Organizing to Innovate

Building Your Innovation Capability

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Innovator’s Guide to Growth:
Putting Disruptive Innovation to Work

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CHAPTER 9

Organizing to Innovate

Many of the case studies of established companies that have successfully created new growth businesses detail a single success. The companies that have gotten it right once or a handful of times—such as ING when it created its rapidly growing ING Direct offering, Motorola when it caught the mobile phone market off guard with its ultrathin RAZR phone, and Procter & Gamble when it established whole new categories with products such as Swiffer, Febreze, and Crest Whitestrips—surely demand respect and admiration. Managers of the success stories know all too well how hard it is to fend off the forces that make the creation of innovation-driven growth businesses so very tricky for market-leading incumbents.

The punishing thing about innovation, however, is that the contest never ends. Create a new market, and other companies join the race. Parry one threat, and up pops another attacker hungrily eyeing your opportunity space.

Success, then, requires going beyond winning once to developing deep capabilities that allow a company repeatedly to disarm disruptive threats and seize new opportunities. To achieve this goal, companies need to organize in ways that maximize their ability to leverage individual wins and churn out successful growth businesses year after year.
This chapter describes how companies can build innovation structures that help them address specific innovation challenges and surround those structures with appropriate systems and mind-sets.

**Create Structures Conducive to Innovation**

“Organizing to innovate” is no small task. It goes beyond providing one team with sufficient resources and autonomy to pursue a specific idea. It is about creating an environment in which carefully developed teams can reliably examine, prioritize, and develop an array of growth opportunities.

It is also important to note that “organizing to innovate” is different from “organizing for R&D.” Innovation goes beyond research and development. A properly structured innovation engine considers new business models, creative financing approaches, unique partnership strategies, and of course more traditional technology levers.

There are countless ways of organizing to innovate. At one extreme is Procter & Gamble’s FutureWorks division, a fully staffed team dedicated to identifying, developing, and seeding new growth platforms for the corporation. At the other extreme, is the Learning & Development unit within agrichemical giant Syngenta. The small unit’s goal is to build the innovative and leadership qualities of the company’s executives and managers. Large companies often—appropriately—have multiple innovation structures working simultaneously.

There is no one-size-fits-all way to organize for innovation. Rather, companies need to ensure that the structures they create are appropriate given the innovation challenges they face.

Generally, a specific structure can achieve one of four strategic objectives.

1. **Stimulate** innovation by broadening awareness and building skills.

2. **Shepherd** innovation by championing innovation efforts and removing obstacles that would otherwise limit the potential for innovative ideas to succeed.
3. *Spearhead* innovation by providing the resources and environment to take ideas from concept to commercialization.

4. *Strengthen* innovation and enable growth by building alliances, acquiring capabilities, or investing in innovative efforts outside the organization.

The first three objectives relate to innovation structures that exist within an organization. The fourth involves strengthening these and other existing structures through strategic relationships with external parties.

The following section discusses each of these strategic actions, explains the circumstances that warrant a particular type of structure, and provides sample structures; table 9-1 summarizes these elements.

**Training Units and an Advisory Board to Stimulate Innovation**

Companies seeking to stimulate innovation typically believe that their organization has the right basic infrastructure to commercialize innovative ideas. However, they recognize the need to improve the organization’s ability to spot opportunities and develop winning growth businesses. Specific signs that companies need to stimulate innovation include a lack of compelling growth ideas and a strongly internal perspective on innovation. To address these challenges, organizations can form training units or advisory boards.

*Innovation training units* help to build innovation-specific skills and culture. They methodically build the skills and change the mind-set of core personnel, thus stimulating internal innovation. Since they are generally outside the organization developing the primary product or service, they tend to serve a consultative role within the organization.

A training unit may reside within an established training infrastructure or exist as an autonomous group of specialized, innovation-focused resources. Training units should seek to develop company- and industry-specific case studies to help connect innovation concepts more closely with managers. While few organizations can cite a litany of disruptive success stories, every company has a few case studies that help illustrate the power of the disruptive principles. These training units should also
be a link to external resources to spot information and tools that could be appropriate for the core organization.

Our experience suggests that training units work best when they interact with teams that are actively wrestling with innovation challenges. These teams could be project teams seeking to develop and commercialize a new idea or senior leadership teams seeking to craft a coherent innovation strategy. Active teams can immediately apply key learning, providing deeper retention of core innovation concepts and ensuring lasting impact on the organizational culture.

