



**masterclass**

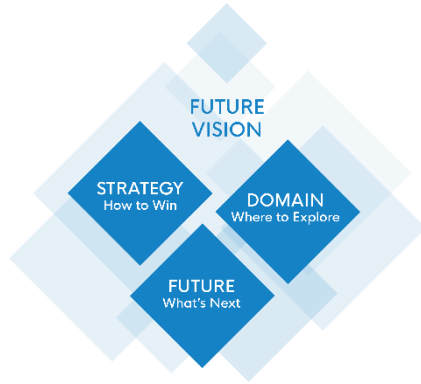
INOVO GROUP

# 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 a 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)



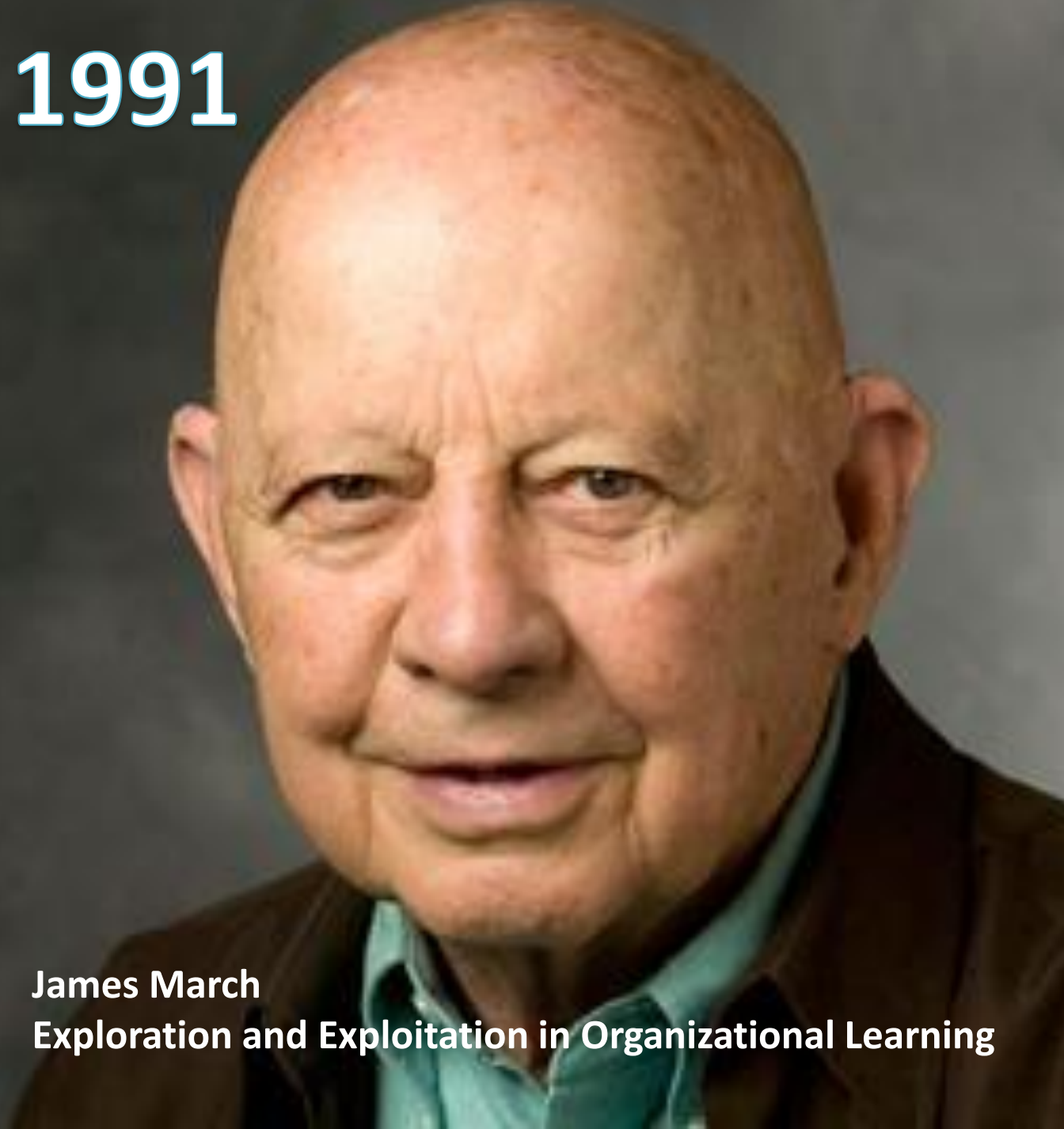
Strategic Business Unit (BU)



# The Dance Partners



1991

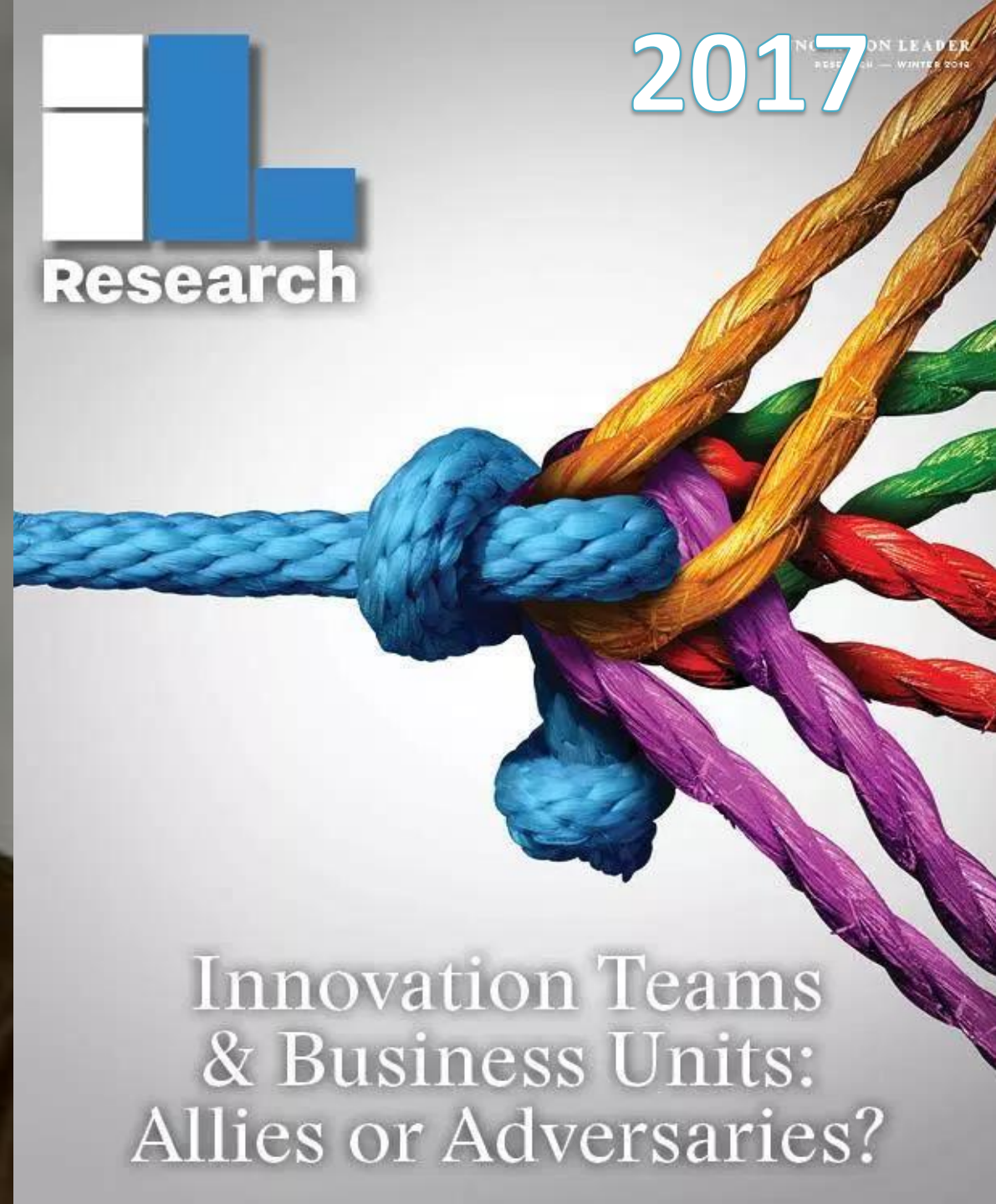


James March  
Exploration and Exploitation in Organizational Learning



Research

2017



Innovation Teams  
& Business Units:  
Allies or Adversaries?

