THE INNOVATION MANAGER'S HANDBOOK

BY STEVE GLAVESKI

FOREWORD \\

For the past three years I have dedicated my life towards the exploration of innovation in the enterprise.

Having come from a background in consulting and banking, I know very well how the nature of large organisations, be it politics, processes and policies, values and culture, infrastructure or all of the above can not just inhibit but suffocate a company and its people's ability to move, tap into their creative right brains and successfully innovate - that is, to not only extend a company's existing S-curve but more importantly, to capture the next S-curve, in order to stay competitive and relevant in an era of rapid change and disruption to industry incumbents.

While I worked in risk management for a large investment bank, I took it upon myself to make a number of suggestions to the Director of my division, who although took the time to hear me out, had no appetite in doing anything that didn't align with his core competencies and anything that messed with the status quo. Basically, I suggested in mid-2013 that we, as an investment bank, could be better making use of data analytics platforms and tools such as Hadoop and R programming language in order to uncover hidden insights that can help us not only better perform our forensic-esque jobs in risk management but also extend to better marketing decisions in the actual business.

The response? "Oh, we've got Mark. He's really good with Excel." This is a company that registered over one billion dollars profit in 2015 and has more than 10,000 employees worldwide.

Shortly thereafter I was fortunate enough to begin my life in entrepreneurship, having successful raised in the low six figures to build my first web startup, Hotdesk, an office sharing platform targeting startups, which evolved into Collective Campus, an innovation hub, school and consultancy based in Melbourne, Australia that works with both large organisations and startups to help them adopt the mindset, methodologies and tools to successfully explore new business models and disruptive innovation in an era of rapid change ("nailed it!").
I've been lucky enough to have worked with, worked for, given keynote talks at and helped companies such as Ernst & Young, KPMG Innovate, Macquarie Bank, Westpac, Dun & Bradstreet, King & Wood Mallesons, Sportsbet, NAB, Telstra, the Department of Defence, Microsoft and CapGemini at the top end of town and been involved in varying capacities with startups such as Noots, Coinjar, Drawboard, Rotorgeek, Parent Paperwork and Jobbop in the world of tech startups. Most recently, I was invited to be an advisory board member at the Australian Government backed AgInnovation initiative - developed to help accelerate Australian agtech which has long been touted as the 'food bowl of Asia'.

Today, when 'innovation managers' and lead positions are popping up on an increasing basis, it is becoming evident that many, while they have their hearts in the right place, have come from remotely different roles where the mindset of delivery of what is was what was needed. However, innovation requires the mindset of a discovery of what if. It requires us to step away from taking few large, safe bets, towards taking many perceivably unsafe, small bets - that of adopting a portfolio mindset and one that mitigates risk by doing, as opposed to mitigation (and paralysis!) by analysis.

This ebook represents a collection of posts that I have made over the past two years related to different mindsets, methodologies and tools that companies can not only adopt - but optimise the use of in order to derive maximum value, benefit and achieve objectives.

What I often see is that we confuse movement with productivity and that executives often call upon their workforce to "be bold and innovate" without addressing the underlying environment that prevents the behaviours critical to innovation.

You might notice that this book numbers little more than 100 pages. That's intentional. There are far too many business books out there that while they number several hundred pages, could essentially get their message across in a quarter of the time...your time. This book is not meant to be a form of intellectual masturbation, far from it, it is a simple guide for innovation managers to give them a clearer pathway.
As human beings, we have a tendency to over-complicate and over-theorise in order to give our work apparent validity (ultimately by confusing and putting off the majority), however if Steve Jobs and Apple taught us anything, it's that simplicity, accessibility and ease of use wins.

My personal philosophy on innovation and life in general is to just do it, which might be construed as cliche given its close association with Nike, but it is no less true. By doing and putting ourselves in uncomfortable situations we learn, we grow and we get better. The same holds true for organisations who are looking to become more innovative. With one third of listed companies at risk of de-listing in the next five years and 75% of the S&P500 facing replacement by 2027, standing still is not an option.

When it comes to innovation in the enterprise there is no silver bullet that will work for all organisations. It is up to the innovation manager to take the concepts in this book and apply them in order to learn what works best for them.

This book will give the innovation manager

what I think is best practice when it comes to innovation culture, ideation and idea contests, hackathons and innovation bootcamps, open innovation and crowdsourcing, prototyping and customer testing, business model development, disruptive, adjacent and incremental innovation, innovation teams, training staff, getting executive buy in, identifying and measuring innovation metrics, corporate incubation, startup investment and partnership and more.

However, results will vary across organisations. After all, organisations are made up of people and people are all unique and result in unique political structures and cultures. In addition, companies form part of a larger ecosystem, an industry, regulations and so on. Executives looking for a silver bullet may find just as much joy looking for the meaning of life.

So if you're thinking about running an idea contest, flick through to page **63** to figure out what not to do and some tips on what best practice looks like. If you're thinking about running a hackathon flick to page **49** and so on… This is not meant to be a literary masterpiece. It is meant to give innovation managers the most value and guidance in as little time as possible on key mindsets, methods and tools that they should be exploring to help move their companies along the innovation capability curve.

Having said all of that, I do welcome your feedback. If you have any questions or comments on any of the topics discussed please feel free to contact me at steve@collectivecamp.us, find me on Twitter @steveglaveski or follow me on LinkedIn.

Happy Innovating!
STEVE GLAVESKI

ACKNOWLEDGEMENTS \\

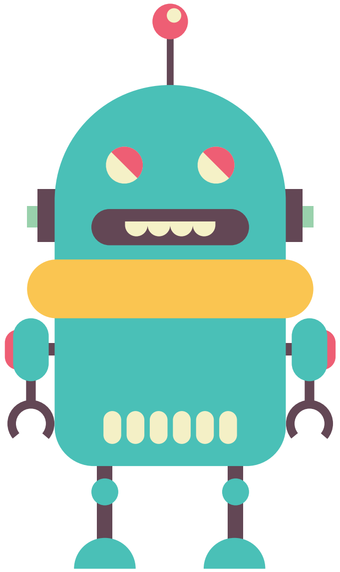
I'd like to thank everybody who has supported me in ultimately giving me the opportunity to do what I love and have the time to write this ebook.

I am a big believer in standing on the shoulders of giants and combining their thinking with your own thoughts, discussions and experiences in order to formulate a unique position and contribute some new thinking to your field. As such, I would not have been in a position to write this book without countless hours invested into devouring books, podcasts, blogs, keynotes and so on from the likes of Clayton Christensen, Steve Blank, Eric Ries, Jeff Dyer, Tim Brown, Peter Diamandis, Nathan Furr, Seth Godin, Peter Thiel, Gabriel Weinberg, Ed Catmull, Jim Collins, Janet Liedtke, Elon Musk, Neil Patel, Tim Ferriss, Aubrey Marcus and countless others who make up the collective wisdom of innovation in both large enterprise and startups.

This book would not be possible without my team at Collective Campus - Sean, Charity and Josh - you guys have been awesome to work with and the journey so far has been incredible.

Finally, I am forever indebted to my family who have been as supportive as they possibly could be during my journey, despite the fact that I'm pretty sure they still don't fully appreciate what I do and would have preferred I stayed the tried and true path of a career delivering existing business models in a corporate, rather than helping to discover new ones for corporates. If it wasn't for the sacrifices that my parents made after moving to Australia from the tiny republic of Macedonia in 1971 (then a part of socialist Yugoslavia), I would never have had the opportunity to make a living doing what I love.

Thank you!



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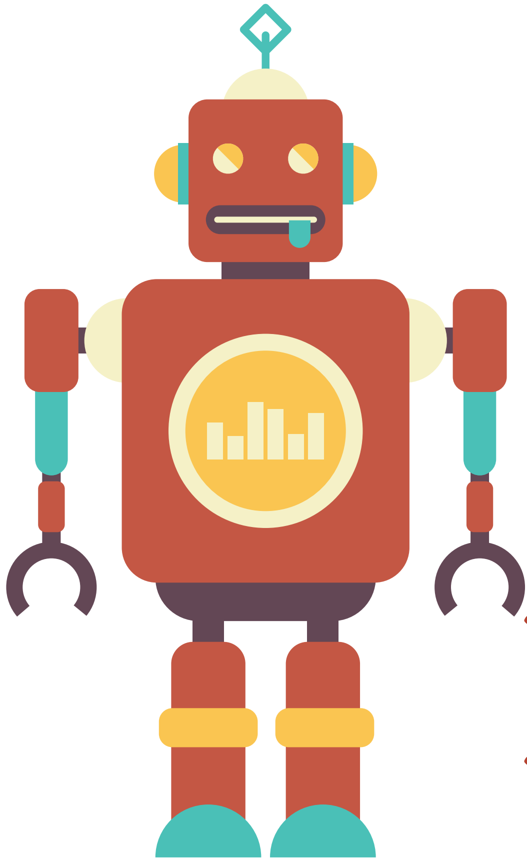

