

# The Monthly Leader

A Publication of The Global Institute for  
Leadership Development

# GILD

The GLOBAL INSTITUTE For  
LEADERSHIP DEVELOPMENT

Leadership Responsibility of the Month - Building a Culture of Innovation

January 2008

## The High Impact Leadership Model™



### Leadership Responsibility of the Month:

#### Building a Culture of Innovation

The responsibility of building a culture that systematically anticipates future demands and seizes future opportunities.

### In this Edition:

#### Feature Article:

##### How to Build an Innovation Dynasty

By Innosight

#### Leadership Toolkit:

##### Assessment - Are You Ready to Champion Innovation?

Use this assessment to measure your willingness and ability to champion innovation in your organization

##### Assessment - Your 'Assumption Curiosity' Quotient

Use this assessment to measure your levels of curiosity and inquisitiveness as it applies to new and innovative ideas

##### Tool - Questions to Surface Assumptions

Use this tool as a guideline for flushing out critical assumptions related to your innovation initiative

##### Tool - Performance Mapping

Use this tool to visualize how your innovative idea "stacks up" against the competition's offer on the purchase criteria used by customers

“ Innovation distinguishes a leader from a follower. ”

- Steve Jobs  
CEO, Apple Computer

#### Building a Culture of Innovation: Video-Clip

Clayton Christensen on How to Create New Growth Businesses  
in a Risk-Minimizing Environment



## ***Assessment: Are You Ready to Champion Innovation?***

---

Being an innovation champion is not for the faint-at-heart. To complete this quick assessment, visualize an innovative idea that either recently came to you or that you may have entertained in the past. While keeping this idea in mind, consider the following elements regarding your own willingness and ability to take it to the next level. Check off the items that you feel you are willing and able to commit to.

<b>Energy</b>	
<input type="checkbox"/>	I feel passionately that this is the right thing to do.
<input type="checkbox"/>	I have enough physical and mental stamina to see this through to the end.
<input type="checkbox"/>	I have the influence and leadership skills required to gain the necessary support.
<b>Focus</b>	
<input type="checkbox"/>	I have a clear vision of the new idea and my motives for driving it.
<input type="checkbox"/>	Even though I am busy, I have enough “room on my plate” to take an active role in leading this effort.
<input type="checkbox"/>	I do not anticipate getting derailed by other, emerging priorities.
<b>Bravery</b>	
<input type="checkbox"/>	I can live with risking my credibility or even my job.
<input type="checkbox"/>	I can deal with the compromises that may be necessary and the setbacks that may occur along the way.
<input type="checkbox"/>	Applying new ideas and improving myself are important to me; I am willing to change.

For any item that you could not fully commit to, ask yourself what is holding you back and consider what you can do to overcome the hurdle. If there is one whole category that you are not ready to commit to, this may not be the right time in your life to champion this innovation.

# Assessment: Your 'Assumption Curiosity' Quotient

## Instructions

Read each statement and use the scale below to rate your agreement with it. Think of how you are at work, rather than in your personal life.

### Rating Scale

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

*Note: Please use the "Neutral" response sparingly.*

	1. When confronted with things I do not understand I am not content unless I figure out the answers.
	2. Whenever I feel unengaged in my work I find something new to learn about.
	3. Others describe me as a very inquisitive person.
	4. I enjoy meeting and getting to know people with unusual backgrounds.
	5. Learning new things is more enjoyable than making more money.
	6. I frequently try new approaches in work and in my hobbies.
	7. I make a point of learning something new every day.
	8. I pursue new knowledge in my field more actively than most other people I know.
	9. People say that I constantly examine experiences and extract the lessons to be learned.
	10. I actively seek out unfamiliar places and opportunities to learn while traveling away from home.

\_\_\_\_\_ Total Score

Adapted from: *Leading Strategic Change: Breaking Through the Brain Barrier*, J. Stuart Black and Hal Gregersen, NJ:Prentice Hall, 2003.

