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Corporate Renewal Through Innovations

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Corporate Renewal: What is it?

- for better business decisions -

- Corporate renewal is a process of **adjusting the business model and making the dramatic changes needed to meet the expectations of investors and other stakeholders, and to position the business for survival.**
- As such, it may require a change in management and a change in business strategy.
- **Earning more than your cost of capital is a critical benchmark and goal for corporate performance and renewal efforts.**
- Business units that can not earn their cost of capital must be renewed through downsizing or sale.

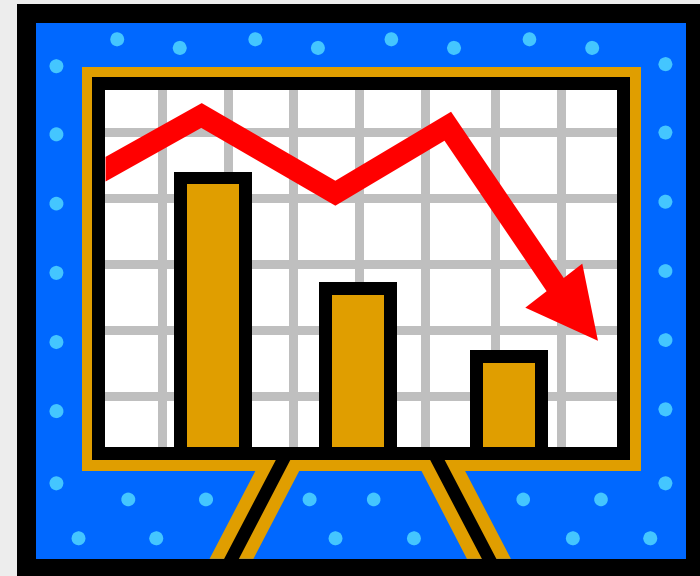
Corporate Renewal: What is it? (cont.)

- for better business decisions -

- In addition to ongoing changes in the business model and the strategies of the business units, **continuous corporate renewal requires ongoing succession planning and constantly upgarding organization's skills.**

Corporate Renewal - Traditional Timing

***Corporate renewal
too often starts
when
the pressure from
owners and other
stakeholders
is increasing.***

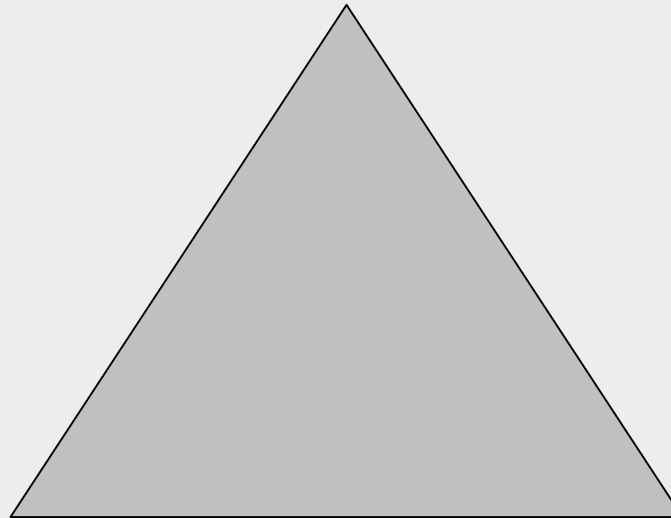


Corporate Renewal: Who needs it?

- for better business decisions -

INVESTORS, OTHER STAKEHOLDERS

**HIGH
RETURN
COMPANIES**



**LOW
RETURN
COMPANIES**

Environmental Framework for Renewal

Environment	Action	Result
If customer needs are changing	<i>Innovate</i> new services better than competition	Maintain higher margin and grow new product sales
If global competition offers similar products at lower prices	Reduce cost and provide better service	Maintain margins; reduce loss of sales
If new technology improves performance	Adopt new technology better than competition	Maintain margins and sales

Source: Euromoney Institutional Investor PLC, Spring 2005

- Corporate renewal takes place through the following processes: strategy formulation, strategy formation and strategy implementation.
- On the venture level the renewal processes are learning, leveraging and nesting.
 - ➔ continuous renewal recommended
i.e. institutionalizing corporate renewal in the strategy process of the company.

Source: Doctoral Dissertation of Sari Kola-Nyström, LTU, 2005;
In search of corporate renewal: How to benefit from corporate venturing?

Innovation:

What is it and what is it not?

