

Innovation and Corporate Entrepreneurship

**Success comes from the future...
Not the past**

**OECD Innovation Strategy Workshop
Joanne Hyland, Founding Partner
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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.
5. Critical success factors.



Innovation and Corporate Entrepreneurship

Creating a common language



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The Myths and Language of Innovation

Innovation \neq 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



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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

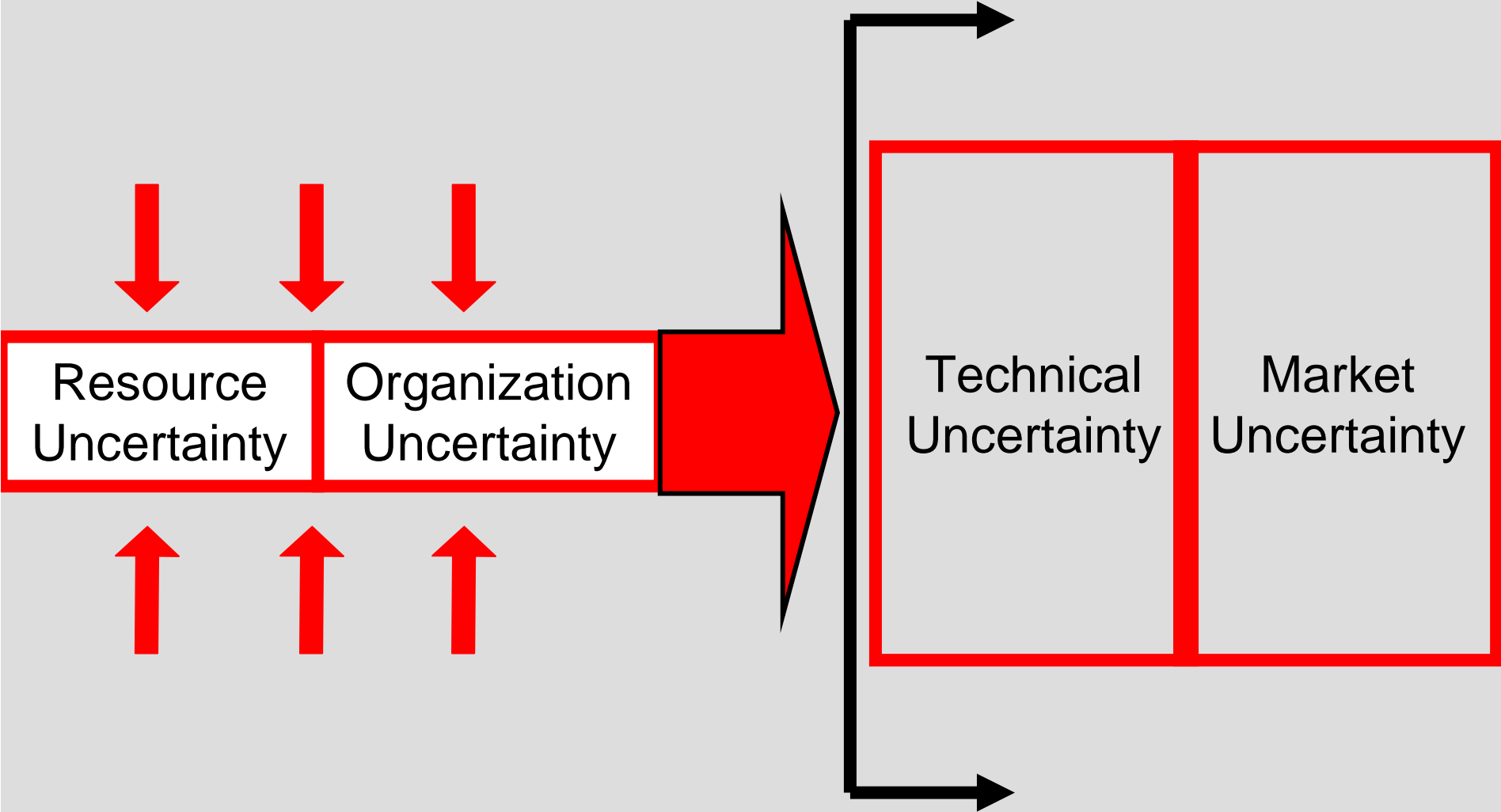


Current Definition Based on RPI Research Findings

| | Lower Uncertainty | | Higher Uncertainty |
|-----------------------|---|---------|--|
| Type of Innovation | Incremental | [-----] | Platform and Breakthrough/Radical |
