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Strengthen Your Innovation Capabilities to Drive Performance

By David S. Duncan and Alasdair Trotter

BEGIN READING

What does it take to drive

**Innovation
PERFORMANCE**

Individual Innovation Initiatives

Predictable Failure Modes

1

Develop an Innovation Strategy

Misalignment between enterprise strategy and innovation strategy leads to a portfolio of ideas that are never prioritized for meaningful investment and scaling.

2

Run a Hackathon

No appropriate governance to oversee decision making and resource allocation means great ideas have nowhere to go or are inconsistent with strategic priorities.

3

Create an Innovation Fund

Leaders put pressure on funds to be reallocated toward core initiatives with clearer short-term return on investment (ROI).

4

Build an Innovation Team

Flawed interaction model between the innovation team and the core business results in the team getting sucked into incrementalism or pursuing opportunities that are ultimately rejected by the business.

5

Implement Lean Startup Sprints

No mechanisms to transition the post-sprint projects into business units.

6

Build a Culture of Innovation

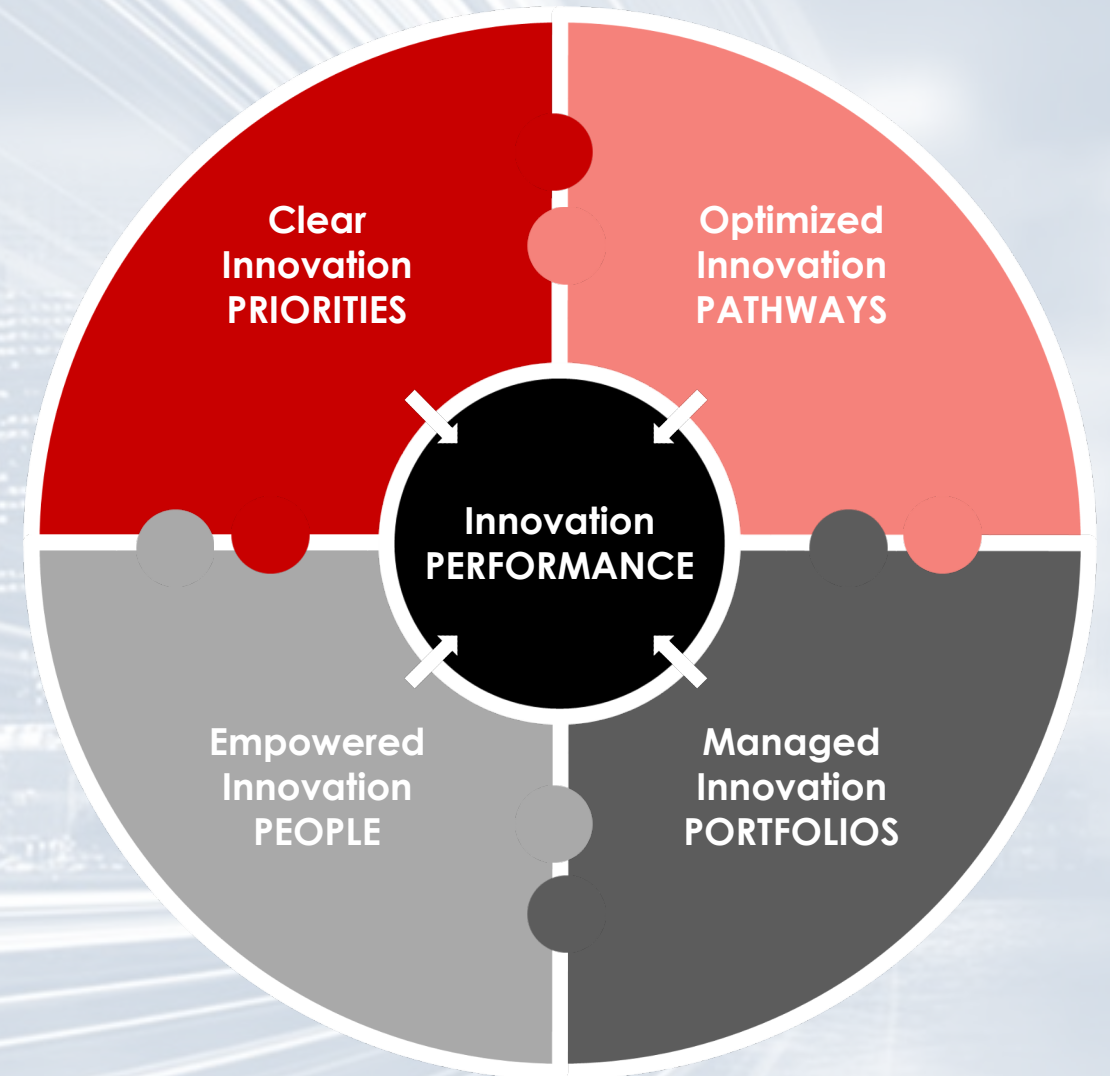
Underlying beliefs about what it takes to be successful create resistance to behavior change, leading to increasing cynicism about the organization's ability to innovate.

