

# Executive Book Summaries®

## The Innovation Edge

How Large Companies Lose It and How to Get It Back

by Merle Symes



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### THE SUMMARY IN BRIEF

Innovation is at the core of successful companies. Ironically, the more successful they get, the less innovative they become. And this is the surest path to failure.

In *The Innovation Edge: How Large Companies Lose It and How to Get It Back*, Merle Symes shares a hopeful vision: that any company can regain its spirit of innovation. As product life cycles get shorter and competition looms, even from former third-world countries, there is no option but to step out of the comfort zone and relearn how to be an innovative organization.

Symes shows how change must happen from the very core of the company management and culture, and spread out to all employees. The book teaches effective ways to become less risk-averse and create a culture where innovation is the essence of every system and business process.

### IN THIS EXECUTIVE BOOK SUMMARY:

- Find out why big corporations tend to become less innovative.
- Understand the why embracing the risk mindset is essential for innovation.
- Discover the principles that promote innovation at every level of the company culture.
- Learn why innovation is the key condition for success in the 21st century.

### Introduction

Large, mature corporations struggle to be the source of the next breakthrough innovation. Fundamentally, mature businesses need to find a way to rediscover that ability to create major innovation. Strategic innovation cannot be accomplished with business-as-usual methods. A full transformation takes time and significant effort. However, there will be things you can do to create immediate small successes. These smaller successes will build into larger successes. With time, your organization will begin to feel the energy that comes from seeing and experiencing innovation on an ongoing basis.

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### Chapter 1: The World Is Changing... Dramatically

Companies of today are facing a turbulent, rapidly changing world. Product life cycles have become highly compressed. Companies in emerging economies are now becoming dominant players in world markets.

The ultimate irony is that all large corporations began their existence being highly innovative. Something, however, happened along the way and they failed to maintain that ability to continuously innovate.

The only way that mature companies can achieve dramatic change that will propel them into these new forms of themselves is strategically oriented innovation. We will break down the elements of innovation, analyzing how it originates within entrepreneurial ventures. We will show how large corporations can regain the Innovation Edge.

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### Chapter 2: Innovation – The Only Sustainable Competitive Advantage

All managers strive for growth. The real difficulty is managing today's growth while simultaneously initiating those actions that will assure tomorrow's growth. Without innovation, the competitors are locked in a commodity trap where prices and margins begin to decline, and growth disappears. The essence of growth, then, is innovation. Innovation needs to become almost second nature to an organization. When that happens, it creates what we call an Innovation Organization.

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### Chapter 3: How Larger Companies Lose Their Ability to Innovate

Much of the evolution of large organizations took place

in the twentieth century, which saw the emergence of the very large corporation. The most obvious impediment to innovation is the sheer challenge of size. This is very apparent when comparing with small entrepreneurial companies and how fast and easily they move. The meetings in those companies are often “hallway” meetings, and decisions are often made on the fly.

Allow us now to contrast this with the large corporate organization. Decision-making is a much more complex process. Managers must convince their managers, who must convince their managers and so on before pursuing any significant new opportunity.

Beyond the impediment of sheer size is the S-Curve Paradox. This paradox comes from the fact that, at the very point in time that an organization should be most attuned to looking for new opportunities, it is the point in time when they are least inclined to do so. As a result of this feeling of success, the management team is much less inclined to feel the need to innovate. As organizations become mature, highly profitable, and comfortable, a risk aversion mindset begins to creep in. As the organization reaches a certain level of success, nobody wants to be the one who screws it up by attempting something new and bold.

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### Chapter 4: Beginning the Journey – Ascending the Levels of Organizational Innovation

While every organization is different, they fall into one of several levels of innovation:

#### Level 1 – Slow Death

This type of organization has been doing things the same way for a very long time. In some areas, it may recognize that it needs to change but does not know how to begin. In many cases, it is unaware that there could be different and better ways to do things.

#### Level 2 – Traditional Mindset

This organization is like the Level 1 organization in that it is not innovative as an overall organization. It is different in one aspect, however, in that it actually demonstrates the ability to develop major new innovative products, at least on an occasional basis.

#### Level 3 – Emerging Awareness

The Level 3 organization is usually self-aware and often

# Innovation and risk are essentially two sides of the same coin.

understands some innovation principles but hasn't fully developed the competencies that allow it to provide ongoing, consistent innovation. They are experimenting—often with mixed results—but with results nevertheless.

## Level 4 – Innovation Organization

The Level 4 organization generates innovation in all parts of the organization from all members of the organization all the time. Innovation is at the core of everything it does. It is never fully comfortable with today's successes.

