How to Balance Sustaining & Strategic Innovation

Larry Schmitt & Steve Schwartz of The Inovo Group
April 18th, from 2-3 p.m. ET
About Inovo – Areas of Practice

Making strategic choices about how and where to grow

**Strategy:** What is our innovation vision and mission? How does it enable our business strategy? What are our innovation objectives and how will we fund it? How should we configure our innovation initiative?

**Future:** What major transformations will take place in the world over the next 10 to 20 years? How will this affect our business and create or inhibit new opportunities? What should we be doing now to be best positioned for these possible futures?

**Domain:** Within the vast white space of possibility, where should we be exploring for new opportunities? Which domains are favored by tailwinds, aligned with our strategy and rich with opportunities?

Developing strategic opportunities for growth

**Discovery:** What strategically important opportunities can we create in our domains of interest? Which *should* we pursue? Which *could* we pursue successfully?

**Portfolio:** How should we allocate our innovation resources? What mix of opportunities and investment levels will properly balance against alternative futures? What is the proper level of portfolio risk?

**Incubation:** How should we pursue the top opportunities? How do we prioritize and test key assumptions? How do we design the appropriate experiments to test the technology and market response?

Designing and building a strategic innovation capability

**Organization:** What are the formal and informal structures that we need, including inter- and Intra-company networks? What are the necessary resource levels? Who will fund these resources?

**Operation:** What are the business processes, procedural methods and software tools needed to build an effective innovation system? What are the governance mechanisms and decision rights?

**People:** What leadership and practitioner competencies do we need to develop? How do we recruit and hire people with the right competencies? How do we develop these competencies?
Dance of the Corporate Innovators
Corporate Innovation Group (CIG)  
Strategic Business Unit (BU)  

The Dance Partners
James March
Exploration and Exploitation in Organizational Learning
My experience is making the company run efficiently. The types of opportunities you are working on are ones I’m not used to. I expect you to teach me how to think differently about these.

President of a $3B BU to the Leader of the CIG

I expect my operating businesses to figure out how to innovate. There should be no conflict between delivering quarterly growth and innovating in the business.

CEO of a $4B company with 3 BUs and 10 lines-of-business

Our job in the Corporate Innovation Group is to support the company’s core mission. When it aligns with an existing business, we work with them. And when it doesn’t, we do it ourselves.

CIG leader of a $5B Company

I see no use for a Corporate Innovation Group. They go after unrealistic ideas that go nowhere. My business can make much better use of the money we spend on corporate innovation.

President of a $2B business unit of a $10B company
understand ambiguity and uncertainty, can perceive possibilities without demanding proof and feels comfortable with an unclear future

demand detailed data and analysis, ask for precise clarity on options and proof that outcomes can be achieved
Bill and Dave – An Ambidextrous Company

Transformational electronics innovations and high-quality, efficient operations from manufacturing to service.

Each understood and appreciated the other’s perspective and skills.

Switched CEO roles and continued to be successful.

Bill & Dave: How Hewlett and Packard Built the World’s Greatest Company
The Two Sides of Ford – April 2019

Jim Farley – Exploration
Automotive 2.0 and the future

Joe Hinrichs – Exploitation
Global Manufacturing and Operations
I have written to the CEOs of leading companies urging resistance to the powerful forces of short-termism afflicting corporate behavior... Many companies continue to engage in practices that may undermine their ability to invest for the future.

Larry Fink – Blackrock

Transformational opportunities are realized only once every ten years ... not enough to achieve growth objectives.

There are many opportunities that are overlooked or that are passed on that others then exploit.

Large organizations haven’t delivered the goods needed to achieve the growth anticipated by stakeholders.
Symptoms of the Tension

“The organization can’t make big bets, because culturally we can’t forgive failure.”

“We have a great platform, but can’t exploit it. We only seem to focus on small opportunities.”

“We can’t recruit and retain the right type of people.”

“We have lots of innovators, but it’s difficult to ‘do’ innovation.”

“R&D creates a great, new technology and marketing doesn’t know what to do with it.”