7

Appoint a Chief Innovation Officer

Organizational confusion and frustration are created when the new role isn't clearly integrated into strategy and resource allocation decisions.

It takes an
innovation system
to drive *innovation*
performance





Innovation Priorities: Common Pitfalls

- **No Priorities**
- **Priorities disconnected from Strategy**
- **Priorities disconnected from Resource allocation**
- **Poorly defined priorities**
 - **Too narrow**
 - **Too broad**
 - **Not customer-centric**
 - **Ambiguous language**

Strategic Focus Area



- **WHO** is our customer?
- **What** is their job to be done?
- **HOW** might we solve their job?

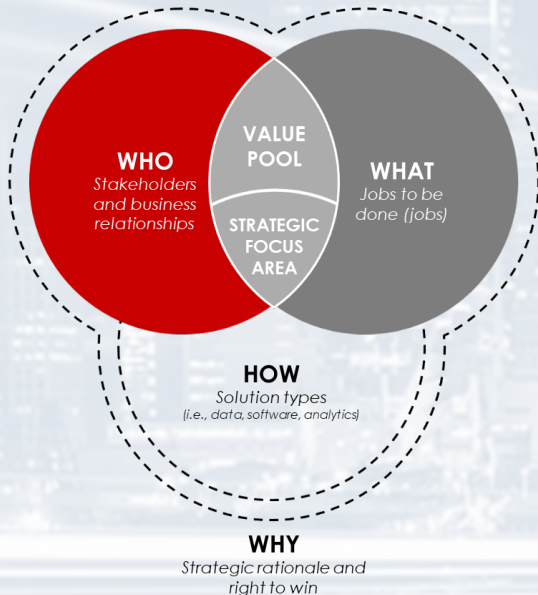
And

- **WHY** should **WE** be the ones to bring this solution to the market?

Strategic Focus Area: Example

Illustrative Strategic Focus Area

Simplify the process of making a major financial transaction (home rental, car purchase) for gig-economy workers with volatile incomes



WHAT

- Help consumers with inconsistent or volatile income streams prove they are credit-worthy and simplify/accelerate the process of helping them get into the home or car of their dreams

WHO

- **Vertical:** Credit / Mortgage / Auto finance
- **Target segment:** Gig-Economy workers who are considering leasing (or purchasing) a new home or car

HOW

- Digital financing experience
- Robo-advisory/digital mortgage advisory
- New flow-based underwriting models
- **Partnerships:** Startups X and Y, technology vendor Y or Z

WHY

- **Strategic value:** Gain foothold in high growth market, expand role in value chain, access under-penetrated segment. >\$10B opportunity by 2025
- **Right to win:** Strategic partnerships, data access

