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Strategy shift: Integrating strategy and the firm's capability to innovate

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Abstract Innovation is a key source of organizational growth and profitability. Many organizations at the front end of innovation struggle to engender an innovation approach that is effective and lasting. This article presents a framework that defines the interdependency of innovation and strategy, and then outlines the role of top management to continuously renew the positioning of the firm. Based on a synthesis of prior research—including the Dynamic Capabilities View, Innovation Orientation, and Disruptive Innovation Theory—and our own experience working with organizations, we present an operational strategy shift framework, which allows practitioners to increase, refine, and transform their firm's capability to innovate (CTI) toward achieving their strategic objectives. This framework provides guidance that leaders can use to integrate innovation into their strategic process.

"If all you have is a hammer, everything looks like a nail."

— Abraham Maslow (1966, p. 16)

1. A new framework for organizational practice

The 2017 Front End of Innovation conference in Boston, Massachusetts featured keynote speakers from some of the world's most innovative companies—McLaren, The Walt Disney Studios, 3M, Dolby Laboratories, and Procter & Gamble. The themes revolved around innovation best

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practices and five common traits emerged, including: leadership for innovation, a culture to support innovative thinking, the freedom to fail, the ability to pivot quickly, and the capacity to test new ideas effectively. These traits are at the intersection of strategy and innovation, but how can organizations maximize this interdependency?

Innovation is proving to be a reliable platform of renewed profitability for organizations (Bessant, Lamming, Noke, & Phillips, 2005), and it is important that practitioners understand what innovation can do for their firm. Innovations can impact ecosystems, business models, technologies, and practices and every organization needs to consider where—and in what configuration—innovation can have the greatest impact for them. Yet, challenges for many organizations remain. Due to competition and ever-changing customer preferences (Christensen, 1997; Porter, 1981), firm profitability is constantly under pressure and organizations are having difficulty responding. At minimum, innovations must be planned and incremental as sustainability is contingent on a constant source of new value creation. It is undisputed that firms must adopt an innovation approach; firms that do not innovate inevitably have poorer performance (Dobni, 2010; Drucker, 1985; Schumpeter, 1911). The game of innovation can never be considered complete.

There are many examples of organizations that can be admired for their innovation practices, including Smith & Wesson, Whirlpool, Mercedes-Benz, Boeing, and 3M. All of these organizations invest heavily in innovation and it is evident. In a way, innovation has become their strategy. Firms with superior performance achieve alignment between their strategy and their innovation platform (Elenkov, Judge, & Wright, 2005; Jaruzelski & Dehoff, 2007; Theodosiou, Kehagias, & Katsikea, 2012; Zhou, Gao, Yang, & Zhou, 2005). How can other less innovative organizations achieve this alignment?

This alignment relates to the orchestrated interplay between strategy and innovation. In order to advance a viable framework, it is important to understand the challenges faced by leaders and then provide them with something that will shift the way they think and act with respect to strategy. Such guidance allows practitioners to convert scientifically founded business concepts into practices that will enhance the organization's capability to innovate (CTI; Chandy & Tellis, 1998; Danneels, 2004; Kim & Mauborgne, 2005) by emphasizing the central role of management as a catalyst to unleash dynamic capabilities of the firm. With this in mind, we present the strategy shift framework (SSF).

2. The strategy shift framework

The SSF (see Figure 1) considers strategy and innovation as two sides of the same coin: conceptually exclusive yet interdependent. The key to integrating them most effectively and maintaining superior firm performance despite the increasing level of dynamism is the dynamic capability encompassed in informed management activities orchestrated to elevate the firm's CTI. Consequently, management activities are grouped around (1) the strategic positioning of the firm within the environment it chooses to operate in and (2) fostering the proper ecosystem for innovation to inform strategy.

Having identified this, it is time for change that is comfortable yet palpable and transformative. The SSF's primary contribution revolves around how an organization thinks and acts with respect to its strategy. In a sense, it comfortably disrupts traditional strategy approaches for which innovation is often an intangible tag-a-long and not a foundational dependency. For years, organizations have struggled to integrate employee insight and action into strategy formulation and execution. New approaches are long overdue.

The *strategy zone* of the SSF acknowledges that strategy setting is influenced heavily by the competitive dynamics of an environment and allows management to choose a path that involves linear and/or nonlinear innovations to achieve strategic objectives. There is no standard optimal strategy per se, but rather one that best fits the unique situation of the firm. However, it is paramount for managers to make these choices in full awareness of all opportunities to be considered. The strategy zone considers decisions regarding leveraging core competencies, market involvement, classical positioning tactics, and product and service offerings. For many organizations, this has become a routine process, one that draws from old-school fundamentals of strategy formulation and implementation. In our experience, nearly 100% of the effort in many organizations is focused on the current with little effort given to setting up strategy that is transformative, nonlinear, or potentially disruptive.

We propose that a firm direct a minimum of 10% of its efforts toward the elimination and reduction of redundant, non or limited value-added activities and an additional 10% minimum toward uncovering and tapping novel innovation opportunities. While it is central to this article that we leave it to management