



Innovation X

Why a Company's Toughest Problems Are Its Greatest Advantage

THE SUMMARY IN BRIEF

The word *innovation* is one of the most widely used — and misunderstood — terms in business. What used to be a means to create a successful enterprise, improve the lives of customers and make the world a better place has been distorted to become an end in itself — usually nebulous in definition and almost always immeasurable.

Clearly, innovation is broken. But innovation is not the problem. The problem is the problem — and the solution.

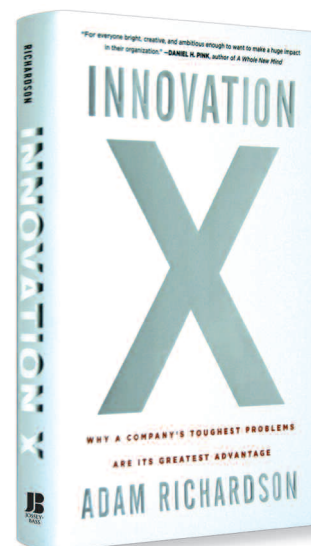
In *Innovation X*, Adam Richardson, creative director at frog design inc., defines a new class of business problems — X-problems — tough new challenges that thwart conventional planning but present massive innovation opportunities.

Grounded in insights about rapidly changing customers, competitors and technologies, *Innovation X* outlines a proven process for translating customer insights into relevant innovations.

Challenging conventional wisdom, this summary shows why companies must start crafting solutions before they fully understand the problem, how standard customer-focused approaches hinder innovation leadership and that “wasteful” innovation provides greater efficiency. Featuring case studies from leading companies, *Innovation X* offers business leaders and managers the information and tools they need to accomplish truly effective innovation in today's disruptive climate.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create innovation strategies that will work in dynamic markets.
- How to use a simple but powerful framework to harness customer insights and open new advantages.
- How to integrate systems of products, online experiences and services to stay nimble in a fast-moving environment.
- How new tactical methods can help organizations face emerging business challenges.



by Adam Richardson

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THE COMPLETE SUMMARY: INNOVATION X

by Adam Richardson

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Introduction

A mysterious entity called *dark matter* takes up over half the universe. Though it has been theorized about for decades, until recently no one knew whether it existed at all. Scientists believe it is the glue that holds galaxies together, but we do not know what it is made of, where it comes from or why it exists. Current astrophysical instruments cannot detect dark matter. The only way to identify its shadowy presence is by observing the influence it exerts on visible matter, such as how it alters the orbits of planets.

In the business world, something equally enigmatic is interfering with our ability to be consistently successful at innovation. Though hard to define, its effects are clear enough: newly released products that fail to achieve the desired goals, competitive advantage, new customers, and revitalized brands and organizations that struggle to find a focus and identity amid turbulence and ambiguity.

The Problem Is the Problem

Attempts so far to systematize innovation have failed, and innovation processes are often haphazard in structure and frustratingly unpredictable in their success rates. The word innovation itself is so widely overused that it has lost its meaning. Innovation has become an end in itself rather than the means to create a successful business, improve the lives of our customers and make the world a better place.

Clearly, innovation is broken. But innovation is not the problem.

The *problem* is the problem.

This means that the scope and complexity of problems that businesses must solve have changed, and we lack

the tools not only to diagnose them but also to focus our innovation efforts to be more consistently successful. This new breed of innovation challenges can be called *X-problems*, and they arise from the collision of several factors:

- *Disruptive competition and blurring of industry boundaries* as companies leap into each other's spaces, diversifying beyond their core strategies into realms previously reserved for partners or adjacent companies
- *More demanding customers who place a higher premium on the experiential qualities* of using a product — ease of use, how it makes them feel, how it fits into their lives, what it communicates to others — that go above and beyond familiar objective criteria like performance and price
- *The need to create integrated systems of physical products, software, online experiences and services* that work as a single whole; often these integrated systems are the keys to expansion beyond core areas, as well as to meeting customer needs in ways impossible from a more isolated offering

Remarkably, companies in all industries and geographies are dealing with this same combination of simultaneous challenges. It seems that everyone was caught off guard. These multifaceted problems are the dark matter of the business world — pervasive, yet hard to see except by their effects: organizational confusion and frustration, and innovation efforts that fail to meet expectations (if they make it to market at all).