“The CEO truly believes in innovation but doesn’t really understand what it takes.”

“Marketing gets a great new idea, R&D creates it, then no one buys it.”

“We only seem to be able to have success with incremental opportunities. We really struggle with disruptive ones.”

“The businesses don’t even think we should exist. They resent being ‘taxed’ to support us. Yet they are unsuccessful at coming up with the next big thing on their own.”
The Way You Explore Determines The Outcome

Two Forms of Exploration

Sustaining
Two Objectives
Two Systems
Two Processes
Two Teams

Strategic
### A Cultural Divide*

<table>
<thead>
<tr>
<th>Strategy and Type of Innovation</th>
<th>Culture</th>
<th>Risk Profile</th>
<th>Investment Timing and Revenue Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current strategy and sustaining innovation to extend existing business</td>
<td>Operational excellence, customer intimacy and execution skills</td>
<td>Focus on low-risk operational efficiency and product design changes.</td>
<td>New products in 6-24 months. Profit and loss management with in-year revenue streams.</td>
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<tr>
<td>Strategic intent guides innovation for growth and renewal. Innovation can drive strategy.</td>
<td>Exploration; future intimacy and new business creation skills</td>
<td>Risk mitigation through staged learning, strategic partnerships and portfolio management.</td>
<td>New businesses in 2-10 years. ROI over long term with increased tolerance of and allowance for failures.</td>
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*Gina O’Connor - 2015
Behavior Reflects Organization

90% Exploitation

10% 7% Exploration

3% Strategic Exploration

Innovation structure of a $30B multi-national company

Strategic – between and beyond

Board & C-Level

Corporate Services

Innovation Center

Life Sciences

Performance Materials

Nutritional Products

Food Specialties

Functional Materials

Specialty Platforms

Engineering Plastics

Innovation

Innovation

Innovation

Innovation

Innovation

Innovation

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You Need Both Sustaining and Strategic Innovation

*Sustaining Innovation* is necessary to stay competitive in the *short* term.

*Strategic Innovation* is necessary to stay competitive in the *long* term.

*Speculative Innovation* is available for companies with a high capacity for risk and a very long term vision.
**Opportunity Type 1 – BU Routine**

**Definition:** Opportunities a BU would surely pursue if they only had more money. These are the opportunities a BU will clamor for the CIG to help with.

**Example:** A BU of a materials company is looking for funding to use an existing material in a new application for a new customer.

**CIG Action:** Never take on Type 1 opportunities. It’s a waste of strategic resources.
Tyvek Cargo Covers

Routine
**Opportunity Type 2 – BU Stretch**

**Definition:** Opportunities that the BU see as interesting...eventually. Today they are too far out or too risky. The BU can support the CIG pursuing these opportunities and will take them over once they are further along.

**Example:** A BU is looking to develop a new capability using a new technology for existing customers.

**CIG Action:** Undertaken with BU participation and their ‘head in the game’ (attention is more valuable than money)
Opportunity Type 3 – BU Transform

**Definition:** Opportunities that the BU can’t see as relevant to their business until there is ‘proof of value’ (e.g. it’s a nascent business creating real traction and revenue).

**Example:** A new business model will change the way a BU delivers solutions to it’s customers and result in new economic flows and transactions.

**CIG Action:** Undertaken with no requirement of up-front BU commitment, but with a path that permits BU participation as the opportunity comes into focus.
Opportunity Type 4 – BU Antagonistic

**Definition:** Opportunities that are of no interest to a BU, and never will be - no matter how successful they become. Even though they lie within the strategic vision of the company, the BU sees these opportunities as either a distraction or a threat and resists them.

**Example:** A new offering that will disrupt an existing BU business either by cannibalizing current offerings or by disrupting the existing value network (e.g. compete with current customers).

**CIG Action:** Responsible for incubation and acceleration. Launch a new business and create a new BU or an independent company.
Wearable Electronics

Lubrizol

Antagonistic
Uncertainty is the Key

Organizational
How a new opportunity fits into the company’s current business. This includes, but is not limited to, uncertainty about strategic, financial, structural, operational, cultural and competency fit.