## *Assessment: Your 'Assumption Curiosity' Quotient, Continued*

---

### **Understanding Your ACQ Score**

**Between 40-50:** You have a natural curiosity about the world around you and people most likely look to you when they need a pair of “fresh eyes.” You will be sought out by others to staff innovative initiatives, and may have to learn to say “no” to others and despite your own desire to participate in everything going on around you. You may need to set limits on the time and areas you investigate so that you still get results.

**Between 20-40:** You are curious about some things and not so much about others. Look at your answers to see whether there are patterns to your responses. Notice whether you have scored yourself low or high as to whether others notice that you are inquisitive. Statistically, people who are not recognized as inquisitive tend to be less passionately and routinely inquisitive than those who are recognized as such.

**Under 20:** You are not driven to seek the answers to the questions who, what, when, where, why in the way that some people are. This is not negative - innovative organizations also need people who can look at a new idea and compare it with the tried and true. But you may not be as comfortable in or as suited to driving the earlier stages of the innovation process.

## ***Tool: Questions to Surface Assumptions***

---

To check that you have comprehensively mapped out assumptions and risks, make sure that you've at least taken a stab at answering the following questions. As you answer each question, keep a running tally of the things you aren't sure of (assumptions) and the things you are worried about (risks).

### ***1. The customer***

- Have you identified the most important and unsatisfied job-to-be-done?
- What problem does this solution solve?
- How does the consumer solve that problem today?
- Who will be your first paying customer?
- How will they become aware of your solution?

### ***2. The offering***

- Where will your solution be better than existing solutions?
- Where will it be worse?
- Why will consumers tolerate those limitations?
- Will using your solution require customers to change behavior? If so, what leads you to believe they will tolerate changing behavior?
- What are you doing that is proprietary?
- Are there ethical or legal implications?

## ***Tool: Questions to Surface Assumptions, Continued***

---

### ***3. The business model***

- How will you earn revenue?
- What fixed costs will you incur to reach your first market?
- What variable costs will be part of your business model?
- How will customers pay you?
- Who else will be involved in the purchase? Why will they support the purchase?
- How many times do customers need to purchase the solution for your business model to work?
- Why would they purchase the solution again?
- How much will you have to spend to market your product?
- How will you earn profits?
- Who will sell your solution?
- Why will they sell your solution over other options?
- What brand name will you use?
- Do you need regulatory approval? How will you get it?
- In which geography will you launch?

### ***4. Competitors***

- What competitors currently exist?
- What potential competitors might enter the space?
- Why will you beat those competitors?

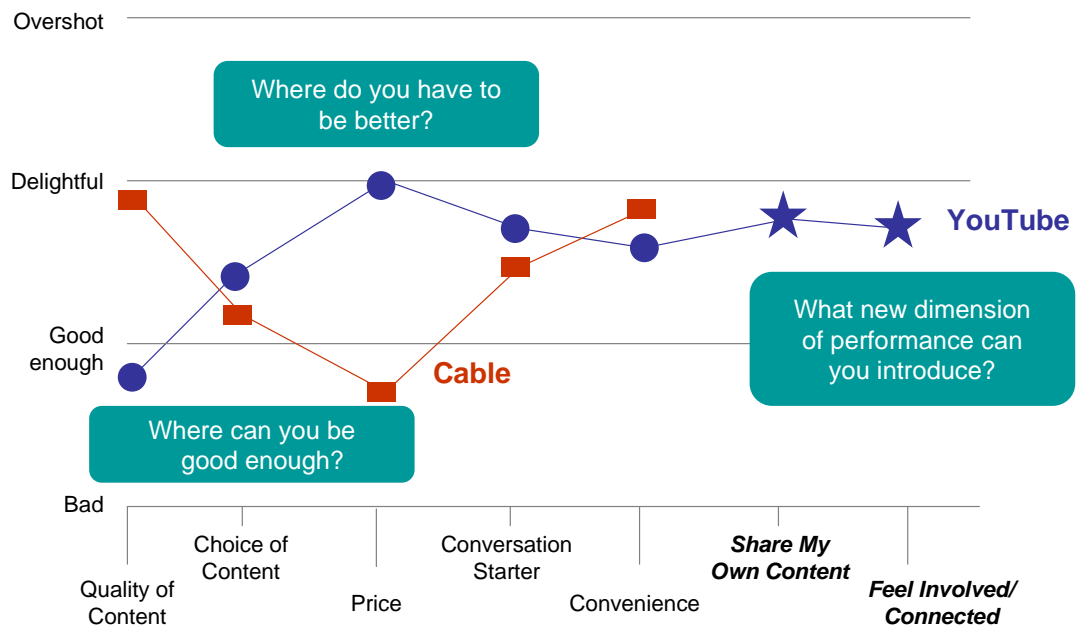
### ***5. Strategic/cultural considerations***

