Swapping Innovation for Transformation, Core Competency for Fluid Core

A New Agenda for Business

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in cooperation with The Apigee Institute
Executive Summary
Companies face a choice between innovation and transformation; between the next new incrementally better product versus long-term survival and prosperity. Companies that focus their strategy on innovation typically entwine themselves in complex and granular decision processes. But a new breed of enterprise is emerging, one that combines innovation and transformation in a process of discovery. These companies excel at maintaining multiple focal points in a strategic vision designed to maintain their market power over time.

These Multifocal Strategists are pace setters that create a true transformation agenda because they dare to challenge two dominant management conventions.

- They are not overly focused on traditional core competencies
- They purge the idea of short term ROI from their transformational activities

They make their decision process more discovery-based. They have found ways to push back on the idea that all activity should translate to bottom line profitability in predictable ways over the short term. In that sense they take a lab-approach to the market not to ideation. They seek out new skills and actively pursue new revenue streams and business models. Through trial-and-error they find their way to new enterprise operating principles (orchestrating ecosystems for example) that offer a new kind of platform for the future.

Companies that stick to a core competency and are highly transaction-driven, typical of poor performers among two types of company we call the “Brand-Centered Core” and the “Aggregator”, are much less likely to build dynamic transformation programs than those that are widening their core capabilities and elevating their thinking above execution mode.

Companies that do not get the new fluidity illustrated by the Multifocal Strategists have wide ranging innovation programs that are disconnected from the strategic direction of the firm. Worse, they typically fail to get a good return on their innovation investments.

They often have unwieldy, even inappropriate, decision processes. They have a degree of formality that chokes off good projects or creates delays that break exciting ideas. Some of their people even complain that there is no decision process. They force innovators to present and re-present the same projects many times over because they habitually fudge key decisions in the absence of strongly rooted decision tools.
These companies are struggling to make the phase-change to a new type of economy where different rules and a new culture of attraction and resource orchestration become as important as investment.

- Management teams could all benefit from:
  - Taking a discovery approach to enterprise innovation, including the development of new financial KPIs for companies in transition
  - Building a stronger knowledge base of successful multifocal activity
  - Reducing uncertainty by developing new decision tools that help reveal the shape of the new economy and its disruption factors

We propose that they capture these needs by learning how to manage strategic options portfolios, a management approach that helps marry transformation and innovation. The strategic options portfolio is an enhanced version of stock market-based, or real options, practices. It typically includes:

- A fluid transformation and strategic outlook
- Strong knowledge of the enterprise’s existing innovation projects
- Decision metrics that can enlighten executives on future organizational forms, potential disruptive market developments (not just technology), and new competitors
- Graduation mechanisms that ensure innovations hit the strategic sweet spot

One way to help put that together is to ask what type of enterprise are you? We provide three models, each on a different leg of the journey to the fluid enterprise.

Introduction

Imagine the leading companies of the future. They will externalize many of their core functions so they can draw on the best talent, wherever it can be found. They will be highly adaptive, able to acquire new competencies as soon as they see new opportunities.

They will have a kind of fluidity to their decision-making, swapping resources in and out of long and short term goals as needed. They will be Darwinian in the sense that their core mission will be longevity: they will be built to thrive for a long time in contrast to today’s S&P 500 which can expect a lifespan in the Index of only 15 years.¹
In fact these companies have already arrived. They are all around us at differing stages of development. We set out to study their outlook and decision processes to see what makes them different from their peers. Surprisingly some of this new generation enterprises are actually old familiar names.

**Dolby** has been known for decades as the sound engineering inside great entertainment products but they are shifting emphasis to video and from being an ingredient brand to being a source of experience that consumers can connect with directly.

**Autodesk** has been a dominant force in CAD/CAM tools for three decades but over the past three years it has created a consumer community of over 120 million people.

**Intel** (not interviewed for this study) is renowned for chip manufacture but is about to launch a consumer robotics project, and recently purchased Recon Instruments, makers of consumer heads up displays. It is changing its identity and practices.

