

PETER SKARZYNSKI

ROWAN GIBSON

With an introduction by GARY HAMEL

# INNOVATION

A BLUEPRINT FOR TRANSFORMING  
THE WAY YOUR COMPANY INNOVATES

# TO THE CORE

III HARVARD BUSINESS PRESS III

"At last, a book that tells us what innovation really is and how we can embed it into the DNA of our companies. A splendid guidebook with terrific examples."

—**JOHN NAISBITT**, author, *Megatrends and Mindset!*

"This outstanding book reveals the black box of innovation, moving it from a noble aspiration to a set of organizational realities. Comprehensive, pragmatic, and accessible, these ideas will be useful from the corner office to the shop floor. Skarzynski and Gibson have cracked the innovation code."

—**DAVE ULRICH**, professor, Ross School of Business, University of Michigan, and coauthor, *Leadership Brand*

"Until now, innovation has been a religion without a bible. *Innovation to the Core* aptly fills the void."

—**AL RIES**, coauthor, *The Origin of Brands*

"This breakthrough book radically challenges the way we think about innovation. The authors establish a new paradigm for organizing innovation that involves everyone in the company, all the time—as well as many minds on the outside."

—**STEFANO MARZANO**, CEO and Chief Creative Director, Philips Design

"*Innovation to the Core* is one of those rare business books that live up to what the title promises. This excellent and exciting work is a must-read for managers whose survival is dependent on creating the new and innovative."

—**FONS TROMPENAARS**, author, *Riding the Whirlwind: Connecting People and Organizations in a Culture of Innovation*

"Peter Skarzynski and Rowan Gibson have created an important addition to the literature on innovation, showing managers how to accelerate the implementation of ideas while reducing costs and increasing value."

—**BELMIRO DE AZEVEDO**, former Chairman, Sonae

"In a time awash in books about innovation around the edges, Skarzynski and Gibson have given us a serious study of how to deeply embed innovation and make it part of cultural change."

—**KEVIN MANEY**, technology columnist and author, *The Maverick and His Machine*

"*Innovation to the Core* is what so many books about innovation have failed to be—a prescriptive 'how-to' that enables managers and executives to really understand what it takes to make innovation a core competency of their companies. The detailed examples ensure that readers relate the theory to the business realities."

—**KELLY DUFFIN-MAXWELL**, Senior Vice President, Breakthrough Innovation, Kraft Foods, Inc.

Harvard Business Press  
60 Harvard Way  
Boston, MA 02163  
[www.HBSPress.org](http://www.HBSPress.org)

ISBN 978-1-4221-0251-0



9 781 422 10251 0

## CONTENTS

*Acknowledgments* xiii

*Introduction by Gary Hamel* xvii

### PART ONE: TURNING RHETORIC INTO REALITY

- 1 **The New Innovation Challenge** 3
  - Making Innovation Happen 4
  - The New Innovation Leaders 7
  - More Buzzword Than Core Competence 11
  - Toward a Systemic Understanding 13
  - Innovation to the Core 16
  
- 2 **Creating the Preconditions for Innovation** 21
  - Creating Bandwidth 22
  - Maximizing Diversity 28
  - Connection and Conversation 36
  - Is That All There Is to It? 43
  - Innovation Challenges and Leadership Imperatives* 43
  
- 3 **Building a Foundation of Novel Strategic Insights** 45
  - The Four "Lenses" of Innovation 46
  - Challenging Orthodoxies 47
  - Harnessing Discontinuities 55
  - Leveraging Competencies and Assets 61
  - Understanding Unarticulated Needs 69
  - Organizing the Discovery Process 76
  - Drawing on Collective Wisdom 77
  - Selecting and Using "Discovery Insights" 78
  - Innovation Challenges and Leadership Imperatives* 80