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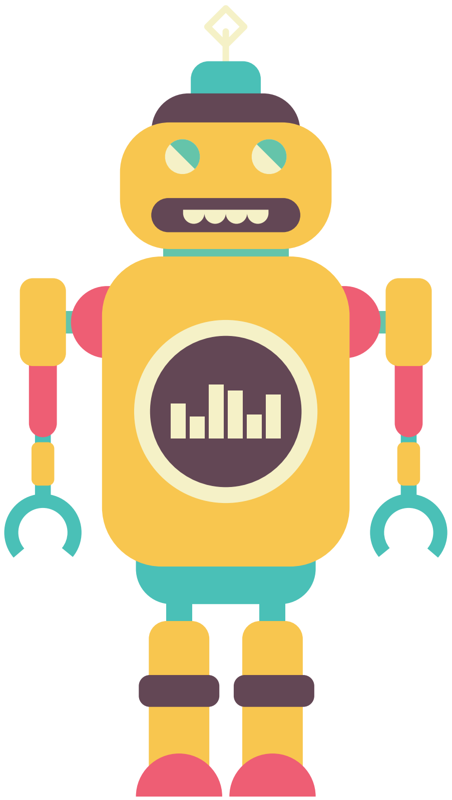

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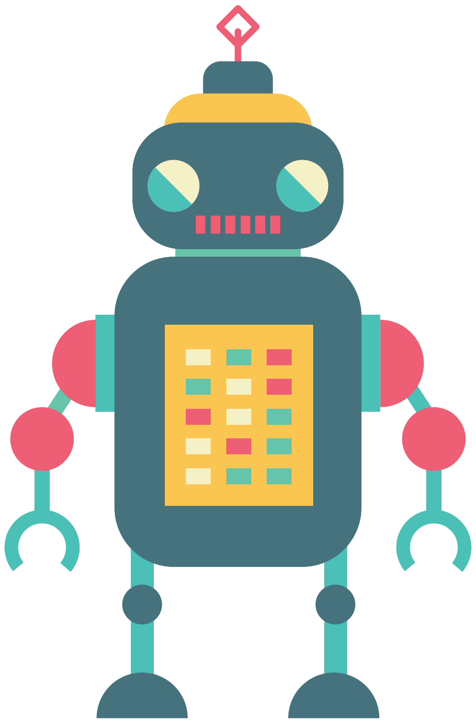

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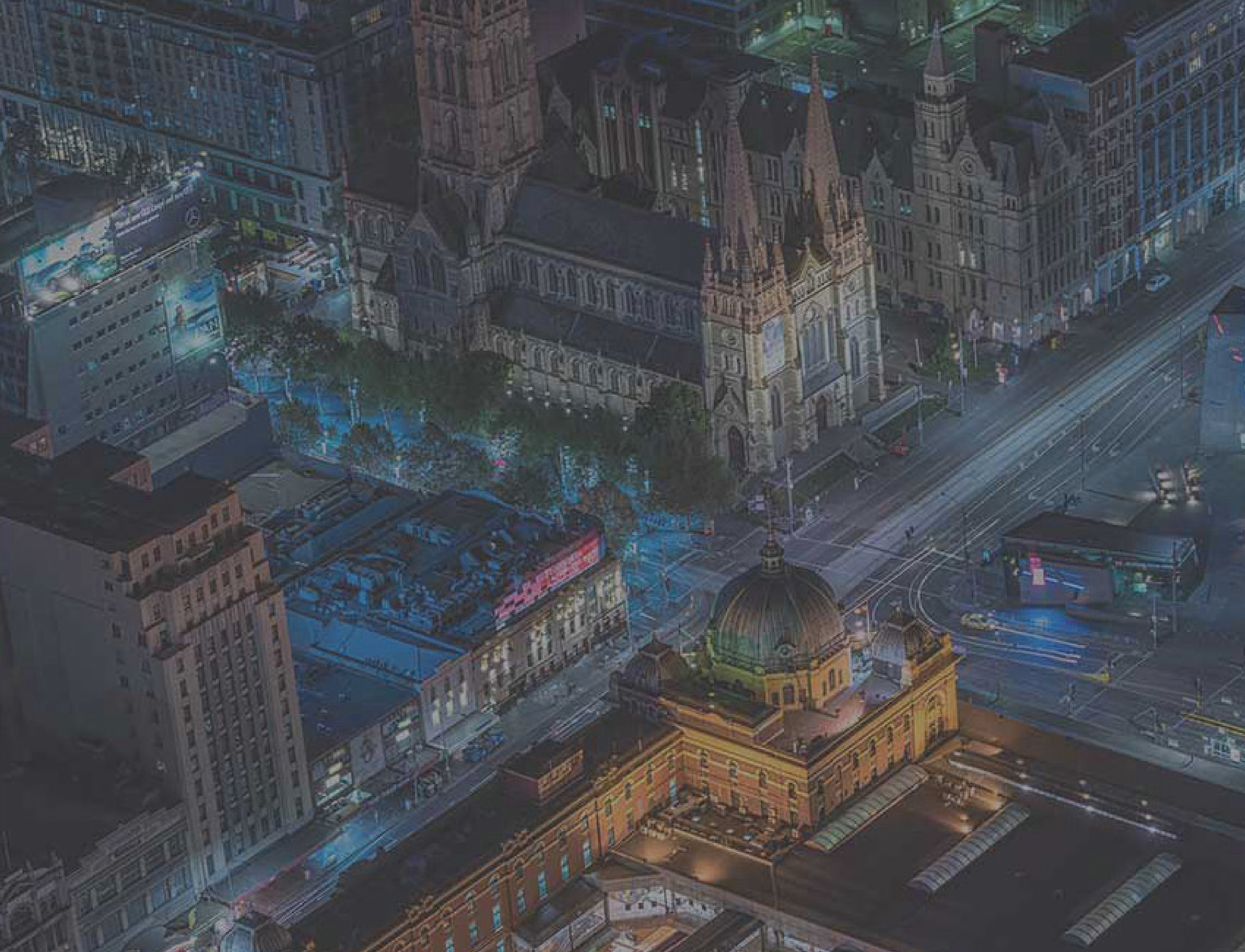


INTRODUCTION \\

Disruption is now truly a force that cannot be ignored. Projections show 65% of Australia's economy faces significant disruption while 75% of the S&P500 will be replaced by 2027.

In addition, one in three listed companies faced delisting in the next 5 years alone.

Offshoring and automation, as well as emerging technologies such as machine learning and AI, will also replace 40-60% of the Australian workforce by 2030. Traditionally safe jobs and firms, such as accounting and legal, will no longer be considered as such.
Companies can no longer revel in the glories of yesteryear. They need to start exploring disruptive innovation themselves. While the above statistics may sound grim and dire, innovation is one of the core drivers of business competitiveness and productivity and presents more opportunities than ever.

Thankfully, many firms are starting to understand the potential threats that disruptive startups pose. In the last few years alone, we have seen fast moving startups, such as AirBnB, Spotify, Netflix and Uber disrupt previously thought to be untouchable industries run by entrenched incumbents with deep pockets. As such, we have seen the proliferation and establishment of Chief Innovation Officers and other dedicated individuals or business units geared towards exploring innovation within an organisation. Firms have also started to use hackathons, idea contests, open innovation initiatives and incubator programs often engaging with the startup community, to rapidly ideate, prototype and develop new business models.

This all points to an appetite for a departure from the traditional way of thinking which has been centred around the delivery of existing, repeatable business models, towards a new way of thinking, oriented towards the discovery new business models.

However, as well-intended as they can be, corporate innovation programs often leave much to be desired by way of structure and critical thinking, often resulting in wasted resources and talent, missed opportunities, slow growth and canned projects.

So where do corporate innovation programs fail? How can innovation managers, business leaders and intrapreneurs maximise a firm's ability to innovate to continue developing a competitive edge?

In this handbook, we've compiled observations from the battlefield, our partners and thought leaders on the mindsets, methodologies and tools that help established organisations successfully explore new business models and disruptive innovation without compromising their core business, which is after all, where money is made today. But if we only focus on today then we are blind to tomorrow.

THE WHY

THE WHY \\

A CHOICE NOT TO INNOVATE

Despite the very real threat disruptive innovation poses, some companies still either make very slow progress towards making a real impact, or dismiss the threat of disruptive innovation altogether.

Most of the time, this is a conscious choice. Firms often choose not to innovate (or only invest in sustaining innovation) because the market size for disruptive business models is too small, and thus, ignored.

Clayton Christensen's conclusion that small markets don't solve the growth needs of big companies was best captured in his bestselling classic The Innovator's Dilemma, which gave us many insights on why big companies with far more resources than market entrants, often fail to embrace disruptive innovations until it's too late.

Christensen argued competent employees have been trained to know what's good for the company and how to build a successful career within a business, which directly ties into company growth targets and employee incentives, both of which are evaluated on an annual basis at most listed companies and large private companies.

More and more once-small businesses who built their reputation on disruptive innovations are now big and have large value growth targets, are watched like hawks by the business media and report to shareholders who usually demand short-term returns on investment.

They have become victims of their own success.

This also explains why many once innovative companies, like Apple, have turned to high-profile acquisitions to bolster their growth strategies.