**Philips**, formerly a leader in consumer electronics, is creating lifestyle experiences that combine hardware, software, services and connectivity and in the process transforming how it secures revenues and interacts with customers.
In each of these cases the enterprise has opted for significant transformation rather than simply innovating.

Most companies are trying to innovate when in fact they face the bigger challenge of **transformation**. There are many reasons that transformation should be a top enterprise goal – the end of oligopoly power for large companies, the shift in product development from traditional labs into consumer iteration processes bringing beta to hardware, the ability and need to be in constant contact with customers as custodians of data and experience; the rise of the device (hardware, software, service, connection) as a key pivot point for business activity - and the one we are most interested in, the availability of digital technologies to reset strategy and to create new efficiencies, new opportunities and new ways of working.

**But the transition is not easy.**

Autodesk, senior VP Amar Haspal is eloquent about the problems of developing the future enterprise rather than just creating the next product:

> “There is no fact pattern for us to follow. You are trying to iterate your way to that pattern so you take shorter steps and create more definition of what you are looking for, little choices you make because there is no smoke trail to follow.”

~ Amar Haspal, Autodesk

The journey is complex because the economic landscape is going through a phase-change\(^\text{ii}\) and it is as profound as any we have experienced in living memory. This phase change sees the enterprise morphing into a loosely coupled collection of partnerships that we now call ecosystems. It is also marked by the transition to highly mobile and virtual forms of business, a new kind of globalism that doesn’t require corporations, and the breakdown of traditional oligopoly power.

All that is a way of saying there is a big difference between innovation and transformation. The difference is reflected in the strategies of the most adventurous enterprises because they are transformative, using innovation to boost their transformational strategies. Some companies don’t get it and stick to piecemeal innovation. But as companies transform what are the best case studies? Some executives believe this generation of companies is blazing the trail for others to follow.

To understand how enterprises address these challenges we undertook in-depth interview with, so far, 25 organizations in the US and Europe, offering confidentiality so that we could gain insights into difficult transformational decision-making. The research builds on 30 previous in-depth interviews\(^\text{iii}\), and an analysis of 100 innovative firms\(^\text{iv}\).

Our objective was to understand the problems, conflicts and success factors of decision-making under
uncertainty. In enterprises, people in different functions can have quite different views on this topic but by and large we have talked with decision makers or with people who are responsible for some element of innovation or the change process.

To construct the study we began with two models for corporate decision-making.

**Two decision models**

How do companies make decisions about where to make their investments in fast-moving environments?

We posited two possibilities: the **rationa l choice model** and the **options and experimental model**.

1. **The rational choice model**

In contrast to a stock market model that tries to cover all the bases in order to neutralize uncertainty, we tend to draw on rational choice models of decision making in business. At least we believe we do.

The rational choice model is built around a number of familiar business tools. Most businesses set clear financial KPIs for their various departments or business units. The KPIs set the bar at a certain height in terms of expectations from new projects. Investment is then based on the assumption of predictable outcomes that approach the KPIs over time.

Put simply, business units are asked to create a traditional business plan, often for a change project and the business plan will justify investments with reference to the overarching corporate strategy, changing market conditions, competitor threats, and the potential for revenue growth.

“We are heavily driven by ROI. We need to show ROI over years. I have tried to introduce a stage ahead of that where we can spend on projects but it can be hard to spend because of other constraints like people swallowed up by other projects.”

~Innovation lead at major European logistics firm

But how often do companies reach for the rational choice model and is it in fact tenable?

In the case of a digital transformation project, it is tempting to believe you can get at all the relevant information about threats and opportunities to make an innovation project timely, defensible and predictable. Is it really possible these days to be truly informed enough about changing market conditions and corporate capability to meet these?
2. The options and experimental model
The second model we wanted to test will be familiar to most companies – proliferate your options, invest small and hope to grow, and go lean with product iterations. In this model, the argument goes, you need to experiment and fail frequently in an iterative cycle to get at the product/service/innovation best suited to your audience/consumers/target group.