**TABLE 9-1**

**Innovation challenges and structures**

<table>
<thead>
<tr>
<th>“Weak” link in innovation process</th>
<th>Specific innovation challenges</th>
<th>Strategic requirement</th>
<th>Potential structures</th>
</tr>
</thead>
</table>
| Identifying opportunities        | • Ideas are insufficient to achieve growth goals.  
• Most ideas are sustaining.  
• No common language of innovation exists.  
• External perspective or awareness is limited.                                                                                                           | Stimulate innovation       | Training organization; external advisory board |
| Prioritizing and resourcing opportunities | • The organization has a sustaining mind-set.  
• Growth ideas lose traction.  
• Resources are routinely pulled from growth efforts.  
• New growth initiatives are passed up to focus on the core.                                                                                   | Shepherd innovative ideas | Growth council; intrapreneur fund |
| Shaping and building new businesses | • Sustaining approaches win out over disruptive strategies.  
• Disruptive ideas fail to reach their full potential.  
• An inability to manage uncertainty foils growth attempts.  
• Good ideas routinely fail to become good businesses.                                                                                      | Spearhead new growth businesses | Incubator; autonomous growth group |
| Launching businesses and leveraging strengths of others | • Ideas flounder due to lack of channel support.  
• It is difficult to scale up new ventures.  
• A lack of capabilities limits success.  
• External alliances and partnerships are underused.  
• The organization’s value chain position makes value capture difficult.                                                                 | Strengthen external innovation efforts | Corporate venturing unit; business development group |
As already mentioned, Syngenta has a dedicated department to enable managers and teams to develop capabilities. In 2007 it created an innovation course to help teams successfully conceptualize and commercialize disruptive growth businesses.

Innovation advisory boards serve as vehicles to expand the organization’s innovation perspective. Typically, advisory boards comprise fewer than ten people. These may be outsiders—consultants, customers, suppliers, academics, or other thought leaders—as well as a handful of key internal representatives. An ideal advisory board includes representatives that can provide input into the full range of innovation levers—business models, management approaches, and technology—making it distinctly different from groups commonly formed as a means to enhance R&D. Advisory boards tend to interact with companies in a relatively unstructured way, enabling idea sharing and open dialogue.

Infineum, a multibillion dollar joint venture between ExxonMobil and Shell, created a small advisory board in 2007 to help it tap into external trends. The board includes the CEO and leaders from the unit’s technology, intellectual property, supply chain, and human resources functions, as well as external advisers. The board has a semistructured dialogue with leaders of Infineum’s growth initiatives on a quarterly basis.

Sometimes the board can comprise internal representatives from other parts of the company. The board can then be a mechanism for sharing proprietary information and can have much more direct management and accountability. This approach brings new perspective, because it draws senior managers from other parts of the business into the innovation process.

Growth Councils and Intrapreneur Funds

to Shepherd Innovation

Companies whose internal innovators tend to get “stuck” can create structures that champion innovation efforts and remove obstacles that would otherwise limit the potential for innovative ideas to succeed. The two “shepherding” structures described here—growth councils and intrapreneur funds—help nurture or safeguard innovation efforts while still requiring the rank and file to drive individual efforts. These structures
are typically required when growth ideas lose traction in an organization, or when growth initiatives are passed up to focus on the core. **Growth councils** bring together a subset of senior leaders from across the company to develop a unified view of the organization’s innovation priorities. Typically, growth councils identify areas of strategic interest to the company, vet and prioritize all early-stage ideas, and actively shepherd disruptive ideas through the innovation process.

Growth councils comprise primarily internal representatives. We suggest that companies resist the temptation to involve all senior leaders on the growth council. If the council is a mirror image of core structures, meetings will begin to look and sound like the core leadership meetings. Council members need to share a disruptive mind-set and check their core business roles at the door. This approach offers a lighter touch than some of the other structures. Although the council reviews all ideas, allocates resources to ideas, and follows ideas throughout their life cycles, it is not involved in the day-to-day management of any specific initiative.

At General Electric, CEO Jeff Immelt created the Commercial Council, a team of approximately twelve of the company’s senior executives. The council holds monthly conference calls and quarterly meetings to discuss, prioritize, and allocate resources to innovation proposals and growth strategies put forward by its business leaders.