*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**

**Exploit**

*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**

**Strategic**

*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**

**Explore**

*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**

**Sustaining**


EXPLORATION




EXPLOITATION

# Ambidexterity

Explore – Exploit



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*

# Sustaining



# Strategic



# Long-term Perspective

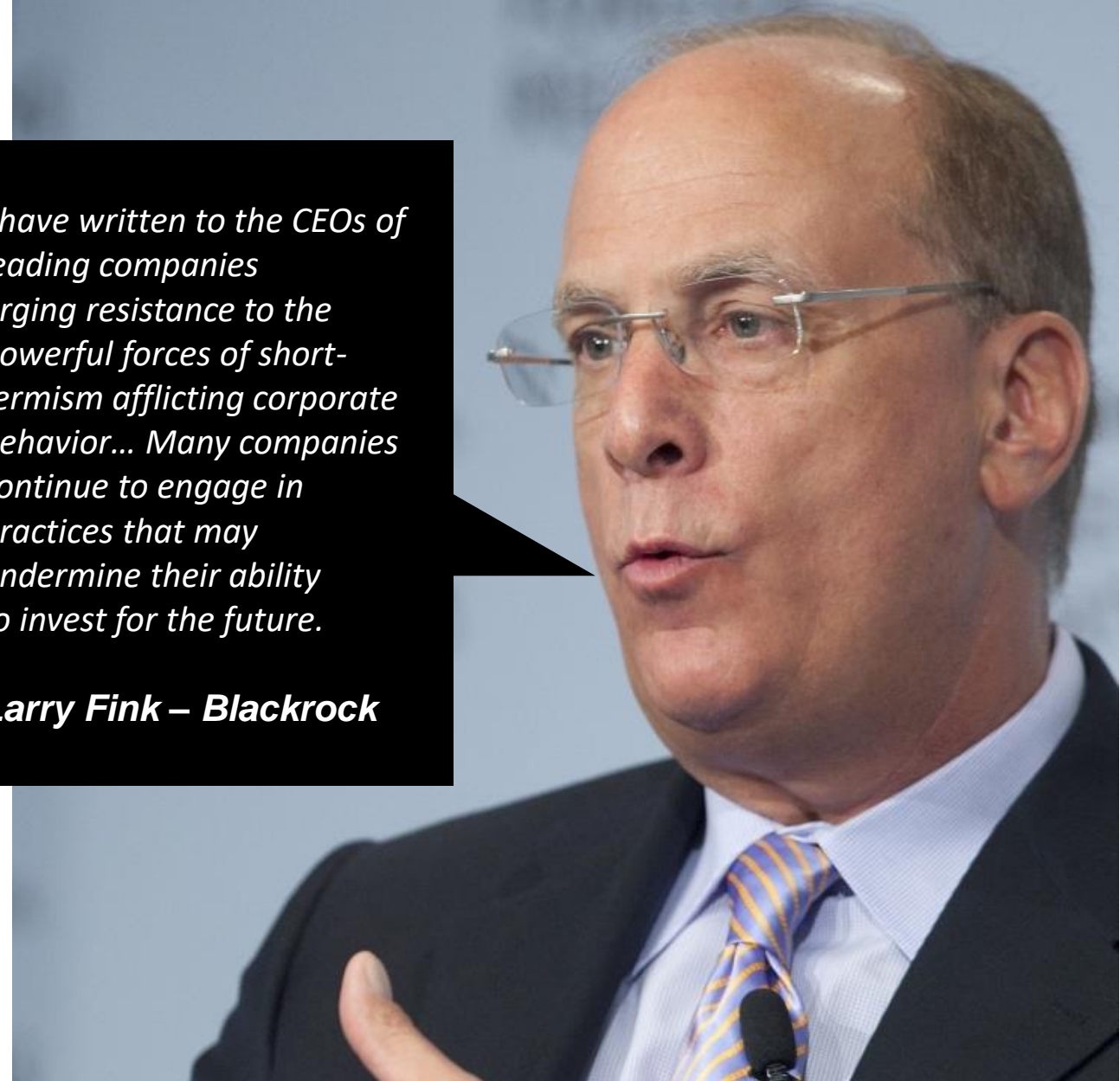
Transformational opportunities are realized only once every ten years ... not enough to achieve growth objectives.

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.

*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**



# 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 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 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."*

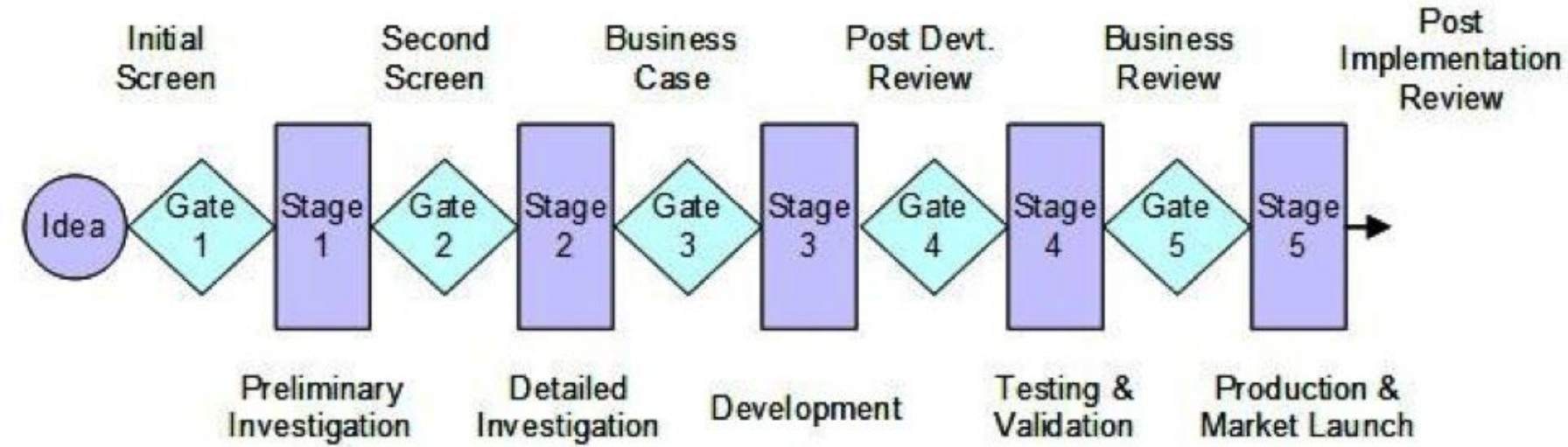
*"We only seem to be able to have success with incremental opportunities. We really struggle with disruptive ones."*

