Turning Innovation Into A System

Idea In Short

Before adding another idea to the pipeline, decide which innovation strategy the organization is actually running. A company without one is optimizing for activity, not results. McKinsey found that only six percent of executives are satisfied with their innovation performance. That gap reflects missing strategy, not a shortage of creativity. The immediate move is to commit to one or two of six recognized innovation types, disruptive, incremental, breakthrough, open, radical or sustainable, that fit the company's current position. Fund and staff that choice on purpose. Then build the communication habits and culture that let it survive contact with the organization. Skipping that step is why innovation programs produce workshops and slide decks instead of new revenue and why storied market leaders still slide into case studies about avoidable decline.

Every established company claims to prize innovation. The results rarely match the rhetoric. Only six percent of executives report being satisfied with their organization's innovation performance. Fewer than one in 10 startups ever reach a scale that could be called a success.1 Nokia, Yahoo and Hewlett-Packard all invested heavily in new products. All three still lost their footing. That record points to strategy, not effort or budget. Businesses that treat innovation as a discipline consistently beat those that treat it as a mood to encourage. A working strategy needs a clear objective, a funded process and an owner who answers for results. The rest of this piece covers what an innovation strategy contains. It covers the six approaches a company can pick from. It covers the habits that decide whether any of it survives contact with a real business.

Why Most Innovation Efforts Stall

The common explanation for failed innovation is poor execution. Execution problems are real, but they usually sit downstream of a deeper gap. A team without a clear innovation objective cannot tell what it is chasing. Is it incremental gains, a new market or a defense against a cheaper rival? So it chases all three loosely and delivers none of them well. Resources spread across pet projects instead of one chosen direction. The resulting portfolio looks busy without producing anything a customer would pay for. Peter Drucker argued decades ago that successful innovators share one trait. It is a commitment to the systematic practice of innovation, not a personality type or a flash of inspiration.2 That framing still holds today. Innovation behaves like any other business function once it has a plan. It needs a budget. It needs a person who answers for the outcome. It behaves like a hobby when it does not.

The failure pattern shows up clearly at companies once held up as the model of innovation in their industry. Nokia built the mobile phones that defined the category through the 1990s. It lost the market within a few years of the smartphone's arrival. The cause was not weak engineering talent. No internal strategy forced the company to act on signals it had already seen. Hewlett-Packard split, restructured and relaunched multiple product lines. It never settled on which kind of innovation it was actually trying to produce. The lesson reaches well beyond technology. A company that cannot state its innovation strategy in one sentence usually cannot execute one either. That holds no matter how much it spends trying.

What An Innovation Strategy Actually Is

An innovation strategy is the documented plan a company uses to pick which new ideas to pursue. That covers products and services alike. It sets how the company will fund and staff that pursuit. It also sets how the company will judge whether the effort worked. The strategy sits inside the broader business strategy, not beside it. It translates competitive goals into a specific approach for building and selling new value. It answers questions a wish list cannot. Which opportunities get resources. Which employees own the decision. What evidence will settle whether an idea should scale or die. Without those answers, a company funds whichever proposal was pitched most persuasively. That is rarely the one best aligned with where the business needs to grow.

A working innovation strategy typically includes several parts that reinforce one another.

1. A stated objective connecting innovation to the company's broader competitive goals
2. A process for sourcing and evaluating ideas from employees, customers and outside partners
3. Dedicated funding and staffing rather than leftover budget and volunteer time

4. Clear ownership, whether an individual, a team or a cross-functional group, accountable for outcomes
5. A culture that tolerates the failed experiments a real innovation process will generate
6. A commercialization plan identifying the target customer before the product is finished
7. A review cycle that revises the strategy as market conditions and results change

Leaving any one of these out tends to produce a familiar symptom. The company generates plenty of ideas but rarely gets a working product past internal committees.

> Innovation... is much more likely to happen when there is a rigorous process in place

That line echoes research on large-company innovators cited earlier in this piece. It explains why discipline matters more than inspiration. Companies that outperform their peers on innovation are not necessarily more creative. They simply run a process that turns creativity into decisions.