Goals & Bounds



Goals and Bounds Per Project	DESIRABLE	DISCUSSABLE	OUT OF BOUNDS
FINANCIAL CHARACTERISTICS	<ul style="list-style-type: none"> Financial evaluation on a project-by-project basis Clear path to profitability in <5 years \$30M to \$400M gross revenue while building prioritized capabilities 30% gross margins 	<ul style="list-style-type: none"> Clear path to profitability requiring a 5+ year time horizon 	<ul style="list-style-type: none"> Projects without a clear path to profitability
RELATIONSHIP TO CORE	<ul style="list-style-type: none"> Complementary 	<ul style="list-style-type: none"> Disrupts core strategy 	<ul style="list-style-type: none"> Dismantles core strategy
ROLE OF M&A	<ul style="list-style-type: none"> Organic growth Technology acquisition Talent-driven acquisition <\$250M 	<ul style="list-style-type: none"> Inorganic with organic potential Niche vertical acquisition (e.g., e-commerce, fresh, healthcare) \$250 to 500M 	<ul style="list-style-type: none"> Inorganic: small to midsize competitor to boost gross revenue >\$500M
TYPE OF OFFERING	<ul style="list-style-type: none"> Same industry vertical as core business New or expanded entity 	<ul style="list-style-type: none"> Industry adjacencies Consulting, financial solutions 	<ul style="list-style-type: none"> Nonadjacent industry verticals
PROFIT MODEL	<ul style="list-style-type: none"> Subscription/maintenance Fee-based platform 	<ul style="list-style-type: none"> Transaction; cost-plus Bundle, value-add service Subsidized offerings 	<ul style="list-style-type: none"> Managed services/head count
GEOGRAPHY	<ul style="list-style-type: none"> Developed markets (e.g., America, Europe, North Asia) Later-stage developing markets (e.g., Indonesia) 	<ul style="list-style-type: none"> Early stage developing markets (e.g., Africa) 	<ul style="list-style-type: none"> All others

Innovation Pathways







The Innovation Pathway



Mapping an innovation pathway

The "Mobile Agent" Pathway Map

	 Someone identifies a PROBLEM worth solving	 Someone figures out a potential SOLUTION	 The solution is TESTED and REFINED	 The solution is SCALED
Activities	<ul style="list-style-type: none"> Customer job-to-be-done was identified by Junior Developer Opportunity was assessed as "high value" Buy-in and validation sought through informal conversations with colleagues 	<ul style="list-style-type: none"> Prototype was developed and shared (informally) with friends and colleagues Additional validation sought by sharing with Chairman Chairman elects to sponsor and ensure resources are allocated 	<ul style="list-style-type: none"> Development and testing proceed according to existing New Product Development (NPD) process Market Assessment completed (retroactively) QA testing conducted 	<ul style="list-style-type: none"> Marketing Roadmap development
Resource Allocation	<ul style="list-style-type: none"> No formal resources were perceived to be available or accessible Developer made decision to allocate personal time (nights and weekends) to research & explore the opportunity 	<ul style="list-style-type: none"> Initially, no formal resources allocated (employee personal time) Post-intervention, \$250k allocated (FTE costs) to cover ~ 3 months development. Temporary team assembled from existing resources within Developer's team 	<ul style="list-style-type: none"> \$2.8M over 7 months Product team grows from 4 to 11 FTEs Resources allocated directly from corporate to the project (vs. funded through the Business Unit P&L), through existing Quarterly Business Review and Global Capital Allocation meetings 	<ul style="list-style-type: none"> >\$5M allocated to support marketing and continued product development Resources allocated as part of existing strategic planning & budgeting cycle
	(1 month)	(3 months)	(7 months)	(ongoing)