There are essentially four areas of change that must occur to create an Innovation Organization:

1. Building a New Management Mindset
2. Creating an Innovation Culture
3. Establishing the Processes, Systems, and Structures
4. Developing the Skills and Competencies

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## Chapter 5: Forming the Core – Building a New Management Mindset

The management team must undergo a significant change in mindset. Innovation and risk are essentially two sides of the same coin. An organization cannot successfully become a highly innovative organization without learning to manage both sides of that coin. For most organizations, the risk side is the least understood of the two.

### Chapter 5A: The Risk Mindset

Strategic innovation is a move into uncharted territory. That means that managers cannot rely as heavily on previous experience.

This makes managers extremely uncomfortable. All managers prefer certainty. In many cases, managers will tend to shy away from anything that is associated with high levels of risk, no matter how attractive the longer-term potential returns.

Well-run organizations learn from failure and go on to succeed. Likewise, organizations that are enjoying long

stretches of success are putting themselves in the position to eventually fail. The paradox is that failure can help create success, and success can lead to failure.

Strategic innovation projects are characterized by the fact that they are journeying into unknown areas. As a result, these types of projects can contain a number of major unknowns (risks), one or more of which can cause the project to result in total failure.

For these reasons, a different management model is needed—both for managing the organization as a whole and for specifically managing strategic innovation projects. The principles for managing strategic innovation initiatives are what we call Active Risk Management:

#### 1. The Concept of Big Enough and Promising Enough

It describes not only the potential financial impact but also the strategic impact. It may represent the next major paradigm for the industry.

#### 2. Intelligent Failure

Intelligent Failure is potential failure that is anticipated as part of an ongoing, methodical planning process. Failure is never desired, but if it happens, it still moves the organization another step forward.

#### 3. Utilizing the Asymmetric Cost Curve

It is derived from the fact that all strategic innovation projects experience lower levels of cost at the beginning of the project and much higher levels of cost toward the end of the project.

#### 4. Attacking the Biggest Risks First

This completely changes the order and the nature of the project. Many of the steps that would normally come later are moved earlier in the project, and they utilize the principle of Intelligent Failure.

#### 5. Taking Bite-Sized Risks

When attacking the biggest risks first, it is important to break down that major area of risk into its subcomponent risks and

then determine which of those represent the most critical areas of uncertainty. You can then focus on eliminating or, at minimum, reducing that uncertainty to manageable levels.

### Chapter 5B: Introducing the Proof Point Process

All these principles come together to create a new, very specific project management process that we call the Proof Point Process.

The Proof Point Process is structured around key action steps. We refer to each action as an Advancing Action. Each Advancing Action propels the project to the next Proof Point, which will lead to the next Advancing Action, etc. In an ideal world, each Advancing Action will prove what was hoped for in the next Proof Point, and the project will continue under the original assumptions. The real-world results in different types of Proof Points that may be experienced.

For example, with very early-stage initiatives in a completely new arena, the management team may not know the ultimate form of success that could result from some new thinking. In that case, the earliest and most fundamental Proof Points will be Knowledge Points. The project managers do not know for sure what to expect and don't have a clear idea as to what the next Advancing Actions should be until they get to that point, but the Knowledge Point will give them a clearer idea as to the next step.

If the Proof Point indicates that an initiative still appears to be viable but not on the pathway originally defined, the Proof Point becomes a Pivot Point. A Pivot Point represents a change in direction for the initiative. It means that some of the initial assumptions were not correct.

Occasionally, the Advancing Action is not a good indicator and doesn't provide needed insight. This becomes a Redo Point, and the process needs to be backed up, improved, and redone. We would be remiss if we did not include the Stopping Point. This occurs when the management team has gotten strong indications that the project is not viable. At this point, the management team must make the decision to shut down the project.

### Chapter 5C: Managing a High-Reward, High-Risk Portfolio

Fundamentally, several key and unique principles must be acknowledged and followed when managing a strategic innovation portfolio.

1. Not all of the high-potential, high-risk projects will be successful.

2. Project management of these projects must be structured around the major risks of the project, and these must be eliminated or reduced as much as possible in the early stages of the project through a Proof Point Process.
3. Capital is allocated to these projects in stages as they reach certain Proof Points.
4. If one project starts to look much more attractive, more resources are diverted to that project and away from other projects.
5. If projects begin to look less attractive or marginal, resources are diverted away from them, and such projects may even be put on hold.
6. If major hurdles emerge and alternate pathways to success cannot be found, the project is shut down.

