SIX BREAKDOWNS IN THE PROCESS FOR DISRUPTIVE INNOVATION

changelogic

“To succeed in the face of disruptive change requires established firms to master three distinct disciplines: ideation, to generate potential new business ideas; incubation, to validate these ideas in the market; and scaling, to reallocate the assets and capabilities needed to grow the new business”

—Charles O’Reilly and Andy Binns, *Change Logic*

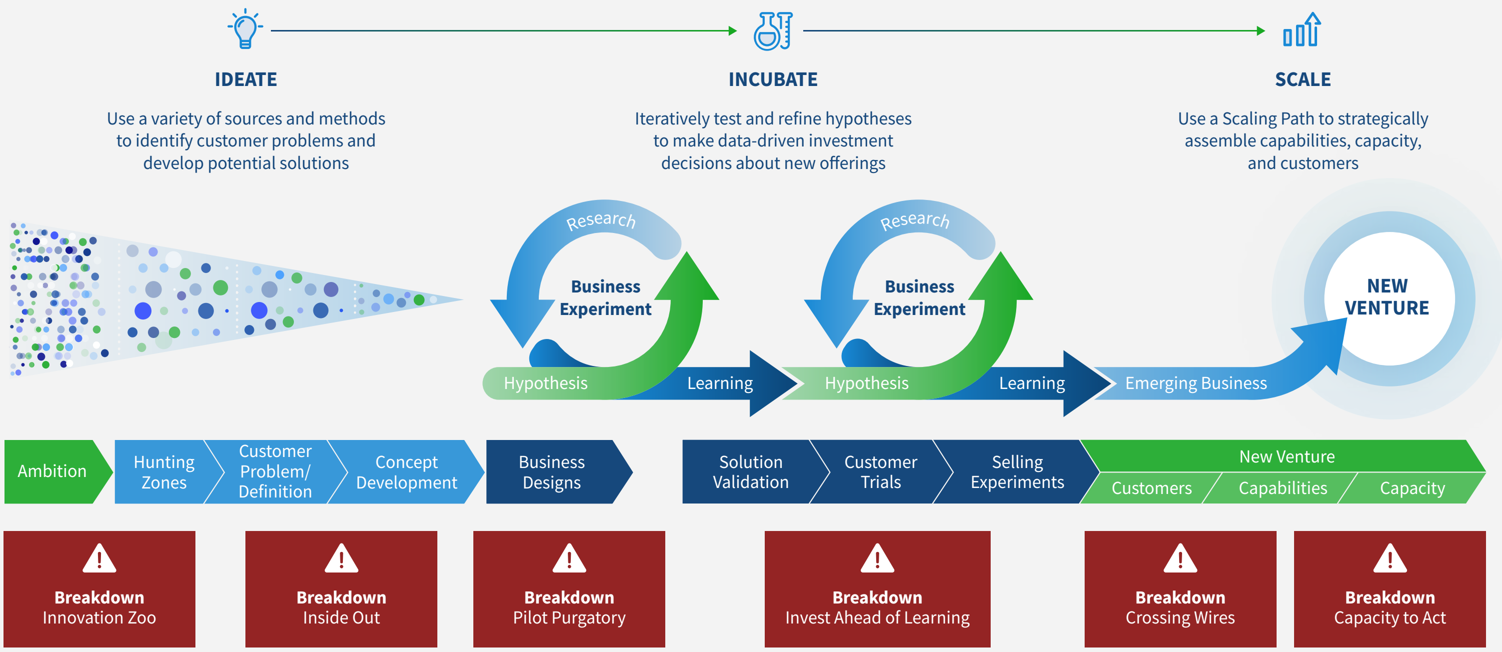
Now Is The Time

The COVID pandemic started with a surge in business innovation. Companies adopted virtual working, accelerated product development to record levels to meet the need for healthcare equipment and vaccines. What would have been years of digital transformation were compressed into months as companies fought to respond to constantly changing conditions.

As the post-COVID era emerges, a new environment of opportunity and threat is emerging. Global growth is poised to surge, creating new possibilities. A recent McKinsey study found that 75% of executives see post-COVID as representing major opportunities for growth.

However, slower, weaker companies risk becoming victims to nimble, well-funded attackers. Never has the need to learn the disciplines of disruptive innovation been more important. That means learning how to ideate, incubate, and scale new businesses.

Established firms need to ideate, incubate, and scale new ventures in order to grow their business, remain competitive, and lead disruptive innovation.



Beat The Odds

Corporations have historically struggled to create new, disruptive businesses. Though some succeed, most do not get beyond incremental product enhancement or mere innovation theater. As a result, many corporate innovation efforts deliver lackluster results, with few creating revenue generating businesses beyond the company's core operations.

Less than 20% of companies are successful at responding to the disruptive forces in their industry, and 80% of companies who pursue innovation efforts only focus on incremental as opposed to radical innovation (see Change Logic's Beating the Odds of Disruption White Paper, 2019). This finding is confirmed by the McKinsey study on post-COVID growth. Although 75% see the opportunity, only 30% feel that they have the expertise, resources, and commitment to capture growth.

It is critical for firms to close this capability gap quickly. They can look to examples from companies that have been successful. LexisNexis, Amazon, and Analog Devices, have proven that it can be done, creating real revenue from new ventures. Companies such as, Bosch, Deloitte, Intel, UNIQA Insurance, and others are making genuine progress. They have proven that it is possible to build disruptive new businesses inside an existing corporation. It is hard, but achievable.

