot-hand, availability, paradigmatic and commitment bias.

In explaining the hot-hand bias, the growth of radically new products is shown to follow a reverse Z curve which essentially means that the sales would seem to be of low potential and of little consequence in the initial days, which would make most of the incumbent firms to under invest in the category or pull the plug too soon. The second is the availability bias, which is the bias where people wrongly provide higher probability for the occurrence of an infrequent event rather than of a frequent one, which may lead managers to discount important emerging technologies that could disrupt them in the future. Paradigmatic bias talks about the reluctance of people using a particular technology to appreciate the relevance of a new emerging technology. The last bias is the commitment bias, wherein the decision makers continue to invest in a failing venture with the false hope of recovering past investments even in the face of contrary evidence.

Though a lot of support is provided to emphasize the importance of focusing on the future but the example of a great innovator like Edison himself not being able to foresee the future belonging to AC not DC current, is bound to raise doubts in the minds of readers. The suggested ways to mitigate this bias is through models of predicting take-off, technological evolution and analyzing emergent consumers developed by the author and his colleagues. The paradox which is highlighted in these three chapters is that the very act of becoming a market leader makes you susceptible to the traits which would make it difficult for them to innovate. Which is very similar to what Theodore Levitt said in the 1960s in his classic article ‘Marketing Myopia’ when he said that “some that are now riding a wave of growth enthusiasm are very much in the shadow of decline” (Levitt, 1960). Next half of the book is about the practices needed to promote the culture of innovation within a firm.

The first of the three practices identified is incentives and its role in promoting innovation. The limitation of traditional incentives lies in the fact that they are based on longevity and seniority. They focus on increasing productivity and are not suitable for promoting innovation. Earlier in the book embracing risk is seen as a key trait for fostering innovation and traditional incentives are designed to reward success and penalize failure, thus they would discourage risk taking and promote conformance.

The prescription provided is to link the incentives to commercialized innovations and make them asymmetric; strong rewards for success and weak penalties for failure. This should promote trial and error within the firm which is again essential to encourage innovation. To emphasize the impact of properly aligned incentive examples from IBM, Google, 3 M are elaborated and that of a GM is also given to contrast the results of misalignment.

The second practice identified is the creation of internal markets within a firm, to promote competition internally. Going back to the reasons of why successful firms find it difficult to repeat their success is that they rely too much on bureaucracy within the firm, which is essentially meant to maintain status quo rather than promote innovation.

The reasons why firms need to consciously work on developing internal markets is to attract and retain innovators who otherwise would flourish independently outside the firm. Secondly it is also meant to retain more options internally in terms of technology. The third advantage of internal markets is that it motivates employees to give in their best. But then not everyone in the organization would be comfortable with the idea of internal markets, as it would promote competiveness within the firm. This increased competiveness within the firm might not be liked by employees who enjoy status quo, but would in turn attract the most enterprising and talented employees.

Idea fairs, research contests, commercialization contests, contest for internal start-up, competing divisions, autonomous units and divesture have been identified as means of creating the spirit of competiveness within a firm. The successful management of internal markets calls for determining how to incentivize them, which would ensure that it does not degenerate into destructive internal competition.

The conditions for setting up internal markets are when either multiple business models or technological platforms have to coexist with no certainty of success. The two additional conditions which would favor