This is currently a hot decision model and it blends seamlessly with the stock market model of investing, which says invest often, spread risk, and diversify. Steve Blank and Eric Ries\(^\text{v}\) have brought some discipline into the area with lean start-up philosophy. By working with customers towards a minimum viable product, entrepreneurs are learning to put market factors ahead of their own intuition.

But how effective is it proving to be? There are clearly upsides. Anyone asking for the go ahead for a lean, experimental model will be asking for a small cash input from the firm. They will be assuring the C suite this is an ultra-low risk approach. And that all levels of the ramp-up will have stage gates where a company can cancel a project before losses kick in.

Categories of transformation
In fact companies divide into three separate groups around decision-making, not the two we posited. The groups are marked by complex processes with interesting relationships between leaders and talent. They represent quite different decision models.

The following table summarizes some of the main decision-making parameter.
### Table 1: Decision contexts in major firms

<table>
<thead>
<tr>
<th></th>
<th>Origination</th>
<th>Graduation process</th>
<th>Tactical Decisions</th>
<th>Strategic Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong>&lt;sup&gt;L&lt;/sup&gt;</td>
<td>Strategy-driven</td>
<td>Innovation funnel, Customer involved, Real options model</td>
<td>ROI Tools that are variations on SWOT Committee-based</td>
<td>Senior management Drive for new markets Total Addressable Market Timeliness Competency based Unifying projects</td>
</tr>
<tr>
<td></td>
<td>Open ideation Established science Or new social labs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MF</strong>&lt;sup&gt;M&lt;/sup&gt;</td>
<td>Strategy-driven Controlled ideation, Some use of social labs principle</td>
<td>Driven by the transformational context; Customer-centric; Long term, even post-sale iteration of products</td>
<td>Discovery based</td>
<td>New business and revenue models New enterprise operating principles Strategic Options Portfolio New competencies</td>
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<tr>
<td><strong>BCC</strong>&lt;sup&gt;H&lt;/sup&gt;</td>
<td>Consultancies/C Suite</td>
<td>Permission based, Aspires to customer-centricity</td>
<td>Senior management/Committee</td>
<td>CEO Core competency and core business driven</td>
</tr>
</tbody>
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*A = Aggregator, MF = Multifocal Strategist, BCC = Brand-Centric Core.*

(Each highlights the characteristics of three types of companies (more on these in the following sections)

**Origination** – where new business ideas come from

**Graduation** – how those ideas grow into real product and service offerings

**Tactical decisions** – the decision to allow a project to graduate through its natural phases

**Strategic decisions** – final sign off and context setting for decisions.

**Risk factors** – how risky is the combination? *(L=Low, M=Medium, H=High)*

The table illustrates some key differences in how companies contextualize decisions.

**In Type A** companies many decisions are in fact process based – graduating projects through stage gates where committees weigh in with opinions that may or may not be closely related to strategic objectives. Decision making rests with the dynamics of the stage-gate pitching process and nothing guarantees that cultural bias or prejudices do not pay a major role. Financial KPIs pay a major role.

**In Type MF** companies, and in the best Type A companies, decisions can be cut loose from financial KPIs and become more discovery based. The transformational strategy of the firm becomes the basis for project graduation and strategic decisions, though here too prejudices and bias can shape decisions.
“In the established business, financial metrics play a more important role. The new areas mean you have to be entrepreneurial, have a good testing profile and be good at learning, be more fluid. When transforming, everything becomes discovery including the financial side.”

~Christ Thoen CTO Givaudan

In Type BCC companies many of the key ideas emerge from external consultancies and senior management that are then executed by employees. These tend to graduate from a permission-based system—how far advanced they get on specific resources before being allowed to continue. Key decisions on a tactical level have to go up the hierarchy with final strategy decisions resting with the CEO.

Type A and Type MF are also more likely to have genuine customer involvement or even customer direction in their decision-making.

Type MF companies, and the best Type BCC companies, have a true transformation agenda where they seek out new revenue and business models as well as new enterprise operating principles (ecosystems for example), and graduate their projects into a strategic options portfolio (discussed in more detail below).

One major retailer puts it like this:

“We are reinventing, working with a new wave of technologies and expertise and reaching out for new business, trying to be adaptive to where our customers’ needs are taking us and to bring in new core competency.”