Innovation Pathways: Common Pitfalls



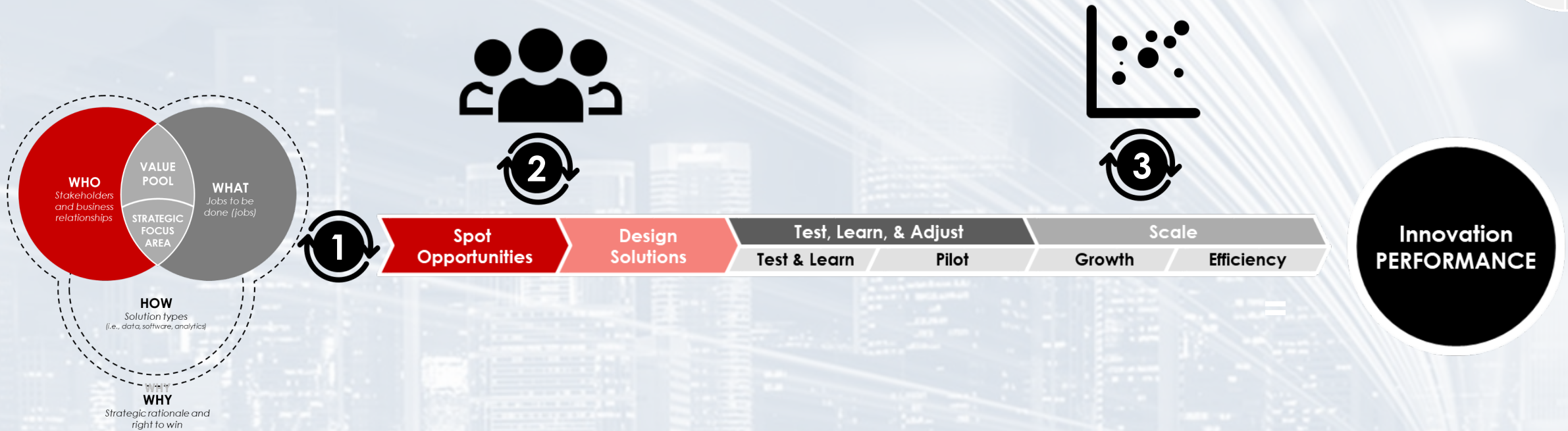
Pathway Pattern	Symptoms	Root Cause
1. Dark pathway	New products or service frequently struggle to gain traction with customers	Strong solution-bias and lack of trained leaders allows teams to overfocus on product & testing and neglect building empathy for the customer and their underlying job-to-be-done
2. Silent pathway	The team seems to charge headlong into mistakes that were easily predicted by outsiders	Overconfidence bias combined with the lack of a learning-oriented operating model, and poorly trained leaders allows the team to execute vs. discover
3. Road to nowhere	Projects get shut down the moment they become visible to leadership	Lack of clear innovation priorities and constraints allows projects which are misaligned with strategy, violate implicit “third rails”, or pursue opportunities which are just “too small” to proceed when they should be nipped in the bud
4. Tollbooth highway	Slow progress and long delays in getting approvals and resources to proceed	Poor innovation governance and core-biased support models create unnecessary bureaucracy and significant opportunity costs for innovation teams who need to move quickly
5. Paper trail	Slow progress and burdensome meetings and material preparation	Poor innovation governance and poorly trained leaders create an environment where the team spends too much time on “the wrong activities” or those which are unlikely to create value in a discovery-focused pathway
6. Spaghetti junction	Balls get dropped during the transition from one project owner, e.g. an R&D lab to a Business Unit	Insufficient clarity in pathway definitions and ownership combined with a weak link to BU strategy results in a lack of clarity around ownership, objectives and resourcing
7. Underground tunnel	Lack of visibility into progress, project will fail if the sponsor leaves or moves into a new role	Poor governance and a lack of innovation portfolio governance allows individual leaders to hide and fund pet projects

Defined Pathways



PROCESS STAGES	Spot Opportunities		Design Solutions		Test, Learn, & Adjust		Scale	
					Test & Learn	Pilot	Growth	Efficiency
OBJECTIVE	Identify a customer problem worth solving	Detail solution that best solves the problem	De-risk assumptions with select customer/s	De-risk assumptions across foothold market	Scale solution for growth	Drive efficiency at scale		
KEY ACTIVITIES	<ul style="list-style-type: none"> Ecosystem analysis Customer jobs interviews Quick-hit financial and strategic analysis 	<ul style="list-style-type: none"> Design thinking ideation sessions Business model and use case development Concept testing Assumption prioritization 	<ul style="list-style-type: none"> Test design and execution MVP development, testing, and pivoting Synthesis of test learnings 	<ul style="list-style-type: none"> Pilot with expanded customer group in foothold Business case development Scaling plan development 	<ul style="list-style-type: none"> Market expansion Develop Go-To-Market capabilities Operating model design & decision rights 	<ul style="list-style-type: none"> Identification of major cost drivers Optimization and/or redesign of processes and structures 		
METRICS TO TRACK	<ul style="list-style-type: none"> Priority job to be done Market size & potential Strategic value 	<ul style="list-style-type: none"> Complete business model design Customer feedback on concept Business model assumptions 	<ul style="list-style-type: none"> Customer validation that solution addresses priority job Solution feasibility 	<ul style="list-style-type: none"> Customer adoption Technical issues for growth resolved Business case profitability 	<ul style="list-style-type: none"> Revenue (growth) Sales pipeline value 	<ul style="list-style-type: none"> Margin improvement EBIT growth 		
STAGE GATE EXIT CRITERIA	Priority job to be done identified with high value for the company	Business model (BM) with assumptions identified	Deal-killer assumptions de-risked and/or BM pivoted	Growing adoption of BM in foothold with conceivable profitability at scale	Line of sight to revenue targets at scale	Line of sight to margin targets at scale		

Pathway Operating Model



- 1 How will we **focus** our pathways on problems worth solving?
- 2 How will we **govern** our pathway (decision rights, leadership behaviors, staffing...)
- 3 How will we **report** our learnings & progress

Innovation Portfolios: Common Pitfalls



- **Insufficient activity or investment to achieve growth goals**
- **Portfolio not aligned with strategy**
- **Inefficient portfolio**

Often caused by.....