**PART TWO: ENLARGING AND ENHANCING THE INNOVATION PIPELINE**

4 **Producing a Torrent of New Opportunities** 85

    Involve Many Minds 87

    Sow Enough Seeds 95

    Widen the Front End 97

    Increase the Combinations 100

    Ideate Around Specific Themes 104

*Innovation Challenges and Leadership Imperatives* 106

5 **Innovating Across the Business Model** 109

    What Is Business Model Innovation? 111

    Two Distinctly Different Objectives 114

    Thinking Holistically 115

    Asking New Questions 117

    Stretching Your Business Model 120

    The Acid Test 121

*Innovation Challenges and Leadership Imperatives* 121

**PART THREE: EVALUATING AND ALIGNING NEW GROWTH OPPORTUNITIES**

6 **Asking the Right Questions at the Right Time** 125

    Evaluating Ideas 125

    The Limits to Incrementalism 127

    Radical Innovation Defined 128

    Radical Doesn't Have to Mean Risky 131

    Will It Have *Impact*? 132

*Innovation Challenges and Leadership Imperatives* 134

7 **Constructing an Innovation Architecture** 137

    Focusing the Innovation Process 138

    Shaping Your Innovation Portfolio 140

    Screening and Sequencing Ideas 147

    A Shared Point of View 148

    More Than a Mission, a Vision, or a Plan 150

<i>Strategy from the Bottom Up</i>	151
<i>Proprietary—but Not Confidential</i>	153
<i>Creating and Testing a Trial Architecture</i>	155
<i>A Blueprint for Building the Future</i>	156
<i>Innovation Challenge and Leadership Inspiration</i>	157

#### **PART FOUR: MAXIMIZING THE RETURN ON INNOVATION**

<b>8</b>	<b>Managing and Multiplying Resources</b>	<b>161</b>
	<i>Barriers in the Budgeting Process</i>	162
	<i>Incubators and Sunk Works</i>	163
	<i>A Marketplace for Ideas, Capital, and Talent</i>	164
	<i>Creating a Portfolio of Projects</i>	170
	<i>Reallocating Talent</i>	171
	<i>Toward the Hybrid Organization</i>	172
	<i>Multiplying the Available Resources</i>	173
	<i>Innovation Challenge and Leadership Inspiration</i>	177
<b>9</b>	<b>Pacing and Derisking Innovation Investments</b>	<b>179</b>
	<i>Know the Race You Run</i>	180
	<i>Understanding Marches</i>	181
	<i>Understanding Sprints</i>	184
	<i>Becoming a "Smart Mover"</i>	185
	<i>Avoiding Risk</i>	186
	<i>Maximizing Learning over Investment</i>	189
	<i>Learn Faster, Learn Cheaper, Learn Better</i>	193
	<i>Managing a Portfolio of Experiments</i>	194
	<i>Sharing Risk with Partners</i>	196
	<i>Innovation Challenge and Leadership Inspiration</i>	197

#### **PART FIVE: DRIVING INNOVATION TO THE CORE**

<b>10</b>	<b>Dynamically Balancing Supply and Demand</b>	<b>201</b>
	<i>Driving Innovation Supply</i>	202

Driving Innovation Demand 208  
 Creating the Right Pressure Points 209  
 Aspirations Beyond the Numbers 215  
 Measuring Innovation Performance 216  
 A Comprehensive Matrix of Metrics 218  
 The "Innovation Scorecard" 223  
 Fine-Tuning the Balance 225  
*Innovation Challenges and Leadership Imperatives* 227

**11 Building a Systemic Innovation Capability**

Leadership and Organization 230  
 People and Skills 238  
 Processes and Tools 242  
 Culture and Values 245  
 Making the Cultural Transition 250  
*Innovation Challenges and Leadership Imperatives* 253

**12 Making Innovation Sustainable**

Identifying Innovation Impediments 257  
 "Management Process Makeover" 258  
 The Ultimate Challenge 262  
 Balancing Innovation and Efficiency 263  
 Tensions Within Innovation 266  
 Your Own Innovation Journey 268  
*Innovation Challenges and Leadership Imperatives* 270

Notes 271  
 Bibliography 277  
 Index 279  
 About the Authors 285

## INTRODUCTION

In 1995 I, along with a band of young colleagues, founded a new company, *Strategos*. Our goal was not to build just another consulting company—*that* was simply a means to an end. Instead, we wanted to test a hypothesis: that with effort and persistence, large, bureaucratic organizations could become as good at game-changing innovation as they were at disciplined execution. My partners and I were not naive. We knew that it might take us a decade or more to develop the materials, tools, metrics, processes, and IT systems that would allow our clients to embed the DNA of innovation deep within their management systems and organizational cultures. We knew we would struggle to find corporate partners who were willing to venture out beyond the boundaries of best practice and tackle the challenge of making innovation an everywhere, all-the-time capability. We knew we would have to address deep questions: why, for example, can some prescient folks spot new and unconventional opportunities while so many others seem unable to see beyond the status quo? On the other hand, we knew we were not alone in our quest. We would be able to learn much from the many managers and scholars who were equally committed to unleashing the power of human imagination at work.