- Does the opportunity have a substantial upside? Why?
- What strategic options will you create by following this approach?
- Why will senior management get excited about the opportunity?
- What will be the impact on your company's culture?
- What predictable internal hurdles stand in the way of success?
- How will you overcome those hurdles?
- Who will do the actual work of each stage?

## Tool: Performance Mapping

A *performance map* is a visual representation of how different solutions get jobs done according to a set of criteria that are meaningful to customers.

In the example below, two products – cable television and YouTube - used by customers to “keep me entertained” are compared. The criteria the customer uses to evaluate which “product” is better for him/her is plotted along the horizontal axis. The vertical classifications reflect the customer’s satisfaction along that particular dimension. (NOTE: You would assign a rating of “overshot” for particular criteria if the product/service provided more satisfaction than was required at a price the customer was unwilling to pay for).



Adapted from *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*, W Chan Kim and Renée Mauborgne, Cambridge: Harvard Business School Press, 2005

## *Tool: Performance Mapping, Continued*

---

### **Instructions**

Consider your innovative idea. Next, write the top 5-10 hiring criteria along the bottom axis of the “performance map” below, from most (left) to least (right) important. Then, plot how the strongest competitive solution satisfies each one in the eyes of the customer: Is it not good? Good enough? Delightful? Overshot? (See example on previous page.) Next, plot your innovation idea across the same and new (if there are any) dimensions. Finally, ask yourself the questions highlighted in the cable television/YouTube **Performance Map** to see where you might improve on your innovation vis-à-vis the competition.

### *Performance Map*

Overshot \_\_\_\_\_

Delightful \_\_\_\_\_

Good  
Enough \_\_\_\_\_

Bad \_\_\_\_\_



---

*The following article appeared in Innosight's Strategy & Innovation newsletter, May/June, 2006*

Many of the case studies of established companies that have gotten disruption right detail a single success. We've explored many of those successes—such as ING Direct, Crest WhiteStrips, Cisco's purchase of Linksys, Motorola's ultra-thin RAZR phone, and Dow Corning's Xiameter distribution channel—in the pages of *Strategy & Innovation*. These companies—and other companies that got it right once—surely demand respect and admiration. Managers of the success stories know all too well how hard it is to fend off the forces that make disruption so very tricky for market-leading incumbents.

The punishing thing about innovation, however, is that the contest never ends. Create a new market and other companies flood in, seeking to replicate your success. Parry one disruptive threat and up pops another attacker hungrily eyeing your core business. Success, then, requires going beyond winning once to developing deep capabilities that allow a company to repeatedly disarm disruptive threats and seize new growth opportunities. Borrowing a metaphor from the sports (or geopolitical) world, it requires creating an "Innovation Dynasty" that can, year after year, churn out successful new growth businesses. Chapter 10 of *The Innovator's Solution* by Clayton M. Christensen and Michael E. Raynor (Harvard Business School Publishing: 2003) provided some guidance about how to build such a dynasty; two 2005 *Strategy & Innovation* articles ("Building Your Internal Growth Engine" in January/February and "Lessons From the Trenches" in July/August) augmented that guidance with Innosight's field experience in the months after that book's publication.

This article synthesizes that work and Innosight's subsequent experience to show how companies that set the right context, build a target portfolio, and create structures and processes can build the three pillars of an Innovation Dynasty.