| Strategic Drivers | New Products to Extend Existing Business | [-----] | New Business Models, Emerging Technologies for Growth and Renewal |
| Opportunity Selection | Customer Driven and Market Research | [-----] | Market Driven and Opportunity Recognition |
| Market Focus | Existing Base | [-----] | New Customers, Applications and Unknown Business Areas |
| Process | Stage Gate and Concurrent Engineering | [-----] | Discovery Driven Processes and Learning Models |
| Transition Readiness | Fast Track to Division or Business Unit | [-----] | Incubation, Acceleration, Interface Management |

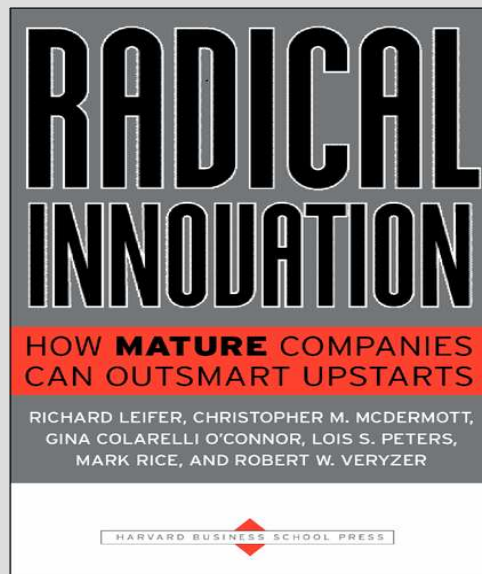


Four Categories of Uncertainty to Manage

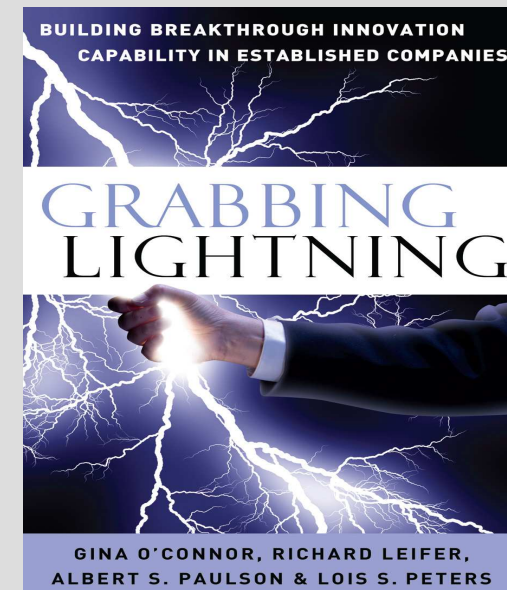


Innovation is a Management Discipline

Research Phase I



Research Phase II



The journey to make innovation a discipline for sustainable global advantage.

