July 2016 Newsletter

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Theory to Practice: Getting Beyond Innovation Theater

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Author. Speaker. Consultant.

Dear Colleagues,

Innovation is on a roll these days as a hot topic of conversation. Unfortunately, despite all the talk about it (search on “Innovation” and it returns approximately 500,000,000 results) the doing, to many, is still a black box. Indeed, a recent McKinsey survey reported that 86% of the executives that responded thought that innovation would be highly important to their future growth strategies, while 80% reported that they were concerned about their business models being challenged. Only 6% reported being pleased with their company’s innovation performance, and the most telling response to me is that the 94% who were not pleased with how their innovation process was going had no idea what the problem was.

This was the backdrop for a recent luncheon that Linda Yates, the CEO of mach49, and I sponsored for innovation leaders in New York. Silicon Valley based Mach49 helps large global companies create, build and launch new ventures from within, and passionately believes that they have the talent, the capabilities and the resources to do so consistently. For the original thinking behind the idea that firms can indeed bring

mach49 Disrupting InsideOut

Silicon Valley inside, see this article. The topics our guests raised for discussion are all classic innovation challenges, and I thought you might be interested in hearing about them.

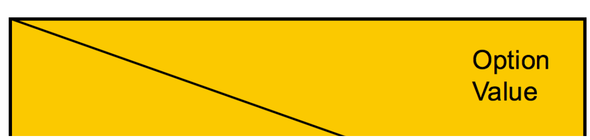
The CEO says we need to innovate, but nobody knows what that means!

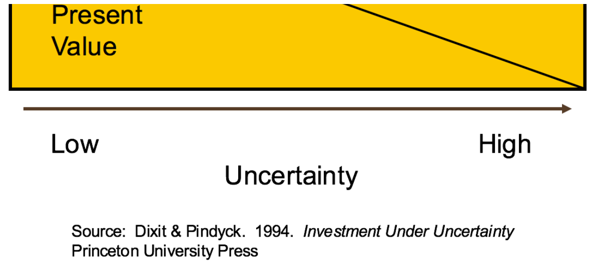
We see this a lot. It shows up in enthusiasm for boot camps, brainstorming sessions and suggestion boxes which can result in a lot of excitement followed by disillusionment as the programs fail to get traction. The difficulty is that people don't seem to have a framework for thinking through what an innovation program is really about – which is a reflection of how an organization intends to grow.

Linda had a great way of framing this. Any idea, she suggests, has various processes it needs to go through before it can contribute to corporate growth. This can be at the idea stage, in incubation, through accelerating progress, or coming up to scale. Similarly, a company has choices to make about how to execute against those ideas. They can either build a business around it, buy a business, partner with another entity to make it happen, or invest in equity around the idea. If you combine these two dimensions, innovation can thus be framed as the process ideas go through as they go from idea to scalable business. In turn, the choices about how to execute, may be influenced by things like whether your firm has missed an opportunity and needs urgently to get in the game, how much cash you have on hand, and so on. It also allows you to think through where your staff positions – legal, HR, procurement, and so on – will need to get involved as the business scales. This gives some structure around the growth agenda and is a way of framing something that can seem quite amorphous.