Using active risk management principles, the portfolio will contain more active projects than in a traditional portfolio—projects that are still at their lower cost point. They will be de-risked to the point where it becomes clearer which will succeed and which will fail. At that point, they will be converted to traditional projects, and full resources will be committed.

Some will point out that there is a cost associated with these risk management approaches. That is correct. It must be recognized that all risk management tools have a cost for managing or mitigating risk. This is why it is only used on higher-risk, higher-potential projects.

### Chapter 5D: The Innovation Mindset

Several major management shifts in mindset must take place to successfully manage innovation:

1. Moving beyond “more of the Same, Harder, Better”
2. Managing value creation along with value capture
3. More probing, more experimenting, more challenging of assumptions
4. Innovation from everyone, everywhere, all the time
5. Empowerment and alignment versus command and control
6. Lower the boundaries, flex the structures, and redefine the roles
7. The four Cs – communication, cooperation, collaboration, and coordination

Innovation has to be a mindset. It cannot be some program that is “bolted on” to the side of the organization. It has to be an integral part of every aspect of the business.

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## Chapter 6: Developing the Capacity for Innovation – Creating an Innovation Culture

Innovation needs to become part of the DNA of an organization. That means that it needs to become part of the organizational culture. Once a management team has developed the mindset for innovation, it must develop the organizational culture for innovation. To change the culture, one must first become consciously aware of the elements that comprise the current culture. One can think of organizational culture as having layers. The bottom layer serves as the foundation of culture, and it forms that invisible subconscious that exists in every organization.

The values and beliefs that comprise the foundational layer of culture are manifested in the next layer—organizational behavior.

Necessary values:

1. Mutual trust and confidence
2. Diversity of thought
3. Continuous learning
4. Openness to constructive challenge (not just change for change’s sake)

Necessary beliefs:

1. All people are creative
2. Roving leadership (leadership is separate from management and at specific times all members of an organization can exhibit leadership)
3. The superiority of collective vision – groups of people are almost always more successful in deciding which of many ideas generated to move forward

4. Risk is necessary, and intelligent failure serves a critical purpose
5. The fundamental nature of ideas

Changing the management mindset has to be the first step in the overall transformation, but it needs to be closely followed by changes to the culture.

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## Chapter 7: Setting Up the Machinery – Establishing the Processes, Systems, and Structures

For an Innovation Organization, once the management mindset has been reset and the necessary cultural changes are in progress, the third area that must be addressed is the organization’s infrastructure. It serves as the very nuts and bolts of innovation.

Strategic innovation processes must be designed to do the following:

1. Generate or identify ideas and capture them within a system.
2. Evaluate and select the ideas with the greatest potential.
3. Provide the necessary resources to develop, test, and refine the ideas.
4. Provide the leadership and the means to move promising ideas through an implementation process to successful innovation.

### Chapter 7A: Establishing a Total Innovation Process (TIP)

There are fundamentally three engines of innovation:

1. Spontaneous Innovation - developing a well-defined and well-designed process for capturing the ideas generated by all the minds. Its purpose is to harvest all those random ideas and assure that they are reviewed and given serious consideration.

Spontaneous Innovation requires three essential elements:

- A proper culture and environment that is conducive to creativity and innovation
- Motivated members of the organization
- A source of inspiration.

2. Innovation by Design ® - is about utilizing certain processes and techniques to stimulate creativity in areas of strategic focus and originating innovation that can help the organization become more successful.

This process typically begins with a strategic discussion within the management team - Defining the Area of Opportunity. The second step is about Seeing Differently. The remaining steps include a step for Idea Generation and Refinement, followed by methods for Evaluation and Narrowing. The last step is the Decision Making and Implementation step for choosing those ideas that are worth exploring in more depth.

3. External innovation - refers to various processes for finding and utilizing ideas that originate outside of the organization.

### **Chapter 7B: The Innovation Implementation Process – Converting the Ideas to Innovation**

The implementation process can be generally subdivided into three subprocesses.

We refer to the first subprocess as the Incubator Phase. At this point the organization utilizes active risk management and the Proof Point Process for de-risking the biggest risks.

The Turning Point represents the beginning of a major transition from the exploratory stage to a more traditional project - the Broadening Phase.

The last phase is the launch. It is the time for that last major push to make it a reality.