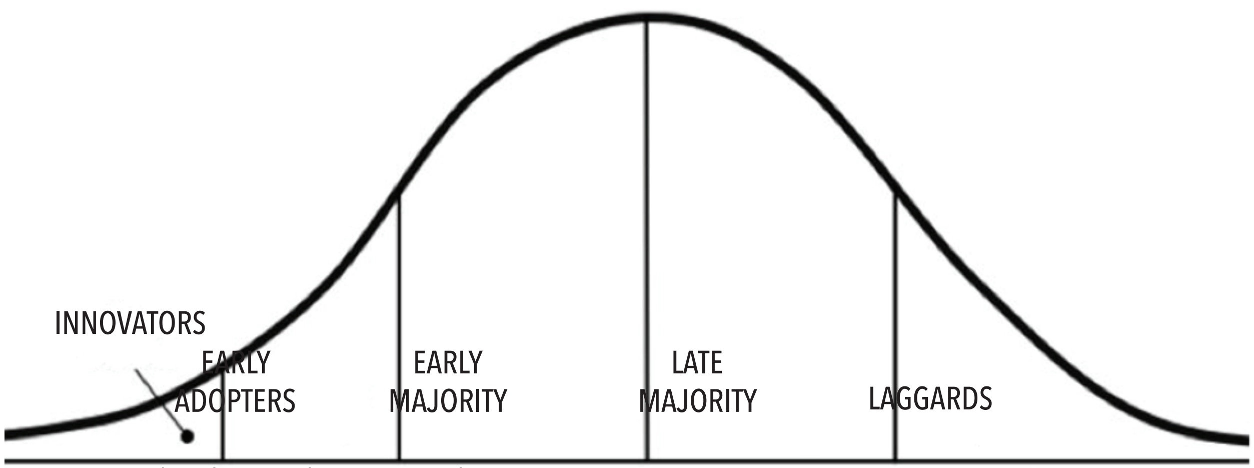
The trickle down effect of these pressures on company executives ultimately results in decisions made just to satisfy the short-term growth needs of companies. The only way to achieve these short-term growth needs?

By focusing on sustaining existing markets as opposed to disruptive ones.

Consider the diffusion of innovation theory, popularized by Everett Rogers. The theory states that innovations spread through social channels over time. Innovators first embrace a disruptive technology and are followed by early adopters, the early majority, the late majority and finally, the laggards.

Essentially, what this implies is that the early market for disruptive innovations is often quite small. As such, this does not solve the growth needs of large companies with high targets to satisfy a 10% revenue growth target.

Furthermore, Geoffrey Moore, author of Crossing The Chasm, suggests for disruptive innovations there is a gap, or 'chasm,' between the first two adopter groups and the early majority. This further draws out the time required to realize a



Source: Technology Adoption Cycle

return on investment on disruptive innovations. As such, executives charged with making resource allocation decisions are forced to focus on the near-term wins existing paying customer who already represent 'the majority' usually fuel, and whose existing technologies drive business models, rather than disruptive ones.

To best illustrate this point, we compared the time in years it took for some of the most disruptive innovations and companies of the last sixty years to go from development to mainstream success.

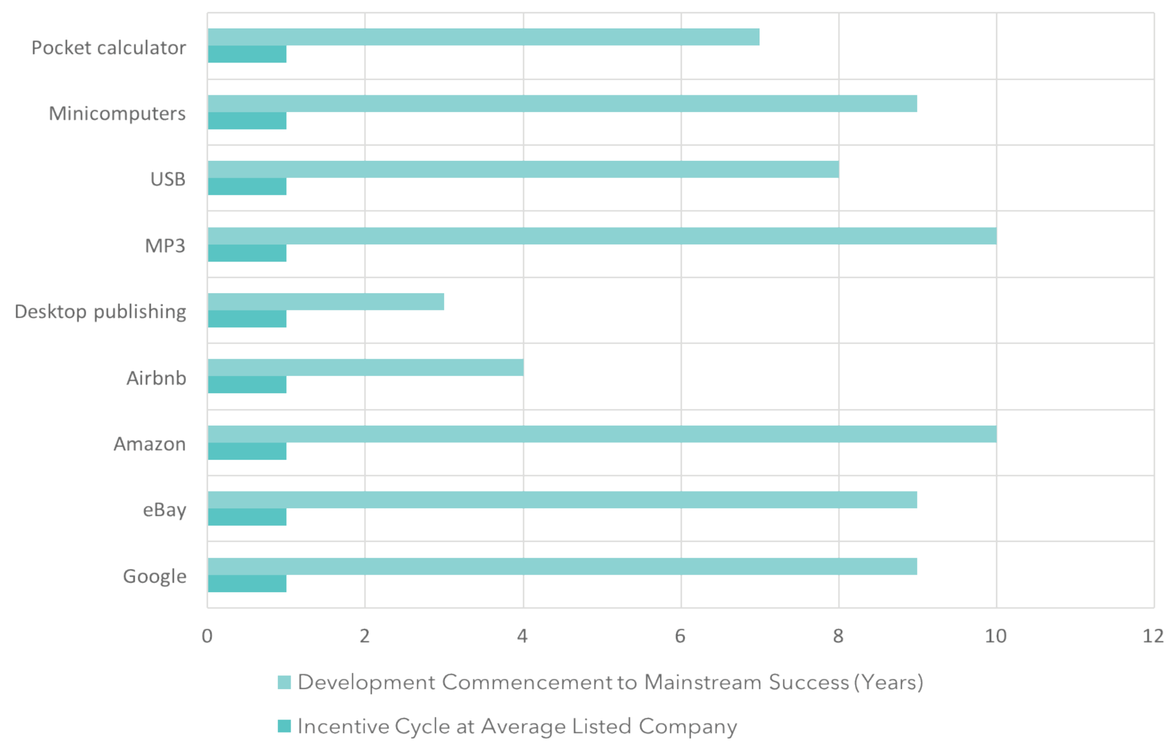
When compared with the one-year employee incentive lifecycle at most listed companies and large private companies, it's not difficult to see why large companies who have the resource capacity don't usually invest in disruptive innovations. When they do, projects are often shelved because the return on investment is not delivered quickly enough to satisfy revenue targets.

Add to this the fact that millennials, who will make up 75% of the workforce by 2025, expect to stay in one job no longer than three years, and it's easy to foresee innovation going the way of the dodo in large established companies.

An ecosystem of Venture capitalists and angel investors usually fuel today's run and gun world of the tech startup who expect a return on their investment after not one year, but usually five years. Investors experienced in financing early stage, disruptive technology companies understand that the lifecycle from customer discovery through to market creation and penetration takes time. In many cases, five years may not be enough to achieve mainstream success, but it is enough to gain valuable market insights, gauge commercial viability and develop enough traction to welcome a significant increase in company valuation.

Do the same laws of nature not apply to large organizations? Of course they do. As such, Christensen argues that companies should create new organizations, independent from the growth targets, values and processes of the mothership, where goals are aligned with the motivators of passionate innovators charged with developing the disruptive technology and finding a market for it, rather than building technology for an existing market who may not need the technology.

To further increase the likelihood of success, these independent companies need to subscribe to lean and agile product development theories. They are creating disruptive innovations for unknown markets and as such should



focus on short development cycles where feedback loops derived from customer discovery activities, like those prescribed by Steve Blank, are incorporated into the iterative development process. This not only raises the likelihood that there will be a market for the end product, but also extends the funding, or the 'runway' available for a project, so that those in charge can fail their way to success.

A fantastic example of this in action can be found at none other than General Electric, the fourth largest company in the world. The company has launched an initiative dubbed Fastworks, in collaboration with Eric Ries, author of The Lean Startup.

Essentially, the company trained almost 80 executives in the methodology underpinning The Lean Startup, set up growth boards to approve or reject potential projects pitched by employees (not dissimilar to entrepreneurs pitching to a panel of VCs or angel investors) and formed independent teams with the mandate to develop products unobstructed by the growth targets of the parent or subsidiary GE company in which they operate.

Already, the initiative has spawned successes such as a high-output 7HA gas turbine, developed 40 percent cheaper and two years faster than it would have been via traditional means, a light bulb with a built-in wireless dimming chip and an oil well flow meter, being developed in collaboration with Chevron.

THE WHY //

HENRY FORD'S CUSTOMER DIDN'T WANT A FASTER HORSE

"If I had asked my customers what they wanted they would have said a faster horse."

We have all heard Henry Ford's famous quote many times before and it serves as a battle cry to many a visionary entrepreneur who swears against asking customers what they want.

Steve Jobs had a reputation for, amongst other things, his stance against customer input. "It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them".

Granted, many people didn't know they wanted an iPad until Apple showed them and focus groups are frought with inherent weakness[1].

There is often a gap between what focus group participants say and do, small samples can't be generalised, participants have varying motivations, introverts lose their voice and group leaders can influence the direction of discussions.

SO WHAT IF YOU'RE NOT BLESSED WITH STEVE JOBS' VISION?

Few are blessed with the vision of Steve Jobs and most entrepreneurs must instead rely on the ability to identify problems and find cheap and quick ways to test and iterate on the underlying assumptions in order to get to product market fit before the well runs dry.

It is these teachings, popularized by **lean startup**[2] protagonists *Steve Blank* and *Eric Ries*, that the entrephhreneurs of today have come to swear by. These entrepreneurs don't start off with a grand vision. Oftentimes they start off with what they think is a problem and what they think a solution to that problem might be and iterate from there.

So, back to those faster horses. What did it really mean if customers had said that they wanted faster horses?

While it is easy to interpret this quote as a reason to never speak to your customers or target market again (!), closer inspection reveals something a lot more profound, particularly for innovators and product managers.

Ultimately, Henry Ford did give his customers exactly what they wanted.

What purpose would a faster horse have served? Faster transportation. That is essentially what they were crying out for.

The underlying message was that they wanted a faster method of getting from A to B in order to spend more time doing other things popular in the 1900s such as watching baseball, football and playing games[3] (evidently, the more things change the more they stay the same).

Faster transportation was essentially their 'job to be done' and getting to this answer might have been as simple as asking why they wanted a faster horse.