- **Innovation seen as “nice to have”**
- **No concept of an “innovation portfolio”**
- **Limited visibility**
- **“The wrong questions”**

Portfolio Analysis



1

Are we doing too much, too little, or the right **amount of innovation?**



2

Are we doing the right **kinds of innovation?**



3

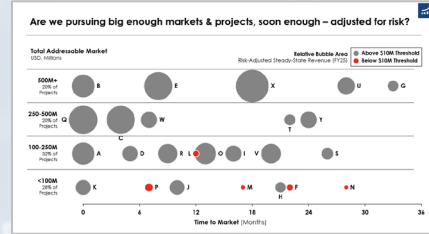
Have we optimized **how resources are allocated** to innovation?



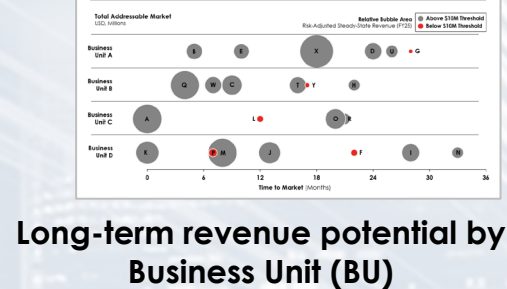
Portfolio Views



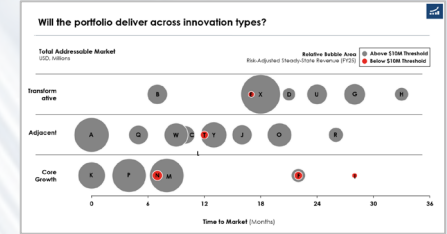
Are we doing **too much, too little, or the right amount** of innovation?



Long-term revenue potential by Addressable Market

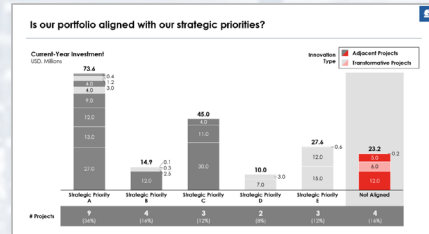


Long-term revenue potential by Business Unit (BU)

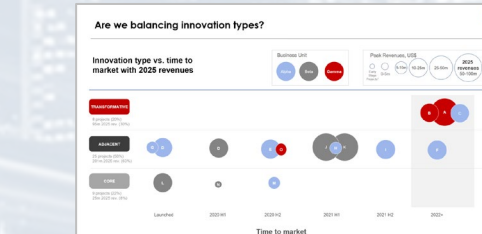


Long-term revenue potential by Innovation Type

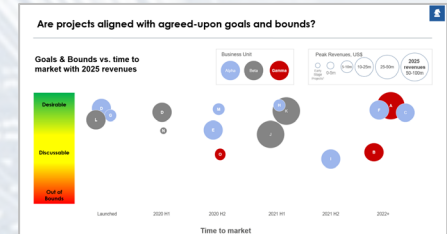
Are we doing **the right kinds** of innovation?



Current Year investment by Strategic Priority

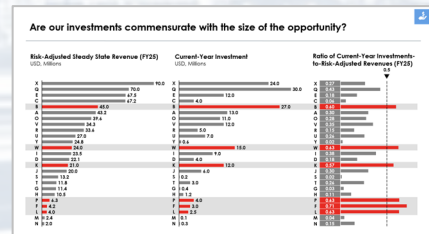


Long-term revenue potential by Innovation Type & BU

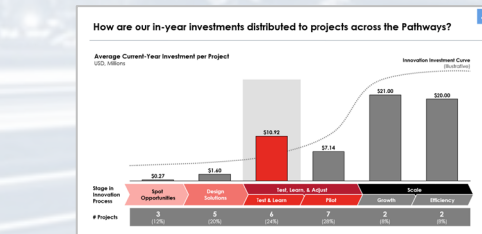


Fit with agreed-upon goals and bounds by BU

Have we **optimized how resources are allocated** to innovation?