~Anonymous, major retailer

Finally Type MF and BCC strategies are inherently more risky than type A. Significantly MF type companies rely on a new decision process – discovery. This puts conclusive decisions on hold and allows teams to develop criteria over the long term.

Let’s look at these types in more detail.

The Aggregators

In this category companies typically have a strong orientation towards the stock markets and the demand for predictable growth. They are typically AGGREGATING companies, drawing in new acquisitions so that the growth story remains strong. That in turn leads them to focus strategic decision-making away from transformation.

The problem arises when there are transformational opportunities that they are too hidebound to take. They do not deny the need for transformation, and indeed do initiate transformation projects, but they are more
preoccupied than their peers with what the markets demand now. They tend to maintain conventional financial KPIs and have a strong narrative around the core business and core competency.

Key characteristics:
- Is or has been acquisition-driven
- Seeking unity in corporate culture and activity
- Performing for markets so strict financial KPIs
- Low transformation vision but recognises the need
- Strong traditional decision governance, top down

Risk areas:
- Time delays on significant projects
- Frustrated talent
- Potential sense of vulnerability

**Multifocal Strategists**

In this category companies grow a second strategic focus away from, but strongly related to, their core business. These secondary foci allow them to experiment with new idea generation techniques and non-financial KPIs. In most cases, like Google, the bifocal become multifocal and the link with the core becomes harder to discern. But companies with such high innovation reputation can pick and choose how they address the markets.

Other companies though tend not to experiment for long. They have a strong sense of respect for the core business and the people there who are serving up an opportunity to expand and grow in new areas. Although they may experiment, they revert to strict business disciplines quickly.

Nonetheless they also bifurcate culturally. They talk about a commitment to core competency even though they are expanding core competency and developing into new areas. They very definitely move away from conventional financial KPIs. They cut loose while maintaining as much of the narrative of core business and core competency as possible.

Key characteristics:
- Uses the language of core competency but really means core business
- Bifurcates the culture between core business and emergent opportunities
- Is very fluid about the core culture and acquisition of new competency
- Loosens financial KPIs
- Two-way decision-flow
- Transformational across multiple dimensions: e.g. transitioning from B2B – B2C; from downstream to upstream
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Risk areas:

- Struggles with decision governance
- Needs better use cases
- Is creating the fact pattern and the signals
- Market confusion

**The Brand-Centric Core**

This category of company takes a very traditional approach to decision making and is very bound by financial KPIs. They have a very strong narrative around core business and core competencies, and quite static or traditional brand values.

In the hospitality industry and in banking, for example, they seek trust from an overarching narrative based around traditions. Companies in this category believe the brand, rather than any specific action, is the North Star. There is nothing necessarily negative about that. And typically their “transformation” will be in the direction of great customer-centricity. But the tendency is to see this as a cultural challenge rather than one that has fundamental technological solutions. The idea of building an innovative ecosystem is seen as threatening because it might dilute the brand or separate the company from its customer base, bringing some kind of intermediation that could have a Trojan horse effect.

It may seem like this group, by its very nature, lacks agility. That is not true, however, where there is strong leadership. Arguably companies like Amazon.com and Apple belong in this group but they have (or in the case of Apple had) CEOs who took a direct day-to-day interest in change and innovation. Decision-making could be very rapid. There are companies in our survey who have that capacity, where CEOs involve themselves directly in change.

Core committers have the capacity for very rapid change and for radical moves but not based on new decision models.

Key characteristics

- Embraces traditional financial KPIs
- Reverts to the idea of core competency and sticks with it
- Exhibits some sense of transformation around customer centricity
- Believes in the brand as the North Star, brand is the vision
- Strong decision governance, top down

Risk Areas

- Wasteful, often large scale, innovation programs
- The roadmap has to be sold multiple times
- Frustrated talent
The Emergent Enterprise

Across industries a new type of company is emerging, one that is taking radical steps to transform and to create new types of products and services for new markets. Intel with its 21st Century Robot project. Disney with 3D Optics. Arjo Wiggins, the paper maker, with substrates for printed electronics. Companies are being increasingly radical in order that they ensure their long-term relevance. They are becoming much more Darwinian, putting survival and longevity on a par with today’s financial metrics.