Knowing what the underlying problem and need is gives entrepreneurs a much higher chance of success in developing a solution that fills that need. It sounds simple but given that more than 90% of startups fail[4] , perhaps the concept isn't widely acknowledged, understood or adopted.

UNCOVERING JOBS TO BE DONE

Decorated innovation academic Clayton Christensen has argued that both people and customers have 'jobs' that arise regularly and need to get done. Furthermore, marketing professor Theodore Levitt is quoted as saying "people don't want a quarter inch drill, they want a quarter inch hole."

Essentially, when developing products you should ask your customers what they want and use that as a starting point to discover the underlying pain points and jobs to be done. Don't build the product the customer wants, build the solution to their underlying problem, something that helps them get their job done.

The Innovator's Method[5] by academics Nathan Furr and Jeff Dyer outlines tools and techniques to integrate lean startup, design thinking and agile into the large and often slow moving, large wasting enterprise.

Furr and Dyer also remind us that these 'jobs to be done' can be functional, social, emotional or a combination thereof.

A Gucci handbag, while serving some functional purpose, is more about social status and feeling good than it is about having somewhere to keep your purse and car keys.

SO HOW DOES ONE IDENTIFY JOBS TO BE DONE?

SO HOW DOES ONE IDENTIFY JOBS TO BE DONE?

1. QUESTION, OBSERVE, NETWORK AND EXPERIMENT

According to The Innovator's Method, we must first question, observe, network and experiment[6] in order to identify some potential problems.

Engage and think broadly.

Too many corporate executives suffer from a lack of curiosity, read far too little[7], and have limited interests outside of their direct responsibilities.

Ask questions of customers, co-workers, suppliers, partners, family, friends and so on. Ask open-ended questions. Ask why.

Network aggressively with people from inside and outside your industry. Read lots of different blogs and magazines. Step outside of the realm of familiarity and get interested in lots of different subject matter.

Being able to think laterally and draw examples from one industry that can be applied in another, often lends itself to innovation.

These tools will put you in a position to better identify potential problems to be solved.

2. PAINSTORMING

Painstorming, a concept outlined in The Innovator's Method, is used to map the customer journey, identify pain points, root causes and assumptions underlying key problems.
Begin with your problem hypotheses using jobs to be done, perform root cause analysis and focus on key assumptions underlying the root causes.

ROOT CAUSE ANALYSIS AND THE FIVE WHYS

Toyota founder Sakichi Toyoda was no stranger to asking questions and being curious. The Japanese industrialist popularized use of 'the five whys'[8] to get to the root cause and effect relationships underlying a problem or need. Ask why five times to get to the root cause, simple right?

It is, actually, and it is also very powerful but often neglected.

So, Apple's iPod was often seen as an incredibly visionary and innovative product (and it was) but let's say Steve Jobs had asked his customers what they wanted in a portable music device. Might they have said a CD that can store their favourite band's entire discography?

- Why? So they don't have to change compact discs (CDs) all the time?
- Why? Because they want to listen to more than just 10 songs
- Why? Because they want to listen to lots of music without having to carry around and change CDs
- Why? Because CDs take up a lot of space and aren't something you can keep in your pocket

'Why' has only been asked four times, and already we have several important insights:

- customers want to listen to more than just 10 songs
- customers don't want to carry around lots of CDs
- customers want something they can carry in their pocket

Sure, the advent of iTunes which complemented the iPod took the latter and made it a game and industry changing innovation, but as for the product itself, the five whys might've revealed lots about the customer's jobs to be done and some of these insights look eerily familiar to the feature set of the iPod's '1000 songs in your pocket'.

Of course, it is very easy to make such bold claims in retrospect but still not hard to imagine the five whys giving us similar insights back in the days of the Sony Discman.

3. WALK IN YOUR CUSTOMER'S SHOES

No technique helps you understand your customer's pain points better than walking a mile in their shoes. To do that, you'll need to take your own shoes off and truly immerse yourself in the day in, day out activities of your customers. Doing so should reveal lots of insights, potential opportunities and give you a better appreciation for the size of problems.

4. PROBLEM AND SOLUTION DISCUSSION

Once you have an idea of what the problems facing your customers are and a relative idea of your solution, discuss this with your customer. Show them what you think the key problems are, get them to rank the problems and confirm whether or not you've missed any major pain points.

When you've done that do the same with your solution. It's important that you have a firm grasp of the problems you're trying to solve, the magnitude of the problem and what the reaction to your initial solution hypotheses is.

THE WHY //

What the Modern Company Can Learn From Professional Sports

According to Handelsblatt[9], FIFA – the world game's governing body, pocketed a record US$2bn profit from the 2014 Soccer World Cup. This is equivalent to annual profits made by the likes of Cisco[10], Comcast[11], FedEx[12] and Bank of America Merril Lynch[13].

This is also what makes the eventual triumph of the German national team all the more impressive.

'Die Mannschaft', despite last winning the World Cup in 1990, could hardly be described as an overnight sensation. The team's success was the result of their being afforded the luxury of time, often absent not only in sports, but in many a corporate boardroom as well.

Germany's success was indeed ten years in the making[14]. After previous setbacks in European tournaments the German Football Association, or Deutscher Fussball Bund, began investing in the development of youth centers across the country as part of a long-term national plan way back in 2004.

In fact, of all the major European leagues, Germany's Bundesliga boasts the only clubs that routinely make a profit, mostly due to 51% fan ownership[15] clauses keeping a lid on player salaries and keeping clubs out of debt. The average Bundesliga club spends just US$71m[16] on player wages, compared to the average English Premier League club which spends almost double[17].

Despite modest wages, German football has dominated not only at international level, but also at club level. The 2013 installment of the European Champions League Final was an all-German affair, contested by Bayern Munich and Borussia Dortmund. Furthermore, the Bundesliga, with its fan majority ownership clause and affordable ticket prices, is the highest attended football league in the world.

The modern company could learn a lot from Germany's long-term strategy and investment in youth and player development.

But that's not all they can learn. The parallels between the modern company and professional sports offer many potential lessons.

1 - SHORT-TERMISM RUNS RIFE

Turn on the evening news and you'll no doubt get a stock-market update, as if what happened to a company's share price between yesterday and today is any indication of long-term growth and underlying revenue generation potential.

We are now into what many are referring to as the era of instant gratification[18]. You want to know something? Google it. Want to listen to a new album? Stream it. Want to lose weight?

Take two of these. Want the kids to pipe down? Hand them an iPad. Want a date? Swipe right[19].

It seems that we are fast running out of the patience and foresight required to defer small wins in order to build a foundation for bigger wins down the track. As we move further into this brave new world, our yardstick moves with it and we are measured against and pressured to match the short-term success of others.

Market sentiment, as such, presents a danger for all listed companies.

2 – LEADERS AREN'T GIVEN TIME TO PLAN FOR THE FUTURE

Executive management is ultimately accountable to shareholders.

Shareholders are often guilty of taking a short-term view[20] and have the right to ask questions if reported profits aren't exemplary at year-end. So the company's profit slip was the result of investment in research and development that could return big in years to come? But I want it now.

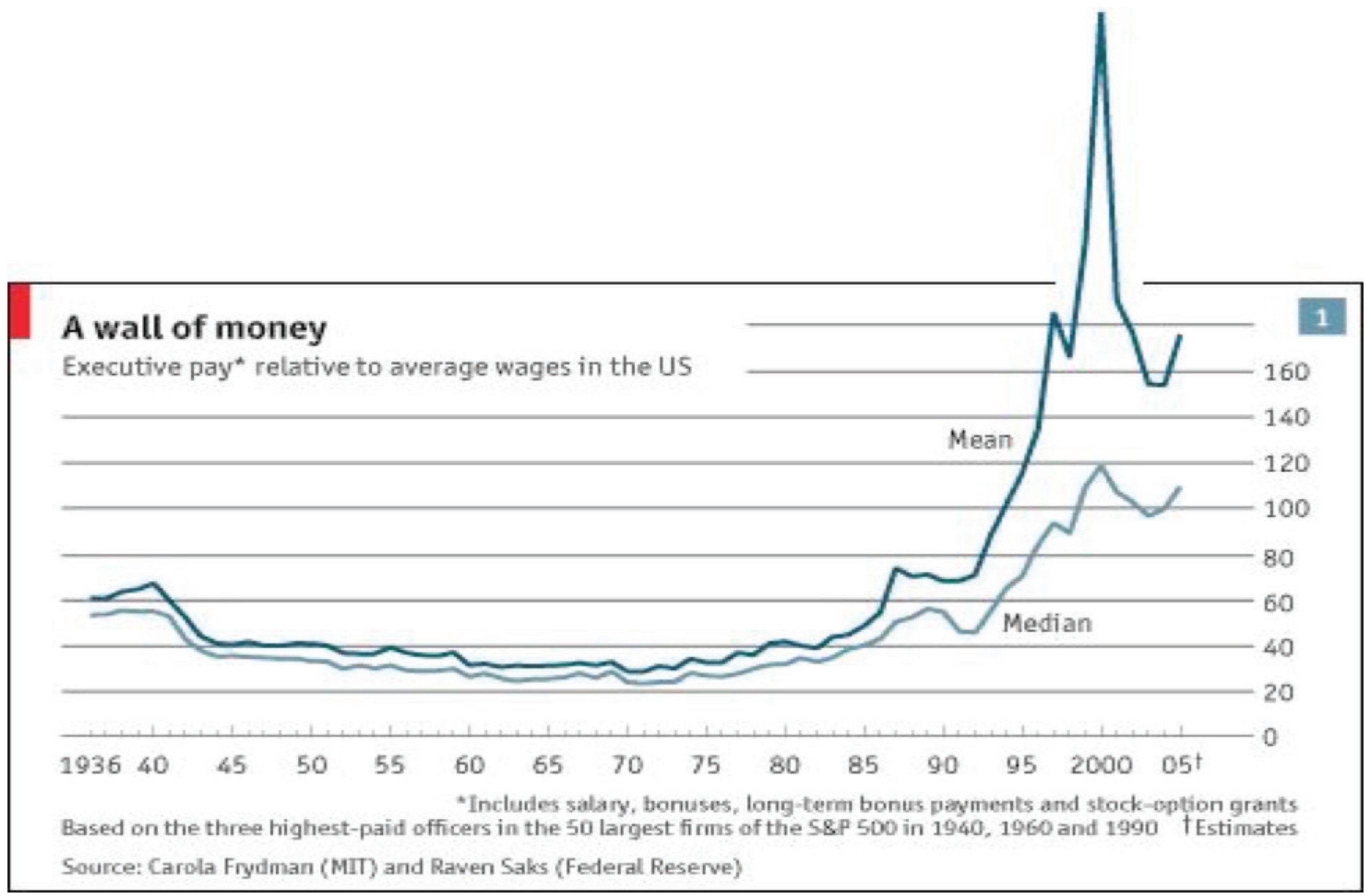
Much has been written about the adverse impact of shareholder short-termism[21], so I won't go into it but again, the pantheon of modern football can teach us something.