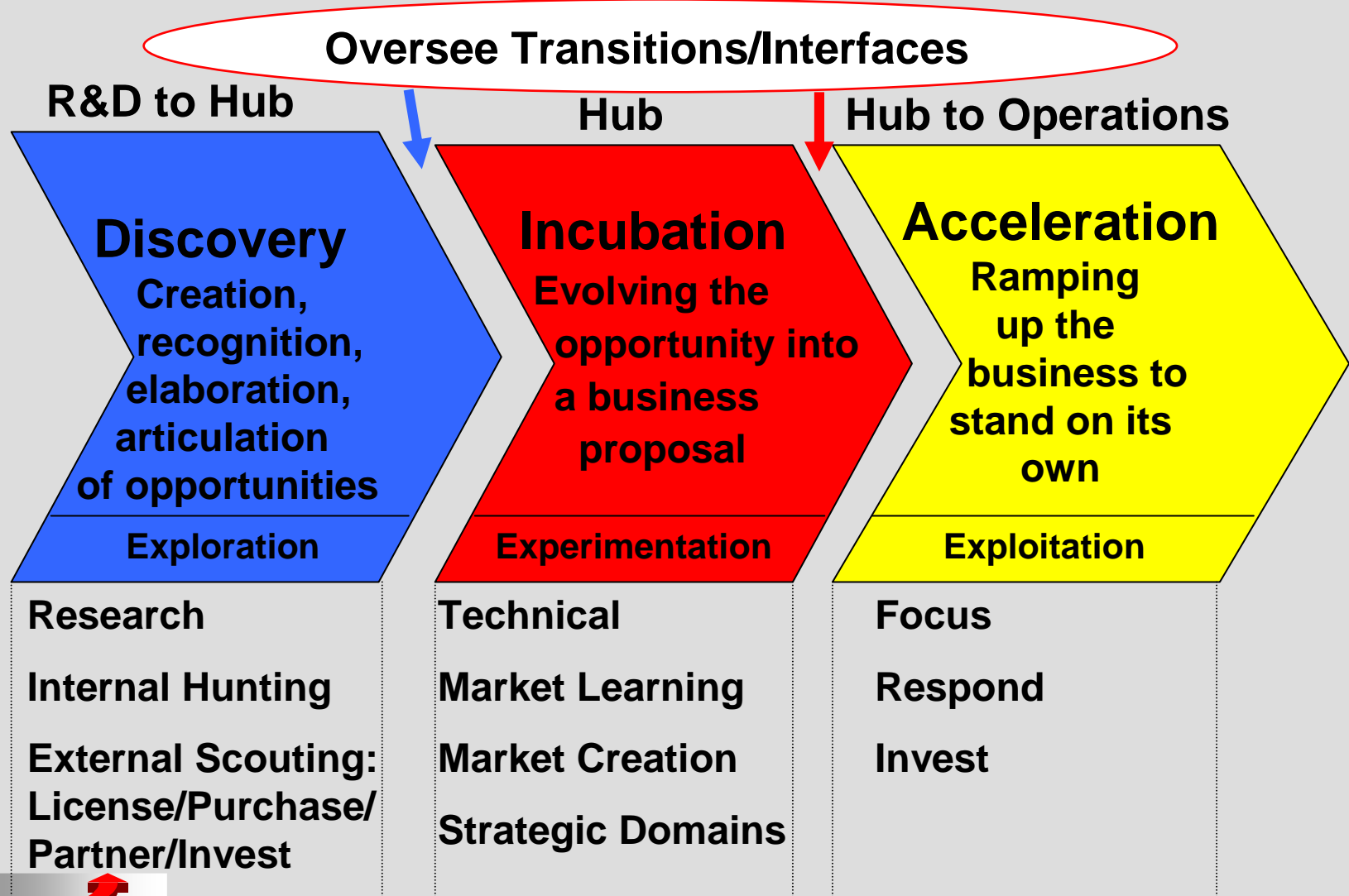


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Not Just One Competency Area...But Three