Less than

20%

of companies are successful at responding to the disruptive forces in their industry,

80%

of companies who pursue innovation efforts only focus on incremental as opposed to radical innovation

Six Breakdowns

Change Logic has worked for fifteen years to help companies beat the odds and build disruptive new businesses. Our approach was forged in the early 2000s working with IBM on its successful Emerging Business Opportunities program. The program built multi-billion-dollar businesses for IBM and the investment outperformed acquisitions made by the corporation. It has been shaped by the decades of research from our colleagues, co-founders and co-authors – Professor Michael Tushman from Harvard Business School and Professor Charles O'Reilly from Stanford.

Based on our research and practical experience, we have isolated the six most common breakdowns in the process for disruptive innovation. These are the places where organizations struggle most, and which can be prevented to increase the odds of success.

6 Key Breakdowns in the Disruptive Innovation Process

1. INNOVATION ZOO

Involving employees in innovation releases energy. However, it can also lead to many small-scale innovation projects that lack a connection to the strategy. Focusing energy on the greatest areas of opportunity by defining 'hunting zones' increases the yield on innovation investment.

2. INSIDE-OUT

Experts know the technical possibilities their innovations create. However, that does not guarantee market success unless it solves a problem that customers are willing to pay to address. It is vital to have a disciplined approach to testing the assumptions underpinning any new product or business concept.

3. PILOT PURGATORY

Adopting the Lean Startup has liberated firms from the restrictiveness of stage-gates innovation. However, too often business experiments get stuck in limbo, neither approved or cancelled. That's because the innovator has not analyzed the internal ecosystem that they need to engage to get a commitment to invest.

4. INVESTING AHEAD OF LEARNING

Many firms now aspire to a 'fail fast culture', however, incubating new ideas can be a painstaking process. Executives get restless and impatient. This can cause them to act before the data are in. Firms need to manage with 'feedforward' metrics, so that they can anticipate the right time to commit.

5. CROSSING WIRES

One axiom for disruptive innovators to remember is that Core will always beat out Explore. Meaning that when the business is under pressure, the need to deliver short-term results is the logical step, causing radical innovation budgets to be cut. The only way to avoid this is to create a separate, ambidextrous unit.

6. CAPACITY TO ACT

No matter the data, evidence, and systematic approaches to innovation, there is still the human, leadership decision to commit. Some leaders stand at the precipice but do not act. They are frozen by the competing commitment to today's business. This balance needs to be transparent and actively managed.

This eBook describes the causes of these breakdowns, as well as some approaches for how to avoid them. We also describe some practical tools that can support these efforts. We welcome feedback on the book and particularly examples of how companies overcome these challenges.
Please get in touch at six.breakdowns@changelogic.com.

Six Key Breakdowns in the Disruptive Innovation Process

Our research has defined six key breakdowns in the process for disruptive innovation. These are common pitfalls that frustrate firms as they try to Ideate, Incubate, and Scale new businesses.

1 INNOVATION ZOO: TOO MANY UNFOCUSED IDEAS

Democratizing Innovation

Bold ideas are the lifeblood of innovation. We all hope that increasing the volume of idea creation will improve the odds of finding this golden nugget. High-participation approaches to idea generation, like contests, hackathons, and crowdsourcing, provide opportunities for large and diverse populations to generate new ideas or to solve difficult problems.

This is great for motivation. They breathe new life into company culture and energize employees. Employees are encouraged to develop ideas without constraint and demonstrate the full range of their creativity.

There is huge value to these sorts of programs. They help to connect employees more directly with customer experience, by encouraging them to investigate problems they might have. It can also foster cross-unit collaboration. However, it can also lead to the Innovation Zoo, a place where many small projects get started, but few go to scale.

Innovation Zoo

A high volume of ideas can lead to paralysis—the more ideas you generate, the more difficult it becomes to identify the good ones. Although it sounds sensible to increase the number of ideas, it squanders attention across a wide number of possibilities.

There is also a strong pressure on executives to approve ideas so not to kill motivation. Ideas get funded not because they fulfill a strategy, but because it is demotivating to stop them. That drives up the number of mediocre ideas that get funding, so making it more difficult for the best ideas to get attention.

If you are investing a little bit in everything, you likely are not investing enough in anything, forfeiting the opportunity to support your best bets. Ideas may demonstrate promise, without the executive sponsorship needed to incubate and scale.

Closing the Zoo

The fix is simple: put boundaries around employee ideation so that it is more tightly aligned with the firm's strategic intent, resources, and core competencies. That allows a wide diversity of ideas to emerge, but in more focused swim-lanes. Then, you can invite a wide diversity of ideas, but with a higher probability that those ideas reflect the strategy the business wants to pursue. This 'bounded diversity' can be just as creative, just more focused and impactful. You can create these boundaries in three steps:

1. Identify what you want to achieve, or your **Strategic Ambition.** What will you be famous for achieving? At Nvidia, CEO Jensen Huang set the goal of building a computing ecosystem to enable AI. Ten years later his firm has reinvented itself as a tech giant.
2. Create a **Strategy Manifesto** that explains to employees the what and the why of your ambition. Engaging employees with the purpose of the firm is highly motivational. At UNIQA Insurance, the 'strategic manifesto' is a touchstone for innovation, helping to explain why it matters to the future of the company.
3. Define the most promising market or **Hunting Zones** for realizing this ambition. A Hunting Zone is an emerging market area that presents attractive potential opportunity for your company. Nvidia targeted five end-markets they believed would put them at the center of AI; this gave a direction for the company's innovation efforts. Nvidia's success saw their stock price increase by 2000% in five years.