# Two Forms of Exploration

**Sustaining**

- Two Objectives
- Two Systems
- Two Processes
- Two Teams

**Strategic**



## The Way You Explore Determines The Outcome



# A Cultural Divide\*

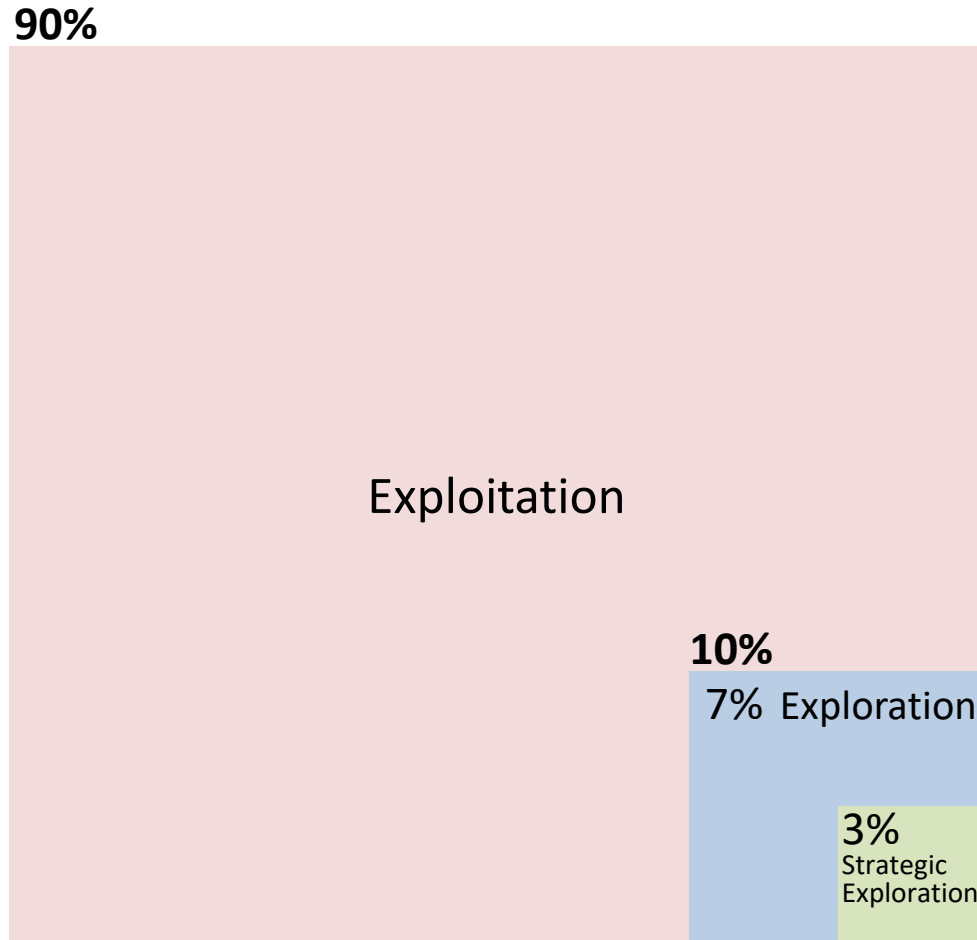


Strategy and Type of Innovation	Culture	Risk Profile	Investment Timing and Revenue Focus
<p>Current strategy and sustaining innovation to extend existing business</p>	<p>Operational excellence, customer intimacy and execution skills</p>	<p>Focus on low-risk operational efficiency and product design changes.</p>	<p>New products in 6-24 months. Profit and loss management with in-year revenue streams.</p>
<h2>The Divide</h2>			
<p>Strategic intent guides innovation for growth and renewal. Innovation can drive strategy.</p>	<p>Exploration; future intimacy and new business creation skills</p>	<p>Risk mitigation through staged learning, strategic partnerships and portfolio management.</p>	<p>New businesses in 2-10 years. ROI over long term with increased tolerance of and allowance for failures.</p>