**Intrapreneur funds** play a more active role than growth councils, doling out money, providing “air cover,” and assigning management resources to disruptive projects. Generally, senior management sets aside a pool of funding to be allocated by a small board of internal and external representatives. Teams within the organization then propose ideas that don’t fit within standard operating procedures. Ideas can be either unsolicited or responses to specific organizational challenges issued by the fund’s management committee.

Projects that receive funding often receive support from talented project managers who can act as temporary CEOs for fund-supported ventures. Intrapreneur funds expose members of the core organization to innovation concepts and thus help build an entrepreneurial spirit while providing a valuable training ground for those who take the initiative to bring ideas forward.
In early 2006, Scripps Newspapers SVP Mark Contreras allocated more than $1 million to create a fund for proposals that wouldn’t naturally fit the core operations of the company’s newspaper properties. Contreras appointed Bob Benz, then general manager of Interactive for Scripps Newspapers, to oversee the fund, which is now governed by Contreras, three other Scripps representatives, and three outsiders (a former Apple executive, a former Intel executive, and a representative from Innosight).

The fund meets regularly to evaluate new ideas and review the progress of ideas it has funded. Initial investments are as low as $5,000. As of October 2007 the fund had evaluated close to one hundred proposals, funded around fifteen, and had four businesses with real growth potential.

As Benz described it in 2006, “These investments aren’t big bets. They’re small disbursements designed to test key assumptions in the ideas that are being submitted . . . If we fail, we want to make sure everyone learns from our missteps. And when we succeed, we want to ensure that all of our papers can leverage that success . . . We don’t think we have all the answers, not by a long shot. But we believe we’re heading in the right direction.”

Incubators and Growth Groups to Spearhead Innovation

Sometimes funding and oversight efforts aren’t sufficient to produce adequate results. When companies find that good ideas don’t turn into good businesses, or that sustaining ideas regularly win out over disruptive ideas, they should consider allocating specific resources to spearhead innovation.

One approach is to form a dedicated incubator group, a cross-functional, fully dedicated team that takes a rough idea and spends a brief period of time (four to eight weeks) turning it into something bigger and better. The theory behind incubators is that once disruptive ideas have received a focused push, they can be reabsorbed into core innovation processes.

An ideal incubator team incorporates a unique set of skills that spans business development, marketing, strategy, and technology know-how.
These teams generally receive support from key functional areas on an as-needed basis. All the full-time team members must have the ability to deal with uncertainty, pursue creative problem solving, and overcome setbacks.

Finding people with the right schools of experience to populate the roles in an incubator is no easy task, and organizations must often look to outside hires to develop this type of internal special team. Generally, members of this type of growth unit take on the “incubator role” for eighteen months to two years and apply their specialized skills to a multitude of projects.

Oil and gas giant Shell created a program called “GameChanger” to help it proactively foster or promote extraordinary ideas. In launching the program, the company acknowledged “that a rich vein of innovative ideas runs through Shell Chemicals, but that new ways are needed to surface these ideas, take account of external influences, and provide appropriate, staged financing for their development.” This unit strives to develop real businesses. It is designed specifically to enable Shell to pursue opportunities that are “outside and between” the company’s existing lines of enterprise by following a process “outside the constraints and priorities of Shell’s day-to-day business.”

Autonomous growth groups involve a higher level of business-building capability than that of incubators. A typical growth group’s strategic mission is to commercialize new growth initiatives. Its role generally involves both proactive identification and development of noncore business concepts, as well as reactive efforts to explore concepts the core business is interested in but wouldn’t prioritize in the near-term.

Growth groups typically have a secure budget and decision-making autonomy. They maintain a small staff of entrepreneurial generalists and tap the talent pool of the core on an ad hoc basis through rotational programs. These rotational programs allow the innovative energy of the growth group to spill back into the main organization. Some groups tap into partially allocated functional experts (e.g., financial, regulatory, legal) from the main organization, while others consciously avoid touching the core in any way.

Dow Chemical is an example of a company that has dedicated an autonomous group to creating new growth businesses. The group identi-
fies and develops noncore business concepts and responds to requests from the main organization to explore concepts outside the core’s comfort zone. It has a small group of fully committed innovation generalists, supplemented by other high-potential leaders who rotate in from the core business to spend a year or more working with the group. The group then relies on partial allocation of functional experts from the main organization.