Although building the three pillars and the nine sub-elements described below is hard work, developing these capabilities can sharply increase your company's ability to create substantial shareholder wealth and can help put significant space between your company and your competitors.

## **Pillar 1: Setting the context**

The first key pillar of an Innovation Dynasty is maintaining a corporate context that is favorable to new growth efforts. This requires active senior management involvement in innovation, a common language of innovation, and a healthy core business.

### ***Involve senior management***

An Innovation Dynasty simply can't exist without the right actions from a company's very top managers. Senior managers must clearly communicate the strategic importance of innovation and words aren't sufficient to demonstrate this commitment. Senior managers must work to implement many of the other elements discussed below.

Additionally and importantly, senior management needs to change the way it interacts with project teams. Too many companies feature adversarial relationships between senior managers and project teams. Senior managers act as "devil's advocates" that poke holes in a project team's plans. When a company is heading in a new direction, senior managers need to be problem solvers, not hole-pokers. A useful way to remember the role of senior management in new growth initiatives is to think of how Sony describes the difference between the television and the computer. You "lean back" to watch television and "lean forward" to interact with the computer. Senior managers can lean back and review core improvements, but must lean forward and roll up their sleeves to work on new growth initiatives.

Consumer packaged goods giant Procter & Gamble embodies this pillar. CEO A.G. Lafley regularly visits consumers in their homes; very senior managers participate in day-long brainstorming sessions with consumers; top technologists go into the labs to get the real story from the scientists working on novel new solutions.

If your senior management says they don't have the time to do these kinds of activities, ask what possible activities could be more important than the creation of the new growth businesses that will power the company's success over the next decade. After all, presumably senior management got to where they are because they have the most wisdom and strategic insight. There is no better place to apply that wisdom than in the pursuit of new growth businesses.

### ***Build a common language***

Succeeding with disruptive innovation requires taking action that may be at best unfamiliar and at worst antithetical to many corporate managers. Innosight's experience suggests that a common language helps companies avoid some of the many mindset traps that make the pursuit of disruption difficult, such as pursuing perfection when "good enough" would be sufficient, overestimating knowledge of new markets, and making big bets when a small start is more appropriate.

To overcome these kinds of traps, consider targeting education to two groups. Give managers chartered with creating new growth strategies an innovation toolkit that increases their ability to move in counterintuitive directions. Simultaneously, reach out to senior managers responsible for allocating resources to help them understand what to look for as they oversee these efforts.

### ***Keep the core healthy***

It seems strange to suggest that a healthy core business is a key component of a new-growth-creation dynasty. However, a healthy core is almost always a *necessary* condition for companies to truly unlock the potential of new growth businesses. An unhealthy core will almost always—appropriately—suck time and attention away from new growth businesses.

Consider Delta. As its core business deteriorated in 2005, the airline folded its low-cost Song venture back into its core business and sold its growing Atlantic Southeast Airlines regional jet arm to SkyWest in 2005 to raise desperately needed cash. These kinds of moves can precipitate a “death spiral” as the assets left in the core look progressively weaker on their own.

How can you tell if your core is healthy? Compare your year-over-year revenue and profit growth rates to the average of your category or industry. If you aren’t performing at least as well as that average, focus first on fixing your core business. You can’t help it if your industry is in structural decline, but you can make sure that you are managing that decline at least as well as other industry participants.

### **Pillar 2: Create a target portfolio**

Any good investor knows the value of aligning their portfolio with their investment objectives. If you want to pursue an aggressive growth strategy, for example, you might allocate 50 percent of your funds toward small company stocks, 40 percent toward large company stocks, and 10 percent toward bonds. In any given year, the portfolio could lose money, but in the long run it should produce strong growth. If you want to take less risk, your portfolio might contain 50 percent stocks, 30 percent bonds, and 20 percent cash.

Although your upside might be lower, the odds that you lose money in any given year will be lower too. To achieve your innovation objectives, then, map out a balanced portfolio, define goals and boundaries for different projects in the portfolio, and allocate resources towards innovation investments in the portfolio.