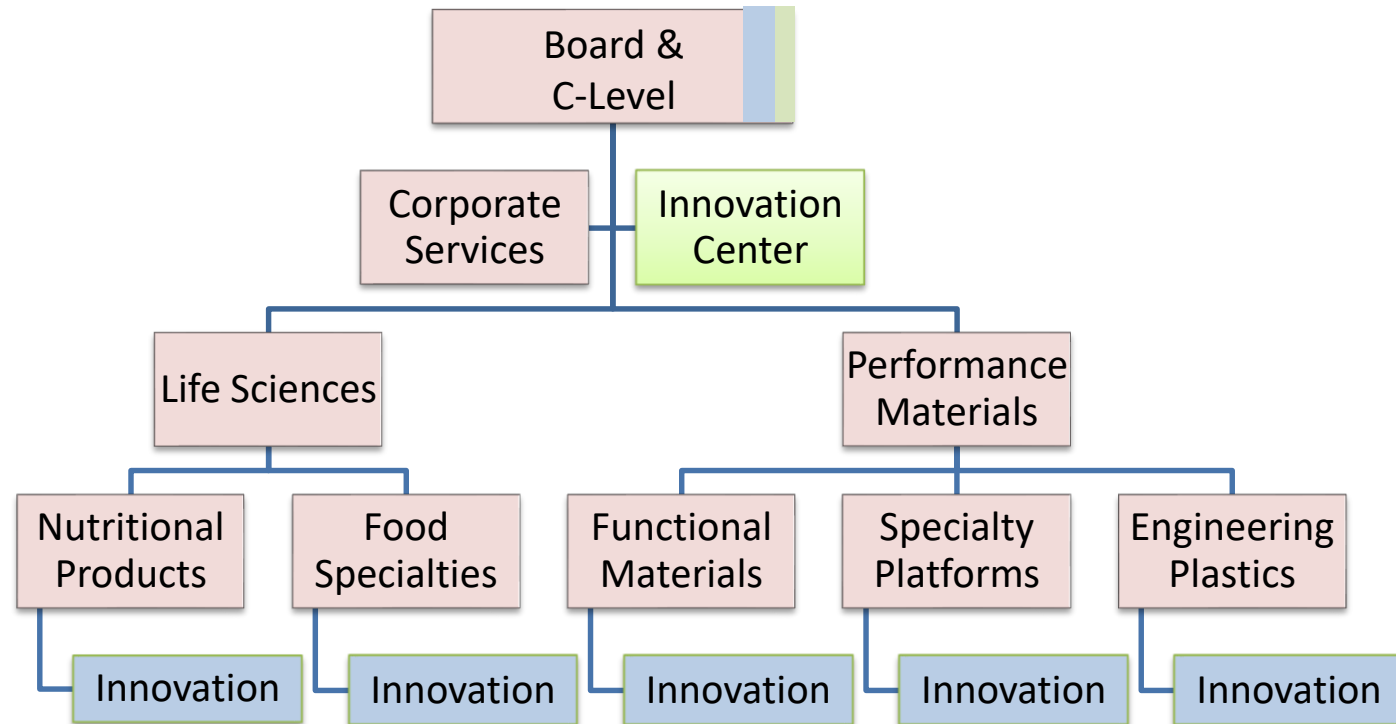


\*Gina O'Connor - 2015

# Behavior Reflects Organization



Strategic – between and beyond



Innovation structure of a \$30B multi-national company



# You Need **Both** Sustaining and Strategic Innovation



## **Sustaining Innovation**

is necessary to stay competitive in the *short* term



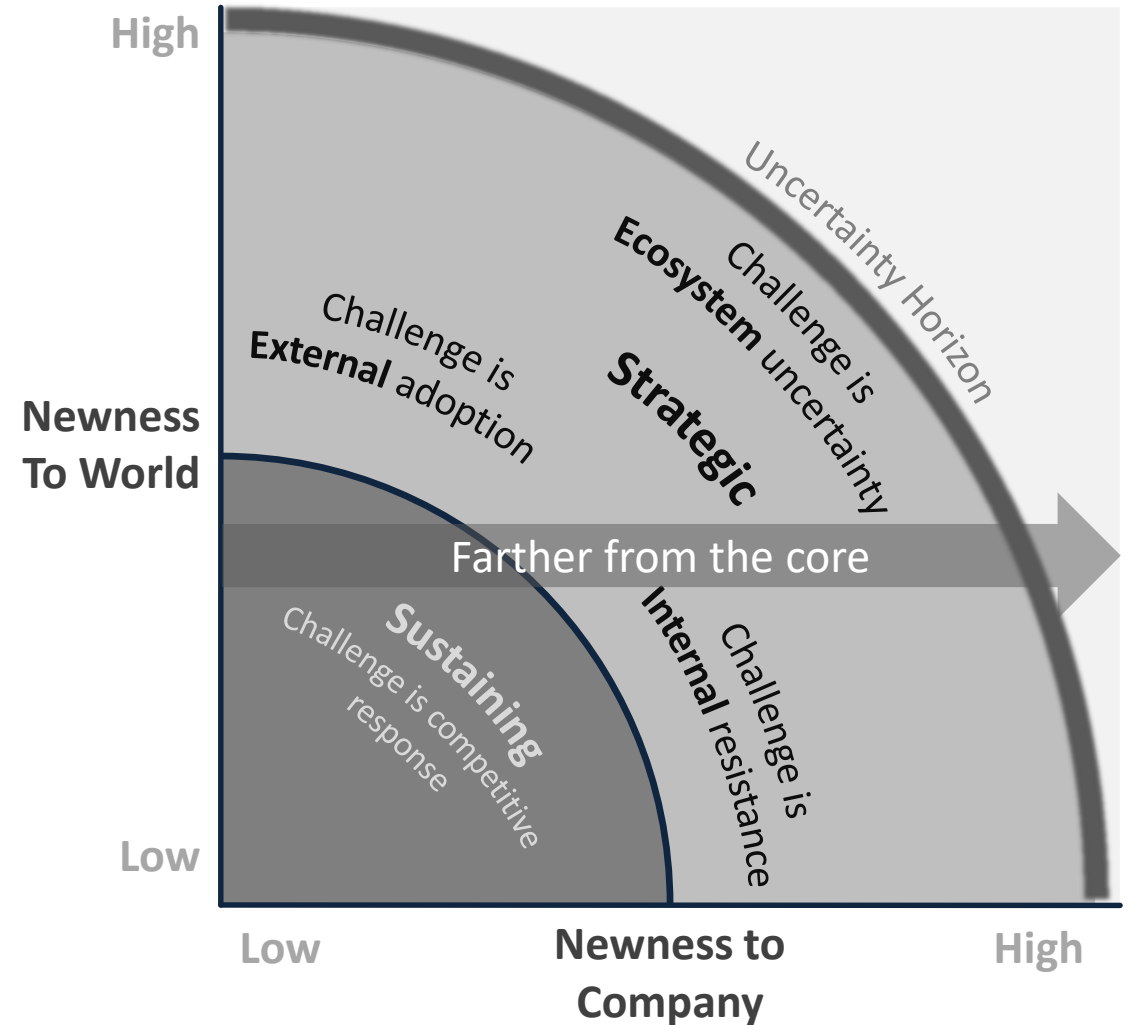
## **Strategic Innovation**

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

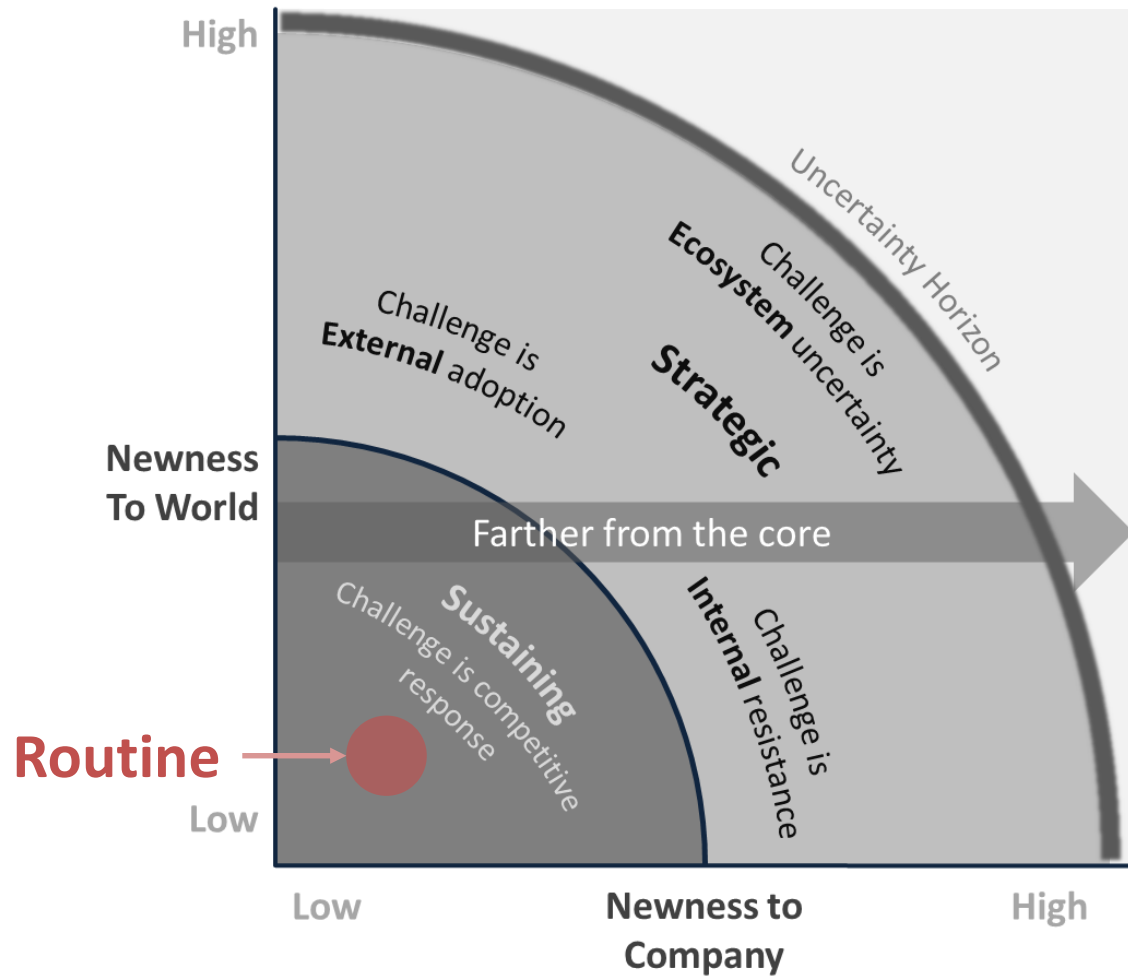


## **Speculative Innovation**

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 they 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.