- *"Innovation is a commercially successful, essentially new or an essential improvement of a system, process, method, product, or service, which has been widely accepted into use.*
(Autio et. al, 1991)
- **Innovation is the specific instrument of entrepreneurship. The act that endows resources with a new capacity to create wealth.**
(Peter F Drucker)
- *"Innovation is materialized competitive advantage".*
(Peltonen, 2007)
- Innovation is an opposite to imitation.

Characteristics of Innovation

- R&D transforms € to knowledge.
Innovation transforms knowledge to €
- We need
 - to know **customer future demand**
 - cross-scientific approach
 - competition
 - high level skills
 - right timing of market launch to support the born of innovations.
- Risk taking is typical for innovation - the precondition



Characteristics of Innovation (cont.)

- Innovation and stability do not work.
→ "We need **innovation and mobility** in Europe".
(Aho, SITRA, 2007)
- **Intellectual capital** and consequently, **investing in people** are in the core.
- **How can we use existing competences in a different manner?**

Innovation traps

<i>Type</i>	<i>Manifestation</i>	<i>Intellectual antecedent</i>
Performance trap	Excellent performance	Success trap
	Very poor performance	Failure trap
Commitment trap	Keep experimenting	Weakness of will
	"Big opportunity"	Self-confidence trap
Business model trap	Weak signals ignored	Options trap Competence trap
	Innovations shaped to conform	Power trap

Source: Boundary Setting Strategies for Escaping Innovation Traps by Liisa Välikangas and Michael Gibbert, MIT SLOAN MANAGEMENT REVIEW, Spring 2005

Some Barriers to Innovation

- **monoculture**
- **organizational structure**
- **a lack of real long-term commitment and support of the top management**

Categories and Means of Innovation

Categories

- products
- processes incl. business processes
- services
- systems
- methods

but can also be:

- new design
- brand etc.

Means

- **Corporate venturing:**
 - internal
 - external
- **Intrapreneurship** = corporate entrepreneurship, a major driver for organizational renewal

*Example:
Tata Steel, India*

We have to enlarge the traditional concept of innovation.

Success in Corporate Renewal

- **Successful renewal is complex and typically requires dramatic changes.**
- **Maintaining the proper balance between growth and profitability in a changing world is critical to renewal** regardless of the industry.
- Management usually needs to change financial targets, metrics, customer focus, levels of productivity, culture and internal processes to sufficiently improve profitability.
- **The goal is to provide cash returns acceptable to investors over the long period.**
- Successful renewal efforts result in a new business model that can earn cash flows at or above the company's cost of capital and then resume growth to build value.

Failure in Corporate Renewal

- **All too often a renewal falters when growth is resumed before a profitable business model is firmly in place.**
- **The growth at the wrong time can destroy value and renewal efforts.**
- **Retaining or building market share has proven costly.**
- Surgically shrinking, knowing how and when to refocus on a more profitable business model may make a difference between a success and a failure.

Board's Role in Corporate Renewal

General Principles

1. Corporate renewal, strategic planning and risk assessment need to be done at the business unit level.
2. The Board needs to be sure that the people accountable for implementing the renewal efforts are those who developed and presented and believe in plan.
3. The output of the corporate renewal, strategic planning and risk assessment process must identify key performance metrics and be easy to communicate.
4. Senior management working with the Board of Directors must adapt the planning process to the skills and capabilities of the management group and the Board.

Board's Role in Corporate Renewal

General Principles

5. Directors and management need to have open debate on the renewal efforts and plans and how they reflect the realities of the internal and external environment. At some point leaders need to stop debating and start doing.
6. Directors need to encourage management to install a process to quantify the magnitude and likelihood of alternative strategies and risks.
7. *Renewal plans that can not be executed are meaningless.*
8. When execution fails to earn an acceptable return on capital, directors need to encourage management to dig below the surface and renew the organization and strategies.

Board's Role in Corporate Renewal

General Principles

9. In order for strategies to be effective they must be communicated up and down the organization.
10. For-profit businesses as family-owned and non-public corporations (not listed) require different approaches to renewal, strategic planning, and risk assesment.
11. Non-for-profit and governmental organizations such as hospitals, commissions, and boards of trustees, should use different approaches to organizational renewal, strategic planning and risk assessment.
12. Directors must continually monitor progress against plan and support efforts for continual improvement and renewal.

Source: Journal Of Private Equity, Special Turnaround Management Issue, Spring 2005

Corporate Renewal Through Innovations

Board can have a specific role in Corporate Renewal through Innovations.

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Corporate Renewal Through Innovations should be a continuous process.

*

We should be able to identify the innovation traps and find solutions to avoid them.

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We need to enlarge our view of innovations.

We need to understand our customers' businesses and their future needs.

We need people who think in a different way and are able to work together.

We need real innovations to support long-term profitable growth!



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