The team’s dedicated budget allows it to iterate solutions quickly toward success, test ideas in the market, and build paths to commercialization. Once a business concept has taken root, the growth group can pass the concept back to the core business or seek additional resources from the CEO to ramp up the business.

In 2003 Motorola launched an internal group focused on technology commercialization and new business growth called the Early Stage Accelerator (ESA). The group’s mission is to drive specific emerging growth opportunities via internal development and external alliances. A small group of senior staff manages the operations and provides milestone-based funding for select innovation projects. The ESA infuses these projects with “Business IQ” through market and strategic analysis, intellectual property evaluation, business plan creation, and ecosystem development. An active “board of directors” for each project provides oversight and guidance focusing on “derisking” projects and guiding them to maturity.

ESA members use tools and concepts described in this book to identify key risk areas and build projects to mitigate those risks. Ideas either “graduate” to established Motorola business units or exit Motorola in an appropriate way (for example, licensing the technology to others or spinning it out). ESA project types include creating new business opportunities, spearheading cross-business efforts, further developing licensable intellectual property, and accelerating technology commercialization.

One example of an ESA project is Canopy, a wireless broadband innovation incubated in Motorola Labs and the ESA over a ten-year period. The ESA helped develop prototypes for field trials and build a go-to-market team. Assistance during this essential last step of the commercialization process helped this technology achieve broader market exposure.
It grew to become the ultimate basis of Motorola’s portfolio of WiMAX (a high-speed wireless broadband technology) offerings.

**Corporate Venturing and Business Development Groups to Strengthen Innovation**

Companies attempting to innovate should not, and typically cannot, succeed in isolation. Even the most innovative idea will not become a great business if it does not have the support of suppliers and the collaboration of channel, alliance, or technology licensing partners.

To this end, the final two structures provide a means for companies to strengthen their external environment for innovation. Companies that adopt these approaches either are looking for ways to augment internal efforts without distracting the core or recognize that they must gain new skills or pursue collaboration with other companies in order to succeed. They are aiming to leverage others’ strengths, while offering some of theirs, to create value for both partner companies. Further, they may also see that the success generated by their innovative efforts will benefit their partners, thus offering a potential investment opportunity to share in the value they are creating.

*Corporate venture investing* units seek ideas, intellectual property, or growth opportunities that do not or could not emerge within the confines of the core. They also provide investment funding to complement commercial alliance relationships. In this capacity they may invest directly in an outside enterprise, partner with independent venture capitalists, or seek alignment with other private investors. They may invest either in companies that already have a commercial relationship with the parent company or in those with potential to become a commercial partner or possible acquisition target.

The motivations behind this involvement are at times solely financial. However, history suggests that corporations that take a purely financial approach may lack the patience to achieve positive returns. Overall, most experts agree that the best approach to corporate venturing involves seeking opportunities that promise both financial and strategic returns.³
In this context, a corporate venture unit can enhance an organization’s overall innovation efforts in several ways:

- Involvement in the venture community provides early awareness of new ideas, technologies, and business strategies that can directly or indirectly influence the innovation strategy of the core.

- Co-investment strategies and more formal partnerships with other financiers enable risk sharing in endeavors with significant upside potential but limited certainty.

- Corporate venture support of businesses that drive, or benefit from, the activities of the core enterprise can boost demand for the core’s offering, or enable participation in more lucrative links of the value chain that would otherwise be out of scope for the core.

Companies such as Hewlett-Packard, Philips, Hearst, Motorola, and Intel operate some of the best-known corporate venture units. Intel Capital in particular stands out as a venture unit that has exploited the full range of strategic benefits offered by this innovation structure. Since its inception in 1991, Intel Capital has invested in excess of $6 billion in more than one thousand companies. With successful exits from investments in companies such as Clearwire, VMware, LANDesk, and Groove Networks—to name only a few—it is clear that the organization has met general profitability goals. Intel Capital’s mission statement clearly describes its quest for both financial and strategic goals: “Intel Capital seeks out and invests in promising technology companies worldwide. We focus on both established and new technologies that help to develop industry standard solutions, drive global Internet growth, facilitate new usage models, and advance the computing and communications platforms.”

Essential to this approach is the implicit objective of boosting demand for Intel’s primary offering (microprocessors) and paving the way for broad adoption of Intel’s technologies by driving computer usage and the development of standards.