While considerable attention has been given to the *internal* reasons why organizations fail at innovation, *external* factors — the dramatically increased complexity of the problems themselves — are at least as much to blame. If an organization has an optimized innovation process but a poor understanding of the problem, all it is



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doing is getting the wrong answer to market faster. Up to a point this is actually OK — it turns out that you have to put “wrong” stuff out into the world to understand what “right” is — but obviously no one wants to be doing this on a prolonged basis.

This calls for tools that clarify the problem and help focus innovation efforts more productively. ●

Prologue

Hewlett-Packard (HP), the storied Silicon Valley firm founded by William Hewlett and David Packard, started life as a manufacturer of oscilloscopes — lab instruments for measuring electrical signals.

From these humble beginnings in 1939, HP has become a \$100 billion computing and consumer electronics giant. It has massively diversified its products, particularly with the turn of the millennium, expanding from its core business of PCs, printers and “big iron” computers for large companies into such areas as online photo storage, IT integration services, logo design services and calculators.

The company has a long legacy of technology innovation — its slogan after all is “Invent.” Any of these innovations could be fodder for growth. But given the uncertainties of HP’s new direction, which innovations were the right ones to fund and bring to market? That question used to be simple, but it became complicated.

Even as the company expanded, it needed to improve how different groups worked together.

Managing Massive Opportunities

HP’s situation is emblematic of the complex challenges that many companies face today as they struggle to get returns on their innovation investments. It illustrates a variety of factors that commonly cluster together, collectively causing great risk and uncertainty but (when managed correctly) opening up massive opportunities for growth and giving a company control of the rules of competition in its industry.

These are the key factors:

1. The boundaries of the business are no longer clear. HP has consistently sought out new areas to push a core set of technologies and capabilities, giving it a very diverse portfolio.
2. Understanding customer needs is more vital than ever, both to revitalize the low-margin businesses and to understand what new innovations and products will be compelling for customers in the expansion areas. As it enters new markets, HP must understand the competi-

Why Call Them X-Problems?

The letter X is evocative of many things that apply to these types of problems:

X is extreme: X-problems are extreme in risk and complexity.

X is mysterious: Every X-problem revolves around questions that have never been asked before, or challenges that are unprecedented.

X is a crossroads: A crossroads is a place where things converge — and diverge outward. At a crossroads one must make a choice among paths, each of which could entail risk or opportunity.

X means opportunity: X marks the spot for treasure — the winnings that come from finding the problem and capitalizing on it before others can.

tive landscape and what customers expect from everyone, and which customer needs are going unmet that HP can uniquely address.

3. Multiple products and services must be integrated: Customer demand is shifting from individual products to integrated systems of hardware, software and services.

4. There is no clear right or wrong answer, and the optimal answer will only emerge over time. Indeed there is little agreement on what the problem is, let alone how to tackle it. At the same time, competitors are in a similar situation, and the pressure grows to find an answer before they do. Whoever finds it first will reap the rewards (at least, that’s the assumption), so slowing down is not an option. HP has been a significant player in the PC category for many years, but as prices have worn down over time it has sought ways to increase margins by tapping unmet needs. Its line of Touchsmart PCs, which feature large, flat-panel touchscreens that house all the components of a traditional PC (doing away with the standard box), is one example. HP’s persistence paid off with a product that sells in smaller numbers but delivers margins many times those of traditional PCs.

These tough problems are becoming the norm, and HP is far from unique in facing them. Together, the four factors create massive complexity that stands in the way of effective innovation and obscures paths for new opportunities. We need a new approach to innovation that tackles this complexity head-on, and that’s what the Innovation X framework was developed to do. ●

Living in an X-Problem World

Innovation effectiveness should be your goal, not just *innovation quantity*. Effectiveness comes from selecting specific innovations to develop based on a clear understanding of what you want to achieve in your business and which opportunities you wish to pursue. Turning out lots of innovative ideas and products without a vision just saps precious resources.

Opportunities for companies come from recognizing and solving problems that no one else has identified. But opportunities themselves are getting harder to spot and more complex to understand and exploit.