In the ten years since Russian billionaire Roman Abramovich[22] took ownership of Chelsea Football Club in 2003, the club's hot-seat has welcomed eleven different managers (one of whom returned for a second stint[23] after the alternatives were exhausted).

On the contrary, the now legendary Sir Alex Ferguson who joined Manchester United back in 1986 was at the helm of the club for seven seasons before they finally claimed the title in 1993[24].

The rest as they say, is history…

Sir Alex was afforded the opportunity to devel-



op and execute a strategy that actually involved building a team. His eye for player development and picking young winners saw some of the names most synonymous with world football grace Old Trafford's home change rooms. David Beckham, Cristiano Ronaldo and Ryan Giggs to name but a few.

3 – MANY LEADERS FOCUS ON THEIR LEGACY AND INCENTIVES

In the event that executives are given the time to build for long-term growth, chances are they are being compensated and paid healthy bonuses for short-term performance[25].

Six year contracts are barely worth the paper they're written in professional sports, as David Moyes, successor to Sir Alex Ferguson at Manchester United[26] would find out in his first season at the club. You don't perform and you're out.

So what do football managers and CEOs do? They go for the quick wins, especially if nearing the end of their career and wanting to leave a lasting legacy.

Younger executives want to get some runs on the board in order to build their reputation, strengthen their brands and stay in the mix for other prominent gigs. Building for the long-term only to be dropped in a year or two due to growing shareholder impatience is hardly going to afford them a seal of approval for other opportunities.

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Finally, executives need to be seen to be doing something, particularly when signing on to big salaries with even bigger bonuses. Corporate restructures are often the go-to move here – a matter of keeping up appearances.

Of course, this is a generalization and obviously isn't true of all executives. However, it is a very real and widespread problem and one that has plagued corporations throughout most of the 20 and now 21st Century.

4 – BUY A TEAM OF CHAMPIONS OR BUILD A CHAMPION TEAM?

So what other than corporate restructures can a short on time executive at the helm of a large company, no doubt bound by innovation stifling process[27], do in order to look successful?

Acquisitions.

Acquisitions can complement existing corporate strategy, as is the case with General Electric, one of the more innovative and diverse companies in the world. It is with acquisition in mind through which many of the founders of today's most innovative and progressive companies plan to exit.

However, in other cases M&A's can suggest that the acquiring company is looking for quick wins and has lost the ability to generate them internally.

A case in point is Apple. The company has sent many signals to the market indicating its lost the ability to innovate, particularly since the passing of Steve Jobs. The most recent such signal was the acquisition of Beats headphones[28].

On the sporting front, some of the biggest clubs in the world have all but forgotten the art of player development and instead opted to buy champion players at a premium in hope that they can deliver quick wins, despite sending many clubs into the red while still failing to deliver silverware.

Manchester City lead the charge[29] with an average player salary of US$9mn, while the New York Yankees, the Los Angeles Dodgers, Real Madrid and Barcelona round out the top five and aren't spending much less than the Etihad owned City.

Interestingly enough, the Dodgers haven't won the World Series since 1988, the Yankees last won it in 2009 after a nine-year hiatus and the Catalonians failed to pick up any silverware last season. Granted, Manchester City scraped home to win the Premier League title while Real Madrid won the coveted European Champions League for the tenth time in its history but all in all it's a mixed bag of results that doesn't quite align itself with the money being spent.

Furthermore, the San Antonio Spurs have won the NBA title six times in the past 15 years, culminating with back-to-back championships in 2012/13 and 2013/14. This was despite an average salary of just US$4.1m per player compared with their opponents in last year's NBA Finals, the Miami Heat, where an average player takes home US$6.1m. Conversely, the New York Knicks and LA Lakers paid an average of US$6.4m and $5.7m respectively – neither side made the playoffs.

The point worth making here is that despite the nucleus of the Spurs success made up of the ageing Tim Duncan (38), Manu Ginobili (37) and Tony Parker (32), they have played together for over ten years. They may not be the quickest or the strongest, but their team chemistry and mental awareness is second to none. Team chemistry and momentum are something that takes time to build in an NBA franchise and in a company and it's not something that can be acquired.

5 – MANY LEADERS ARE GUILTY OF TIME TELLING

To borrow from Jim Collins[30], best-selling author of business titles such as Good To Great and Built To Last, great leaders don't just tell you the time, they build a clock so the whole team can tell the time. Great leaders ensure that the company will continue to grow after their departure. For case studies on what can go wrong, refer to Disney and Microsoft[31].

The German national football team's success has been a team effort. It started with Jurgen Klinsmann as coach back in 2004 before Joachim Low picked up the baton in 2006 and ran with it. A World Cup triumph, a European Cup Final appearance and two further appearances at the World Cup Semis during this time are a testament to the German national team's clock building.

Likewise company values, often emblazoned across office walls, mean little if they are not effectively communicated understood and don't tie into organizational strategy. As companies get bigger they introduce divisions in order to become more manageable but this presents challenges.

Problems arise when divisions become silos and budgets rule the roost. Competition between divisions emerges[32] and the likes of Sony, who made portable music devices and ran one of the world's biggest record labels way before Apple released the iPod, miss out on massive opportunities.

Companies could again learn much from the apparent concerted and focused team effort of everybody involved with German football.

SO, WHAT ARE SOME OF THE LESSONS LEARNED?

Every company is different with a multitude of economic, political, societal, technological and regulatory pressures influencing it and the decision making of its leaders.

However, our brief analysis of the similarities between professional sports and the modern company does offer some food for thought and while I appreciate that the following is often a case of easier said than done, the German national football team was not built in a day.

- Set common goals (Jim Collins refers to these as Big Hairy Audacious Goals or BHAGs[33])
- Balance and share incentives based on team, division and organizational performance as opposed to just division performance
- Become great at retaining, sharing and building on knowledge and networks across the organization
- Communicate long-term strategies effectively to shareholders in order to keep them onside and buy executive management time
- Lengthen the time horizon for determining executive pay and stop their executives from publicly predicting the next quarter's earnings[34]
- Give leaders who display adequate foresight time to build and execute upon long-term strategy; refer to the flywheel effect[35] for more on this
- Develop an intrapreneurship-friendly environment (How Any Company Can Think Like A Startup[36])

THE WHY //

PLIGHT OF THE INTRAPRENEUR

The case for innovation extends far beyond the longevity of a company too. Staff who are allowed to think outside the box and contribute their own ideas and solutions to their company make for happier, more engaged staff. This might lead to reduced churn rates and a more productive workforce.

As an innovation manager, you probably consider yourself an intrapreneur - that is, somebody who behaves like an entrepreneur within a large organisation.

You identify opportunities for improvement within the company and you're hungry to drive change but there's just one problem; the company structure does not support such thinking.

Unlike startups who embrace lean methodologies, constantly evaluate their business model and make and implement decisions on almost a daily basis, large organisations are built to sustain an established business model that works.

How do large organisations sustain an established business model? How do they part with the often centralised control and transparency of small start-up teams and move to the decentralised management, multiple divisions and hundreds or potentially thousands of employees associated with big business?

POLICY AND PROCEDURE

Such documents are absolutely essential to the ongoing operations of a large business with decentralised control. Executive management simply can not be across every decision made and therefore needs to delegate various levels of authority throughout the organisation in order to do what they're paid to do – lead (more on that later). This is great as it empowers people lower down the food chain to make decisions, essential to being motivated and gaining job satisfaction.

However, policies and procedures have an unintended consequence which is only now starting to be acknowledged and recognised as a problem. This is a result of a new way of thinking built on a foundation of methodologies such as lean, six sigma, kanban and agile which aim to foster continuous iterative improvement and decrease inefficiencies in broken processes and systems development methods.

That unintended consequence is that procedure stifles movement and innovation.