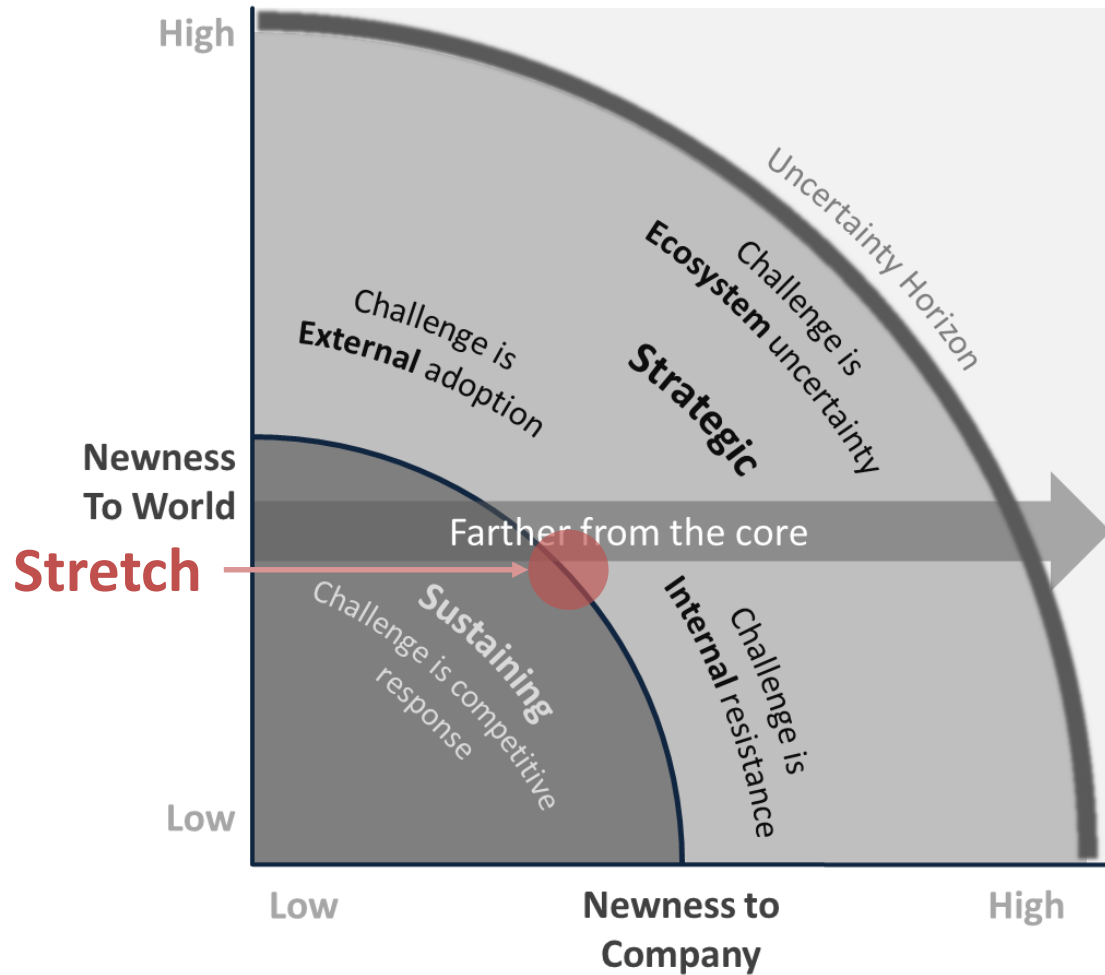
**CIG Action:** Never take on Type 1 opportunities. It's a waste of strategic resources.