Companies must increasingly look for niches, emergent trends, latent customer needs and narrowing competitive gaps. Profiting from any of these requires expensive and difficult efforts to understand and develop products for them; create the marketing, sales and support channels; and establish a brand presence.

As HP's experience illustrates, companies are increasingly expanding into each other's spaces in unexpected ways, customers are becoming more fickle and demanding, and integrated systems of products and services are superseding stand-alone offerings.

These complex problems cannot be solved by simply improving the products you already have and selling them to existing customers. You need to make a significant — even drastic — shift in what you make, whom you sell it to, the value proposition of the product or how you help customers with their unmet needs.

Wicked Problems

Wicked problems are a class of problems involving high levels of ambiguity, complexity, risk and social discord. This concept was first identified in the 1970s by two professors of urban planning, Horst Rittel and Melvin Webber. The challenge with wicked problems is that neither the problem nor the solution is known. How can you define a good solution when you cannot even state what the problem is? That is the conundrum of wicked problems.

Rittel and Webber identified a variety of characteristics that define a wicked problem:

- *There is no definitive statement of the problem, and each solution reveals new aspects of the problem.*
- *Since there is no definitive problem, there is no definitive solution.*
- *Each wicked problem is risky because it is unique, and it's hard to test or simulate solutions ahead of time.*
- *There are many stakeholders with different perspectives on the problem and how to resolve it.*

X-Problems

X-problems incorporate all the characteristics of wicked problems but shade them differently, sharpen the focus from the generic wicked problem definition and add some new elements.

Several factors differentiate X-problems from wicked problems:

- The presence of competition, and competitors that are getting more and more diverse
- The need to satisfy more demanding customers and provide superior customer experiences
- The need to integrate products of diverse types and origins into comprehensive, coherent systems for customers
- Clarity about the problem emerges slowly, as with wicked problems, but iterative approaches to solving them are necessary, in contrast to the one-shot deal of wicked problems. ●

The Innovation X Framework

The *Innovation X framework* is specifically about how to explore the landscape of an X-problem and then create valuable innovation based on it. Four methods make up the framework: immersion, convergence, divergence and adaption.

The four methods can be thought of as bundles of specific research and analytical tools, coupled with principles for how to use them. The Innovation X methods work together to help you understand the X-problem, identify and prioritize innovations, and guide development of marketable solutions based on the innovations. They do this in several ways:

- By creating clarity about the X-problem by dimensionalizing it and giving it as much structure as possible at any given time
- By enabling deep insight into the surrounding context — customers, competitors, brand, retail, organization and so on — that gives a thorough understanding of possible innovation options
- By showing how your products and their surrounding experiences are meeting — or not meeting — customer needs, and where there are opportunities to meet new needs, expand the ways you can engage customers and reach new customers who you have never addressed before
- By describing the boundaries of your business domain and where it can be strengthened and stretched in new directions
- By creating adaptability as solutions are put out into

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the world, the X-problem becomes further understood and new solutions are created and modified

- By providing ongoing tracking of emerging opportunities and threats

It is useful to start with a quick look at how the whole framework fits together.

Immersion. Immersion brings together a multitude of factors: competitors; comparative companies and products; your company's own business, capabilities, brand and values; broad cultural and economic trends; and technology enablers internally and externally.

Immersion provides the knowledge foundation from which the other methods draw.

Convergence. Convergence is crucial to addressing the challenge of customers seeking integrated solutions and systems rather than isolated products.

Convergence means the integration of multiple components (hardware, software and services), customer interaction points and enabling technologies to deliver functionality, benefits and experiences that would be impossible from stand-alone products.

Divergence. If convergence is about bringing different parts of a business together around a common focus, divergence pulls in the opposite direction and seeks to create a wider view for new opportunities.

Successful divergence means ensuring that innovations that shift the boundaries of your business still align with opportunities and goals. Because customers are getting more demanding, products pioneering new territory for a company still must deliver high-quality customer experiences, which makes entering new markets harder.

Adaption. *Adaption* is a term from biology that refers to the process by which organisms gradually adjust as their environment changes. Here, the changing environment is the emerging X-problem. Adaption is vital for ensuring that innovations match up to opportunities and to business goals.