Demand
Who will adopt and why. The motivations of the adopters, the strength of their need or desire and the uniqueness and relevance of the solution to their motivations for adoption.

Design
The means to achieve the technological effects needed to realize the opportunity. Does an appropriate technology exist, what effects can it deliver and how it can be used in a specific designed artifact that can be produced and delivered.

System
How the ecosystem reacts to the new offering. This includes the PESTEL (Political, Economic, Social, Technological, Environmental, Legal) macro-factors as well as market macro-factors (e.g. competition, segmentation, etc.) over which the organization has no direct control.
The Often Unrecognized Cause of Tension

Variation is antithetical to operational excellence

The four alternatives require different corporate ‘dances’

Variation is the life-blood of strategic innovation

Stretch, Transform and Antagonistic opportunities are needed to achieve long-term, accelerated growth

Routine

Stretch

Transform

Antagonistic

Organizational Uncertainty

Low Uncertainty

High Uncertainty

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Organizational Uncertainty Determines Behavior

Organizational uncertainty comes from:

1. Fit with existing BU strategy and B-model
2. Existing Competency/Capability match
3. Perceived risk, resources and schedule
4. Current business disruption potential
5. Funding compatibility
6. Process, Project, Portfolio compatibility

**What opportunities will the company pursue?**
**Where will the opportunity end up?**

We will only consider opportunities where we can see how they will eventually fit into one of our existing businesses.

- CIG Leader of a $7B Company

We are looking for opportunities that will disrupt our existing businesses before someone else does.

- CIG Leader of a $6B Company
The CIG is the Mechanism for High-uncertainty Strategic Innovation

Both intertwined and insulated
- Intertwined when BU’s are motivated
- Insulated when BU’s are antagonistic

Driven by explicit and tacit company mission and strategy
- Challenge BU’s when they are entrenching
- Support BU’s when they are stretching
The Strategic Innovation Pipeline

**DOMAIN**
- Expand

**DISCOVER**
- Explore

**INCUBATE**
- Experiment

**ACCELERATE**
- Execute

**OPPORTUNITY READINESS LEVEL**
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9

**Opportunity Type**
- Routine
- Stretch
- Transform
- Antagonistic

**Destination**
- Existing LoB
- Existing BU
- New BU
- Externalize

**Opportunity Design**
- Select
- Create
- Evaluate

- Learn
Navigating the ‘Dance’

<table>
<thead>
<tr>
<th>Closeness to a current BU Strategy/Competency</th>
<th>Opportunity Readiness Level (Maturity)</th>
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<tbody>
<tr>
<td></td>
<td>0 1 2 3 4 5 6 7 8 9</td>
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- **Strategic Process**
- **Sustaining Process**
- **Transfer to existing BU**

- **Discover (Of)**
- **Discover (About)**
- **Incubate**
- **Accelerate**
The Value of Corporate Innovation

The pursuit of non-core strategic opportunities is a dance that requires the enterprise to learn and to push its boundaries. This dance is one that requires both an external and an internal focus to cross the ‘valley of disagreement and uncertainty’.

– The valley where uncertainty and risk can derail even the most promising boundary pushing opportunities

Strategic Innovation requires a mindset, an approach, a process and methods and tools that help an organization cross the valley.

A commitment to act and invest in a way that promotes learning & boundary pushing
The dance is done every day, every week, every year. Each dance is a unique experience.
What’s next for Innovation Leader

Our Upcoming Master Classes:

Building the Right Foundation for Innovation,
Online, May 2 at 1 p.m. ET

Master Class: Co-Creation & Ecosystem Development,
Online, May 16 at 1:30 p.m. ET

Our next in-person event:
New York Deep Dive
NYC, May 7, 2019

For more information visit innovationleader.com
With Inovo as collaboration partner and guide, organizations transform their innovation offerings, cultures & capabilities.

For more information, check out our website at www.theinovogroup.com or drop us a line at +1 (888) 464-6686.