STAY HEALTHY, GET HEALTHY WITH SANUSX

UNIQA is a European insurance company with a big ambition to both reinvent its insurance business for a digital future and create new businesses in healthcare. We co-created the UNIQA 3.0 Strategy Manifesto that described the company's long-term strategic aspirations, working with the management board to define its goals and mechanism for achieving them.

We applied our three-discipline (Ideate, Incubate, and Scale) approach to bring this ambition to life. First, we defined potential areas of opportunity, or Hunting Zones, that UNIQA could mine for disruptive product and service ideas. We investigated the size and attractiveness of the Hunting Zones and proposed a set of opportunities to explore. Then, we launched a series of agile sprints with several client teams to test their hypotheses about where UNIQA could play to win.

UNIQA created a new business unit, SanusX, to lead the firm's emerging healthcare ventures. Change Logic helped to structure this ambidextrous unit, develop its budget, and onboard the new leadership team. We assisted SanusX as they grew into a market leader and adopted new practices of business experimentation, outside-in customer discovery, and agile innovation.

HOW TO DECIDE WHERE TO PLAY
(HOW TO DEFINE YOUR HUNTING ZONE)

By Christine Griffin

Hunting Zones are the areas of greatest opportunity for realizing an ambition for disruptive innovation. These could be a customer's jobs to be done, a type of business model, a type of problem or a specific market. There are five steps to getting started:

1. Define your Hunting Zone. It could take many forms: a market, a customer segment, a job to be done, a type of business model, or a type of problem. Examples include: 'visual computing' (market), 'age in place' (job to be done), 'multi-sided healthcare orchestration platform' (business model).

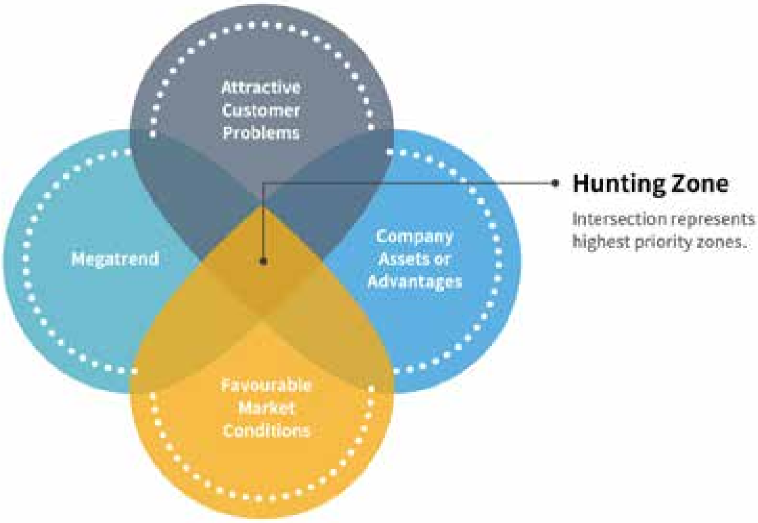
2. Explore 3-5 Zones at a time and keep a backlog of what you say 'no' to so you're ready if market conditions change.

3. Create a detailed picture of each Hunting Zone- market size (TAM, SAM, SOM), specific use cases or jobs to be done, emerging solutions, adoption risks and inefficiencies. Learn how money flows and have a hypothesis about how you might capture a share of the value being created. This can take between 1-3 months. Use our Hunting Zone template and be succinct!

4. Get out of the building as soon as you can to talk with customers to validate customer problems and willingness to pay.

5. You will know a Hunting Zone is attractive if:

   - There are multiple customer problems to solve
   - There is a willingness to pay to solve the problem (by the user or someone else)
   - It exploits a megatrend in society or technology
   - Good revenue potential in next 3-5 years
   - You have or can acquire assets to scale a business – customers, capabilities, capacity
   - It is an emerging market, with no dominant ecosystem player



Learn more about defining Hunting Zones. Contact us at six.breakdowns@changelogic.com

2 INSIDE-OUT: FAILING TO TEST YOUR IDEAS WITH CUSTOMERS

Inside-Out Expertise

A company with strong technical leadership is usually blessed with deep expertise. This could be technological expertise, electrical engineering, or software programming. It could be a financial discipline like investment banking or insurance actuaries. These professionals know the products and services of their industry and regard them with intense pride.

They generate much of the know-how that end up fueling innovation – new integrated circuit designs, new gene therapies and so on. These inventions rarely require customer input, they meet needs that customers do not articulate and mostly cannot anticipate that they have.

We all benefit from this expertise. Landmark inventions like the internet or iPhone, were all generated by people with deep expertise driven by a vision.

Customer Gap

However, there are only a few people as gifted as Tim Berners-Lee or Steve Jobs. Most innovation turns out to satisfy experts more than it does customers. That's what leads to embarrassing failures like Mozilla's Firefox phone, $400M spent on a mobile device that nobody wanted.

Great innovation does come from technical brilliance – Inside-Out – but without customer validation it has long-odds on success. Driving innovation from an Outside-In customer-led perspective can be hard to do. It means learning a whole new language for investigating and interpreting unmet needs.

There are learnable methodologies to apply that help close this gap, such as Design Thinking or Outcome Driven Innovation (ODI). ODI converts customer insight into the customer's 'Job To Be Done', that is what the customer wants to do that they cannot do today. Knowing the job releases Inside-Out creativity by making it clear what problem the expert is solving.