They are also working closely with customers, developing customer platforms to give them a voice, or iterating products over the long term so that customers can help shape products to their needs. They are trying hard to maintain allegiance, at least in what they say, to old concepts like core business, core competency and ROI but are discovering a new context for business.

Companies that struggle to make these changes, ironically, are either too beholden to the markets' short-term expectations (which is not to say markets are always short term – in fact Amazon is proof of a possible mood swing) or are under the influence of powerful CEOs who simply do not get the future. Those companies can have internal innovators who get the needs of today’s businesses but their lives are a litany of frustration as the organization works against joining up strategy and innovation.

The good emergent company is clear to see because they combine a number of attitudes that are a departure from the past. Our short, suggestive research project shows they not only reach beyond core competency, they also are more likely to be working with business ecosystems of one shape or another, they act before competitors, and in that sense they are pre-emptive, and they act in the context of a long term digital transformation plan. They are conscious of uncertainty in customer behavior and needs and build this into their decision processes. They work with an options portfolio recognizing that the future is not linear.

Respondents, however, don’t necessarily fully understand the idea of strategic options portfolios. Instead, even good companies will proliferate innovation initiatives, trying to reduce risk by covering all their bases. These open or lean initiatives become counter-productive and reduce the role of innovation because they are simply too varied and complex to manage properly.

An equally significant issue is the lack of decision tools that can guide companies of all kinds. Collectively we also need to acknowledge our understanding of ecosystem management principles is underdeveloped because that knowledge has not yet been systematized.

The best companies, though, have adopted fluid competencies. They undertake innovation in the context of transformation, using digital to accelerate their development towards adaptive service firms. They tend to externalize many core functions, and create ecosystems that allow them to scale at low relative cost, at the same time as freeing up executive mindshare from the day-to-day struggle of innovating for niche markets.
The Phase Change

Understanding The Mismatch Between Innovation and Transformation

Why are these new types of enterprise necessary? Change is rapid but this time round it is also unusual. Phase-changes in the economy and in society are relatively rare. The Russian economist Kondratiev called them long wave cycles — 60 year transition points when the economy has to transition because of commodity bottlenecks. Schumpeter saw something similar and referred to it as a period of creative destruction — however we apply that type of language too often. What we see around us now is not just creative destruction. We are in the middle of a phase-change to a new type of economy and we have only weak insights into what that economy will eventually look like.

It consists of many factors we already take for granted that are, in fact, very novel – like the tens of thousands of automated legal partnerships that underpin an ecosystem like Android. Until very recently a legal partnership had to be negotiated bilaterally. Now we sign up to them regularly under the “terms and conditions” of an SDK. A significant percentage of the US economy probably already hinges on these ecosystems where tens of thousands of people have become legal partners, almost spontaneously. This is extraordinary economic behavior.

Digital projects, themselves, create change. They stimulate new R&D timescales, weeks not years; new product lifecycles with frequent software updates so that products are always in development; that creates the need for community; and in turn it presupposes new ways of introducing products to the market. Digital expands the universe of opportunities and bring companies into contractual agreements with new ecosystems of developers, partners, suppliers or content producers.

The looser forms of ecosystems need new forms of management and new decision flows that we are only just learning about.

That’s not all. Opportunity tends to begin at the edge of the organization and move inwards rather than starting with executives and then heading down. Transformation means big changes that need signalling change throughout the organization. That too can be a challenge – to get the right messages to the right people so that employees and partners are comfortable with their roles.

In contrast the majority of companies are engaging with one or other form of innovation technique and find themselves drawn into unexpected problems – too many projects, too many techniques, not enough discretion to make decisions, too little relevance in the projects they deal with, all adding up to artificially created complexity.
In effect the innovation funnel becomes the problem, surrounding innovation with decision gates without necessarily improving decision-making capability under conditions of uncertainty.

