

January 2017 Newsletter

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RITA GUNTHER | **MCGRATH**

Author. Speaker. Consultant.

Dear Colleagues,

Ten years after the launch of the iPhone and the commercialization of Android, our economy is still reverberating from the radical changes wrought by the smartphone. Makers of standalone cameras, GPS devices, kitchen timers and lately, even gyms have found their revenues vanishing as customers are getting their “**jobs done**” via smart phone-enabled software. Incumbents are right to be worried about the next threat to their past competitive advantages. And yet, for many, the innovations that are essential to staying competitively relevant remain hostage to what **Steve Blank** and I have called “Innovation Theater”.

An evening with Steve Blank and Brian Murray of HarperCollins

On January 10, **Columbia Entrepreneurship**, **Columbia Executive Education** and the Forum for Dynamic Innovation at Columbia sponsored an evening with myself, Steve Blank and



Brian Murray of HarperCollins, at the offices of Goodwin Procter at the New York Times building. You can [watch the video here](#).



Increasing competition, declining performance

I opened the panel by setting the stage with respect to how few firms seem to be able to make ongoing innovation an actual proficiency. The Deloitte Center for the Edge reports a secular decline in ROA, that has been going on for 47 years. You can learn more about their research and the SHIFT index in a video created by John Hagel [here](#). We've recently had more large-scale bankruptcies at a level not seen since the 90's. The 'topple rate' – a measure of the rate at which companies lose their leadership positions - has increased by 39% since 1965. Share buybacks and stock-incentivized rewards are creating what some call "profitless prosperity" in which executives and investors reap rich rewards, while corporations are hollowing out basic capabilities. Richard Foster found that the tenure of companies on the S&P 500 has declined from 61 years in 1958 to 18 years in 2012. [He argues that](#) 15 years from now, 75% of the S&P 500 companies will have turned over. A [BCG analysis](#) found that average corporate lifespans were indeed shrinking. The bottom line of all this is that company leaders understand they need to innovate and adapt, but they seem to be stumbling on just how to make this happen in reality.



Why innovation theater?

Steve is with me in arguing that in the face of [transient advantage](#), companies need to create a pipeline of new advantages. Unfortunately, most established firms are execution engines – they find a business model and execute against it repeatedly. Startups, instead, are all about searching for a repeatable business model that can be scaled. He brought up [McKinsey's 3 horizon framework](#), which is very similar in concept to my own Opportunity Portfolio Model.

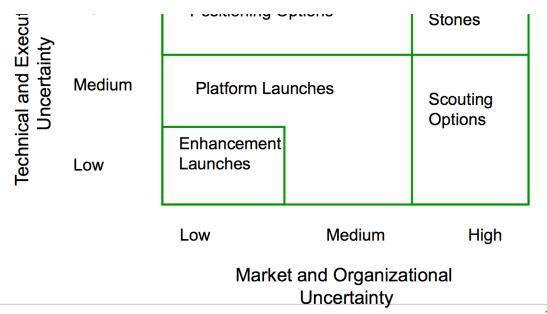
The idea is that the core business is largely about today's offerings for today's customers. What I call [platform launches](#)

A Balanced Portfolio



High	Positioning Options	Stepping
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customers. What I call **platform launches**, or **horizon 2**, are tomorrow's potential core businesses. In the outer edges of uncertainty, or horizon 3, are what I call options – which are small investments an organization makes today that give them the right but not the obligation to make future investments.



The core issue with innovation theater is that companies invest in options – they open incubators, they start skunkworks, they send innovation teams to Silicon Valley, and so on – but without the commitment and engagement of managers in the core business, the organizational equivalent of organ rejection kicks in and the new businesses get zero traction.