Outside-In Validation

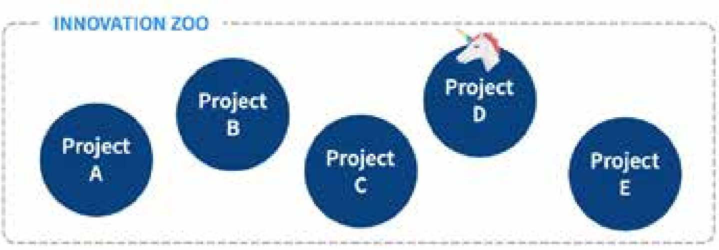
The German industrial company Bosch has a world-class solution to this problem. It also helps to tame the animals of the Innovation Zoo. They put new ideas into an innovation accelerator that tests projects early and often using live customer feedback.

A new project entering the Bosch Innovation Accelerator has to complete 100 customer interviews to test the Inside-Out assumptions of their business idea. The Outside-In pressure of this approach is so demanding that 70% of teams decide on their own that the idea will not work.

Bosch also use a Business Model Maturity index that allows them to identify gaps in a new business proposition, giving it time to fix, iterate, or kill the project.

Don't do this:

Place a few big bets, hoping one becomes a unicorn

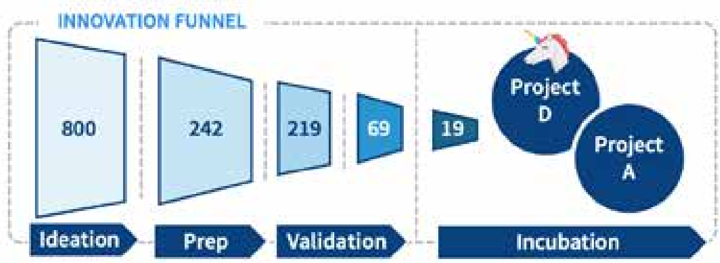


This approach frontloads commitment and is **resource intensive,** especially when **most projects will fail.**

€€€

Do this instead:

Prioritize your bets and test them early and often, so you invest at the speed of learning



Our approach prioritizes new projects based on strategic criteria and increases investment with in-market evidence.

?

Source: Bosch Innovation Consulting

HOW TO CONDUCT OUTSIDE-IN CUSTOMER DISCOVERY

By Vanessa Ceia

Engaging customers directly helps you learn which of your assumptions are true and which are self- serving. Innovators that know what delights customers are better placed to create an emotional connection that excites end-users and generates competitive advantage.

There are six key steps for Outside-In customer discovery:

1. Know your biases
Write down your assumptions about your intended customers; what you think they need, how they buy, what they value.

2. Get out of the building
Get out of the building to interview, observe, and learn from potential customers.

3. Open wide
Find customers that you do not know, cannot usually reach, ones that challenge your understanding of the opportunity. Tap into the wisdom of the crowds by running crowdsourcing campaigns and hire from open talent networks.

4. Empathize with customers
Know your customer's journey, how do they satisfy their needs today, what motivates their choices, what problem remain unsolved.

5. Be a skeptic
Find evidence that disproves your assumptions. If all your assumptions are confirmed, you were not really learning.

6. Find the signals from the noise
Discovery data can overwhelm, use a methodology for narrowing down the information to find the key messages from customers – what are the outcomes they seek that no one is helping them achieve today?

The innovator can never really know their market without working with, observing, and talking to them. You must learn what it means to walk in their footsteps or risk creating something that will not serve those whose lives you wish to improve.

Learn more about defining Outside-In Customer Discovery.
Contact us at six.breakdowns@changelogic.com

3 PILOT PURGATORY: LACK OF COMMITMENT TO SCALING PROMISING IDEAS

Learning to Experiment

Digital technologies are sweeping across industries. Industrial companies are working hard to learn how to apply the ‘Industrial Internet of Things’ to improve manufacturing efficiency. Life Sciences companies are capturing patient data through ‘bio-metrics’ pilots. Insurance companies are capturing lifestyle data to develop new, simpler policies.

Underpinning these digital projects is a method for agile experimentation, often inspired by Steve Blank’s Lean Startup methodology. This has taught us how to progress projects through rapid build, measure, learn experimentation as we validate an evolving solution.

These projects are often led by a Chief Digital Officer, someone hired to help a firm apply digital technologies to optimize performance or create new and disruptive business models.

Pilot Purgatory

Though many of these business models have the potential to generate significant revenue or cost savings benefits to companies, they too often get stuck. They are pilots only, that rarely go to scale. They are in **pilot purgatory:** they generate favorable results but there is no real commitment in the business to scaling them.

This tends to occur when pilots are designed as a technology proof point, not as an effort to drive business ROI. It also happens in organizations where disparate departments have to work together to convert projects into scaled initiatives. They become low priority orphan projects.

Orphan projects emerge because the internal ecosystem does not support them. This ecosystem represents the different stakeholders who need to adopt the solution to make it work. For example, many IOT projects breakdown because the IT departments do not support using the existing networks to transport data to the cloud. Or the compliance team throw up a red flag, often enough to stop a project even when there are no facts to justify it.