Current Year investment relative to revenue potential



Current Year Investment relative to stage in pipeline



FTE investment (Effort) vs. Opportunity Size

Tie the portfolio views back to performance goals!



What are the **EXISTING** structures or processes that serve to allocate resources to drive performance?

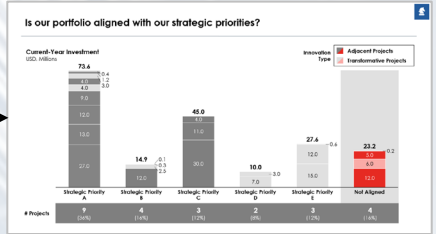
Existing Process

Relevant Question

Relevant View

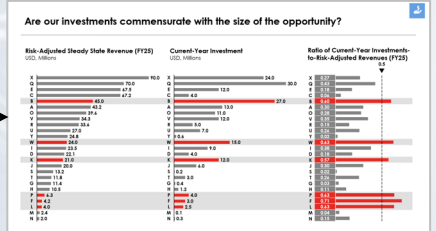
Strategic Planning

What are the SFAs for your BU?



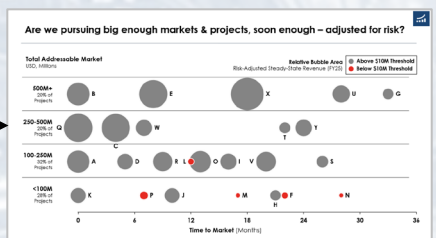
Budgeting Cycle

How will these investments drive long-term growth?



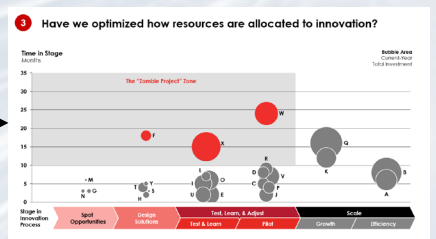
Capital Allocation

What's coming down the pipeline?



Quarterly Business Reviews (QBRs)

What did you kill?