**ROI And The Need For New Metrics In The Phase Change**

A precondition of innovation and transformation is the ability to draw on new decision tools, insights or processes.

In this research we found that many companies are experimenting with innovation technique but very few are working on new decision tools. In other words they are putting processes in place to do innovation without putting in place the tools to make better decisions.
Innovation can also miss the strategic target. The diagram below illustrates that.

If companies don’t use discounted cash flow as a basic for decision, then they use a variation of this like NPV. Though a good number of enterprises hold off the inevitable day when DCF or Net Present Value is called for, they tend not to use decision tools that can reduce uncertainty. Instead they use innovation funnels, stage-gate, graduation, pitch and jury and similar processes. Where the do use decision tools these typically assume predictability.

**Decision Making in 3 Types of Companies**

**Multifocal Strategists. Managing Uncertainty In Order to Transform**

Multifocal Strategists are very clear about their dual or diverse culture and the problems these create. They are not hiding from difficulties. They are conceptually driven and can abstract themselves from execution worries to envision a new future, and they can discover new ways to manage conflicting objectives. In essence their decision-making becomes discovery-based.

Further, they can celebrate being multi-focal. The Finnish software company Reaktor is constantly looking at ways to evolve new business lines and revenue streams. In fact a born digital company seems to be comfortable with this sense of migration.

This group exhibits a mood against collaboration and consensus as a modus operandi around decisions, possibly because over the past decade there has been a lot of emphasis on softer business skills. To make non-financial KPIs work they want to really drive home strong entrepreneurial values.
“Decision making is an incredibly important driver, with a desire to break down silos. People confuse collaboration with strategic decision-making. You can collaborate but still have to make quick decisions and collaboration will slow that down.”

~Executive at a global media company

They see a need for better communications in these transitional companies. There’s very much a sense that the signal, the message about what the company is now trying to get done, has to stay strong right to the edge of the enterprise and beyond.

They also say this is a hugely different environment for them and that previous cases/theories don’t fit, or provide the smoke signals - companies find themselves having to invent process, rationale and strategy. These are all acknowledgements of uncertainty but executives in these companies are dealing with it. There is not much of a gap between strategy and projects because the direction is guided by a strong affirmation of transformation principles.

**Brief case: Philips Consumer Lifestyle**

Philips used to be known as a consumer electronics company but now thinks of itself in terms of consumer lifestyle. At the recent IFA conference in Berlin they launched a range of new connected products, including connected lighting, a connected cooker, and connected coffee maker. Alberto Prado explains the benefits of connectivity:

“Digital allows us to completely reinvent how we engage with our customers, allows us an ongoing dialogue and allows us to redesign the monetization principles and restructure the money flows.”

~ Alberto Prado

That means with its new connected devices Philips has to invest in the development of community around its products, which in turn offers up the possibility of longevity. The products though will not be “complete” in the old hardware sense, once they head out to the shelves. That will be the start of a new iterative process with customers that pushes decision-making way into the future.
What Prado says points to new problems too – more decisions to make, new investment priorities, new sources of revenue. The table below summarizes those challenges.

**Table 2: Challenges of transitioning from traditional to integrated products**

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Integrated</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two year product cycle</td>
<td>Six week update</td>
<td>Conflicting decisions</td>
</tr>
<tr>
<td>Finite product development</td>
<td>Iterative development</td>
<td>Longer commitment</td>
</tr>
<tr>
<td>Margins on hardware</td>
<td>Margins on service, apps etc</td>
<td>Conflict potential</td>
</tr>
<tr>
<td>Revenue on sale</td>
<td>Revenue over time</td>
<td>Higher uncertainty</td>
</tr>
<tr>
<td>Predictive ROI</td>
<td>Various - CLC, ARU, Subs, Ads</td>
<td>Even more decisions</td>
</tr>
</tbody>
</table>

None of these could be called an innovation in the old sense of the word. They are transformative actions and companies like Philips are embracing them along with the challenges they throw up. The essence of decision making changes, though, as it becomes iterative with customers, and continuous even after products hit the market. It is discovery based over the mid-term with a strong social element as customer behavior becomes pivotal. There is a leap of faith in a company’s ability to manage decision making over the long term in a more social environment.

