Innovation and Corporate Entrepreneurship

Success comes from the future… Not the past

OECD Innovation Strategy Workshop
Joanne Hyland, Founding Partner
29 May 2008
Case Study Overview

1. Innovation and corporate entrepreneurship definitions.

2. Insights from Rensselaer Polytechnic Institute’s (RPI) twelve-year Radical Innovation Research Study.

3. Our work with Danfoss.

4. Barriers to corporate entrepreneurship.

Innovation and Corporate Entrepreneurship

Creating a common language
The Myths and Language of Innovation

Innovation ≠ Invention or Intellectual Property

Innovation > Creativity

Creativity = Company Wide Responsibility

Innovation = Emerging Management Discipline

Innovation is: “The management discipline that transforms creative ideas into market successes.”

Applies to all forms of innovation in a company: Technology-based, business model, process, services, etc.
Definition of Corporate Entrepreneurship

1. **Corporate Venture Capital**: Direct equity investments and limited partner investments.

2. **Internal or Corporate Venturing**: Spin-ins and spinouts.

3. **New Business Creation or Development**: Inside Corporate or R&D or established divisions linked with strategic intent.

4. **Open Innovation**: In-licensing, strategic partnerships, competency-based acquisitions.

**The Umbrella Term**: CE is the creation of new businesses within and outside the company, which leverage current competencies and evolve new ones through innovation for the purposes of growth and corporate renewal.
The RPI Research Insights

Defining a Management Discipline
Original Definition of Radical Innovation
(Established with Industrial Research Institute Companies in 1995)

Project that promised at least one of following:

1. New to the world performance features
2. Significant (5-10x) improvement in known features
3. Significant (30-50%) reduction in cost
## Current Definition Based on RPI Research Findings

<table>
<thead>
<tr>
<th>Lower Uncertainty</th>
<th>Higher Uncertainty</th>
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<tbody>
<tr>
<td><strong>Type of Innovation</strong></td>
<td><strong>Platform and Breakthrough/Radical</strong></td>
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<tr>
<td>Incremental</td>
<td>New Business Models, Emerging Technologies for Growth and Renewal</td>
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<td><strong>Strategic Drivers</strong></td>
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<tr>
<td>New Products to Extend Existing Business</td>
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<tr>
<td><strong>Opportunity Selection</strong></td>
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<td>Customer Driven and Market Research</td>
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<td><strong>Market Focus</strong></td>
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<td>Existing Base</td>
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<td><strong>Process</strong></td>
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<td>Stage Gate and Concurrent Engineering</td>
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<td><strong>Transition Readiness</strong></td>
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<td>Fast Track to Division or Business Unit</td>
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Current Definition Based on RPI Research Findings

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RADICAL INNOVATION GROUP
Four Categories of Uncertainty to Manage

- Resource Uncertainty
- Organization Uncertainty
- Technical Uncertainty
- Market Uncertainty
Innovation is a Management Discipline

Research Phase I

Research Phase II

The journey to make innovation a discipline for sustainable global advantage.
Not Just One Competency Area...But Three

Discovery
Creation, recognition, elaboration, articulation of opportunities

Incubation
Evolving the opportunity into a business proposal

Acceleration
Ramping up the business to stand on its own

Oversee Transitions/Interfaces

R&D to Hub

Hub

Hub to Operations

Exploration
Research
Internal Hunting
External Scouting: License/Purchase/Partner/Invest

Experimentation
Technical
Market Learning
Market Creation
Strategic Domains

Exploitation
Focus
Respond
Invest
Our Work with Danfoss

Institutionalizing Corporate Entrepreneurship
Discovery: Capturing Major Innovation
“R&D Potential Valley of Death”

RESERVOIR OF TECHNICAL KNOWLEDGE

FORMATION OF NEW PROJECT

Part I: Technical Insight
Part II: Opportunity Recognition
Part III: Opportunity Articulation
Incubation: Learning about Markets
“The Missing Link”

LEAD USERS, APPLICATIONS AND PROTOTYPES

MARKET ENTRY STRATEGY AND BUSINESS MODEL

Part I: Coaching
Part II: Brokering
Part III: Thinning and Enriching
Part IV: Nurturing
Strategy and CE Infrastructure

Clear Mission and Scope of Innovation Activities

- Appropriate Metrics and Reward Systems
- Supportive Leadership & Culture
- Learning-Based Methodologies, Processes and Tools
- Identifiable Organization Structure and Rich Interfaces
- Requisite Skills Development and Talent Management
- Governance and Decision Making at Project, Portfolio and Strategic Levels

RADICAL INNOVATION GROUP

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Barriers to Corporate Entrepreneurship

Navigating the great cultural divide
CE Implementation Challenges

1. The Great Cultural Divide.
2. Entrepreneurial versus Operations Structure.
4. NBD versus NPD Teams.
5. The Long and Winding Road.
7. Systematic Approach Missing.
# Cultural Diversity and Co-Existence

<table>
<thead>
<tr>
<th>NPD/Operating Groups</th>
<th>R&amp;D/CE Groups</th>
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<tr>
<td><strong>Risk Profile</strong></td>
<td></td>
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<tr>
<td>1. Risk Averse with</td>
<td>1. Risk Mitigation through</td>
</tr>
<tr>
<td>Focus on System</td>
<td>Staged Learning.</td>
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<tr>
<td>Efficiency.</td>
<td></td>
</tr>
<tr>
<td><strong>Objective, Timing and Financial Focus</strong></td>
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<tr>
<td>2. Profit &amp; Loss Management.</td>
<td>2. Return on Investment (ROI) over Long Term.</td>
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<tr>
<td>3. In-Year Revenues.</td>
<td>3. Portfolio Management to Hedge Bets.</td>
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<td>4. Early Revenue Targets.</td>
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Critical Success Factors

Embracing a systems view
# CE Roadmap to Architect for Success

| Strategic Innovation Agenda | Strategic Intent.  
Entrepreneurial and Operations Cultures.  
Education and Expectations Management. |
|----------------------------|--------------------------------------------------------------------------------|
| Portfolio Innovation System and Talent Management | Right Type and Level of Resource Commitment.  
Portfolio Flow, Pacing and Transitions.  
Appropriate Evaluation Criteria and Metrics.  
Internal and External Interface Management. |
| Project Team Learning and Uncertainty Management | Uncertainty Reduction.  
Staged Learning.  
Rewards and Recognition. |