### ***Balance the portfolio***

Companies that look at their innovation portfolio closely often find that their investment allocation doesn’t match their intended strategy. Oftentimes, the great majority of their investment is in close-to-the core, incremental improvements with a single, highly risky new growth initiative that has a large chance of failure.

Try to achieve a stronger balance of the incremental improvements required to sustain the core, logical adjacencies that leverage a key part of the core business, and completely new and novel growth initiatives. While there’s no “magic number” for what a desired portfolio looks like, we find that a 50/30/20 split between these three types of initiatives is a reasonable rule of thumb.

### ***Define goals and boundaries for the new growth portion of the portfolio***

Many times companies believe that removing boundaries is the best way to allow managers to spot or create innovative growth businesses. However, companies often come to realize that blank slates can make it surprisingly hard for managers to make progress. As a senior manager at a leading consumer health company Innosight advised put it, “What are our odds of success if we trawl the ocean, hoping to catch a whale?” What’s worse is a team spending months digging into a strategy that a company just *won’t* commercialize no matter how much evidence the team provides.

Somewhat paradoxically, our experience suggests that setting constraints can be liberating. Innovators that know a company's goals (what it wants to do) and boundaries (what it won't do) can more sharply focus their creative efforts.

We've found it helpful to guide senior management through a structured discussion to determine what is "desirable," "discussable," and "unthinkable" around each of the core elements of a growth strategy, such as the target domain, the channel to market, the opportunity's steady-state size, and so on. One particularly important element is the type of innovation model; companies should ensure that they actively seek multiple forms of innovation, particularly business model innovation.

There's a delicate balance in setting goals and boundaries of course. If you define the boundaries too loosely, managers can wander in the wilderness down fruitless paths. If you define boundaries too tightly, you could run smack dab into the innovator's dilemma, missing the new growth business that ultimately powers transformation in your industry. Make sure that you instruct teams to prod those boundaries and commit to revisiting those boundaries on a regular basis.

### ***Allocate resources to the portfolio***

To make sure you achieve your portfolio's objectives, you have to set aside resources—people and dollars—for different types of innovation initiatives. If companies put all of their innovation resources into a common pot, the lower risk—and lower return—core initiatives tend to crowd out investments that might have higher risk and take longer to perform.

It takes great discipline to create separate buckets of funding and groups of people for different types of initiatives. It is one reason why it is so imperative that the core business remain healthy; if the core begins to get sick, there is an overwhelming temptation to save the company by utilizing some of the resources that had been allocated to further-out ventures. In the short run, these kinds of moves almost always make sense; in the long run they can be disastrous.

There's good news for cost-conscious companies just starting their innovation journey. In the early days, the biggest investment that companies need to make is time, not dollars. New growth ventures have the greatest chance of long-term success if they follow the "patient for growth, impatient for profits" mantra. As such, investing as little as a couple million dollars in the early days can be sufficient—if there are managers specifically tasked with finding and nurturing new growth businesses.

### **Pillar 3: Structures and processes**

The final pillar of an innovation dynasty is maintaining supporting structures and processes that facilitate the creation of new growth businesses. Without these supporting elements, invisible corporate forces will tend to systematically shape new ideas so they look like things the company has done in the past, denying the company the chance of following highly differentiated strategies.

### ***Adopt a separate new growth screening and shaping process***

Companies have to treat different types of innovation opportunities differently. Companies routinely organize differently to solve fundamentally different problems, yet the area of growth is all too often lumped into one managerial process, governed by one set of metrics.

As an analogy, think about the world of manufacturing. Managers readily recognize that a company like a supercomputer manufacturer that produces low volumes of very specialized products via batch processes could not and should not be managed like Gillette, which produces high volumes of standardized products on an assembly line. Similarly, an incremental improvement in an existing market *has* to be measured,

monitored, and managed differently than a completely new strategy in a non-existent market. Trying to pursue fundamentally different opportunities in the same way guarantees that one type of opportunity will be sub-optimized.