Matching The Strategy To The Business Goal

The type of innovation strategy a company picks should follow the business goal. It should not follow whatever framework is in fashion that year. A company bracing for a shift in its product category has a different job. That job differs from one trying to keep engineers happy with a stimulating place to build. Protecting existing market share sometimes needs steady, small improvement just to keep pace with a changing landscape. Growing market share might instead mean taking an existing product into a market the company has never served. Cutting cost through better internal process is itself a fair innovation goal. It frees up capital for the more ambitious efforts elsewhere in the portfolio.

These goals rarely arrive one at a time. Most companies end up running more than one innovation strategy at once. Each targets a different part of the business and carries a different risk tolerance. A leadership team should state plainly which goal each initiative serves before approving its funding. A project meant to protect current revenue needs one set of standards. A project meant to build an entirely new revenue line needs another. Once the goal is clear and its place in the wider strategy is settled, choosing the right approach among the six innovation types gets far easier.

Six Ways Companies Choose To Innovate

Organizations tend to draw from six recognizable strategies. Each suits a different starting point and a different appetite for risk.

Disruptive Innovation

Disruptive innovation introduces a product that is markedly cheaper, simpler or more convenient than the incumbent's offering. It usually starts by serving a segment the market leaders consider unprofitable. Uber's ride-hailing service and Airbnb's home-sharing marketplace both followed this arc. Each entered with a lower-cost alternative that established taxi and hotel operators first dismissed as a niche.3 The pattern typically unfolds over years, not months. The disruptor improves steadily from its overlooked foothold until it can compete for the customers the incumbent valued most. Executives weighing a disruptive strategy need patience. They must accept early revenue that looks small next to the existing core business. The payoff, when it works, is a market position the original incumbent cannot match on cost.

Incremental Innovation

Incremental innovation makes steady, small improvements to a product the company already sells. It stays the most common strategy because it is the lowest-risk way to keep an offering competitive. The yearly refinement of smartphone cameras, batteries and processing power is a clear example. No single release counts as a breakthrough, but the effect over several years adds up. This strategy suits companies defending a strong market position. They need to justify why customers should keep buying from them rather than switch to a newer entrant. It rarely creates a new revenue category on its own, but it protects the revenue a company already has. That is reason enough to keep it funded.

Breakthrough Innovation

Breakthrough innovation produces a genuinely new product or service that reshapes an existing market. It goes further than simply improving what was already there. The first commercially viable personal computer and the first mass-produced electric vehicle (EV) both qualify. Each marked a fundamental change in how people did a task. None was just a faster or cheaper version of an old tool. This type of innovation demands sustained investment and patience through a long development timeline before any commercial return appears. Companies pursuing it typically isolate the effort from day-to-day operating pressure. A breakthrough project judged by quarterly results rarely survives long enough to succeed.

Open Innovation

Open innovation invites external partners, startups, universities and even competitors to contribute ideas and technology. It does not rely only on an internal research and development (R&D) team. Procter & Gamble built its Connect+Develop program around this idea. The company sources a meaningful share of its new products from outside inventors and licensing partners, not its own labs alone. Fast Company's annual ranking of the world's most innovative companies regularly features such organizations. They build partnership networks to reach ideas beyond their own walls.4 The approach works best when a company has strong distribution and manufacturing muscle. It suits a company with limited capacity to generate every idea itself. It requires legal and cultural comfort with sharing intellectual property and credit. That is often the harder barrier to clear than the technical one.

Radical Innovation

Radical innovation introduces a product, service or process that fundamentally changes how an activity gets done. It often creates an entirely new industry rather than reshaping an existing one. The personal computer, the internet and the smartphone all fit this description. Each built a market and an economy that did not exist before. Radical innovation demands the heaviest research spending among the six strategies. It also demands the greatest willingness to risk capital on an idea that may find no market for years. Few companies can sustain this kind of bet alone. They need a portfolio of smaller, lower-risk projects generating revenue alongside it. The strategy rewards patience and scale over speed. Building an entirely new market takes longer than improving an existing one.

Sustainable Innovation

Sustainable innovation designs new products, services or business models around environmental and social outcomes. It does not treat those goals as a separate initiative layered on top of an unchanged core business. Patagonia's clothing line is a frequently cited example. It is built around organic cotton, recycled polyester and Tencel lyocell fibers. Its sustainability commitment shapes the product itself, rather than sitting alongside it. Deloitte's research on corporate innovation notes that breakthroughs increasingly come from unexpected parts of a business. That includes functions once seen as cost centers rather than growth engines.5 Sustainable innovation strategies are gaining ground for a plain reason. Regulators, investors and customers expect them now, not merely favor them for good publicity. Companies that treat sustainability as a design constraint from the start tend to build more durable advantages. Those that bolt it on after the product already exists tend not to.