# 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)

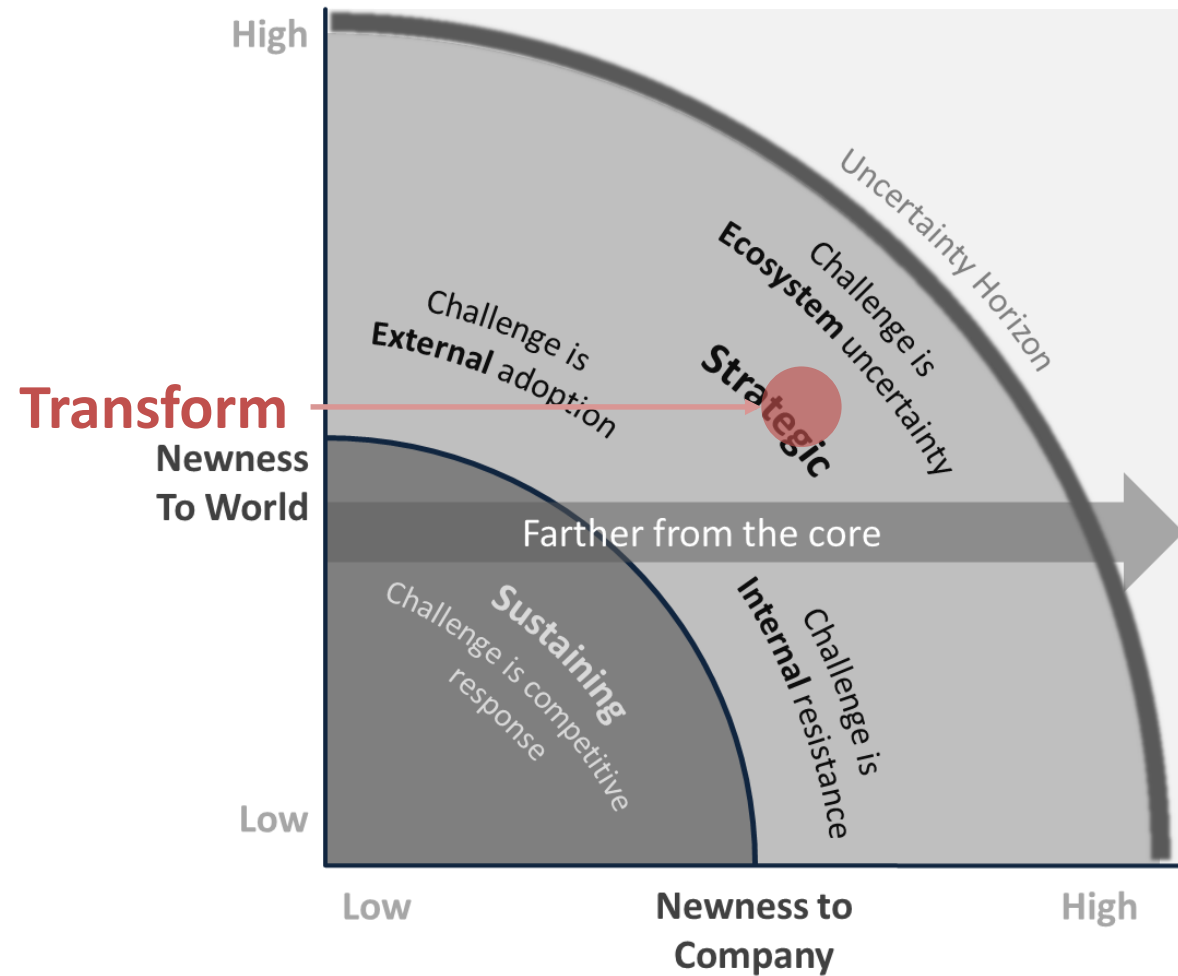


Pea Protein



Stretch

# 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.

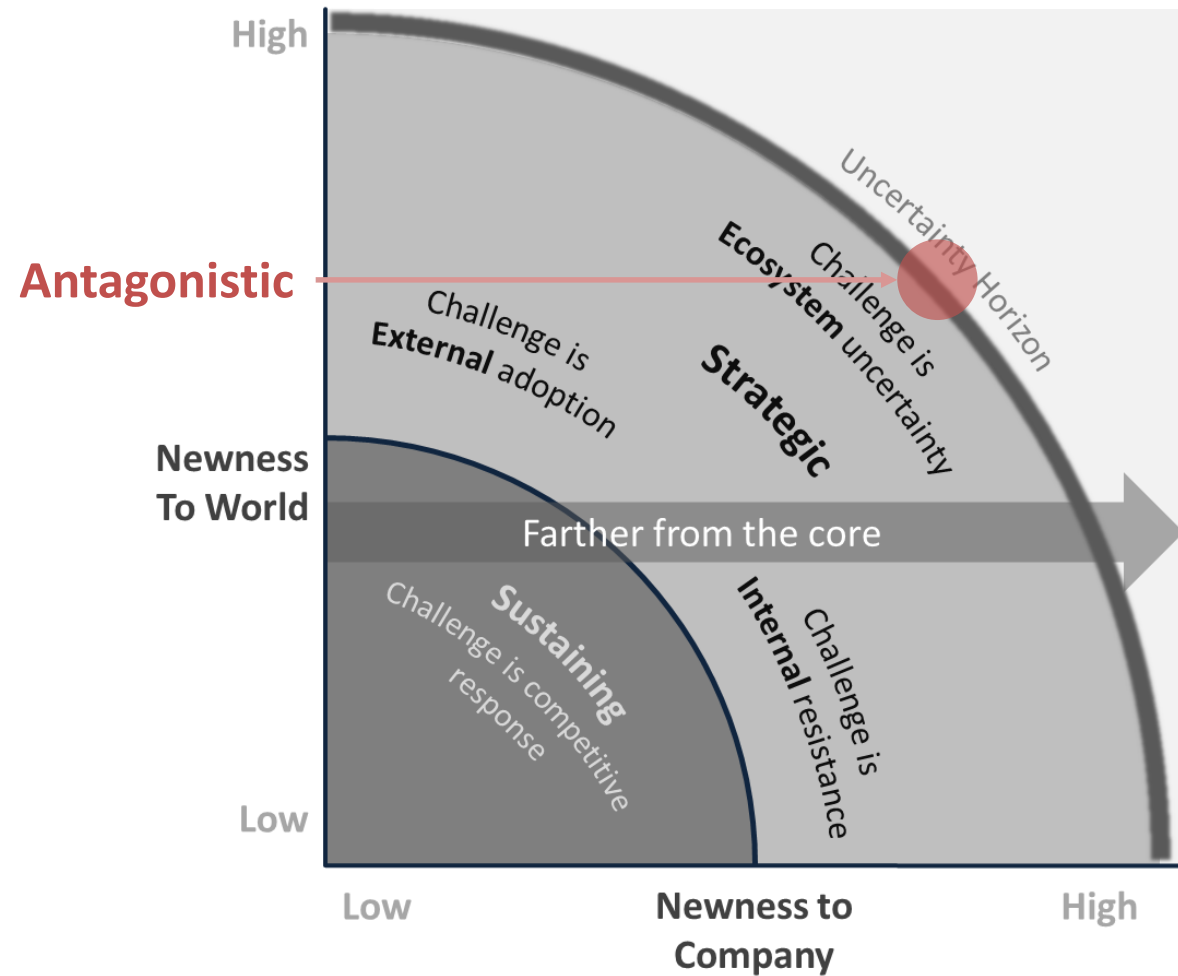
**CIG Action:** Undertaken with *no requirement of up-front BU commitment*, but with a path that permits BU participation as the opportunity comes into focus.

**ExxonMobil**

**Transform**



# 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.



***Lubrizol***

**Wearable  
Electronics**

**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



# 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?**

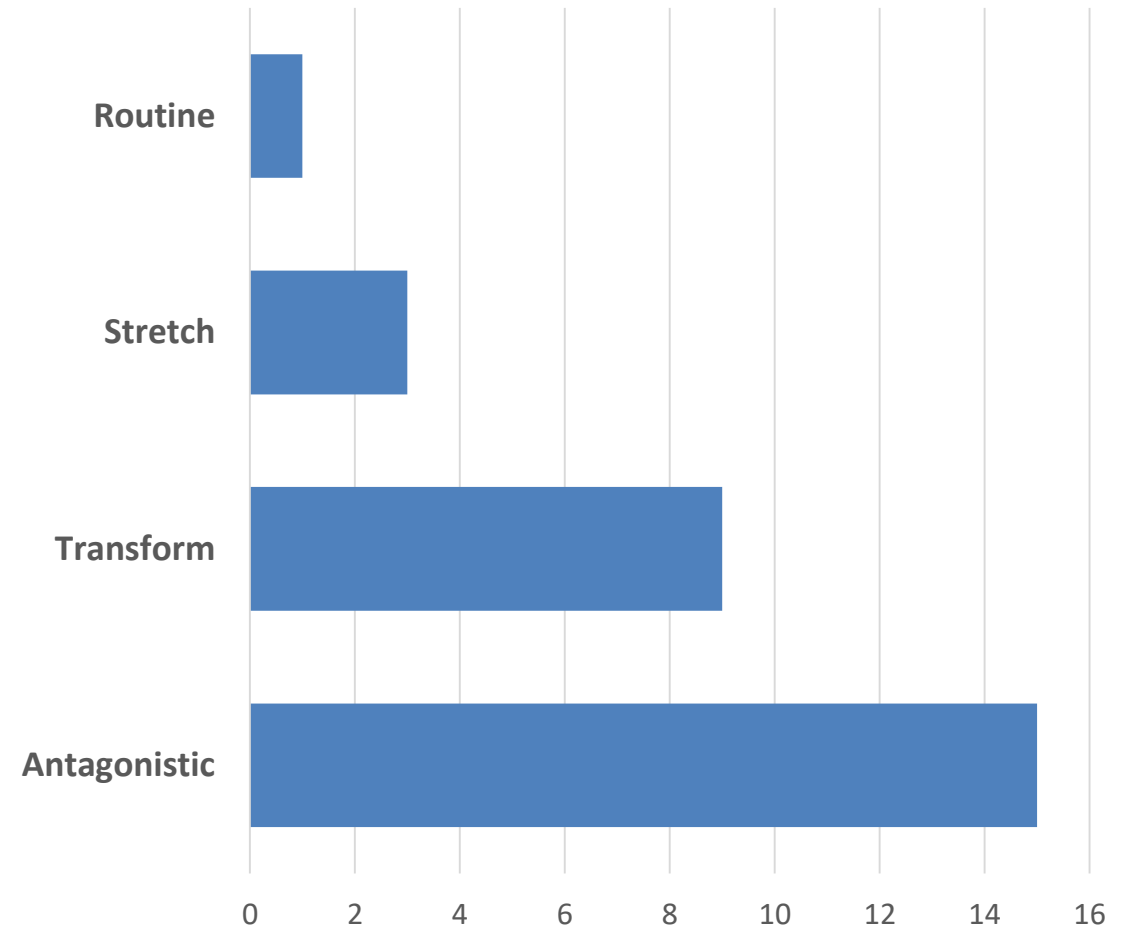
*We will only consider opportunities where we can see how they will eventually fit into one of our existing businesses.*

