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High-Leverage Innovation: The Smart Way

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Companies are learning that getting the right cornerstones in place can greatly reduce the risk of innovating big.

In today's flat world, there are two very different types of innovation investments: sustaining and high-leverage. Investments made in *sustaining innovation* must yield better than average industry growth, and do so in established lines of business. While essential, this innovation offers little in the way of long-term competitive advantage. Then there is the arena of *high-leverage innovation* and really moving the dial on the total revenue picture of the enterprise. In my work with executives, any growth program delivering above 1.5% - 2% revenue is considered a dial-mover. For a $1 billion enterprise growing at 8%, an additional $20 million is substantial.

And yet, executives continue to confide their disappointment in the investment returns from big-potential innovation. Their experience tells them that sizable organic growth is unlikely. High-leverage innovations are therefore rightly viewed as high-risk. Yet, some companies are succeeding in building this innovation capability.

The strategic question to ask is: "What specifically can be done to make high-leverage innovation a smart investment?"

The Five Must-Haves for High-Leverage Innovation

There are five factors necessary to make the return from high-leverage innovation much more likely.
They are the operational cornerstones of a new mindset and, surprisingly, none directly relate to any specific growth concept.

1. A growth intent which fulfills executive ambitions and aspirations

Growth strategy, at its heart, is the fulfillment of executive intentions. Growth that starts from analysis and market assessment misses the point. Gina O'Connor, researcher and author of *Grabbing Lightning* says, "Strategic intent was underdeveloped for most of the companies we observed. By this, I mean a fairly clear vision on the future horizons of the technology and market domains that the company views as emerging and in which it is important they participate."

I underscore that growth intent is deeply personal to an executive's orientation and preferences, over and above independent market analysis. Equally critical to high-leverage innovation is an executive's emotional determination to not only participate, but to win. One executive confided, "I know we should do this but I am personally not comfortable moving into this market."

The test: Are executives personally engaged in learning about new technology, exposing themselves to new ideas and meeting with potential customers?

2. Possibility-based governance

The primary job of high-leverage innovation is to open up possibilities. It is generally accepted that the existing structure, processes and mindset which deliver today's sustaining innovation will put the brakes on high-leverage innovation. Innovations need to be kept big or get screened out, making room for other possibilities. Those who govern high-leverage innovation require the mandate and operational latitude to scan for bigness and the discipline to screen out opportunities that don't fit the growth strategy.

Big concepts do knock the management system out of its comfort zone. A project director once told me that the vice president of finance instructed her to scale back a potential $250mm opportunity to $50mm. $250mm was too big for the existing mindset. Possibility-based governance needs the authority to deploy resources in new ways and remove internal bottlenecks.

The test: Are people throughout the organization getting strong, clear signals regarding executive intentions for high-leverage innovation? IBM created the position, vice-chairman. Cargill Corporation established a Corporate Initiative. GE initiated quarterly reviews with Jeff Inmelt, CEO on Imagination Breakthrough investments. In their respective cultures, these were clear signals.

3. The total business concept

High-leverage innovation is often based upon a new platform. At the outset, very few people in a company understand and appreciate the platform's business potential. "We start by creating a business vision of the technology. This was a paradigm shift since most engineers shy away from it." says Raj Aggarwal, Vice President Global Technology at Rockwell Collins. While your high-leverage innovation may utilize 90% of the existing business infrastructure, it will be organized and deployed very differently. High-leverage innovation has more in common with a start-up than with product development. This was the case for Whirlpool's GarageWorks platform.

The test: Are you investing in building a business or developing a product?

4. Market-facing milestones

You know if your idea has big commercial value only through interaction with the external eco-system, channels of distribution, lead users, technical and design experts and opinion leaders. In spanning its traditional roles, R&D stretches itself to build an external basis for credibility. From early stage story boards through prototypes and into commercialization, you advance a growth opportunity or kill it based upon milestones informed by market interaction, not internal opinion. At General Mills, their I^3 process sequences market immersion and interaction before ideation. Phil Giesler with Unilever Corporate Ventures refers to this as their "diamond process." As opportunities move around the diamond, many will exit the field.

The test: Are milestones based in external insights and evidence?

5. "Earn the right" funding

With sustaining innovation comes the presumption that ideas entering the pipeline will receive funding and will be commercialized at scale. Therefore, funding in the form of annual operating budgets makes sense. Smart funding for high-leverage innovation differs. There are no funding entitlements. Growth opportunities have to earn the next round of funding based upon achieving market-facing milestones. The project team knows that funding is a fair game and that if they achieve milestones additional funding will be available … if not, game over. This discipline stimulates the project team to act smart and stay focused, knowing that it will face rigorous questioning before it receives next-round funds.

The test: Is funding directly tied to achieving milestones?

It is possible and doable for companies to acquire the capability for high-leverage innovation. Armed with these five factors, you can more effectively manage your high-leverage innovation investments.

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