As we set out, we looked to the work of W. Edwards Deming and the apostles of Total Quality Management (TQM) for inspiration. Prior to their pioneering work, the responsibility for quality was narrowly focused in most companies, the preserve of highly trained quality inspectors. These individuals were paid to weed out defective products at the end of the production line. Hence, if you had visited a typical manufacturing company in the decades before TQM, you would have found that quality was not rigorously measured, not designed into products from the get-go, not built into manufacturing systems and protocols, not a significant factor in management compensation, and, most definitely,



**PART ONE**

**TURNING RHETORIC  
INTO REALITY**



## The New Innovation Challenge

**I**MAGINE IF EVERY PERSON in your firm came to work every day believing their ideas could influence the destiny of the company.

Imagine if every corner of your organization was pulsing—at all times—with radical, rule-breaking concepts for new products, services, strategies, and businesses, providing you with a continual flow of innovations with which to delight your customers, confound your competitors, and richly reward your shareholders.

Imagine you could go online 24/7 and get a comprehensive, real-time window on your company's global innovation activities—a dashboard that showed you how many ideas were being produced, which parts of the world they were coming from, how fast they were progressing through the pipeline, when they were going to be commercialized, and what their future financial value was expected to be.

Imagine if every single one of your employees, at every level and in every location, had been trained in the principles, skills, and tools of innovation—greatly enhancing their ability to discover new insights, spot unexploited opportunities, and generate novel business ideas.

Imagine, too, that your company had a worldwide innovation infrastructure where those people could quickly find the cash, the talent, and the management support they needed to turn their ideas into market success stories.

## Creating the Preconditions for Innovation

**W**HERE DOES INNOVATION actually come from? How do you generate an idea that is so radical—so compelling—that it fundamentally alters customer expectations, or reinvents the cost structure in your industry, or redefines the basis for competition in a way that devalues the skills and assets of your rivals?

Even after all these years, the innovation process that either consciously or subconsciously leads to such breakthroughs is little understood. To be sure, we have lots of ways to evaluate an idea or a business strategy once it's already there. We can use a whole set of criteria to assess whether it's worth investing in or not—for example, we can ask whether it is likely to deliver above-average profits, or create a sustainable competitive advantage, or satisfy customers in new ways. But these measures, useful as they are, will only help us determine whether an innovative idea is likely to go somewhere; they won't tell us where it came from in the first place.

While most corporate leaders view the innovation imperative with urgency, many companies are having a difficult struggle creating and fostering the cultural and constitutional conditions that serve as catalysts for

## Building a Foundation of Novel Strategic Insights

**S**TEVE JOBS. RICHARD BRANSON. Bill Gates. James Dyson. Michael Dell. Brilliant innovators and entrepreneurs all. These are individuals for whom, it seems, innovation and wealth creation came naturally, almost “reflexively,” as Gary Hamel would put it.<sup>1</sup> The conventional view is that innovation is the exclusive province of creative geniuses and business leaders like these—people who are somehow “wired” differently from the rest of us, making them capable of innovating in ways that mere mortals, or ordinary companies—cannot possibly hope to match.

Clearly, intuition and creative ingenuity—as well as happenstance—may unquestionably be part of the innovation equation. But what if we could unpack the discovery process much more precisely by getting inside the mind of the innovator? What if we could open up that mysterious “black box” and take a good look at how it works? What if we could find out how radical innovators come up with their breakthrough ideas; how they spot those big, strategic opportunities that are invisible to others; how they seem to have an intuitive feel for the way in which the world will be (or should be) different, whereas others do not? Most importantly, what

## Producing a Torrent of New Opportunities

**I**N CHAPTER 3, we outlined some principles and techniques for building a foundation of truly novel strategic insights. Developed well, such insights provide fresh, new perspectives that can open your eyes to significant opportunities for innovation—opportunities that other companies may have overlooked or ignored. They can help you develop completely new points of view about a particular product category or market segment, or an industry challenge you may be facing. They can provoke breakthrough ideas for transforming your core business model in some profound way, or for creating new, “white-space” businesses that directly leverage your company’s core competencies and strategic assets. This chapter describes how your organization can use these powerful “discovery insights” to generate a torrent of new growth opportunities across product, market, and industry spaces.