My CEO won't invest in innovation unless I can give him an ROI projection

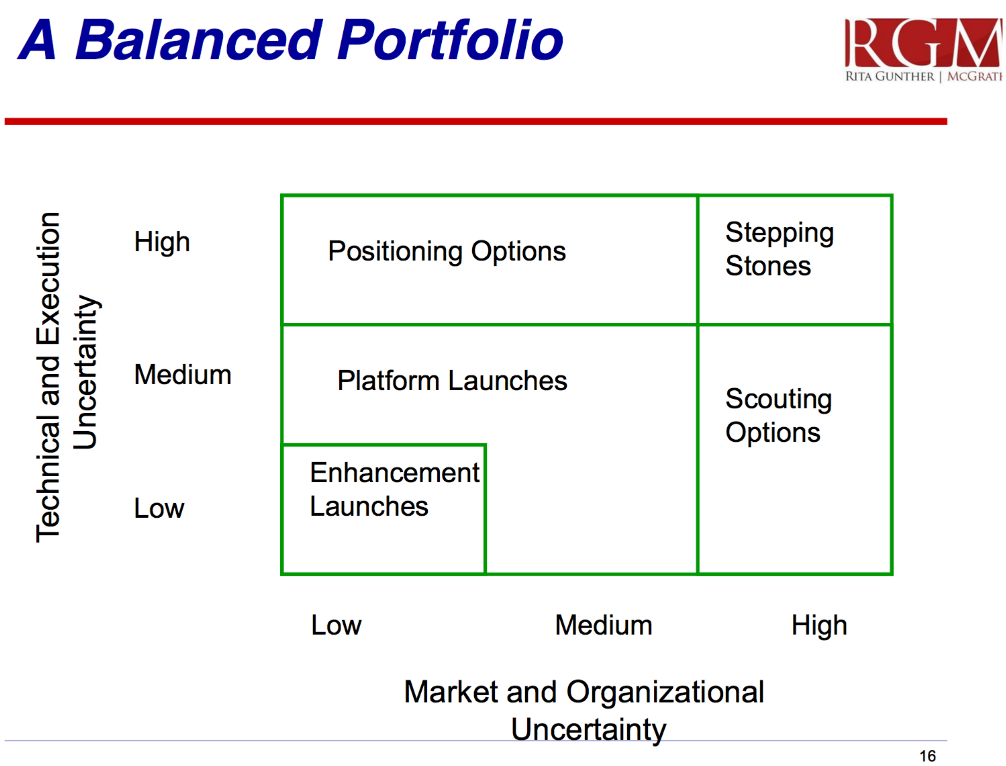
This is an all-time classic problem – see Clayton Christensen and colleague's excellent article





"Innovation Killers" for why. The first thing senior executives need to understand is that as uncertainty in your operations increases (as it does when you are doing something new to you), the value that is being created can in no way be captured in a present value calculation. Instead, you need to think of it in terms of option value. Consider the graphic above – as uncertainty increases, the present value component of value decreases, to the point at which when you are waaay out there the value you are creating is almost entirely option value.

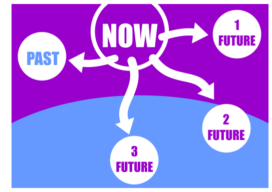
The way I like to frame this challenge for senior executives is in the construction of a portfolio of initiatives, all of which have different things to do for you, depending on how much uncertainty you are facing. A picture that captures this is here.



Core enhancement investments make today's business better. They may be very innovative things, in the sense that you are doing something new, but you know how to do them, and for whom you are investing. An example of this might be bringing your business into the cloud.

Platform launches (or adjacencies) are candidates to be part of your future core business. They usually require substantial investments and commitment. When a pharmaceutical company ramps up production of a new drug, for instance, that can quickly become part of their core business.

Once you get beyond high uncertainty on either dimension, now you are in the world of options and option value, and that's where the rules change. These should be small investments you make today that create the opening to make future choices when more is known. Having oversight over the whole portfolio, moreover, is crucial. You want it to be in support of your strategy. In more stable contexts, such as fast-moving-consumer-goods companies, you probably will have less in the options space. In volatile contexts,such as high technology or software, more will be in the options area. The point is you want to be able to strategically direct these investments and monitor them, but in a way that makes sense for uncertain, hard-to-value assets.



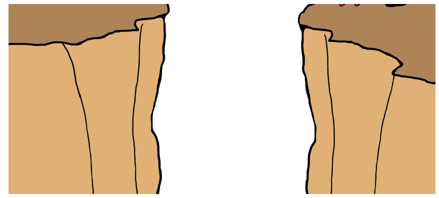
So what I would tell my ROI-hungry CEO is that… "***unless you are investing in those hard-to-value but opportunity creating options, you are implicitly voting that today's business more or less as it is, is going to drive your growth needs in the future.***" This is usually not a bet you want to take.

We are busy working on fresh ways to help companies manage their portfolio - that goes beyond spreadsheets and powerpoints. More to come in future news.

My company is very risk-averse – how do I convince them that it is worth it to try something new?

The most common fallacy I see that leads to this question is that in order to experiment and test the viability of a business, you have to build the whole thing. Instead, **what you should do is design a series of tests or experiments that will allow you to test pieces of a business model or new venture rather than having to invest to create the actual concept**.