Corporate or divisional business development units can play a multifaceted role in strengthening an organization’s innovation efforts. Typically
staffed with a strong team of strategists and financial analysts, these units work in close collaboration with line executives to develop and structure an array of relationships that increase the chances of innovative success in a number of ways:

- They identify and facilitate acquisitions of companies with core skills, technological know-how, or relationships that can accelerate the enterprise’s efforts to innovate. For example, Cisco Systems has made more than one hundred acquisitions to strengthen existing products and extend into new categories.

- They structure joint ventures and alliances that leverage partner companies’ respective strengths, enable risk sharing, ensure strategic supply agreements, or lock in exclusive distribution contracts.

- They work to create “market ecosystems” that foster adoption of the company’s offerings and/or encourage the development of complementary products that stimulate further demand.

- They pursue technology agreements or licensing deals (with legal support) that secure intellectual property and provide differentiable competitive advantage.

Although this list is not exhaustive, the value of a strong business development unit cannot be overstated. As an example, Symbian Ltd., a U.K.-based software company, was founded in 1998 as a joint venture among major players in the mobile phone handset industry. The initial goal of the business was to provide an alternative operating system to run on mobile phones. Over the years, both the company’s investors and licensees and the business’s product strategy have evolved, but Symbian has emerged as a key player in the mobile phone software operating system market. Through collaboration, the participating companies were able to create a business entity to drive innovation in mobile phone software that would have been extremely difficult, if not impossible, for them to create individually.

Similarly, mobile phone manufacturers rely on an extensive group of application developers to provide key enablers for phones. The games, Web browsers, messaging applications, and other key technologies in
most mobile phones are usually developed by third parties from whom the phone manufacturers have licensed the technology. Business development units frequently select appropriate partners, negotiate agreements, and manage relationships with a large network of companies to complement the innovation capabilities of the core development teams.

**Procter & Gamble: Multiple Structures in Action**

Companies need not choose a single structure. Consumer packaged goods titan Procter & Gamble effectively employs multiple structures simultaneously. At the corporate level, FutureWorks, its autonomous growth group dedicated to “building tomorrow’s brands,” taps into a host of P&G initiatives aimed at gathering external ideas and viewpoints and strives to maintain a full pipeline of new products.

Within its business units, P&G organizes new business development groups to incubate new ideas. In 2005 the company set up a training unit in the form of a small team of “guides” to work with project teams working on disruptive ideas. Senior executives manage a “Corporate Innovation Fund” that acts as an intrapreneur’s fund for ideas that don’t fit the normal prioritization process. Finally, many of its core brands have external advisory committees to stay abreast of key scientific developments.

This diverse array of innovation structures gives P&G great flexibility in ensuring that great ideas do not fall through the cracks, while also building the organization’s innovative capabilities.

**Assess the Innovation Environment to Determine Intensity of Action**

One natural question senior executives ask about implementing innovation structures is the required intensity of the effort. Do they need to allocate a large number of resources, or will just a few be sufficient? Do senior executives need to get actively involved, or is an arm’s-length approach appropriate?

Assessing your internal and external environment provides a useful starting point to address these and related issues. Begin by asking the following questions about your external environment:
Build Capabilities

• Is your industry nascent or mature? Generally speaking, innovation comes more naturally to companies in nascent industries, although companies like CEMEX in cement and Dow Corning in silicones have shown how innovation can thrive in seemingly mature businesses.

• Is the pace of innovation in your industry slow or fast? If innovation happens slowly, you can allow teams to take more time to develop their proposals and formulate strategies. If innovation happens rapidly and you are behind the curve, your organizational structure will need to have a reasonable impact quickly.

• Is asset intensity low or high? Industries with high asset intensity often require more hands-on management up and down the organizational hierarchy, because the risk involved in any particular effort is significant.

Next, assess the internal environment:

• Can innovation be isolated to particular departments or groups (individual managers can “do it themselves”), or does it require careful coordination across multiple parts of the organization? The more innovation efforts are dispersed throughout the company, the more coordination is required.

• Is the culture open to innovation, or myopic in its view of innovation? The less natural innovation feels to the organization, the more involved managers need to be in developing innovative strategies.

• Are there a high number of innovation-minded managers in your organization, or are the innovators few and far between? The less innovation-oriented talent there is, the more well-qualified leaders must actively drive innovation efforts.