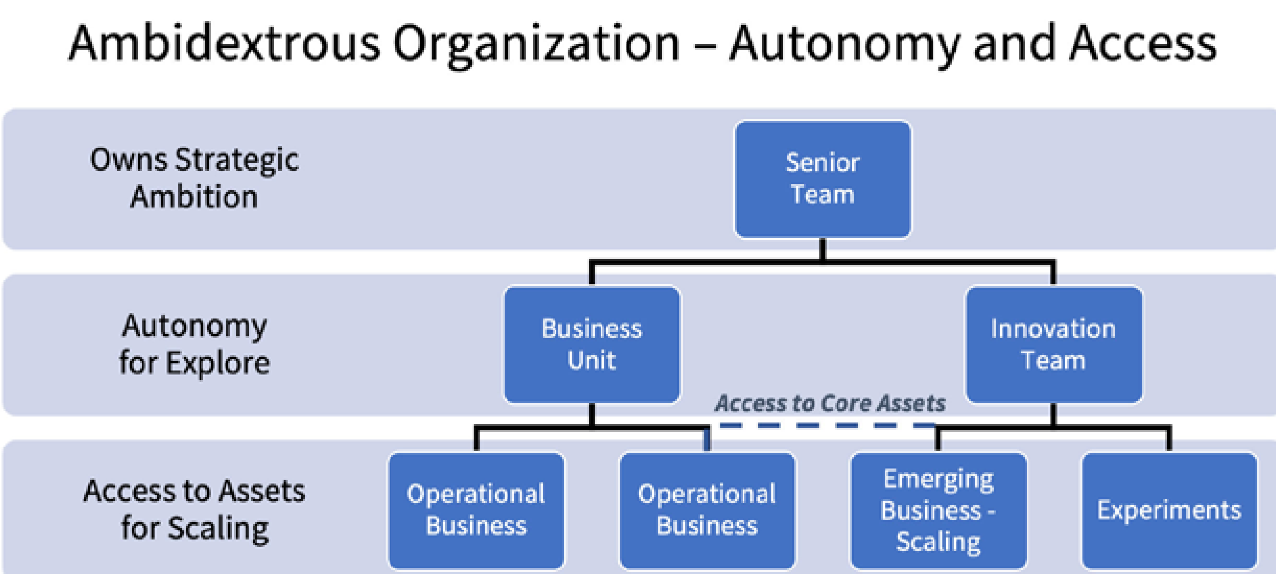
Escaping Purgatory

Projects that start with the problem statement of how can we apply this technology, are doomed to Pilot Purgatory. Start instead by defining a measurable opportunity gap. Unless you have a sense of the magnitude of the problem you are solving and the breadth of the opportunity, there is no motivation for continuing, even after a successful pilot. A project has to connect to an ambition – more customers, better customer experience, more revenue, lower costs – this helps to put pilots in the big picture of how to generate business value.

If you know the size of the prize this should help you ***engage sponsors*** – managers who care about those outcomes. Though, alone their support is rarely enough to guarantee success. Instead, you need to define the ***internal ecosystem,*** whose support you need to advance a project out of its pilot phase.

Analyze the chain of events between a successful pilot to a fully scaled roll-out. This is the ***adoption chain.*** You should highlight potential bottlenecks in the process to achieving your goals – e.g., IT policies, getting external vendors approved, etc. Then, get the people whose support you will need engaged early. Sell them the vision.

Manage a ***portfolio of experiments,*** not just single projects. This will enable you to connect the overall range of exploratory initiatives to a broader strategic purpose. It also makes it more acceptable to close down projects early, because you know that there are others in the pipeline that may get you the results you are looking to achieve.



HOW TO ESCAPE PILOT PURGATORY


By Aaron Leopold

Moving from pilot to scale is scary for innovators – the training wheels come off and the venture must deliver value to both its users and the business. Here are five steps for staying out of purgatory:

1. Set an ambition

Projects get stuck in purgatory because they do not have an idea of what results they will generate and why they matter to the business. Setting an ambition that is equal to the opportunity or threat of disruption helps to connect a project to a motivation that matters.

2. Define hypotheses to test

Projects struggle when they are pursuing an ill-defined objective with an uncertain payoff. Be explicit about what customer problem you are solving, why customers will value the innovation, and how you will make money. Only by testing your hypotheses can you hope to learn where you are right or wrong.

3. Engage internal ecosystem

Build support from internal stakeholders early to understand their unmet needs, value drivers, and risks. Knowing what matters to these decision makers helps new ventures win support later either for investment or to leverage existing assets.

4. Kill projects before they reach purgatory

Ending a project is never easy but continuing a project that has little chance to scale pulls resources away from other projects in the portfolio. Seventy percent of teams in Bosch's Accelerator Program vote to kill their own projects based on the rigor of their testing. This frees up resources to focus on innovations that can scale.

5. Define a path to scale

Know what assets you'll need to assemble to launch an innovation. We build this roadmap early in a new project so that we are always adapting it based on what we learn, seeking potential partners and acquisitions that could help us go fast later.

Learn more about building business experiments.
Contact us at six.breakdowns@changelogic.com

4 INVESTING AHEAD OF LEARNING: GRADUATING A NEW VENTURE TOO SOON

Executive Patience

The process of going through multiple cycles of experimentation to validate a new business can make incubation a painstaking process. That can be frustrating, particularly if we start with the preconception that 'acting like a startup' is all about speed.

We talk a lot of talk about creating 'fail fast' culture. However, the goal is not failure, it is rapid learning. When you learn, you can make faster, more informed decisions. That's what allows the startup to go faster. It is not speed, it is agility. This is counter-cultural for companies obsessed by operational performance where managers are expected to know the solutions to any problems.

Eager corporate executives may not always appreciate this subtlety. They get restless, worrying that waiting for more evidence just risks letting the competition in and missing the market window.

Investing Ahead of Learning

Impatience drives decisions that are not based on evidence, leaving the company vulnerable to committing to a business model that may not work. For example, a manager at a large industrial company was appointed by the CEO to commercialize a new battery technology. The technology had been in development for a long-time and the CEO was impatient for results.

When he got the job, the CEO encouraged him: 'act like an entrepreneur, move quickly.' The CEO also said, "we've spent $100m on a new manufacturing facility, we break ground next month." That act committed the venture to a launch schedule. They had no data on the highest value customer segment, why they would buy, and how much they would pay.