**- 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**

Organizational Uncertainty





# The CIG is the Mechanism for High-uncertainty Strategic Innovation

**Both intertwined and insulated**

**Intertwined when BU's are motivated**

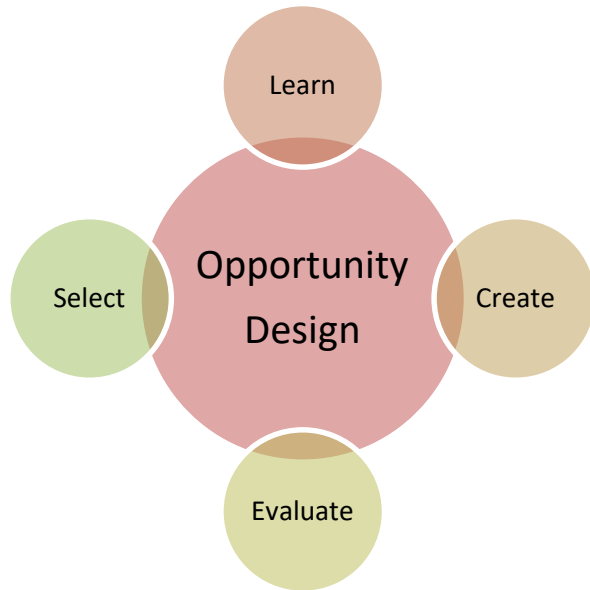
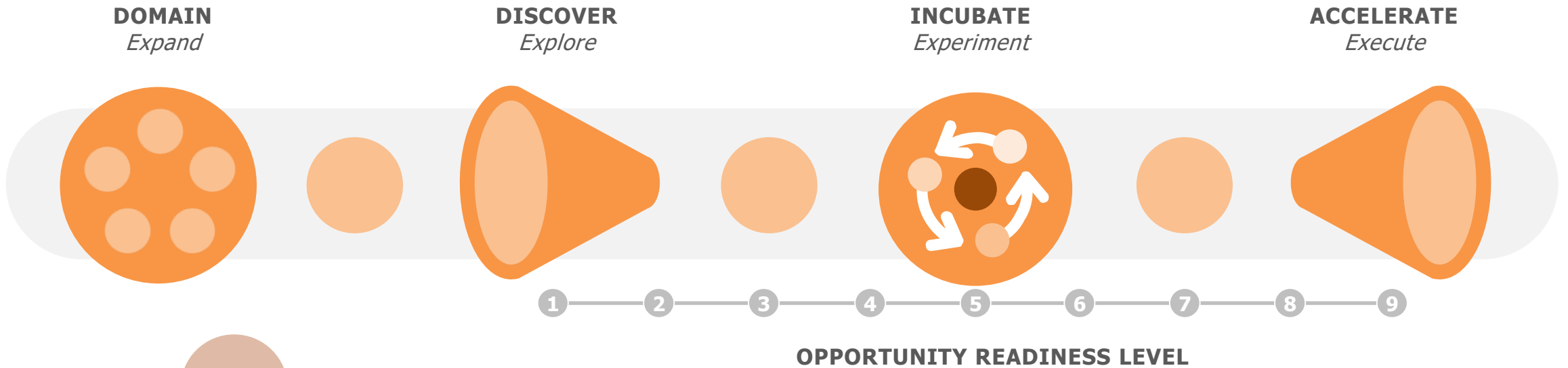
**Insulated when BU's are antagonistic**

**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

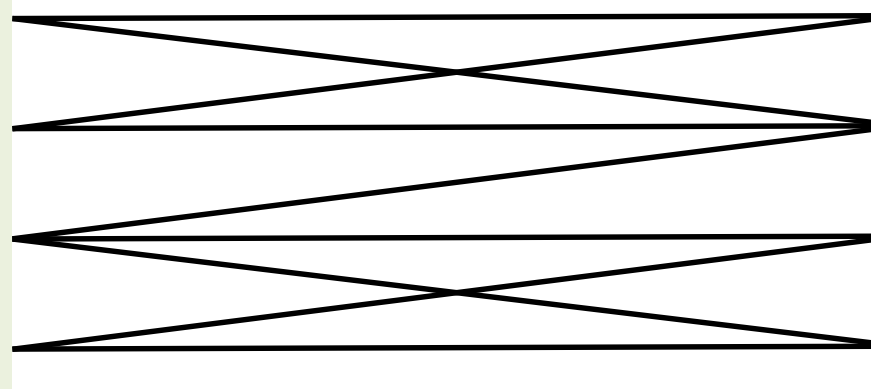


## Opportunity Type

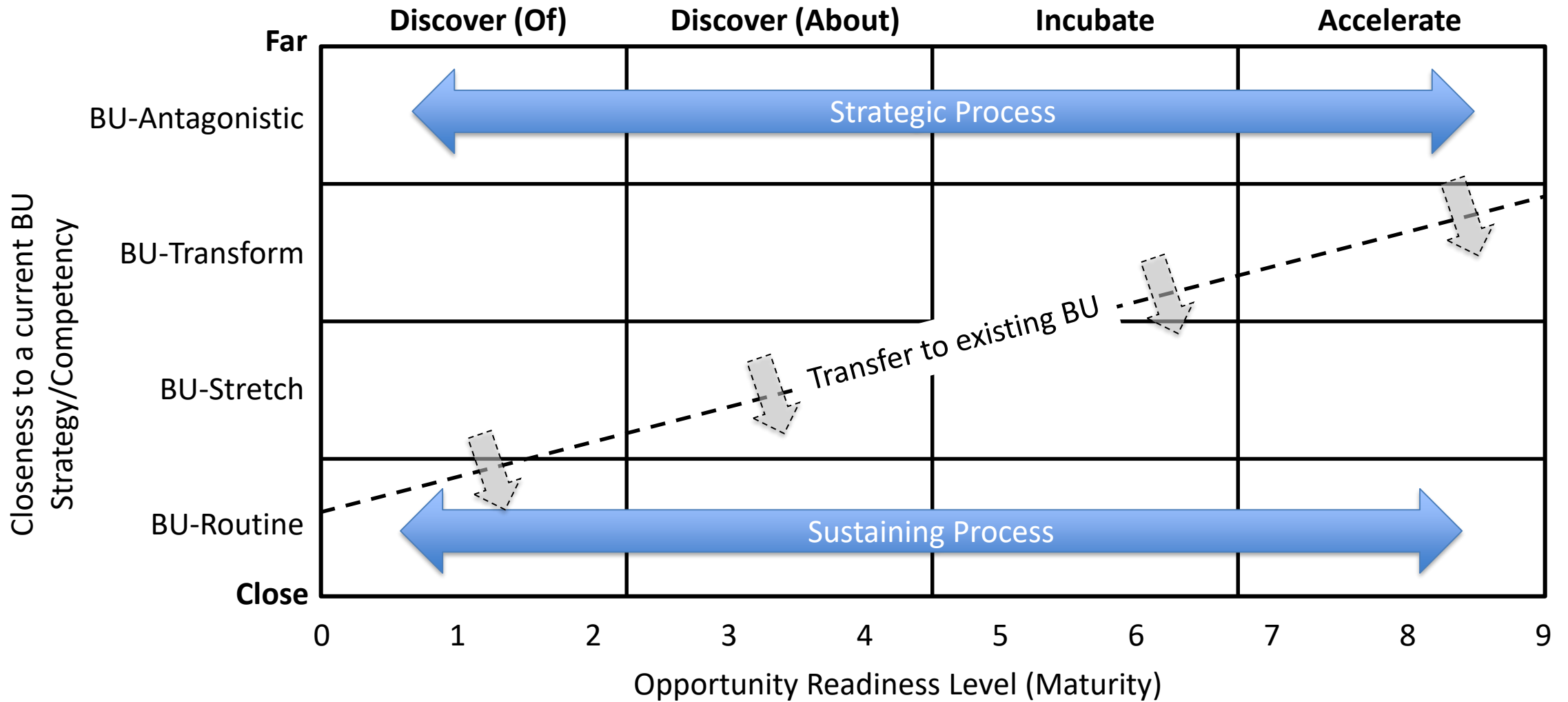
- Routine
- Stretch
- Transform
- Antagonistic