Hands-on involvement is required when the industry is mature, the pace of change is slow, and the asset intensity is high, when innovation requires coordination, when innovation is a foreign concept, and when a company contains few natural innovators.
The answers to these questions simplify complex situations and provide helpful direction on the selection, governance, and operation of appropriate innovation structures. Use the simple scoring sheet in tool 9-1 to determine how best to manage the innovation structures required to help your organization achieve its growth goals. Remember, the more demanding an organization’s innovation environment, the more innovation efforts typically require greater resource allocation, more structured approaches, and greater organizational autonomy.

**TOOL 9-1**

**Application exercise: Assessing your innovation environment**

**Instructions**

Select the box that most closely represents your company’s situation. Add five points for each choice you make in the left-hand column. Subtract five points for each choice you make in the right-hand column. Use the scoring ranges to assess the implications.

<table>
<thead>
<tr>
<th>External environment</th>
<th>More demanding innovation environment (+5 points)</th>
<th>Neutral (0 points)</th>
<th>Less demanding innovation environment (–5 points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry maturity</td>
<td>Highly mature market showing signs of commoditization</td>
<td>Market beginning to show signs of maturity</td>
<td>Nascent market with unclear business models</td>
</tr>
<tr>
<td>Competitive dynamics</td>
<td>Fast-moving industry and/or industry with short product life cycles (e.g., biotech)</td>
<td>Moderately changing industry (e.g., automobiles)</td>
<td>Slow-moving industry where change rarely occurs (e.g., steel)</td>
</tr>
<tr>
<td>Asset intensity</td>
<td>Very high; innovation requires major capital equipment (e.g., pharmaceuticals)</td>
<td>Moderate; innovation possible with less capital equipment (e.g., consumer goods)</td>
<td>Low; innovation possible with little to no investment (e.g., media)</td>
</tr>
<tr>
<td>Scope of innovation activities</td>
<td>Innovation possible only with close coordination across business units, functions, and regions</td>
<td>Innovation able to be isolated within a single business unit with coordination across functions</td>
<td>Innovation possible in separate pockets of the organization with minimal coordination</td>
</tr>
<tr>
<td>Innovation culture</td>
<td>Company in “operational” mode, with innovation viewed largely as a distraction</td>
<td>Innovation understood to be important, but not something that is everyone’s responsibility</td>
<td>Entrepreneurial culture, where innovation is a core part of the company DNA</td>
</tr>
<tr>
<td>Breadth of talent</td>
<td>&lt;10 percent of key managers capable of developing legitimately disruptive ideas</td>
<td>10–30 percent of key managers capable of developing legitimately disruptive ideas</td>
<td>&gt;30 percent of key managers capable of developing legitimately disruptive ideas</td>
</tr>
</tbody>
</table>

continued
Keys to Creating Successful Decision-Making Bodies

Many of the structures described earlier feature a small group of senior managers reviewing ideas and allocating resources. Whether the group is called a board, a council, a leadership team, or a fund management committee, a few general principles can help to ensure its successful operation:

- **Make it easy to get a hearing.** Don’t make it difficult for people to suggest ideas, or they never will. Design an approach that promotes the submission of rough ideas that the board can help shape.

- **Stage investment.** Don’t flood ideas with capital. Instead, give teams a small amount of money to test key assumptions. Step up investment as they learn more and reshape their strategy to increase their chances of success. Remember the curse of too much capital: overinvestment can allow teams to run fast and hard in the wrong direction.

- **Involve outsiders.** Innovation almost always comes at the intersections, when people pick up and look at ideas from different perspectives. Outsiders can help you shape ideas in unexpected ways. Consider bringing in outside industry experts, perhaps en-
trepreneurs or professors, whose “schools of experience” help them identify successful growth strategies.

• **Know what you are looking for.** It is critical to build broad consensus about what a “good” idea is and communicate that broadly. Some groups use three-item checklists, others use sophisticated screening tools. Regardless of the mechanism, make sure that the decision-making body is looking at things the same way and that those who submit ideas thoroughly understand the evaluation criteria.

• **Make it a pleasant experience.** Funding boards shouldn’t seek to tear apart ideas or undermine the managers who submitted ideas. Even the seemingly worst ideas deserve constructive feedback, because it is entirely possible that they contain a nugget of brilliance that can be reshaped into a powerful growth business.