On the following pages, we suggest five design rules for enlarging and enhancing your *innovation pipeline* (not just your product development pipeline), so that it becomes capable of pumping out a continual flow of wealth-creating new products, services, strategies, and businesses.

The first three design rules are about *enlarging* the pipeline—building a high-yield process that generates and captures a flood of novel ideas from across the organization and beyond. They are:

## Innovating Across the Business Model

**W**HEN YOU MENTION THE WORD *innovation*, most people immediately assume you are talking about new product development, or cutting-edge technologies that emerge from traditional R&D departments. Yet some of the most successful innovations of our time have been *business model innovations* that break from company or industry norms in meaningful and perhaps even radical ways. They do so by:

- Serving unmet or unsatisfied customer groups
- Providing new or different benefits
- Delivering and/or extracting value in an unconventional fashion

Take eBay's peer-to-peer, Web-based marketplace, Apple's iPod/iTunes platform, IKEA's assemble-it-yourself furniture model, Dell's made-to-order computers, BMW's customize-your-own MINI Cooper, or Zara's continuous product line updates. These are all examples of dramatically different business models (or *existing* business models that have been dramatically reengineered) that create substantial new value for customers and shareholders. What's clear from these examples is that they

## Asking the Right Questions at the Right Time

**M**ANY EXECUTIVES SAY that their problem is not a shortage of ideas, but knowing which ideas are the right ones to execute. Where companies tend to go wrong is in prematurely deciding that an idea is either “good” or “bad” and then overcommitting resources to the so-called good ideas while weeding out the bad ones. Instead, we believe it’s better to think about new ideas and opportunities as being on a continuum from “embryonic” to “fully mature.”

To this end, what criteria should your company be using to evaluate new opportunities? And how do you know whether you are asking the right questions at the right stage of the idea development process? This chapter will provide you with some useful guidelines in this regard.

### EVALUATING IDEAS

All too often, great ideas get prematurely squashed. The typical innovation killer is a question like “What’s the expected ROI?” or “How profitable is this opportunity?” Of course, asking detailed questions about profitability is not wrong, but many companies tend to ask these

## Constructing an Innovation Architecture

**O**NE OF THE KEY ARGUMENTS of this book is that successful innovation is a numbers game. As you've learned so far, the chance of finding a big new opportunity is very much a function of how many ideas you generate, how many you pick out and test with low-cost experiments, and how many of the most promising projects you get your resources behind. That's why throughout the pages of this book, we recommend that companies create a diverse portfolio of ideas and experiments, with a view to pushing up the odds of finding some winners.

Importantly, we are not suggesting that your company should pursue a mixed bag of completely unrelated opportunities, in the hope that a small percentage of them turn out to be strategically and financially rewarding. On the contrary, we believe that strategic innovation requires a high degree of focus. Competitive advantage does not come from a "full speed ahead in all directions" approach. Rather, it comes from narrowing your focus in a "don't get distracted, get all the wood behind one arrow" sense—on either a corporate level, or a divisional level, or a business unit level. It requires coherence, consistency, and specialization.

So how can these two opposite and seemingly contradictory requirements—"diversity" on the one hand and "coherence" on the other—be

## Managing and Multiplying Resources

**O**FTEN, THE MOST DIFFICULT CHALLENGE to innovation is not how to generate a lot of new, unorthodox ideas but how to quickly get enough talent and capital behind those ideas to start turning them into viable business plans and scaleable opportunities. Within most organizations, there are formidable barriers that prevent would-be innovators from getting access to the resources they need to execute their ideas.

Of course, removing these roadblocks to innovation is easier said than done. As every manager knows, reallocating resources is an intensely political and difficult process. In this chapter, however, we share examples of companies that have successfully overcome the barriers to funding radical innovation—by instituting processes that help them effectively manage and multiply their available resources.