While the other three Innovation X methods help you build your understanding of your environment and identify opportunities and threats, the adaption method focuses on flexible development of new innovations and feedback loops to course-correct over successive iterations of prototypes and launches.

All for One, One for All

To sum up, you can think of the four methods like this: Immersion develops an understanding of how the world *is*; convergence and divergence conceptualize how the world *could be*; and adaption looks at what the world *is becoming* (that is to say, the ever-changing gap

between *is* and our desired *could be*).

The Innovation X framework is designed so that all four methods happen largely in parallel. Each method tackles a different aspect of an X-problem and is interdependent with the others. The framework is most effective when the methods can influence each other. ●

Immersion

How can you improve your peripheral vision as a business and gain a fuller understanding of an X-problem? You need to immerse yourself in as wide an array of information as you can, and then you need to detect the patterns within it that point to the shape of the X-problem, new opportunities and possible threats.

You might assume immersion means delving into the lives of end customers so that you can better understand how they use your products, and gain insight into their unmet needs. That is true, but if that is all you consider, you are missing out on some important information.

Multi-Vector Research

A fuller 360-degree view will allow you to reap the most rewards. This is called multi-vector research because it involves researching the X-problem from several directions and then synthesizing those vectors to uncover insights. A typical set of vectors includes customers, competitors, complementers, comparatives, brand, organizational toolbox, technology, retail and trends.

On the surface there is nothing particularly unusual about any of these vectors. Multi-vector research becomes powerful when you pursue all the vectors at the same time, with the same team, and with a mixture of qualitative and quantitative tools.

Use a Multi-Vector Team to Do the Research

Assemble a multidisciplinary team to do the multi-vector research and the subsequent analysis: engineering, marketing, design, sales, business and the rest. This means that all the relevant perspectives are included and can be aligned. All the participants should be as familiar as possible with the research from every vector, and they should participate in analysis of vectors that are outside their specialty. This provides as many fresh perspectives as possible.

Looking at all the vectors at the same time greatly increases the speed at which the complexities and interconnected factors of the X-problems can be understood, and affords the team members maximum flexibility for adjusting as their understanding of the problem changes.

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The best core insights come from connecting the dots across vectors, not from looking within a vector (that is, within a single data type). By looking across all the relevant vectors at the same time, you maximize the chance of making those unexpected connections. ●

Convergence

Convergence here means the integration of multiple products (hardware, software and services) and customer touchpoints to provide functionality, benefits and a customer experience that would be impossible in a stand-alone product.

Convergence can be very difficult to pull off well due to the level of complexity involved, the tight coordination across multiple organizations that is required and the difficulty of creating a shared understanding of what you are trying to accomplish with the converged system, today and in the future. If done well, however, convergence provides a bulwark against competitors, simply because the difficulty of doing it successfully deters others. Convergence also provides the systemic underpinning that facilitates expansion of your business domain into new areas.

Touchpoints and Ecosystems

Companies often struggle to understand how to approach convergence in ways that will create value for them as well as their customers. A first step to successful convergence is understanding and controlling two related things:

- *The ecosystem:* The collection of products, technologies and other components that together create the functionality of the offering. For example, the Kindle's ecosystem consists of the e-reader device, the Whispernet communication network and the online store.
- *The touchpoints:* All the points where customer and company intersect over time, from a customer's becoming aware of the company's products to buying and using them. Collectively the touchpoints define the *quality of the experience* of the offering.

The goal with convergence is to make all the elements of an ecosystem and related touchpoints work smoothly together in order to provide a compelling experience that meets customers' needs and creates a distinctive and defensible offering in the market.

Convergence helps deal with several aspects of X-problems: having to deliver integrated systems rather than stand-alone products; increasingly demanding customers who want higher-quality, more seamless experi-

ences; creating differentiation in competitive markets; and making innovation efforts more effective by setting boundaries and defining focus areas.

The point of convergence is making existing ecosystems and touchpoints work better. ●

Divergence

X-problems occur most frequently at times of volatility and transition. It is at such times that the divergence method of the Innovation X framework becomes important. Several paths may present themselves, but each has upsides and risks that are hard to quantify ahead of time. Divergence is about seeking out new customers within your existing market and appealing to them in new ways, finding new markets to expand into or expanding your footprint in the ecosystem to deliver products in new ways.

