Design Rules for Innovation

Steven Kowalski, Ph.D.
President and Founder, Creative License™
sakowalski@innovationstation.com

In his book, ***Leading the Revolution***, Gary Hamel argues that companies which rely on incumbency and cycles of financial and organizational reengineering for survival are finding themselves caught in a downward spiral of diminishing returns. Business concept innovation, he suggests, is the answer for generating new revenue streams and ensuring long-term survival. Hamel proposes ten rules for sparking an innovation culture across any enterprise – in service to increasing capability to generate new business concepts and models.

Design Rule 1: Unreasonable Expectations

If most of your colleagues believe you are in a 5 or 10% growth business, you are. Beliefs set the upper limit of what is possible. Although a bold aspiration won't by itself produce a multitude of nonconformist strategies, its absence always yields bland, me-too strategies. Non-linear innovation begins with unrealistic goals.

- Ask people what they believe would be a reasonable expectation for top-line growth this year. Compute the average. Is it ambitious?
- To convince people to aim for higher aspirations, build credibility by demonstrating that it is possible to outperform the average.
- Never believe you are in a mature industry.
- Don't accept someone else's definition of what is possible.
- Don't succumb to short cuts like mega-acquisitions, deep price cuts, rebates, etc.
- Aim for non-linear innovation to drive long-term wealth creation.

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Design Rule 2: Elastic Business Definition

Perhaps the most fundamental question a company's employees and executives can ask is, "Who are we?" How people answer determines whether or not the company searches for unconventional approaches and opportunities. An elastic business definition helps to reduce the protectionist instincts of executives worried about cannibalization.

- Expand the opportunity horizon and open it to change.
- Define the company less by what it does, and more by what it knows (core competencies) and what it has (strategic assets).
- Uncover implicit and/or explicit assumptions about what business the company should or should not be in. What is considered "out of scope"? Why?
- Look for opportunities outside the boundaries of the business you are managing.
- Have a clear plan for leveraging competencies. In the absence of such a plan, an elastic business definition can be a liability.

Design Rule 3: A Cause, Not a Business

Without a cause that transcends growth, profits, or even personal wealth accumulation, individuals will lack the courage to behave like revolutionaries. A noble cause that helps people reach beyond themselves is a great motivator. Build devotion to a wholly worthwhile cause.

- Be willing to shed your skin. Write off some of your own depreciating intellectual capital.
- Ask questions. Business concept innovation changes the price tag on every bit of knowledge in the enterprise. Some knowledge becomes more valuable; other knowledge becomes less valuable with every change. Find out what will be changing.
- Touch on the human desire to make the world better off.
- Find ways to help every employee understand their contribution to making a genuine and positive difference in the lives of customers and colleagues.
- Give people a reason to bring their whole selves to work.
- Reward and appreciate contribution to shared goals.

Design Rule 4: New Voices

More often than not, outsiders reinvent industries: newcomers free from the prejudices of industry veterans. Yet most strategies preserve the old guard. There are revolutionaries in every company. But often they are isolated and impotent, muffled by layers of bureaucrats.

- Listen to revolutionary voices. Sink a taproot deep into the organization. Listen to those at the edge of the organization. The capacity for radical innovation increases proportionately with each kilometer you move away from headquarters.

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- Facilitate informal networks.
- Expose preferences for compliance. Promote preferences for challenge.
- Be careful whom policies disenfranchise with hidden messages about who has a voice in strategy discussions.
- Let youth be heard. Young people live closer to the future.
- Reverse mentor.
- Let newcomers have a say. Make sure that at strategy or innovation meetings, 50% of those attending have never attended such a meeting before.

Design Rule 5: An Open Market for Ideas

In Silicon Valley, ideas, capital and talent swirl in a frenetic entrepreneurial dance – melding into whatever combinations are most likely to generate new wealth. People understand that radical new ideas are the only way to create new wealth. By contrast in most companies, ideas, capital and talent are inert. They do not move unless someone orders them to move. And most often, there is only one way to pitch new ideas – up the chain of command.