It is almost impossible to drive change when every decision requires sign-off from multiple parties, must subscribe to a very specific way of doing things (purely because they've always been done that way before), divisional budgets are guarded vehemently by owners and tied to KPIs which determine end of year bonuses. But there's an even more compelling argument to be made here – when it comes to the corporate workforce, there are two distinct groups.

PROCESS-ORIENTED MANAGERS

Process oriented people are great at executing procedures and are necessary to keep the wheels of a large organisation greased and rolling.

However, they tend to be job insecure and deep down, realise just how replaceable they are. They don't bring any innovative, value adding thinking to the table. They are, more often than not, completely expendable to an organisation.

So what do job insecure people do when hired? They hold on to that job for dear life. What happens to people who hold on to their jobs for dear life in a misinterpreted display of loyalty to the company? They get promoted.

Problems arise when process-oriented people occupy most of the senior positions within a company. Not only do intrapreneurs have to contend with existing barriers to change, but they must now report to and navigate a black sea of process-oriented superiors, who given their job insecurity, are averse to change what to them appears unbroken. Where intrapreneurs see opportunity, their superiors often see risk.

In my time as a consultant, I once argued with a client that they should be embracing data analytics tools in order to gain superior customer insights and drive product, marketing and business development initiatives. It fell on deaf ears. Why? "Oh we have a guy who's really good with Excel macros" they said, adding that "we don't need this fancy stuff". This was in 2013.

The emergence of management consulting during the 20th Century and and the success of firms like McKinsey, Boston Consulting Group and Booz & Co was in direct response to the fact that leaders of large companies can ill afford to make their own decisions. Their job insecurity prevents them from doing so in fear of making a mistake, so they outsource their roles to management consultants, a practice accepted by colleagues and shareholders alike, given the management prestige that names like McKinsey bring to the table.

American lean start-up icon, Steve Blank, adds weight to the argument and argues that large corporations are lead by financial experts[37], as opposed to innovation experts. "They've become experts in pleasing the street rather than experts in pleasing customers. What's worse is the transfer of wealth has not been to innovation, but into the hands of private equity", says Steve.

So does this mean that lateral thinkers with a thirst for continuous improvement and more than just a monthly bank balance injection have no place within industry? Should they instead look towards start-ups, modern tech companies or management consulting firms to forge a rewarding career where they can shape businesses? Perhaps.
It doesn't need to be that way though.

I'M A FRUSTRATED INTRAPRENEUR – WHAT CAN I DO?

Intrapreneurs have a few tools and techniques at their disposal.

The golden rule in business is relationship management. When you pitch your ideas to superiors, pitch it from the angle of how it will make them look good, what it will do for their profile. You'll know this worked if they end up driving the conversation and almost sound as if it was their idea in the first place.

Maybe a softly, softly approach is required? Is it feasible to work on your idea in isolation? Perhaps a prototype of it on a subset of data in a test environment for example. Whatever the case. As with the lean startup, there are ways to gain market validation without going through the entire systems development life cycle.

Something as simple as a survey can go a long way to gaining support for an initiative and giving your process-oriented superior some comfort before venturing down the yellow brick road towards change.

If all else fails, seek out their superiors, particularly those that may have a history of spearheading change. Sure, you may get fired. You just may get ahead too. Perhaps you don't even need to seek out superiors. Perhaps you can implement something without risk to the company?

Scott Case from Priceline.com argues that you should ask for forgiveness[38]. "What if you just go do it and ask for forgiveness later? Could one person at Kodak[39] have changed the company's fate? Stay nimble in your mindset, and imagine that your actions will make or break the company's chances of staying afloat."

Again, you will either get fired, disciplined or in the event that you hit the right chords, get rewarded handsomely.

Stanley Mason, inventor of the world's first disposable diaper (amongst over 100 other inventions), was called in to see the CEO at American Can Company while working there in the 1950s. He was told that nobody would ever use a disposable diaper. "We got along without you before you came, and we'll get along after you leave. Goodbye." The market for baby diapers[40] is now worth over US$52B globally.

So what if you do get fired, like Mason did? You don't want to work for a company that suppresses your appetite for innovation and continuous improvement anyway. Do you really want to work for a company that embraces archaic waterfall methodologies and sees projects for which a need is identified today implemented three years from now with only a residual benefits realisation? Probably not.

Most of us spend almost 50% of our waking hours at work including our commute, we may as well be spending that time doing something fulfilling.

THE HOW

THE HOW //

THE RECIPE FOR CORPORATE INNOVATION

Innovation has become the definitive buzzword throughout large companies across the globe.

More often than not though when executives encourage the masses to 'go forward, be bold and innovate', it often amounts to nothing more than lip service.

Innovation is more than just a state of mind and these vocal pronouncements of intent to innovate aren't met with strategic inputs, and more importantly, successful outcomes.

Yes, we've seen the rapid emergence of 'chief innovation officer' and 'head of innovation' roles across many large companies. We've seen the establishment of innovation teams and the odd hackathon being run. Often times this amounts to nothing more than innovation theatre.

Those same 'heads of innovation' are often plucked from inside, from roles that aren't necessarily aligned with innovative thinking, so much as they're about executing process. Often it's benefactors of popularity of political navigation contests. I recently asked a 'chief innovation officer' from a large accounting firm about his role and the first thing he said was "don't ask me what I do...I'm not sure yet." This same executive was hired from within and was previously a partner in a tax practice after having spent more than 10 years in this field.

Now there's nothing in the rulebook that says people who come from traditionally mechanical roles can't be innovative, but to be overseeing the innovation efforts of a 10,000+ employee strong company?

The establishment of these roles and initiatives such as hackathons are all very positive developments in what up until now has been a predominantly overlooked subject.

Today's volatile business landscape, where technology is driving change faster than before, leaves executives with no choice but to try and embrace disruptive innovation in order to stay competitive, lest the companies they manage go the way of Kodak and leave a big black blemish on their CVs.

The challenge lies in the fact that these same executives got to where they are not by embracing disruptive innovation, but by embracing the antithesis of disruptive innovation - I'm talking about a mindset of risk mitigation and process execution. While this may be perfectly fine under conditions of extreme certainty where we're dealing with familiar products, customers and business models, when it comes to exploring disruptive innovations, we are dealing with unfamiliar and uncertain circumstances. As such, we can't rely on set processes and "the way things have always been done around here" to deliver successful outcomes.

According to Clayton Christensen, some of the key characteristics that contribute to the make up of an innovator include:

- Challenging the status quo
- Taking calculated risks (manage risk by doing)

- Asking questions
- Taking many small bets quickly
- Seeing failure as a necessary way to learn
- Seeing threats as opportunities

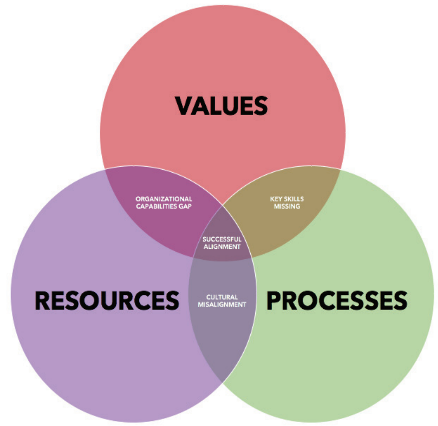
Contrast this with the attributes that have made corporate executives successful throughout the 20th Century and much of the 21st Century:

- Avoiding risk (manage risk by analysis)
- "Failure is not an option"
- Conforming with policy and procedure
- Taking few large bets slowly

So what becomes of this?

Well, try as they might, corporate executives who have an appetite to follow in the footsteps of their peers at companies like Google and Amazon, tend to fail at their innovation efforts because it takes more than throwing money at something and running what amounts to token innovation events to achieve this success.

Innovation must be holistic, ongoing and more than an isolated one off event.



Source: Clayton Christensen, The Innovator's Dilemma

KEY PROCESSES:
HOW ASSETS ARE CREATED

Patterns of interaction, coordination, communication, and decision-making through which resources are transformed into products and services of greater worth.

Some common processes and metrics which inhibit disruptive innovation:

- Gross Margin
- Opportunity Size
- Time to breakeven
- End-product quality
- Owned versus outsourced
- Channels
- Pricing
- Performance Demands
- Brand Parameters

KEY VALUES:
CULTURE AND HOW DECISIONS ARE MADE

- Just some of the ways that values can be a thorn in the side of disruptive innovation:
- Short-term, incentive based mindsets
- Risk mitigation by analysis as opposed to managing risk by doing
- "The way things have always been done around here"
- Threats are seen as something to defend against as opposed to opportunities to explore
- Efficiency and predictability take precedent

KEY RESOURCES:
ASSETS, TANGIBLE AND INTANGIBLE, THAT CONTRIBUTE TO WHAT AN ORGANISATION CAN ACCOMPLISH.