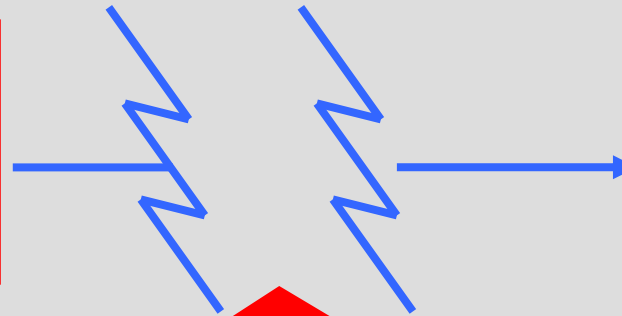
Our Work with Danfoss

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

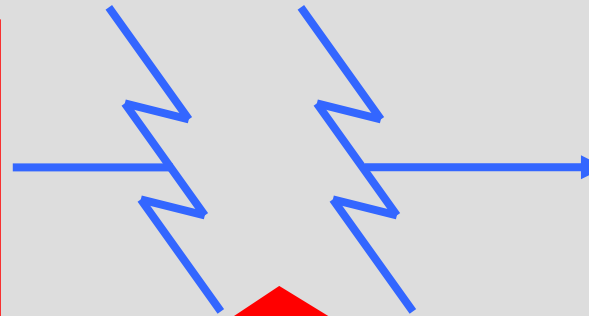
Part III: Opportunity Articulation



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

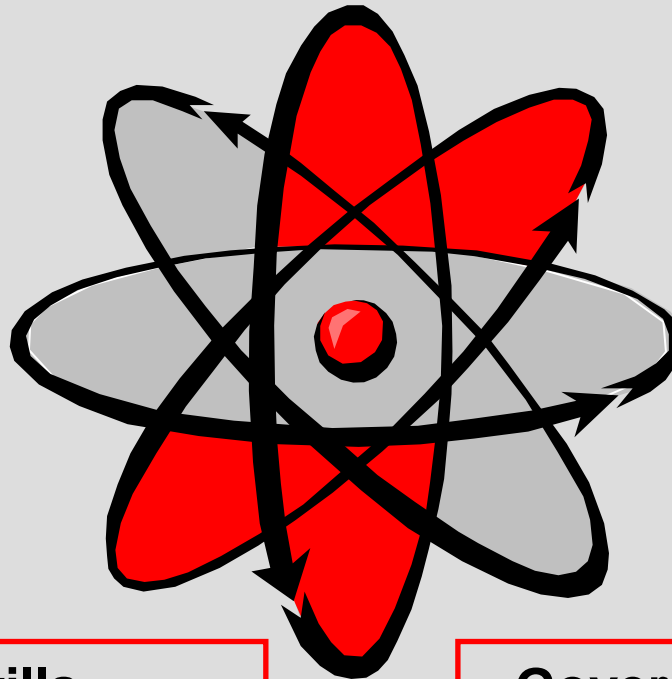
**Clear Mission and Scope of
Innovation Activities**

**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**



Barriers to Corporate Entrepreneurship

Navigating the great cultural divide



CE Implementation Challenges

1. The Great Cultural Divide.
2. Entrepreneurial versus Operations Structure.
3. Mission Purpose.
4. NBD versus NPD Teams.
5. The Long and Winding Road.
6. Project Management Complexity.
7. Systematic Approach Missing.



Cultural Diversity and Co-Existence

| | NPD/Operating Groups | | R&D/CE Groups |
|---------------------------------|--|---------|---|
| Strategy and Type of Innovation | <ol style="list-style-type: none"> 1. Current Strategy. 2. Incremental Innovation to Extend Existing Business. | [-----] | <ol style="list-style-type: none"> 1. Strategic Intent & Opportunism. 2. Platform and Radical Innovation. 3. Growth & Renewal. |
| Culture | <ol style="list-style-type: none"> 1. Operational Excellence. 2. Customer Intimacy. 3. Execution Skills | [-----] | <ol style="list-style-type: none"> 1. Cultivation. 2. Employee Intimacy. 3. New Business Creation Skills. |



Cultural Diversity and Co-Existence

| | NPD/Operating Groups | | R&D/CE Groups |
|---------------------------------------|---|---------|--|
| Risk Profile | <ol style="list-style-type: none"> 1. Risk Averse with Focus on System Efficiency. | [-----] | <ol style="list-style-type: none"> 1. Risk Mitigation through Staged Learning. |
| Objective, Timing and Financial Focus | <ol style="list-style-type: none"> 1. New Products in 6-18 Months. 2. Profit & Loss Management. 3. In-Year Revenues. | [-----] | <ol style="list-style-type: none"> 1. New Business in 3-5+ Years. 2. Return on Investment (ROI) over Long Term. 3. Portfolio Management to Hedge Bets. 4. Early Revenue Targets. |



Critical Success Factors

Embracing a systems view



CE Roadmap to Architect for Success

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