They invested ahead of learning creating a legacy debt or sunk cost problem: the more you invest, the higher the perceived financial and political cost of cancelling the project. The battery project had to accelerate to find revenue – even if it missed the main market opportunity – in order to justify the capital expense. It never escaped the mistake made at its birth.

Investing at the Speed of Learning

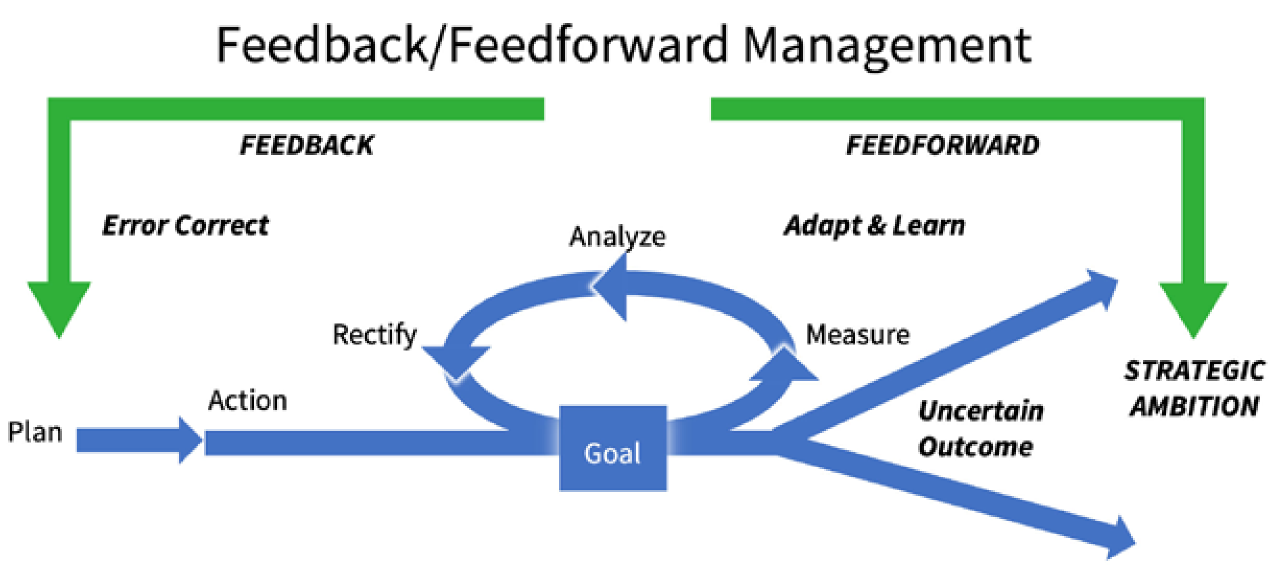
Corporate innovators manage high uncertainty projects. That runs counter to the culture and training of most managers in large, successful companies. Managers grow up knowing how to solve problems within a relatively predictable environment. They can calculate ROI on a marketing or new product investment based on historic performance.

A new venture has no past performance against which to set targets. That means learning to use feedforward metrics – ones that measure customer behavior to tell you how close you are to achieving an ambition or to demonstrating the viability of a new business model. Investment decisions guided by feedforward metrics are not risk free, but they help us de-risk uncertainty using customer evidence to guide increasing levels of investment.

Companies that learn to be proficient at managing leading indicators find it much easier to interpret the data and insights coming from new business experiments. Whoever makes these decisions - investment review boards or new venture committees or the CEO/CFO – need to learn to use these feedforward metrics to inform investment commitments.

NEVER INVEST AHEAD OF LEARNING – GE CASE STUDY

In 2014, GE's digital transformation vision was bold. It saw the possibility for the 'Industrial Internet of Things' and set itself the goal of being a 'top ten' software company. They anticipated sensors gathering data about every aspect of a manufacturing plant's operation being fed back and analyzed in the Cloud in real-time. These 'smart machines' would radically improve effectiveness and efficiency for thousands of companies world-wide. They forecast a market worth $500 billion by 2020 and committed to create a first-mover advantage. GE tripled its R&D budget, built a 1,000-person software division, and launched its own big data platform--Predix. Five years later it had failed. They built a universal big data platform, when the market wanted a way to process existing data for specific applications. They invested without confirming the customer problem and the customer's willingness to pay for it. A new CEO closed down the strategy, the legacy business reasserted control, and GE's ambition to be a software firm folded.



By Noel Sobelman

HOW TO INVEST AHEAD OF LEARNING

"All or nothing" bets assume the innovation team is on the right path to a winning solution. Getting that decision wrong means wasting resources on pivots or failed projects. The secret is to progressively de- risk an investment through a series of rapid experiments. This contains the cost of innovation and links it directly to learning. Spending levels only increase as risk is reduced and confidence builds.

Here's how it works:

- Project team identifies an important customer problem or underserved need in the market
- Innovation Board chooses the most promising opportunities and approves a small amount of funding so the team can validate the problem and ideate a proposed solution
- Team identifies the most important, highest risk assumptions on which solution or new business model is based
- Team runs experiments with measurable evidence thresholds to validate or invalidate the highest risk assumptions
- Team reports back to the Innovation Board with a pursue, pivot, or cancel decision, and a plan for investing in the next set of experiments

Innovation Boards use a simple scoring model to evaluate progress, so that they can judge the quality of evidence an experiment generates. This helps them know that they have learned enough to know an innovation is desirable to customers, feasible to build, viable commercially, and can get adoption in the market. That helps them invest at the speed of learning.