Resources include:

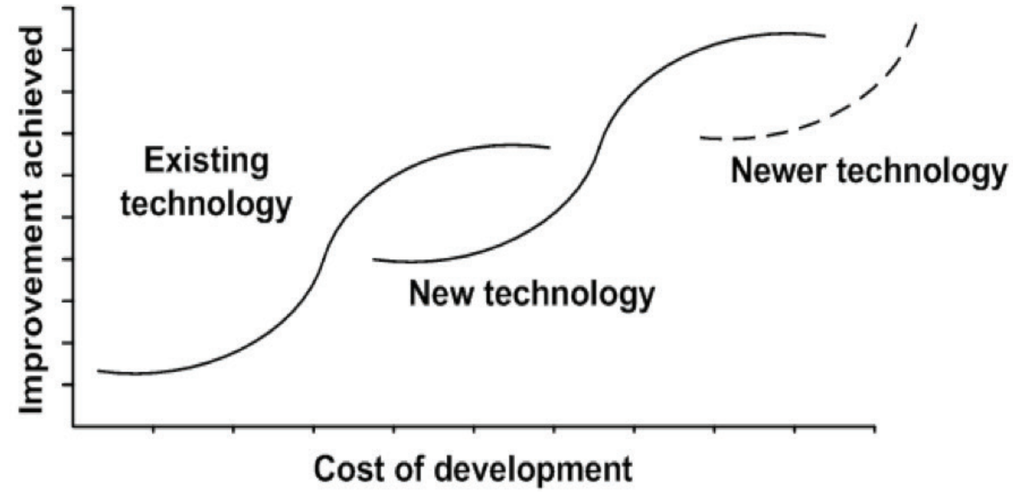
- People
- Equipment
- Technology

- Product designs
- Brands
- Information
- Cash
- Relationships with suppliers, distributors, and customers.

It is imperative that the processes, values and resources of any innovation initiative are perfectly aligned to support innovation. Otherwise, they are doomed to fail despite best intentions.

For example, idea generation contests are often put forward by many large companies as an example of their innovation efforts but also often failing to bear any real fruit. This is because executives charged with selecting winners do so using an existing value set which means they tend to select those safe ideas which satisfies their existing customer base and for which there is an existing market. The result of this is that small, incremental innovations are selected which won't help a firm catch the next S-curve, and miss out on disruptive opportunities which by their nature are commercialised in insignificant markets initially.

DISRUPTIVE INNOVATIONS HELP COMPANIES CATCH THE NEXT S-CURVE.



Disruptive innovations help companies catch the *next* S-curve.

Often, innovation projects are selected based on the margins that they promise, however disruptive innovations initially promise lower margins and not higher profits, so disruptive innovations will again not be selected for exploration.

Finally, if our values only support projects that generate X$ in revenue within the first 12 months based on existing product lines and markets, chances are if we do select a potentially disruptive innovation for exploration, we are likely to pull the plug because it doesn't generate an increase in 5% of revenues within the first 12 months.

Corporate innovation is kind of like baking a cake, having one ingredient missing can throw the whole thing off.
It may seem like a Herculean task to redesign an entire organisation to support disruptive innovation and it may also seem like suicide given that the majority of revenues rely on existing processes, values and resources - which is why they were put in place in the first place.
However, there's a number of things that companies can do to help align processes, resources and values without turning the mothership on its head, because after all, while we must not lose sight of where the puck is today, unless we have leg skating to where the puck will be tomorrow we will find ourselves trapped under ice.

Some options for large companies to successfully circumnavigate the challenges that misaligned resources, processes and values bring include the following:

CREATE AN INDEPENDENT ORGANISATION

Create an independent organisation with its own processes, values and resources and KPIs small enough to get excited by the initial small market opportunity
Example: GE Fastworks[1]

RECONFIGURE POLICIES

Father of the lean startup movement, Steve Blank, has discussed the merits of requesting the creation of a new policy or procedure from support functions (legal, HR, finance, sales, branding etc.) to effectively support the exploration of disruptive innovation. He calls this, "getting to yes"[2] for corporate innovation. This approach doesn't destabilize business as usual because we are not changing any of the existing execution procedures, incentives and metrics, rather we are writing new ones for innovation projects.

According to Blank, if we were successful, innovation and execution policies, processes, procedures, incentives, metrics would then co-exist side-by-side. In their day-to-day activities, the support functions would simply ask, "are we supporting an execution process (hopefully 90% of the time) or are we supporting an innovation process?" and apply the appropriate policy."

TRAIN THE TROOPS

Train the troops in disruptive innovation theory so that they can make better decisions when charged with overseeing innovation projects.

In product development methodologies:

Methods and mindsets such as human centred design and the lean startup[3] effectively support taking many small bets quickly, failing fast and iterating towards finding product market fit. According to Eric Ries, author of the lean startup, "Too many startups begin with an idea for a product that they think people want. They then spend months, sometimes years, perfecting that product without ever showing the product, even in a very rudimentary form, to the prospective customer. When they fail to reach broad uptake from customers, it is often because they never spoke to prospective customers and determined whether or not the product was interesting."

The lean startup advocates getting 'out of the building' and putting prototypes in the customers hands as early as possible to get real customer feedback, validated learnings and co-create solutions to real customer problems.

Given that this approach supports taking many small bets, it supports a 'portfolio investment mindset' which is imperative to success. While we have historically had a 'failure is not an option' mindset in large companies and bureaucracies. The fact is that failure is necessary when it comes to disruptive innovation, not only in the exploratory phase for a single product but across a portfolio. When a VC invests in startups, they invest in 10, expecting, nay, hoping, that maybe 1 will be the big pay off to cover their costs and get a sufficient return on their investment. This is VCs investing in startups who are built to innovate. So why should large organisations who are not built to explore disruptive innovations have any greater chance at success? Simply, they don't.

PARTNER WITH, INVEST IN AND ACQUIRE DISRUPTIVE COMPANIES

Corporate incubators and venture arms are becoming commonplace.

Google ventures, Citibank Ventures, Westpac Reinventure, Telstra Muru-D and so on.

This is one way large companies can hedge their bets and diversify into different areas and emerging technologies by taking small investments in startups, offering some mentorship as well as leveraging some of their existing resources such as customers,marketing and distribution networks to give startups the best chance of success and subsequently, generating a ROI.

ENGAGE IN OPEN INNOVATION

Outsource internal innovation to external innovators. According to Henry Chesbrough[4], the term's originator and director of the Center for Open Innovation at the Haas School of Business at the University of California, "conceptually, open innovation is a more distributed, more participatory, more decentralized approach to innovation, based on the observed fact that useful knowledge today is widely distributed, and no company, no matter how capable or how big, could innovate effectively on its own".

So what does this mean? Essentially, sharing your problems, challenges and data with the world, in order to leverage the power of the crowd - external innovators, designers, developers, data scientists, startups and so on.

A great example of this Public Transport Victoria's (PTV) recent Tripathon[5] efforts. Tripathon was essentially an initiative where the public transport data for the State of Victoria (Australia) was made available to the public during a hackathon. With mandate to create numerous ideas and prototypes came out of the event. Perhaps of most significance was a GPS tracking app for buses so people could know when their bus was due to arrive and not just what it says in a timetable. Doing this internally would have been fraught with cost and resource issues but over the space of one weekend, external innovators were able to develop something credible.

GET THE *RIGHT* PEOPLE ON THE BUS

Create an innovation team and company wide 'champions'

People underpin everything. If you are serious about innovation you will get people who have been there, done that, understand the trappings and the realities of trying to be innovative within a large organisation and successfully avoid corporate land-mines that destroy innovation.
When it comes to innovation there is simply no silver bullet. Experimentation is critical to finding what works for any single innovation, however by leveraging off what has worked at other organisations we may find what works a lot quicker than if we were to try and reinvent the wheel from the ground up.

The above is not so much a recipe for corporate innovation, rather more akin to take-out for corporate innovation. But it should provide a number of talking points to get the conversation started in your organisation.

THE HOW //

STARTUP PARTNERSHIPS AND ACQUISITIONS 101

Disruptive startups can seemingly come out of no-where and completely change an industry leaving incumbents struggling to keep up. It's no surprise therefore, that incumbents treat these types of startups as enemies.

However, it needn't be so. Incumbents should definitely look to partner with disruptive startups.

Why?

Think ***mutual benefit.***

Think of a car-sharing service like GoGet partnering with Ikea[6], the Swedish furniture retailer, to sell memberships to shoppers who want short-term car hire to deliver their own furniture.

For Ikea it's a huge value add for their customers and may also prompt many young inner suburbanites, who don't own a car, to opt for Ikea over its competitors.

For GoGet, it's a great way to grow their brand awareness, develop a credible brand and increase direct and referral membership sales.

So what are the other benefits of a corporate-startup partnership?

The benefits for startups:

- Access to customers to perform initial customer discovery, development and testing of prototypes

Startups refer to this as validated learning, a concept made famous by Eric Ries' book, The Lean Startup[7]. Ries insists that successful startups succeed because they able to learn the fastest and make enough iterations, or product and marketing changes, to find product-market fit before running out of resources.

- Access to corporate distribution channels
- Access to a large database of existing clients to advertise to
- Access to strategic partnerships through corporate clients and partners where there is a mutual benefit
- Access to corporate knowledge base and unique industry insights;
- The ability to leverage off a trusted brand name for social proof and secure customers who only deal with trusted brands (i.e. the mainstream)
- Access to business mentorship and financial and legal advice
- Development of relationships for future acquisition.

For corporates, benefits of partnering with a startup include:

- Quickly and easily pursue new market opportunities free of the processes and culture of the mothership
- Benefit the corporate culture through shifting mindsets
- Mitigate brand reputation risks by using the startup's brand
- Gain exposure to new disruptive innovations

and markets
- Keeping higher performing employees engaged and retained
- Development of relationships for future acquisition.

Partnership opportunities between incumbent banks and emerging fintech players[8] have been identified as a perfect match by some in tech media.

Australian banking behemoth, Westpac, is one such company that is looking to build relationships with fintech companies. Having launched its AU$50M Reinventure fund in 2014, it was quick to invest in emerging peer-to-peer lender fintech, SocietyOne[9].