The fact is, there are several different ways to think about funding game-changing innovation in a large company, from using the existing budgeting process to establishing Skunk Works and incubators, right through to creating budget set-asides and grassroots funding models. On the following pages, we focus on these mechanisms and examine why some of them are better than others.



## Pacing and Derisking Innovation Investments

**T**AKE A LOOK at the portfolio of new growth opportunities you have generated through your innovation efforts, and you are likely to find a diverse set of opportunities with very different time frames and risk profiles. This diversity is not inherently bad—though managers often view it as such. However, to create sustainable value from your innovation efforts, it's critical for you and your company to understand these differences and to manage both your learning and resource investment accordingly.

In this chapter, we will show you how to distinguish between different kinds of opportunities in terms of time frame and risk profile—initially as they are conceived through your innovation efforts and then as you manage them over time—and we suggest some practical guidelines for pacing and derisking your commitments. Our goal here is to help your company create the optimum strategy for realizing and capturing the value of each individual innovation opportunity.

## Dynamically Balancing Supply and Demand

**T**O BUILD AND SUSTAIN a robust innovation capability, your company needs to carefully manage both the supply and the demand side of innovation. By *supply* we mean the sheer flow—and the quality—of new ideas entering your innovation pipeline and moving through its various stages. By *demand* we mean the natural, reflexive pull for those ideas within and across the businesses.

When *supply* is low, or more likely, of low quality, one tends to see a kind of *idea inflation*, meaning that opportunities are presented (often unintentionally) with an inflated sense of their value. This is simply because there are few other viable growth opportunities in the portfolio to pursue. The inherent risk here is that an organization invests substantially in what are actually quite mediocre ideas—ones that are unlikely to drive any significant revenue growth.

Conversely, when *demand* is low—when the organization is not naturally and reflexively able to respond to, nurture, and act on potential game-changing opportunities—then innovation withers. What invariably happens is that innovators become cynical and discouraged as they watch their nascent projects go nowhere—which eventually dries up the flow of new ideas entering the pipeline.

## Building a Systemic Innovation Capability

**T**HROUGHOUT THIS BOOK we've argued that companies really can and must take a more systemic approach to innovation. Indeed, we have outlined the efforts of a very diverse set of companies—such as Whirlpool, CEMEX, W. L. Gore, Google, GE, P&G, and Best Buy—to make innovation a sustainable enterprise capability. What you have probably noticed is that, while all of these companies share a common view about the importance of innovation, each one actually manages innovation in a very different way—and correctly so.

Truth is, there is no single right way to organize an enterprise for innovation. For example, a highly centralized organization would likely not be very successful at applying Google's market-based approach to innovation within its own company. Conversely, Google would likely stall quickly if it adopted—ad hoc—elements of the innovation infrastructure we find at more (relatively speaking) centralized companies like GE, P&G, or Whirlpool.

But whether your organization is highly decentralized or tightly centralized; whether it has vast global reach or is limited to a single geographic region, you will be pleased to know that there is a practical framework you can use as a guide to developing, deploying, and sustaining a systemic

## Making Innovation Sustainable

**W**HEN A COMPANY has been taking the kind of systematic approach to innovation that we have described in this book and is beginning to see the benefits, there typically comes a moment when the organization experiences a tipping point.

Sometimes the exact point of transition is only realized in retrospect—a company might even ask itself, “How did that happen?” But at a certain stage, a critical mass of employees wake up to the fact that innovation is not just a corporate initiative, or a onetime project, or an activity for a particular group of people. They begin to recognize it as something that has to permeate the entire organization—something that requires different mind-sets, values, skills, behaviors, processes, management systems, metrics, rewards, organization structures, IT solutions, and so on, all across the enterprise. They start to grasp the fact that for innovation to really work, and to be *sustainable*, it has to become a systemic and widely distributed capability—it has to be woven into the everyday fabric of the company just like any other organizational capability, such as quality, or supply chain management, or customer service. What becomes obvious is that innovation has to become *a way of life* for the organization.

Unfortunately, most companies never reach this tipping point. They never move innovation beyond being something that is “bolted on” rather