## Destination

- Existing LoB
- Existing BU
- New BU
- Externalize



# Navigating the 'Dance'



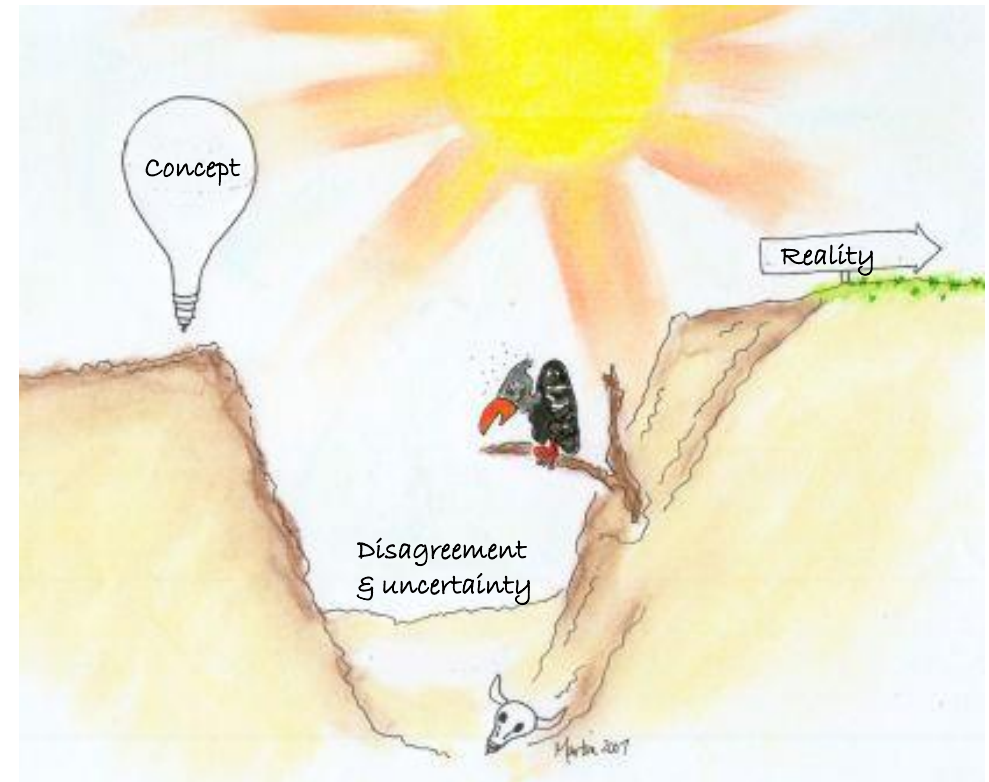
# The Value of Corporate Innovation

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'.

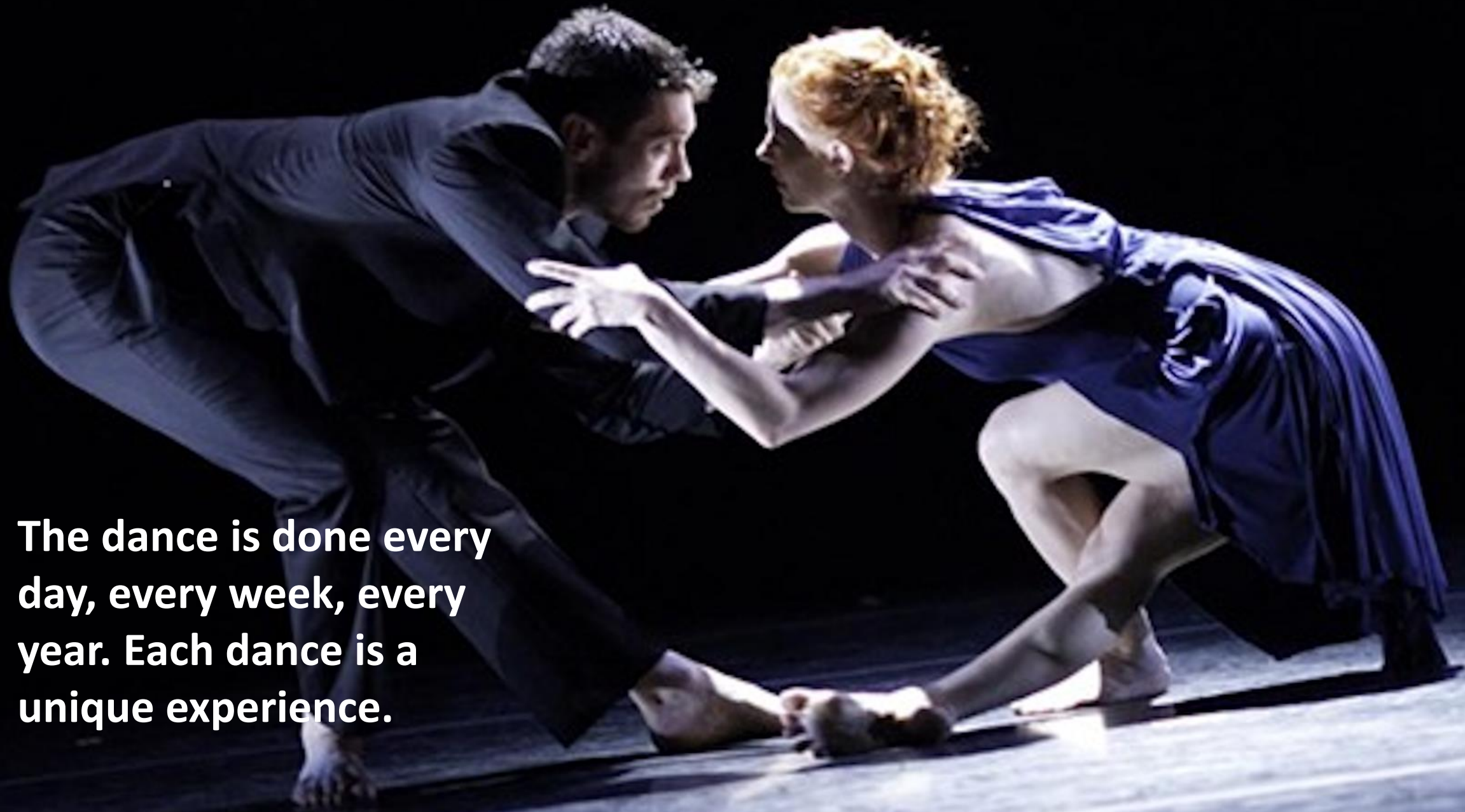
- The valley where uncertainty and risk can derail even the most promising boundary pushing opportunities

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:

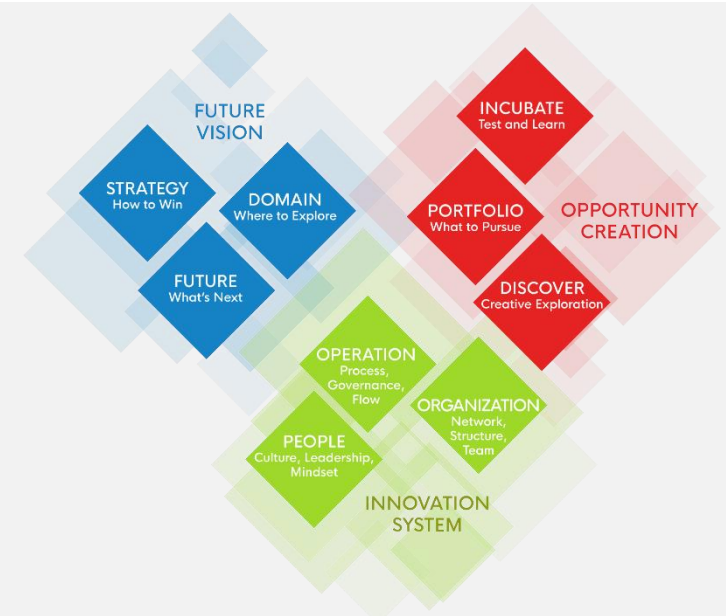
New York Deep Dive  
NYC, **May 7, 2019**

For more information visit [innovationleader.com](http://innovationleader.com)



# The Inovo Group

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](http://www.theinovogroup.com) or drop us a line at +1 (888) 464-6686.*