Embedding Innovation Into Corporate Strategy

Choosing a strategy type answers only part of the question. Even a well-chosen strategy fails without an organization built to carry it out. Global research on corporate innovation keeps finding the same pattern. Innovation flourishes where executives actively manage and defend it. It stalls where leaders talk about innovation in speeches but decline to change how resources or performance measures actually work. Getting an innovation plan onto senior leadership's real agenda makes it far easier to turn strategy into daily operating decisions. That requires performance targets attached to the plan. Employees notice fast whether an innovation goal shows up in how they get measured. They also notice when it only gets mentioned at the annual meeting. Three organizational habits decide whether the gap between stated intent and daily practice closes or widens.

Building Communication Pathways

An organization's capacity to innovate depends heavily on how freely ideas move. People carry different knowledge and different ways of solving problems, so the flow between them matters. Strong internal networks let a manufacturing insight reach a marketing team. They let a customer complaint reach an engineer, without a formal committee brokering the exchange. Fresh ideas tend to spark further ideas once they start circulating. That is why companies with dense internal communication routinely outperform those where information sits locked inside functional silos. Building this kind of network takes deliberate effort. It runs from cross-functional project staffing to informal forums. In those forums, employees can raise a half-formed idea without first proving it works. A leadership team designing an innovation strategy should treat these pathways as infrastructure worth funding. They are not a byproduct that appears naturally from a good org chart.

Shaping A Culture That Rewards Risk

A workplace that punishes failed experiments will see fewer of them proposed. That holds no matter how generous the innovation budget looks on paper. Employees calibrate their behavior to what actually gets rewarded and penalized. A culture genuinely supportive of innovation recognizes people who pursued a reasonable idea that did not pan out. It does not reward only those whose ideas happened to succeed. Building this culture often costs little beyond consistent leadership behavior. Appreciate an employee's idea publicly. Give that person room to pursue it rather than routing it through months of approval. The alternative is a culture that quietly discourages risk while officially celebrating innovation. It produces employees who stop bringing ideas forward at all. Any innovation strategy that skips this cultural piece is missing the condition that decides whether the rest of the plan gets attempted.

Using Prototypes To Test Ideas Fast

A prototype turns an abstract concept into something tangible. It can be tested, criticized and either advanced or dropped within weeks rather than months. This approach works as well for a small business with no dedicated research function as it does for a large company with a full R&D department. The value lies in speed, not sophistication. Testing a rough version of an idea against real customer reactions exposes flawed assumptions far earlier than a polished business plan would. It costs a fraction as much too. Companies that build prototyping into their standard process treat a failed prototype as useful information, not a wasted investment. That keeps the broader innovation pipeline moving instead of stalling on any single idea. Making this practice routine, rather than saving it for a handful of flagship projects, often makes the difference. It separates an innovation strategy that produces results from one that produces meetings.

Executives who put these three habits in place give their organization a real shot at the six percent club. That requires a clearly chosen innovation type too. Those are the companies that can honestly say their innovation spending pays off. The strategy sets the direction. The communication pathways, the culture and the discipline of prototyping decide whether the organization can actually walk it.

- 1The eight essentials of innovation
- 2The discipline of innovation
- 3Disruptive innovation: definition, types and examples
- 4The world's most innovative companies of 2023
- 5Innovation

Summary

An innovation strategy turns a company's appetite for new ideas into a repeatable system. It needs a clear objective, a process for testing ideas, dedicated funding, accountable ownership and a culture willing to absorb the resulting risk. The six recognizable strategy types, disruptive, incremental, breakthrough, open, radical and sustainable, are not competing philosophies. They are different tools for different starting points and most companies run more than one at once. None of it holds without communication pathways that move ideas across silos, a culture that treats a failed prototype as data rather than embarrassment and senior leaders who measure innovation instead of merely praising it. Executives who install these mechanics on purpose turn innovation from a recurring slogan into a durable source of growth.