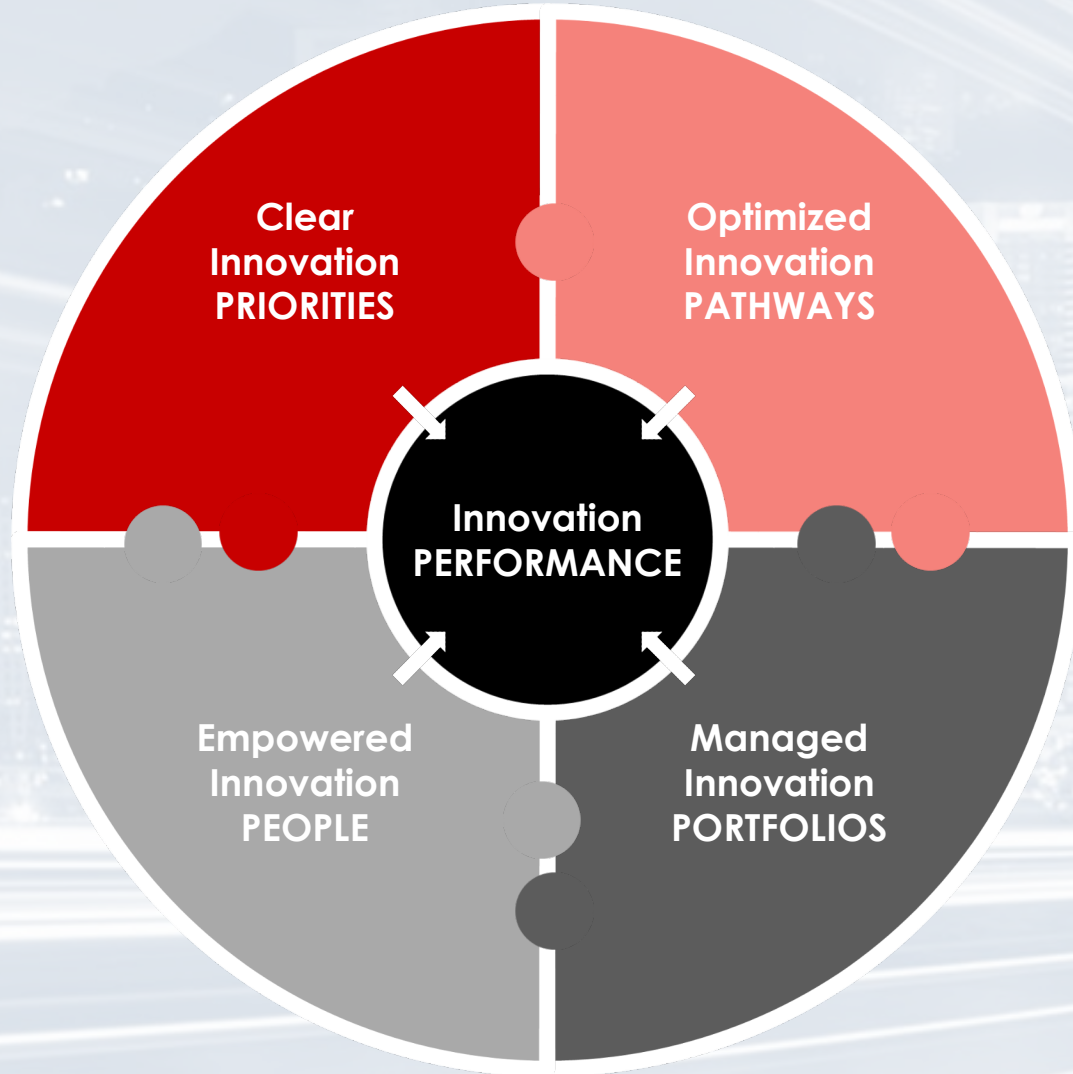


Innovation People: Common Pitfalls



- **Lack of role clarity**
- **Wrong experiences / skills**
- **Insufficient training or learning opportunities**
- **Lack of empowerment**
- **Incentive systems optimized only for execution**
- **Fear of failure**
- **...**

Think Systematically!



- What **roles** are required to support optimized pathways and managed portfolios?
- What **experiences** do key players require in order to be successful?
- What **behaviors** define your desired culture, which will ensure clear priorities and optimized pathways?
- What **training** will help innovators navigate pathways, and help leaders ask better questions?
- What **tools** will help innovators and leaders ask the right questions and get better, faster answers?
- What **rituals** might help reinforce behaviors?
- What **incentives** will empower leaders and guide them to make better decisions about their projects and portfolios?

SYSTEM COMPONENTS		ILLUSTRATIVE DIAGNOSTIC QUESTION
Innovation PERFORMANCE	1. Desired performance outcomes	Have we defined and aligned our organization on the business outcomes we need innovation to achieve and the KPIs that we will use to measure success?
	2. Leading system indicators	Have we identified the activities that lead to the innovation performance outcomes and the corresponding KPIs we'll use to measure them?
Clear Innovation PRIORITIES	3. Common innovation language	Have we precisely defined the distinct types of innovation we must pursue to execute our strategy?
	4. Strategic focus areas	Have we defined the strategic focus areas for our innovation efforts?
	5. Clear innovation boundaries	Do we have clarity on what types of innovation projects are desirable, discussable or out of bounds?
	6. Dynamic priority management	Do we have a way to update our innovation priorities regularly based on changes in our environment or strategy?
Optimized Innovation PATHWAYS	7. Explicit pathway architecture	Do we have explicit and distinct pathways for each type of innovation we need to pursue?
	8. Optimized pathway operations	Do our pathways adhere to best practices to ensure customer-focused, hypothesis driven, and agile approaches to idea development and pursuit?
	9. Constructive pathway governance	Are our pathways carefully connected to supporting functions (e.g., information technology, legal, human resources) such that they get the support they need without being bottlenecks? Do our leaders empower, protect and ask the right questions of our innovators?
Managed Innovation PORTFOLIOS	10. Strategic portfolio plans	Have we clarified the strategic imperatives against which we will assess the quality and health of our innovation portfolios, including the appropriate KPIs?
	11. Actionable portfolio insights	Do we have visibility into all the innovation projects in these portfolios, such that we are we able to ask the right strategic questions of our portfolios?
	12. Integrated portfolio management	Are portfolio insights part of our leadership and governance conversations (e.g., strategy planning, quarterly business reviews, capital allocation)?
Empowered Innovation PEOPLE	13. Effective innovation talent	Have we defined the talent and skills required to support our innovation priorities?
	14. Inspiring innovation leaders	Have we defined the desired leadership behaviors to support innovation?
	15. Supportive innovative culture	Does our culture exhibit mindsets and behaviors conducive to innovation?