Remember the movie Wall Street? There is a famous scene of Gordon Gekko, the greedy banker, holding up a mobile phone to his ear, to show everybody how filthy rich he was. That movie came out in 1988. One of the most notorious venturing flops of all time, the Iridium project sponsored by Motorola, was also in gestation around



that time. The ambitious concept, was to create truly global cell phone coverage by circling the earth with low-orbit satellites. Ten years later, the project launched, only to go down in flames, eventually going bankrupt, and eventually costing billions in losses. One of the many problems it had gaining customer acceptance was that the phone they launched with – in 1998 – looked like the Gordon Gekko phone of 1988! Now, you don't have to be a genius to think through that the company could have easily tested things like form-factor and cost without actually having to put 77 satellites into the sky. ***So think about what you can test.***

One idea that I like to use with senior executives who are risk averse is the concept of the price to learn. This is more like funding a scientific experiment. Rather than pitching a huge effort, try instead to say something like, "I'd like to spend $10,000 to find out if customers will accept a phone that looks like a brick."

Linda also has an analogy that I found very apt. She talks about layers of risk almost like peeling back an onion. With initial funds, you can peel back one layer of risk. Only when you have removed that outer layer of risk do you supply more funding to tackle the next layer. This absolutely honors the options-oriented principle of keeping your downside small and known even as you preserve the upside for your idea. The goal is to remove the greatest amount of risk with the least amount of capital.

Start with a customer and a problem, not with a technology and a solution

One of the best discussions we had was about how to get executives in a decision-making capacity by having them actually interact with customers to see their pain points, workarounds and other ways in which current solutions are failing them. An interesting observation was that the United States, a developed country, has more "unbanked" people than many countries in the emerging world. The reason? Companies outside of the United States have figured out how to have banking done on mobile phones, resulting in services that can be delivered cheaply to the customers that need them the most.

It's all about going from Theory to Practice

May and June were busy months, with Leading Strategic Growth and Change, my one-week course on growth running in May, a lot of traveling, the launch of our Women in Leadership program in partnership with Barnard College, and, excitingly for me, a visit to Vienna to receive the “Theory to Practice” award. Below is how they described the event.

- The challenges to the traditional views of strategy that have been created by digitization, globalization and taken-for-granted assumptions were the focus of a full-day forum sponsored by Austrian Strategic Management Society. The forum participants discovered how, across industries, these forces are creating the need to think very differently about strategy.

- The Vienna Strategy Forum is a unique meeting of Strategic Management and Innovation in Vienna. The Forum serves as a bridge between research and application offering an exclusive, high-level platform for expression and exchange of ideas between leading scientists and top decision makers from the business world – in search of answers to the essential questions shaping the future of business.

  “Everyone talks about disruption but very few people know what to do about it” says Rita McGrath. “It has always been my focus to research new theories of strategy and disruption and then translate these theories into practical action plans. To be recognized for this work was quite gratifying” states McGrath after being presented with the award.

An additional resource on portfolio management – free webinar

Check out this free webinar on creating a framework for growth – about half an hour with some practical take-aways. This goes into detail on the portfolio concept that I mentioned before.

Upcoming Events

Leading Transformation: A CEO Summit 2016 - August 4th in Lexington, Massachusetts and in Berlin on September 20th. Co-Presenting with Clayton Christensen

Technology and the Future of Labour
Sponsored by Aftenposten - September 19 – Oslo, Norway

The Entrepreneurial Society - Moving Beyond a Society of Employees
The 8th Global Peter Drucker Forum – Check out the event program
While the journey towards an entrepreneurial society is by no means a straight-line progression towards a well-defined destination, broad cultural changes have brought entrepreneurialism into the mainstream. An activity that was once regarded as peripheral, perhaps even a bit suspect, has become cool, celebrated by politicians and embraced by the new generations. Yet, the emergence of an entrepreneurial culture entails a broader transformation of the economic fabric of our society, as we see in the rapid proliferation of free agents in the form of contractors, freelancers and self-employed workers on on-demand platforms, for example. Within large organizations a renewed focus on freeing up the creative and innovative potential of workers points in the same direction, i.e. a new mindset of ownership, responsibility and autonomy. At the same time, in a world of rapid change frequent job and career moves, switches between employed and independent roles become the rule rather than the exception.

In the News

- Users still love and depend on some Yahoo services – where will the company's future strategy leave them? Read the article in USAToday
- The importance of Portfolio Management
- Fun interview with Columbia Business School Alumi in The Australian
- Sydney Interview on why new firms need to think about failure
- Yahoo and – who? Verizon? Twitter? You name it.
- Transient advantage changes many things - read the article here.

More links to recent press mentions can be found on the Press section of my website.

Words of Encouragement

Our luncheon ended on a positive note, which is that we have learned a tremendous amount about how corporate growth programs, which encompass innovation, can work. If you're willing to spend some time coming up to speed, it doesn't have to be such a mystery.

All the best,

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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