During these periods, it becomes harder to say what the domain of your business is. Long-held truths about who your customers are and what their needs are get called into doubt. Understanding adjacent domains is also harder because, although they may be tempting areas for expansion, their very adjacency means they are often suffering the same shock waves of volatility.

Mapping the Domain

A first step in divergence is to understand what you are diverging from. For that you need to have a clear understanding of your business domain.

A domain can be thought of as the playing field available to you. By defining the domain more concretely, you can see the true dimensions of the playing field and new areas to expand into.

A company's domain consists of three things:

- **Organizational Toolbox.** This term describes the collection of capabilities and knowledge at your disposal in multiple ways. This includes your core competencies and capabilities, core insights, intellectual property and proprietary technologies, driving values, brand equity, past experiences, and past products or product concepts.

- **Products, Ecosystem and Complementers.** Collectively this area covers the products and product lines you make; how they are integrated with other products (yours and others'); and complementary physical, service and software products.

- **Customer Needs.** Enabled by your toolbox capabilities, your products and ecosystem address the various kinds of customer needs (functional and experiential, met and unmet, stated and unstated). For divergence it is vital to take a needs-based view of your customers rather

than a more traditional demographic segmentation approach.

Divergence often goes hand-in-hand with convergence: Diverging into new areas of capabilities can open up new ways of competing and new markets but can also entail greater integration of touchpoints or ecosystem elements. ●

Adaption

The emergent nature of X-problems is what makes them so difficult. The problem you are trying to solve is not fully or even partially defined at the outset, and the very act of solving it uncovers new dimensions that were previously unknown. In some cases, the problem itself can change *because* of the solutions you have created.

Like evolution, adaption is about continually evolving to thrive in a dynamic environment. This requires several capabilities:

- An ability to perceive the environment as it is today, predict how it is changing and spot opportunities, threats and areas where you are not ideally suited (missing on customer needs, wrong system model, gaps in domain capabilities and the like)
- An ability to be flexible at responding to changes in the environment with new products, adjusting your mix of capabilities and partners as needed
- A feedback loop to see whether the changes have made you better or worse adapted than before

Earlier parts of the Innovation X framework have looked at how to be successful in the first area: building a thorough understanding of the emerging context, finding opportunities within it that can be used to focus innovation efforts and spotting unexpected threats. All are critical capabilities for planning strategy and developing a product. But they are equally important once a product launches.

Two other factors are also part of adaption: flexibility during development and establishing feedback loops between the changing environment and your development organization.

Flexibility

It is common practice to do rapid prototyping of individual hardware or software products, but in a convergent system context it's necessary to think in terms of iterating the whole system in a coordinated and integrated way so as to understand its behavior and the total experience it will deliver for customers. This approach is called *rapid systeming*.

All elements of the system should be treated in an iterative and flexible manner. All can be adjusted over time as the X-problem becomes better understood, with careful attention to cascade effects between them.

Feedback Loops

It took many years for electric windows to change from being luxury items to standard features on even the least expensive cars. But today's demanding customers expect that shift to happen much more quickly. Tracking the ever-changing gap between expectations and actual offerings on the market is crucial in dynamic categories. Companies must establish robust feedback loops to monitor the gap, or else risk becoming detached from customer needs.

Here are some tools that work well for filling a feedback loop with input after product launch:

- *Ethnography, journals, usability testing*: Meet with people using the product and see how well it is working for them, what new needs arise and how their behaviors have changed as a result of having it.
- *Surveys and focus groups*: Continue to conduct these periodically to get updates on perceptions and trends.
- *Customer collaboration*: Find the most vocal customers and talk to them.
- *Brand perceptions*: How are customers seeing your brand differently since the launch?
- *Retail*: Spend time with customers shopping for your product and with sales staff who sell it. ●

Strategy

X-problems present companies and their leadership with some challenging strategic questions related to how to define what the company is about and where to focus; how to understand needs of demanding customers and stay ahead of sophisticated and unexpected competitors; how to prioritize innovation efforts; and, ultimately, how to decide what to make that will create revenue by answering these questions.