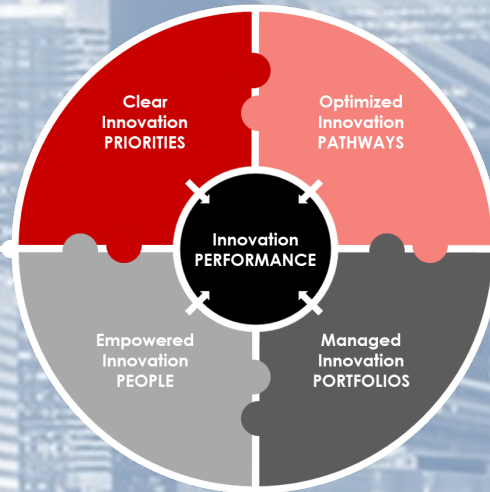
SYSTEM COMPONENTS		MATURITY (1=INITIAL; 5=OPTIMIZED)	ISSUES IDENTIFIED (ILLUSTRATIVE)
INNOVATION PERFORMANCE	DESIRED PERFORMANCE OUTCOMES		No goals for innovation defined at enterprise or business unit levels. Growth goals are defined but widely regarded as financially driven, and the role of innovation is undefined.
	LEADING SYSTEM INDICATORS		Pulse surveys capture general sentiments on innovation, but there is no tracking mechanism for progress toward goals as they haven't been defined.
CLEAR INNOVATION PRIORITIES	COMMON INNOVATION LANGUAGE		There are many different terms for innovation used similarly across the organization, leading to significant ambiguity. Specifically, the term "disruptive innovation" is often misused.
	STRATEGIC FOCUS AREAS		Focus areas are developed via a predominantly present-forward lens and aren't revisited and refreshed frequently enough, and cross-BU connections at this stage are weak.
	CLEAR INNOVATION BOUNDARIES		BUs are hesitant to set innovation goals, such as by innovation type, and there is limited accountability for innovation targets; BUs do not define goals and bounds for innovation.
	DYNAMIC PRIORITY MANAGEMENT		Most BUs do not focus on alignment of strategic goals to specific innovation projects and overall portfolio management.
EFFECTIVE INNOVATION PATHWAYS	EXPLICIT PATHWAY ARCHITECTURE		The official process for disruptive innovation is defined but is not utilized by all BUs; some view the process as complicated, which hinders overall adoption.
	OPTIMIZED PATHWAY OPERATIONS		Best practices exist, but most stages of the innovation process require additional refinement, including opportunity areas, idea generation, and assumption identification and prioritization.
	CONSTRUCTIVE PATHWAY GOVERNANCE		Active management of projects through the funnel is evident, but alignment with strategy and portfolio management is weak, with suboptimal resource allocation and distribution.
MANAGED INNOVATION PORTFOLIOS	STRATEGIC PORTFOLIO PLANS		BUs acknowledge the need for innovation, but portfolio allocation between "core" and "more" is often informal with limited accountability, metrics and tracking.
	ACTIONABLE PORTFOLIO INSIGHTS		Portfolio analysis is limited due to the lack of rigorous portfolio design and inconsistent application of portfolio metrics; cross-BU analysis and visibility is also limited.
	INTEGRATED PORTFOLIO MANAGEMENT		The portfolio management process varies significantly across BUs that often struggle to determine what to invest in, leading to a mix of underinvestment in promising projects and continued investment in zombie projects.
EMPOWERED INNOVATION PEOPLE	EFFECTIVE INNOVATION TALENT		The organization has defined competencies for founders but can push further in identifying and matching the right talent; innovation skills must be embedded across BUs.
	INSPIRING INNOVATION LEADERS		Senior management and individuals on the ground celebrate processes; however, the most prominent gaps exist in the band 4s and 5s. Senior leaders share their goals for disruptive innovation.
	SUPPORTIVE INNOVATION CULTURE		The company has made great progress shifting from being technology-first to consumer-first; there is still work to be done to reinforce priorities, encourage effective pathways and ensure healthy portfolios.

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By David S. Duncan and Alasdair Trotter

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Coming soon...

QUESTIONS



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