Set up your Innovation investment process. Contact us at six.breakdowns@changelogic.com

5 CROSSING WIRES: FAILING TO SEPARATE EXPLORE FROM CORE BUSINESS

Two Logics

The Core business of a successful company has an operating rhythm all its own. As it matures, practices and procedures develop that help to sustain performance. Its managers learn how to optimize results, incrementally improving the business model to defeat competitors, and maximize profitability.

An Explore business unit has a different rhythm. It lives with high uncertainty. The problem customers want to solve may not be clear, even when it is we cannot be certain they will pay for the solution.

These are two equally valid, but contrasting logics – one operating in known, if complicated environments, the other in highly complex uncertain ones.

Crossing Wires

Sparks fly when you cross negatively and positively charged electrical wires. That is often true when organizations try to execute on an Exploratory business from within the Core. One logic rejects the other.

Core businesses drive to short-term results so that they can meet performance expectations. If this same logic is applied in an explore business, then it forces the new venture to stop learning and start executing.

The Explore leaders are forced to find the safest most secure route to commercialization and so they miss the opportunity of disruptive innovation. The Explore unit underperforms, reinforcing the Core business' assumptions about how risky these ventures are to undertake.

Ambidextrous Organization

The solution is an ambidextrous organization that separates Explore business out from the Core. They share a common strategic aspiration or **ambition** but are able to operate to their own rhythm.

Explore needs **autonomy** to operate. This often means giving it a special status as an Emerging Business, reporting to the CEO or other senior executive, operating outside the Core business management system.

However, this is not a 'spin-out', the Explore still has **access** to the core business assets – technology, manufacturing, sales channels, back office – so allowing it to go faster than a startup. Designing the mechanisms for managing these points of 'targeted integration' are the secret to a successful Ambidextrous Organization that can grow new ventures.

EMERGING BUSINESS OPPORTUNITIES

In 2000, IBM created its Emerging Business Opportunity Program. This was a multi-year effort to create new, disruptive businesses within the corporation, leveraging its many capabilities to access new markets.

In 2006, the IBM strategy team reported to its Board that the EBOs contributed over $15B in revenue, 24% of the IBM total. The return on investment was double that of IBM's acquisitions portfolio in the same period.

The secret to success was putting the EBOs outside the company's management system. This gave them the autonomy they needed to grow without sacrificing access to IBM's assets.

Change Logic's founders worked with IBM to design and execute this program which stands the test of time as one of the most successful applications of the ambidextrous organization in a large corporation. Unfortunately for IBM, it discontinued this program with a change of CEO in 2010.

HOW TO DESIGN AN EMERGING BUSINESS UNIT

By Andrew Binns

Ambidextrous Organizations create Emerging Business groups that can pursue disruptive innovation separate from the core business. There are five steps for getting started:

1. Autonomous Unit

Create a separate unit with ring-fenced resources to pursue the disruptive innovation agenda. It needs to have sufficient autonomy to pursue new ideas at its own pace. It is outside the usual corporate management system. It is free to hire its own team and define a distinctive way of working. It needs to have its own resources, sufficient to launch business experiments and generate learning on which it can act.

2. Access to Core assets

Corporates can go faster than startups because they have assets to leverage – technology, product, customers. However, the effort required to gain access to these assets will kill-off the new venture if it has to negotiate with the corporate machine about everything. Design 'targeted integration' mechanisms that speed up these interfaces and ensure the new venture is not victim to the toxic assumptions of the legacy business.

3. Ambidextrous Manager

Someone has to be the ambidextrous manager, the person that integrates the new ventures with the existing, legacy business franchise. If this is a corporate innovation program this is the CEO, if new ventures are incubated at the business unit level, then its general manager is the ambidextrous leader.

4. Innovation leader

Appoint a leader to manage the portfolio of disruptive innovation experiments, reporting to the ambidextrous manager. This leader needs to have a strong social network inside the corporation so that they can navigate the machine on behalf of those working on the new ventures. These are usually high-profile insiders, not expendable outsiders hired to do something the company is unwilling to do on its own.

5. Performance expectations

Usually emerging business units do not generate revenue quickly and so they struggle for legitimacy within a system that measures success by the numbers. The most successful set high expectations for performance with incentive systems that balance risk and reward.

For more on designing a new ventures unit speak with Change Logic's organization design experts. Contact us at six.breakdowns@changelogic.com

6 CAPACITY TO ACT: NOT COMMITTING RESOURCES TO A NEW VENTURE

Risk Aversion

One of the most vexing challenges for innovation executives is the leader or leadership team that will not commit to invest in a new venture when the time comes – even when the feedforward metrics tell them that the opportunity is real. Instead of committing resources to scale a new venture, they withdraw, preferring to lament the failure of the innovation (and innovators) than publicly commit to its success.

They stand at the precipice, armed with data to support the opportunity, but do not act. We can criticize them for being 'short-term focused' or 'risk averse', but in reality, they are managing a competing commitment.

Capacity to Act

Most senior executives are deeply committed to the success of new ventures. Their challenge is that they have another, competing commitment that wins out. That is a commitment to sustaining the performance of their current business or organization.

Whenever an innovation involves a commitment that might jeopardize the continuity of the current business, by diverting funding or resources, it competes with this attachment to stability. This preference for the "Core" or "Exploit" business is not surprising. Sustaining short-term performance or quarterly results is a key responsibility for the leader. If we start from the assumption that the challenge to commit is rational then we have a better chance of solving the problem.

Manage Competing Commitments

A CEO we worked with faced the challenge of competing commitments to a new venture and the core business. He worried about where the next wave of growth would come from for his fast-growing company. Though, he was also concerned not to divert key technical resources away from serving current customers.