There is no single right answer. What worked well yesterday may not work well today and in the future. The preceding sections laid out some approaches, tools, frameworks and examples that provide a sense of a way forward and that allow the dissection of an X-problem into more manageable subproblems.

Running through all the methods are challenges that will affect how you approach immersion, convergence and divergence:

- *Managing an innovation portfolio* and assessing relative

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risks and investment levels of innovation ideas. Too many companies still treat small experimental initiatives at the periphery of the business as riskier than big, expensive initiatives focused on the core business. Remember: Failed concepts can become food for future efforts.

- *Working with ecosystem partners* to solve the X-problem and deploy solutions. When tackling an X-problem's many unknowns, having partners who can build up experience and perspective through several iterations is a big benefit.

- *Identifying high-priority ecosystem investments* that will provide long-term advantage and open up market opportunities. Over the long term, ecosystems work best if all the participants gain from them, and not just the originator reaps all the rewards. Authors Marco Iansiti and Roy Levien argue that ensuring partner success was part of what helped eBay thrive, and ignoring it contributed to the downfall of Enron. eBay's auctions helped make others successful, while Enron's electricity trading schemes scraped off most of the profits and left little for the partners.

- *Dealing with commoditization of categories* as products improve to meet customer expectations. Geoffrey Moore, a longtime watcher of Silicon Valley, believes that companies that thrive on complexity are better off seeking out the next level of complexity once their category has shifted to commoditized components. ●

Organization

Because of their dark matter aspect, X-problems can lurk in an organization without being seen directly while causing many indirect side effects. Indeed, X-problems are sometimes first recognized only by their symptoms, such as confusion over where the business is going (or even what business you are in), or over who to consider competitors, or multiple perspectives on product and market planning with no agreed-upon criteria for decisions and numerous innovation pet projects lacking a unifying logic. Tracing these symptoms back to their root will uncover the X-problem.

Gaining insight into the X-problem requires the collaborative efforts of many people coming from different disciplines with different backgrounds and expertise.

The tighter integration needed for the more comprehensive experiences customers are demanding means that business units and departments must work together in ways they never have before. The need for a rapid systeming approach means that iterative development must be coordinated across multiple groups, in contrast

to rapid prototyping, which happens largely in isolation.

It should be everyone's role to facilitate the feedback loops that are vital to adaptation in a complex world. Remove the separation between planners and doers, for with X-problems the complexity is too high for any one person (or discipline) to understand or bring the necessary knowledge to the table. ●

Truths

Here are four basic truths about what it takes to succeed with X-problems and to carry out the Innovation X methods effectively:

Truth 1: Customer experience is everyone's business. The nuances of end-user experiences reflect larger decisions about strategy, business model, outsourcing, development process, empathy for customers' needs, brand and organizational values. The customer experience mentality must be top-of-mind for everyone.

Truth 2: Not everything that counts can be counted, and not everything that can be counted counts. This basic truth comes from a sign in Einstein's office. Unfortunately there are important factors that stubbornly resist, for now, easy measurement.

Truth 3: Talent matters. When solving difficult problems, you need a combination of visionaries and ditch-diggers, stubborn idealists and open-minded pragmatists, people who seek ambiguity and broadening options, and people who strive for clarity and option reduction.

Truth 4: It starts at the top. Leading an organization living through an X-problem is stressful and difficult. You as a leader set the tone for how the changes are handled. Difficulty, complexity, interdependence, ambiguity, risk — these are not things to be avoided in an X-problem world; they must be embraced. It is only by taking them on that you will outwit the competition with valuable but unexpected products that charm their way into customers' hearts. ●

RECOMMENDED READING LIST

If you liked *Innovation X*, you'll also like:

1. ***The Ten Faces of Innovation* by Tom Kelley with Jonathan Littman.** Kelley and Littman demonstrate how a culture of continuous innovation and renewal can be nurtured and sustained.
2. ***Leading the Revolution* by Gary Hamel.** Forge a path of innovation in your company. Hamel shows how to innovate in product, service and more.
3. ***The New Age of Innovation* by C.K. Prahalad and M.S. Krishnan.** The authors offer a strategic plan to transform business processes to be able to smoothly connect consumers and resources and at the same time manage the necessities that ensure efficiency and flexibility.