- Build a meritocracy. Look for ideas from all parts of the organization.
- Reward for the quality of thinking and the power of vision.
- Open up channels for people to pitch ideas laterally and vertically.
- Promote policies that allow more people to be responsible for reviewing new ideas.

Design Rule 6: An Open Market for Capital

Why is it so difficult for someone with an unconventional idea to get the funding necessary to build a prototype, design a market trial, or flesh out a business case? In most companies, the goal of capital budgeting is to ensure that the firm never makes a "bet-the-business" investment that fails to deliver an acceptable return. But often, companies exchange the guarantee against unexpected downside with a ceiling on the upside.

- Open access to resources vertically through the organization so that people more removed from top management can try out ideas.
- Ask, "who will care," and "how can this snowball," when evaluating a potential business idea. Also ask how committed people are to their ideas.
- See your business plans as "stories" about an opportunity, a migration path, and about value capture.
- Consider opportunities that are inconsistent with the current strategy.
- Put cash behind the unorthodox.

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Design Rule 7: An Open Market for Talent

People jump for the chance to work on the next great thing. Companies pursuing killer opportunities attract the best talent. Talent needs to be mobile to capture new markets in the age of revolution. And in a fluid market for talent, it is possible to anticipate a hot opportunity to invest more resources by paying attention to where people are moving.

- Generate a culture where people can move to new opportunities if they desire.
- Make job titles portable – not attached to positions.
- Create an internal auction for talent. Combine attractive salary with phantom equity.
- Provide incentives for employees who are willing to take a risk on something out of the ordinary.
- Augment structures that support resource allocation with new structures that support resource attraction (if an idea has merit, it will attract resources).

Design Rule 8: Low-Risk Experimentation

Many people in companies advocate the position that it is safer being a fast follower than testing a new business concept. Others suggest that to capture new markets, a company must be bold and take big risks. Yet there is a false dichotomy presented by these two approaches. It is possible to find a way through these extremes – to be prudent and bold, careful and quick.

- Look for opportunities that don't take a lot of cash to get started.
- Most ventures will fail. The only way to resolve the inevitable uncertainty around new opportunities is to dangle something in front of customers and see if they bite.
- Develop an exit plan for every business that you enter.
- Build a portfolio of business concept experiments. Spawn dozens upon dozens of radical, low-cost low-risk experiments.
- Distinguish between project risk and portfolio risk.
- Don't treat failures with the same gravity if they involved unequal risks. Divorce personal risk from project risk.
- Look to sources closer to the work to reduce uninformed perceived risk.
- Hire people who know how to de-risk big aspirations.
- Increase the number of small experiments when uncertainty is higher.
- Accelerate learning. Celebrate the pathfinders.

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Design Rule 9: Cellular Division

Division and differentiation is the essence of growth. When companies stop dividing and differentiating, innovation dies and growth slows. Many businesses split growing parts of the enterprise into smaller cells to free human and financial capital from the tyranny of any single business model. But size is not the issue – orthodoxy is.

- Beware of strong divisions within the enterprise that might kill projects that threaten their revenue streams.
- Identify allegiances that may be stifling innovation.
- Generate space for new business models by cellular division.
- Increase the number of internal entrepreneurs who act as if they run their own businesses.
- Be willing to forego shared economies for speed, flexibility, and focus when appropriate.

Design Rule 10: Personal Wealth Accumulation

You can't reward entrepreneurs like you reward stewards. If you want people to create wealth, you have to share the wealth – not just with a few privileged executives, but also with successful revolutionaries at all levels.

- Combine salary with equity in the company, but also equity in one's ideas.
- Reward people who make a non-linear change in the business on a scale that is commensurate with their accomplishments.
- Disconnect compensation from rank, grade, job titles, and hierarchy.

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