Technical and organizational debt – the role of the Sherpa

One of the barriers to the established organization embracing a new venture is that any new venture accumulates both technical debt and organizational debt. **Technical debt** is pretty well understood – in the early days, computer code can be clunky, user interfaces are sometimes odd and systems are unreliable. But, to be offered to real customers in a repeatable and reliable way, this technical debt has to be cleaned up in a process called ‘refactoring.’ Steve argues that a similar process needs to happen organizationally – the crazy, unstructured internal entrepreneurial teams need to be swapped out for the teams with the ability to execute.

I shared that the people who manage this process best are those I call Sherpas – the wise guides who know the organizational landscape. This theory received a lot of attention!



Transformation at HarperCollins

We asked Brian Murray to describe the transformation journey at the 200-year-old book publisher,

HarperCollins. He realized that major change was afoot at the 2004-ish Frankfurt Book Fair, at which 'Larry and Sergey' were talking about what Google might do with books. As Brian said, "when you get to zero variable cost, everything changes, especially with books that are really small digital files." Unlike many leaders who talk about a single pivotal moment, Brian's approach was more "thinking daily about how we survive and thrive."

One of the most consequential decisions Brian made was to focus the company on being the best partner for their authors. This informs most of the company's major decisions, including its move from midtown to lower Manhattan, where it had been located for its first hundred years. Brian shared, "we went from 20 floors in a tower to a new, fresh open space." The design is open, so that when authors visit they can see the teams designing, editing and working on their books.



With the company running 30-40 projects at any given time, one of the most impressive things Brian talked about was his practice of encouraging bottom up innovation. His role is to push the good ideas that will scale. Sometimes, the answer to unlocking innovation is surprisingly simple. He recounted a story of one manager being resistant to trying something new for fear of how it might affect his annual bonus. So Brian said, "whatever we spend on this innovation, just keep track of it, and we'll subtract it from your annual target" – then the manager said "yes I'm in, let's go for it!"

His approach to managing disappointment was also refreshing. "Hey, it's the book business, most things don't work out!"

Coffee & Conversation January 31st

If you happen to be in the Princeton area on the morning of January 31st, join me for a morning discussion of team effectiveness, capability building and strategy, as well as the new offerings of Valize.co.

When: Tuesday, January 31st, 2017 - 8:00-10:30 a.m.

Where: Collaboration Core - Lawrenceville, New Jersey
(just South of Princeton)

[Click here](#) for more information and to register.



Mastering Corporate Entrepreneurship Online now running

Our flagship on-line corporate entrepreneurship program launched in January, as part of the Forum for Dynamic Innovation at Columbia. Participants will learn from colleagues, myself and in live sessions about the latest theories and best practices for corporate entrepreneurship and how to make it a systematic capability. [Click here](#) to find out more.

Old Habits Die Hard...recent Harvard Business Review article

Roger Martin and I exchange differing points of view in an [HBR spotlight](#), in which he argues that habit forms a powerful source of competitive advantage and I argue that while this is true, habits can be, and often are, disrupted.

Recent Press

[What kinds of businesses are hoping to profit from Trump's inauguration](#)

[Was Marissa Mayer in an impossible situation, or was she just a bad leader](#)

[Why I think Bill Lazonick's work deserves to be at the top of your reading list](#)

[Cited as an innovation leader by Nordcloud](#)

How new technologies weren't welcomed by Trump supporters

Why Google is still a buy

More links to recent press mentions can be found on the [Press section](#) of my website.

Upcoming Events

2017 Spirit of Women in Business Conference on March 9

Kent State University's College of Business Administration

Thinkers50 - 2017 European Business Forum

The Davos of Business Thinking - May 9-10 in Odense, Denmark

[Leading Strategic Growth and Change](#) - My 1-week course, runs the week of May 15th in New York City

A thought for 2017 – can we make innovation more systematic?

As Brian Murray's experience suggests, innovation and transformation are not simply random. They can be managed and made more systematic, which is pretty inspiring when you think about it.

Wishing you an Innovation Theater-Free 2017.

Rita

Password for the “Tools” Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the [RitaMcGrath.com website](#) and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

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