### **Chapter 7C: Redesigning Existing Processes, Structures, and Systems for Innovation**

The major shifts in new product development have to be the following:

1. A significant shift to more strategic innovation projects
2. The implementation of a Proof Point Process for managing these projects
3. The conscious management of a portfolio of such strategic innovation projects

When designing measures for innovation, there are fundamentally two types of measurements. The first is some way

of measuring the progress toward transforming the organization into an Innovation Organization.

Over time, a second type of measure will become more predominant. It determines how effectively the organization is producing successful innovation. The first can be thought of as a progress measure and the second as a performance measure. There is a wide range of opinions about whether innovation needs to be incentivized and, if so, in what form.

Intrinsic rewards refer to those rewards that come from within oneself—generally in the form of satisfaction, enjoyment, or fulfillment that is derived from engaging in some activity.

Extrinsic rewards come from an external source. They are rewards that are typically received in exchange for doing something. Extrinsic rewards tend to cause people to do only what is necessary to get the reward. Even when the incentives are structured around innovation, there is a strong possibility that the incentives will work against innovation.

The selection criteria will be especially critical for hiring managers in an Innovation Organization. Beyond individual traits, we believe that an Innovation Organization in general will tend to hire differently than traditional organizations. Innovation Organizations value diversity of thought and will, as a result, try to find that diversity.

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## **Chapter 8: Enabling the Capabilities for Innovation – Developing the Knowledge, Skills and Competencies**

Most organizations simply have not developed the competencies needed to make innovation happen on a sustainable basis. The primary skills that are needed are managerial skills because they are the critical skills to guide an organization toward becoming an Innovation Organization.

Some of the most critical of these managerial skills are noted below:

- Active risk management and intelligent failure
- Project management for strategic innovation initiatives
- Managing a portfolio of strategic innovation opportunities
- Ambidextrous management – managers must learn to simultaneously manage value creation and value capture
- Empowerment
- Roving leadership

- Change management for innovation.

Divergent thinking versus convergent thinking - Business managers are so heavily trained to be convergent thinkers—to make decisive decisions quickly, to get to the end result as quickly as possible—that divergent thinking is often discouraged or squeezed out of business conversations. As a result, new ideas are not explored, and innovation does not naturally emerge.

Seeing differently, creativity tools - While a “creativity tool” can be something as simple as a mind game, it can be something as involved as a detailed analysis of a supply chain or an in-depth study of the customer. Any of these can create new thinking and creative insights.

It is time to take organizational learning to an entirely new level - the Advanced Learning Organization:

Learning as Discovery - It is about the learning that occurs when venturing into truly new territory and uncharted waters. In a sense, it represents perpetual curiosity.

Learning to Unlearn - The most challenging aspect of the Innovation by Design® process is the process of “unlearning” because previous learnings prevent us from originating and considering something totally different than what we currently know.

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## Chapter 9: The Coming Age of Innovation

There is one additional consideration that needs to be taken into account. Not pursuing strategic innovation opportunities presents its own risk. It is much better that your organization be the source of that change and not just reacting to

someone else’s innovation initiative.

The simplest paradox for managers to manage is the paradox of divergent thinking versus convergent thinking. These two ways of thinking are opposite in nature, but an organization must be skilled at using both.

Related to divergent thinking is the need to develop diversity in thinking. The more diversity in thought that exists within an organization, the more creative, the more innovative it will be.

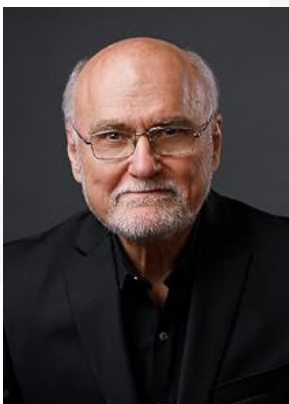
The ultimate paradox is that you often must fail in order to succeed. If you are never failing, you are not learning, and if you are not learning, you are not developing the knowledge that will get you to the next successful innovation. The beauty of innovation is that it creates an excitement that tends to feed on itself. It becomes sustainable.

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## The Final Word

The twenty-first century will be notable as a period of time when professional managers learn how to produce innovation in a consistent, repeatable manner. It will be the Age of Innovation because the knowledge, the skills, and the tools are emerging that will allow the art of innovation to become the science of innovation.

Innovation Leadership is about taking an organization to a point where it develops the repeatable ability to move to new paradigms. This becomes the ultimate form of renewal and sustainability ... it becomes the Innovation Edge.



**Merle Symes** leads The Provenance Group, a consultancy renowned for transforming organizations to excel amid modern business turbulence. With extensive experience in executive management and strategy development, he specializes in innovation, agile and adaptive frameworks, and strategic process redesign.

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