### Other Supporting Systems and Mind-sets

Even the best innovation structures can fail to drive innovation if not supported by other systems and mind-sets. Companies that successfully generate this environment develop tools that are appropriate for innovative businesses, share a common language of innovation, draw on substantial external input, and create policies and reward systems that encourage people to take managed risks on the path to innovative growth.

### Appropriate Tools

Companies that excel at running their core business often find that tools designed to manage core or sustaining innovations can stand in the way of successfully creating noncore or disruptive growth initiatives.

The problem is as much use and interpretation as it is the tool itself. After all, the intent of most tools in core operations is to manage allocation of resources and gain internal alignment. Precise tools help companies make sure they move the right projects forward, manage their supply
chain appropriately, allocate internal resources at the right rate, and de-
velop a winning relationship with key channel partners.

True innovation is necessarily imprecise, particularly in the early
stages. Tools that force precision too soon can cut off great opportuni-
ties, or compel innovators to move in more sustaining directions to
make the numbers look big enough to be interesting.

Companies whose existing tool kit proves inadequate for the creation
of new growth businesses have two choices. The first is to change the
tools they use. Instead of feeding results from a large-scale survey into a
ten-year forecast, they can use qualitative data to estimate how passion-
ate customers are about an idea. Rather than surveying a consumer’s
willingness to purchase a product, they can conduct a transactional test
in which consumers actually have to buy and use a product. The second
option is to use existing tools in different ways. For example, instead of
producing a point estimate of volume and net present value, companies
can develop scenarios or create ranges for alternative scenarios. This ap-
proach can be difficult for senior managers who are trained to look for
“the number,” but it is a more realistic estimate of an idea’s potential.

A Common Language

Succeeding in disruptive innovation requires taking action that many
corporate managers find at best unfamiliar and at worst antithetical. Our
experience suggests that a common language helps companies avoid some
of the many mind-set traps that make achieving disruption difficult, such
as pursuing perfection when “good enough” would be sufficient, overesti-
mating knowledge of new markets, and making big bets when a small
start is more appropriate.

Both senior and middle managers need to overcome these mind-sets.
Because they make many of the day-to-day decisions in a company,
well-intentioned middle managers who do what they have always done
may default to core behavior when fresh thinking is required. A senior
manager who doesn’t “get it” can destroy a highly innovative approach
by asking the wrong questions at the wrong time. A common language
of innovation can help companies avoid these pitfalls.
If you are charged with driving culture change and building this common language in your organization, consider one of the following options:

- **Develop specific training modules.** We’ve found three distinct types of training modules that help people learn the core disruptive models. One type of module lays a foundation of common principles. The second type builds project-specific skills (for example, running low-cost pilots). The third develops leadership-specific skills (for example, dealing with uncertainty).

- **Create supporting material.** Simple guides—one-page tip sheets, wallet cards, or glossaries—can help to reinforce an emerging common language. Best-practice guides can help project teams and leaders deal with predictable issues. Consider creating Webcasts or Podcasts to make it easy for managers to absorb the material.

- **Develop a network of internal innovators.** Every organization contains individuals who have succeeded in overcoming some of the common challenges of innovation, either within the organization or in their prior work experience. Simple directories that point innovators toward internal resources can be very helpful.

- **Run idea-generation sessions with a cross-functional group of managers.** These kinds of sessions can effectively engage groups on the subject of innovation. They tend to work best if a specific topic or theme informs the discussion. One approach is to poll group members beforehand to find three or four problems they are facing that are screaming for innovative solutions. The session itself can then balance the basic teaching of principles with opportunities for application and discussion. Simple discussion questions such as “What does innovation mean to you?,” “Where do we have opportunities for innovation?,” and “What capabilities or disabilities position us to seize or miss opportunities for innovation?” can be great ways to guide the discussion.

This book’s foreword described how a common language was at the core of Intel’s successful efforts to develop the disruptive Celeron processor. Similarly, to formalize their innovation priorities and the skills
required to deliver based on them, General Electric has incorporated its view of the leadership traits of innovators into its Crotonville leadership training curriculum.

While efforts to build a common language don’t provide an immediate return on investment, they are a critical piece of the innovative organization.