Generally speaking, new growth approaches must go through a more iterative development process where the focus is on identifying and addressing the key assumptions and risks behind success (described in “Mastering the Emergent Strategy Process” *Strategy & Innovation*, March/April 2006). The metrics that guide a new growth idea in an early stage should *not* be the metrics like net present value or return on investment that are favored in the core business; rather, companies need to assess how well a concept fits a defined pattern of success and what the overall level of risk is.

Our experience suggests that success typically doesn’t require throwing out the stage-gate processes that companies have put in place to bring more discipline to their innovation efforts. Rather, the new process for ideas with a high level of assumptions and a low level of knowledge can run parallel to the core process. A “new ventures board” can serve as the glue between the two processes, making sure the right ideas follow the right process and working closely with high assumption, low knowledge ideas (for more on creating a new ventures board, see “A Culture of Innovation” *Strategy & Innovation*, January/February 2006).

### ***Collect extensive external insight***

In the last five years, companies have begun to realize the real power of what Haas School of Business Professor Hank Chesbrough calls “Open Innovation.” P&G is an instructive example. Historically, the company had a reputation of being a highly insular company, yet several years ago CEO Lafley set out a stark challenge: Acquire at least 50 percent of the company’s innovations from outside the company. P&G has augmented its “Research & Development” capability with the ability to “Connect & Develop.” As noted in a recent *Harvard Business Review* article, the company is shifting its “attitude from resistance to innovations ‘not invented here’ to enthusiasm for those ‘proudly found elsewhere.’”

Generally speaking, companies should involve external perspectives deeply in the innovation process. They should have regular ways to interact with their core customers, learn from non-customers, monitor on-going industry experiments, scan for emerging technologies, and learn from other industries. Setting up regular ways to draw on these kinds of external stimuli can expose previously invisible opportunities for innovation.

### ***Institute enabling HR policies***

Companies must consider re-architecting their policies, incentives, and development paths to align them with the needs of their Innovation Dynasty. Instead of looking for “right stuff” managers who have succeeded in core assignments, companies need to look for managers who have attended the right “schools of experience” that will help them spot and nurture new growth businesses. For many companies, finding the right managers might require an external search because even the most capable internal managers haven’t wrestled with challenges related to creating new growth businesses.

Getting incentives for innovation right is clearly a large hurdle for an established company. A startup company can issue equity that allows managers to share in a venture’s upside potential. Following the same approach inside an established company requires some creativity. Companies need to find a way to link managed risk taking with pay structures, bonuses, and/or career progression.

It is unlikely that an “intra-preneur” will have the pure upside of an entrepreneur, but that’s appropriate as they also have significantly lower downside risk. Despite the attention showered on the success stories, the

vast majority of new ventures fail. If an internal venture fails, managers can easily move to another position instead of having to search for an entirely new job.

Finally, consider creating development paths that make it attractive for high-potential employees to spend time working on promising growth initiatives. Working on risky ventures can be a great proving ground for emerging leaders, because many of the challenges the venture will face will be general management issues.

### *Starting the journey*

Just as Rome wasn't built in a day, creating an innovation dynasty doesn't happen over night. Consider taking the following actions to start your own journey:

Conduct an audit to identify how well you do against each of the elements discussed above; develop a 90-day plan to address identified weaknesses.

Hold a one-day senior management workshop to define your company's goals and boundaries.

Call two venture capitalists, two entrepreneurs, and two lead customers in your industry to get their input on interesting developments worth tracking; consider inviting these sources to serve on an external advisory board.

Assess your innovation portfolio along dimensions such as risk, return, target domain, and development stage. Look for signs that your portfolio is out of balance.

None of these activities are time or resource intensive; each can help you make progress towards building your dynasty. And consider the potential payout. Everyone knows how wonderful it is to create a single disruptive growth business. Just think how much better it would be to create a system that churns out a steady stream of blockbuster growth businesses.

\* ©2008, Linkage, Inc. All rights reserved worldwide. No part of this publication may be reproduced, transmitted, transcribed, stored in a retrieval system or computer language in any form or by any means, electronic, mechanical, magnetic, optical, chemical, manual, or otherwise, without the express written consent of Linkage, Inc., 16 New England Executive Park, Suite 205, Burlington, MA 01803.