**Aggregators: Dealing with innovation and transformation**

The best Aggregator companies are as conceptually driven as Multifocal Strategists, though not as transformative. They make innovation work for them.

The difficulties that some Aggregators face is that they are likely to be dealing with a transformative agenda and many smaller innovation projects at the same time. They can be torn between these two, and between change and continuity.
This conflict is not a foregone conclusion – Givaudan is an example of an Aggregator that others could follow, with well thought through innovation techniques and where executive and innovation personnel are co-dependent.

**Brief case: Givaudan**

Givaudan produces tastes and aromas for the food industry. In this role it has to abide by strict regulatory and safety standards. In many instances its innovations are customer-driven and incremental, a new taste or a new way of achieving a sustained aroma built on existing science.

When the company develops projects with a high degree of unknowns then the project team will interact with a senior executive like the CTO, Chris Thoen. This will also be the case when the company pursues new opportunities, for example in health. Chris Thoen used to run the open innovation program at Proctor and Gamble and is one of the most experienced innovation executives globally. The company has to perform to its financial metrics but here’s how Thoen describes the process of change.

> “Speed is a challenge. Better, faster, cheaper, drives us to external partners. This is a growing need in a competitive environment. Customers won’t compromise quality for speed and there is a pressure on cost. But only focusing on the current business is dangerous and leads to commodity and price reduction. The current business feeds discovery.”
> ~ Chris Thoen

Because Aggregator companies tend to adhere to strict financial KPIs, as far as possible, decision-making is relatively straightforward. That means their attempts at grappling with the future can play out via innovation technique at the expense of strategic options thinking. Again it is not a foregone conclusion but that tension exists all the time.

One interviewee from the heavy engineering sector who wanted to remain anonymous said:

> “Managers are really fire-fighting. They take the top 5 problems and address those. Decisions there are often made when something has already happened almost when it is too late. It could be done better by having dedicated people looking at innovation and decision-making, looking ahead. It needs to be restructured so as not to have this divide. Nobody is dedicated to putting it altogether.”
> ~Anonymous

Companies in these categories tend to forget that Proctor and Gamble was a pioneer of innovation and yet was also transformational. Decision-making becomes crisis and is dealt with in a strategic void instead of being developed and systematized through a process of discovery.
Brand-Centric Core: The Opportunities And Constraints Of Brand

Brand-Centric Core companies are not as directional as Aggregators. In the case of hospitality companies they delegate significant budgets and responsibilities to hotel managers, as do banks to local bank managers. The brand though is the North Star, the firmament that creates and controls the culture of the company and influences decision-making.

Typically transformation is difficult without the direct involvement of the most senior executives, even the CEO.

On the upside, an active involved CEO will transform the company. Apple, under Steve Jobs, was a great example of this type of company.

However, it also means ideas percolating up from below will almost invariably, in the case of Brand-Centric Core companies, conflict with the ideology of the company if those ideas do not promote core brand values. And it means the best chance of an idea being taken up is if the CEO is good at spotting talent. In fact Jobs once said his role was to know the 1,000 people in Apple, the key talent, who would make a difference.

The problem for these companies is that the brand is a marketing asset that gets used as a decision criterion for transformation and a behavioral guideline for innovators. Companies with this behavior have a problem.

Brief case

A major hospitality company is seeking a new way forward as its traditional customer base, baby boomers and business travellers, shrinks back previous spending patterns. In the process it is hoping to compete with travel sites that have become a drain on margins.

The challenge is that decision-making has to date been in the hands of brand managers primarily based in the USA. That means branding is US-centric and based on historical experiences. The challenge is both personnel based – how to shift power and technological: how to grow a platform that will enable the company to build continuing relationships with new categories of customers. To do that the company needs to share out branding opportunities in a typical ecosystem mix.

Decisions around projects like this tend to be affected by power shifts within the organization over time. Without CEO involvement the project has to be resubmitted several times over its lifespan, causing delays in an area that calls for speed of transformation. The problem is that no decision process can fast track it. Transformation stalls.