We helped him reframe the challenge as a both/and strategy problem. The issue was how to balance the commitment to new and existing customers; not kill the new to protect the old. This enabled him to find ways to manage the risk to the core sufficiently to release resources to expand on the new opportunity.

Reframing strategic decisions as both/and means making the competing commitment explicit. It should be an open discussion for a leadership team, not a hall-way conversation that reflects a nervous desire to protect core business assets. That requires open dialogue and a courageous leader ready to engage with conflict.

HOW TO CREATE THE CAPACITY TO ACT


By Kristin von Donop

If more corporations are to demonstrate a capacity to act, then executives need to examine how their commitment to stability competes with their desire for innovation. These are strategically contradictory impulses, they cannot be wished away, they need to be actively managed. These are conversations within a senior leadership team. It is tough stuff that requires expert facilitation. These four steps help make this possible:

1. Recognize Competing Commitments

Start out by being honest about what really matters and to whom. What is your commitment to the status quo or to current revenue streams? How committed are you to future growth, is this a nice to have or an essential step to preserve the future of the business?

2. Be explicit about what you fear

Humans fear loss more than any anticipate gain, so be explicit about what is at stake. What are the consequences of putting a commitment at risk? Everyone knows the CFO is nervous about investment in innovation, talk about it and find out what they fear most. One CEO we worked with feared letting down his company's current customers by pursuing a new innovation. Another did not want to admit to analysts that the company could not sustain its high gross margins indefinitely without investing for the future.

3. Reframe the commitment

This tension between competing commitments cannot be resolved, it will be with you until you can convert explore ventures into sustainable revenue streams. You need to reframe them as a Both/And commitment not an Either/Or. For example, our CEO concerned for his current customers reframed his commitment to exploration by making building customer loyalty a success criterion for new innovation projects.

4. Create a mechanism for attention

Too often over worked senior leadership teams 'sleepwalk' into undermining a commitment to new ventures. They get so overwhelmed by short-term business pressures that the nascent innovations get lost. One CEO we worked with saw this happening and created an investment board, that he chairs, to ensure focus on the innovation agenda. He also created external review boards to make sure they held to the scale of ambition that they had set themselves.

5. Diagnose work avoidance

Humans can be very adept at sidestepping awkward issues like a competing commitment. Sometimes this is conscious, often it is an unconscious reaction to the complexity of the issue. They divert attention by asking for more data, suggest that someone else take responsibility, or suggest the issue will solve itself in time. Don't let that happen, call it out, and talk about the conflict.

Managing these tensions is the work of senior leadership teams. It cannot be delegated. Discuss how to work with leadership teams to balance Core/Explore commitments.
Contact us at six.breakdowns@changelogic.com

SUMMARY

The six breakdowns in the innovation process are common to many large corporations. The solutions are mostly learnable and easily applied, the challenge is often in the human system or culture of the organization.

Change Logic works with B2C and B2B clients to translate their ambition into an executable strategy. We define the areas of greatest opportunity for innovation, what we call Hunting Zones, and apply three disciplines to build new businesses:

- **IDEATE** to generate ideas that will solve high-value customer problems using methods such as design thinking, JTBD, crowdsourcing, lean startup, and sprints. We bring a series of 'outside-in' techniques to discover and validate customer needs.

- **INCUBATE** to test the business design underpinning the new idea (e.g., value proposition, value capture, and go-to-market approach). We use rapid business experiments to learn what customers want and how our clients can monetize that into a viable offering.

- **SCALE** to assemble the capabilities, capacity, customers, and capital necessary to transform a new business into a source of revenue. We use our proprietary tools to define a 'Scaling Path' that enables firms to move from a validated experiment to a revenue-generating business in the shortest amount of time.

If all you want is the buzz and excitement of innovation, then running shark tank competitions and hackathons is all you need. If, however, you want to step up to the hard choice of committing resources to new ventures and confront the fear and inertia in the organization that holds them back, then a disciplined approach to disruptive innovation will improve the chances of success.

At Change Logic we are always learning. Reach out and tell us about you are working on. We love to learn new success stories and to help corporate innovators succeed.

ABOUT THE AUTHOR

Andrew Binns

Andy works with CEOs, boards, and senior teams as they lead significant business change. He is a co-founder of Change Logic and manages the firm on behalf of the partnership. Andy has twenty-five years of consulting experience as both an external and internal consultant for McKinsey & Co., the IBM Corporation, and Change Logic. At IBM, Andy was deeply involved in the 'Emerging Business Opportunity' program, for which he received an award from IBM's Vice-Chairman.

Andy primarily advises senior teams at technology and media firms. He has worked extensively with these firms to make and execute strategic choices to support business growth. He acts as a facilitator, provocateur, and strategic advisor to senior leaders as they setup and operate teams to explore new business opportunities. He advises on a range of issues such as strategy, business model development, and organizational design. He is known for his candid, challenging approach, which helps leaders address some of the hidden barriers to strategy execution.

Andy is a frequent guest speaker and lecturer at companies and business schools and an award-winning business author. His article, 'Three Disciplines of Innovation,' co-authored with Professor Charles O'Reilly, was named Best Article in the California Management Review for 2020. His other articles include 'Ambidextrous CEO' in the Harvard Business Review, the 'Art of Strategic Renewal' in the MIT Sloan Management Review and a book chapter on 'Getting Started with Ambidexterity.' He is an Executive Fellow at the Center for Future Organization at the Drucker School of Management and a member of the Fast Company Executive Board.

Andy attended the University of Sussex, New York University, and the Quinlan Business School at Loyola University Chicago. He holds degrees in political science, marketing, and organizational development.