**Seek Extensive External Insight**

In the past few years, companies have begun to realize the real power of what Haas School of Business Professor Henry Chesbrough calls “open innovation.” Again, P&G is an instructive example. Historically, the company had a reputation for being highly insular, yet several years ago CEO A. G. Lafley set out a stark challenge: by 2010 at least 50 percent of the company’s innovations should involve some form of outside connection. The company augmented its research and development capability with the ability to “Connect & Develop.” As noted in a 2006 Harvard Business Review article, it began shifting its attitude “from resistance to innovations ‘not invented here’ to enthusiasm for those ‘proudly found elsewhere.’”

Generally speaking, companies should involve external perspectives deeply in the innovation process. They should have well-defined ways to interact routinely and repeatedly with their core customers, learn from noncustomers, monitor ongoing industry experiments, scan for emerging technologies, and learn from other industries. Setting up regular ways to draw on these kinds of external stimuli (including some of the mechanisms described earlier) can expose opportunities for innovation that were previously invisible.

**Develop Enabling Human Resources Policies**

Finally, companies must consider redesigning their policies, incentives, and development paths to make them innovation-friendly. As noted in chapter 8, companies must be willing to look outside for talent. Getting incentives for innovation right is clearly a large hurdle for an established company as well. A start-up company can issue equity that allows man-
agers to share in a venture’s upside potential, but following the same approach inside an established company requires some creativity. Companies need to find a way to link managed risk taking with pay structures, bonuses, recognition, and/or career progression. It is unlikely that an “intrapreneur” will have the pure upside of an entrepreneur, but that difference is appropriate, as there is also significantly lower downside risk. Despite the attention showered on the success stories, the vast majority of new ventures fail. If an internal venture fails, managers can easily move to another position instead of having to search for an entirely new job.

Also consider creating development paths that make it attractive for high-potential employees to spend time working on promising growth initiatives. Working on risky ventures can be a great proving ground for emerging leaders, because many of the challenges the venture will face will be general management issues.

As you develop human resources structures that will enable your organization to achieve its innovation goals, consider the incentive and learning value offered by rotation programs. Creating the possibility for high-potential employees or business unit members with relevant knowledge to participate in innovative growth initiatives can provide them with exposure to new ways of problem solving and new decision-making challenges. At a minimum, their experience working on such initiatives will provide them with a rich store of learning to bring back to their core area after their term of participation. And you might just create the leaders of your next new core business.

Summary

• Companies seeking to build deep innovation capabilities need to create structures and systems that make the pursuit of growth more repeatable.

• To determine the innovation structure that is right for you, determine whether your circumstances warrant structures to stimulate innovative thinking, shepherd innovative ideas, spearhead the creation of new growth businesses, or strengthen innovation efforts.
Work to create appropriate tools, build a common language of innovation, involve external perspectives, and ensure that human resources policies are aligned with innovation.

Application Exercises

• Analyze organizational approaches used by competitors in your industry. Do they differ from yours? How?

• Ask five colleagues whether they have ever submitted an idea to some kind of internal repository. If they did, ask what happened. If they didn’t, ask why not.

• Call two investors (venture capitalists, angel investors, private equity investors), two entrepreneurs, two lead suppliers, and two lead customers in your industry to solicit their input on interesting developments worth tracking; consider inviting some of them to serve on an advisory board.

Tips and Tricks

• Start small. Creating change in large diverse organizations, particularly to enhance managed risk taking and pursue new ways to drive growth, is a very challenging task. Further, assembling an effective innovation team that can manage the full breadth of likely innovation initiatives is quite difficult and can take some time to get right.

• Innovate the approach. It takes any new group several interactions to hit its rhythm. Be willing to change your approach as you figure out what does and doesn’t work.
NOTES

Chapter 9

5. Ibid.
6. Anita M. McGahan and Brian S. Silverman, “How Does Innovative Activity Change as Industries Mature?” International Journal of Industrial Organization 19 (2001): 1141–1160. Here McGahan and Silverman indicate that the rate of innovation and emphasis placed on innovation, as measured by the number of new patents issued per year in an industry, do not change significantly in mature industries, as classically defined, relative to activity levels observed in emerging industries. Our perspective is that the skills and supporting organizational structure to operate and innovate in a maturing industry must change. Further, one could contend that the nature of innovations tends to shift from disruptive, or radically sustaining, to more incrementally sustaining over time, leaving the door open for a new disruption.