“Our project needed to be talked through with a lot of people and with risk committees, which is not conducive to experimentation. It was also an outlier and by that I mean it was not on our consultants’ radar”.

~ Anonymous, major European bank
In this instance most innovation or change came from global consultancies and in order to attempt a transformational project the bank’s staff had to fight the consultancy too. Intense commitment by individuals was necessary to create change “in spite of” organizational barriers:

“No one wanted to own it [the project]. It was seen as a high reputational risk.... [The people who wanted to do the project] had to work around the existing media strategy, when media began to cover it... The bank also waited for other platforms to emerge before talking about it. And we had large law firms involved. The resilience of those involved was the most important factor.”

~ Anonymous, major European bank

Decision-making rests heavily with the most senior management or is diffused into committees and special interest groups. Without a highly competent and charismatic CEO or transformation executive, the transformation process is stalled.

The Decision Models Reconsidered

1. The rational choice model
The rational choice model clearly dominates enterprise decision-making. The problem is these are not times when you can predictably apply rational choice models. There are even questions over whether rational choice is “rational”.

Nonetheless almost every company says ROI or some form of DCF is essential in justifying a project. It is rare to find companies that permit non-financial criteria such as improving foundational capability or improving staff experience, to be decisive in a project. The more conceptually empowered the company the less impactful this form of reasoning is. And the freer they are to pursue discovery. However, discovery and freedom come with responsibility and they take great care to keep reminding their organizations that they are behaving responsibly.

2. The stock market/experimental model
Companies are definitely trending towards lean innovation and a VC model of appraisal – using public pitching and juries, for example, to make decision about which projects to back.

This is not necessarily a lean iterative process – when companies move to a VC model it can be quite static and driven by the entrepreneur’s intuition rather than by any ideas of minimum viable product. The enterprise running a pitch and jury challenge can even take a back seat because at relatively low cost they get to view future possibilities without making a commitment other than prize money and some support.

Yes some companies do fast iteration cycles with customers but for many speed is less appropriate than depth.
And customer interaction is not new. The customer interaction model is producing new effects because now continuous interaction is a reality and because enterprises are assuming more responsibility for customer processes:

“How you connect is transformed. You know how customers are succeeding with your product. You don’t go out every six months and interview them…. You have direct privacy, security and success insight every morning and that goes well beyond what CRM gave us. How customers interact with us is becoming much more immediate and more continuous.”

~ Amar Haspal, Autodesk.

The idea of supporting projects at low cost might also be a trend – pitching in at $10 - $50 K to see how a new idea progresses. These arrangements throw responsibility onto the employee to make something of a small budget and their own time. They are not necessarily strategic nor do they necessarily offer a pathway to major budgets.

The challenge for these companies is to find rational mechanisms for “graduating” their new options into a more strategic portfolio.

It can be like a collection of tactical options rather than a strategic options portfolio.

The strategic options portfolio, however, is an underdeveloped concept. It needs fleshing out and it needs specific tools. A good strategic options portfolio will align:

- Transformation and strategy
- Existing innovation projects
- Decision metrics that can enlighten executives on future organizational forms, potential disruptive market developments (not just technology), new competitors
- Graduation mechanisms that ensure innovations hit the strategic sweet spot
Summary and Action Points

Enterprises stick to ROI because it is safe. Like core competency it gives people the capacity to make decisions when under strain. However, it is not the best way to make decisions, at all times. ROI and the “business plan” grew out of conditions of relative certainty when industrial sectors were dominated by oligopolies with access to mass-media marketing budgets.

Mass media are now less effective and oligopolies in general are threatened in many sectors. That means decision-making has to adapt to uncertainty rather than pretend certainties exist.

- Executive teams need to adapt their innovation strategies and fit them into a transformational context.
- They need stronger conceptual skills to build up a transformational narrative and to communicate it to the market, employees and partners.
- They need to build strategic options portfolios, a more refined way of thinking about real options.
- They need be fluid about their core competencies.
- And learn about ecosystem management.
- Above all they need to adopt transformation as a new agenda.
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