Corporate incubators and accelerators are one way that large companies are developing partnerships with startups early in the startup company's lifecycle (while taking small stakes in them) and perhaps more importantly, relationships with startup founders. Founders are highly unlikely to strike gold on their first foray into entrepreneurship, however most successful founders tend to come about on their second or third attempt, after they have learned from previous failures. It's at this point that large incumbents who took the time to develop relationships early will be well positioned to leverage off the imminent successes. Most VCs, angel funds and the like invest in the entrepreneur[10], not the business.

Other examples of corporate incubators and accelerators include Singtel's Innov8[11], Telstra's Muru-D[12] and Coca-Cola's Founders Program[13]. These programs are leading examples of large industry incumbents investing small amounts of funds across a wide, diversified range of start-ups in order to hedge their bets and capitalize on opportunities in the space of disruptive innovation. The programs provide not only some funding but also access to other resources, insights, relationships and mentorship to help selected start-ups scale.

Rather than looking at startups as disruptors or threats, large companies need to start embracing the innovator's mindset, where threats are often seen as opportunities. In this case, the opportunity to partner with nimble, emerging startups that are well positioned to exploit emerging trends and disruptive innovations is one worth exploring.

vvv Most Common Mistakes with Focus Groups Jay Eskenazi. "How to Fix the 5 Most Common Mistakes with Focus Groups", UX Magazine, May 13, 2011, http://uxmag.com/articles/how-to-fix-the-5-most-common-mistakes-with-focus-groups.

STARTUP ACQUISITIONS

Acquisitions are another key way for corporates to engage with disruptive startups. However, far too often, large companies spend millions acquiring smaller startups and end up ruining their decision because they essentially acquired the startup once it had delivered most of its organic growth or paid too much for it relative to growth prospects.

One of the most devastating plays is made when the acquired startup is integrated into the new mothership, inheriting the parent company's processes and values. Very quickly, everything that made the acquiree great is destroyed as a result of this. The startup can no longer move quickly. The startup can no longer innovate. The startup's employees no longer enjoy going to work.

There are many horror stories in this space. Most recently, I heard of a financial services institution that paid $5m for a startup, only to spend $4m on integrating that startup into the parent's IT infrastructure. Several months after acquisition, the founders and chief dreampushers at said startup left because they could no longer tolerate being constrained by the corporate bureaucracy. Value of this startup today? Zero.

Sound familiar?

WHAT'S BROKEN WITH STARTUP ACQUISITION AND HOW DO WE FIX IT?

1 - ACQUIRING AT THE WRONG TIME

Companies are acquired once they've already blown up and incumbents end up paying a premium for companies who haven't got much growing to do, taking a hit to their share price in the process for acquiring at a premium.

Yahoo! paid $3.7 billion to acquire Geocities in 1999 and eventually shut down the service as its users defected to blogs, Twitter and Tumblr.

Newscorp paid $580m to acquire Myspace in 2005 and sold it just six years later for $35m, less than 1/10th it paid for it.

How To Fix This:
Adopt a portfolio approach and look to invest in multiple, diversified companies at an earlier stage. Venture capitalists invest in 10 companies expecting that maybe 1 or 2 will go 'bang'. Why should it be any different for large companies, particularly given that investing in startups is not their bread and butter, unlike many VC firms.

2 - INTEGRATING THE ACQUIRED COMPANY

Companies get acquired because they're awesome. Too often large incumbents attempt to integrate these startups into the mothership's way of life - infrastructure, process, values and so on. What happens is that the cost of running the acquired company goes through the roof, often pegged to legacy infrastructure which represents a massive cost premium over cloud services such as AWS, and the values and processes that made them great are replaced with bureaucracy. Long story short, the founders and many employees end up leaving and the incumbent has paid a premium for a potential unicorn that quickly turns into a lemon.

How To Fix This: Know why you're acquiring Company X. If it's because their processes and values make them an awesome company, let them run an autonomous show and avoid integration at all costs. The benefits of complementing big company networks with the speed and culture of a smaller company are plentiful - keep it that way.

There are no hard and fast rules when it comes to knowing who, when or how to acquire as the relationship between any two companies is completely unique. However, we should consider shying away from an inherent fear of failure that permeates throughout large companies and instead mitigate the risk of paying too much too late, by identifying startups for investment much earlier in their maturity curve which not only allows us to pay less for them but distribute our startup investment across a diverse portfolio of companies.

THE HOW //

GET OUT OF THE BUILDING TO ACCELERATE YOUR CORPORATE INNOVATION EFFORTS

Large corporations can have what seems to startup founders to be vast amounts of resources - more than they know what to do with (this can often be the case where companies elect to pay out huge dividends instead of investing in R&D).

So why don't large companies with millions and sometimes billions of dollars in capital reserves come out with the next big thing, the next UBER or the next Xero?

What many startup founders, particularly those who haven't worked in the corporate space, neglect to appreciate is that large organisations are bound by resource allocation procedures that make the political and diplomatic effort required to access them akin to parting the red sea.

In addition to that, large organisations are mature and unlike startups who are looking for product market fit, have already found product market fit. As such, they have implemented process and procedures which exist simply to execute a sustainable business model that makes the organisation money.

POLICIES, PROCEDURES AND COST CENTRES

The larger an organisation gets, the more policies, procedures, business units and cost centres it puts into place.
The more cost centres, the harder it is to rally troops from across the organisation to collaborate under one banner, bring unique and diverse experiences to the table and innovate.

INTERNAL SILOS AND COMPETITION

They are actually more likely to compete[14] in a traditional business structure, as proved fatal for Sony - once custodian of the world's biggest portable music device and largest recorded music label. Unfortunately for them, Apple managed to connect the dots between the two to create the iPod and not Sony's competing business units.

SIZE KILLS SPEED, LACK OF SPEED KILLS INNOVATION

The more processes an organisation puts into place to cope with its size and growing regulatory oversight, the slower the it becomes.

For example, in my contracting travels, I have delivered innovation consultancy services for a large accounting firm. I rudely discovered that in order to send an invitation to a group of 20 clients in order to perform some customer testing, that I would have to go through marketing. Marketing promptly provided me with a number of forms to complete to ensure that the communication aligned with the company's branding and privacy requirements. Once the forms were completed, the designated personnel would have to sign off on it.

As such, sending a simple invite could take days and sometimes weeks.

Innovation simply does not work prosper under such circumstances.

INNOVATION IS NOT INCENTIVISED

In addition to this, employees of most large professional services firms for example are not judged on their ability to come up with new ideas or successfully explore and deliver uncertain outcomes, which is the nature of disruptive innovation. They are assessed based on their billable hours and dollars generated. As such, they focus on the now - existing products and existing customers - where it is easier to meet targets.

So what is a large organisation looking to build a culture of innovation to do?

While, they can try to influence culture and the mindset of people to shift from a fear of failure and focus on certainty to one of taking risks, this would not only take a lot of time and require the reconfiguration of organisational values and processes but it would probably come at the expense of the core business - you know, the one that makes all the money right now.

INDEPENDENT TEAMS, INDEPENDENT PROCESSES, INDEPENDENT RESOURCES

What forward thinking companies in this space have been doing is setting up independent teams, free from the values, resource allocation procedures and processes of the mothership to do exactly this.

They are given the time and mandate to make lots of small bets by running lots of short sprints using human-centred design and lean startup methodology. They build business models, determine key assumptions, build prototypes to test these assumptions and engage with customers almost from day one. This helps them move quickly towards failure, learn from these failures and find product market fit without the burdensome, insular, slow and expensive nature of traditional product development inside a large company.

ESTABLISH INNOVATION TEAMS AND CENTRES

A recent CapGemini[15] report found that 38% of the largest 200 companies by revenue have already set up innovation centres. Companies such as IBM, Cisco, CSIRO, National Australia Bank, Telstra, AT&T, BMW, McDonalds, Sephora and Walmart have all set up innovation labs, oftentimes in the middle of the tech ecosystems, accelerators and coworking spaces of cities such as Silicon Valley, New York, Tel Aviv, London, Berlin and Melbourne.

GET OUT OF THE BUILDING

Oliver Hoy, an innovation manager at Australia's largest sports betting company Sportsbet, sent his team to **Collective Campus**[16] in order to learn all about lean startup methodology in a different environment where failure is embraced as a necessary learning tool. "We wanted our team to know what it's like to be an entrepreneur and what it's like to work in a startup environment", said Hoy.

Physically locating an innovation team, best comprised of people from throughout an organisation, in an external innovation hub where they can not only co-locate in a different, dynamic environment but also learn the ropes of entrepreneurship and customer driven development through targeted workshops and mentorship and networking with startup teams, gets them thinking and behaving in a way that is conducive to supporting the discovery of new disruptive innovations.

COLLABORATE WITH OUTSIDERS

Companies such as AT&T, Shell and Proctor & Gamble have partnered with startups and outsiders in what is dubbed as 'open innovation' efforts. P&G's open innovation program, Connect + Develop[17], has been incredibly successful. Just some of the innovations to come out of the program have included Clearblue and-Bounce Dryer Bar[18].

It is nigh impossible getting the same outcomes within a traditional, hierarchical organisation.
In summary, large organisations can circumvent some of their inherent constraints by:

- Set up independent innovation teams with their own processes, values, resources and KPIs to successfully support the taking of lots of small bits
- Bring cross functional people together under the one banner so that varied and unique perspectives are captured
- Co-locate innovation teams in tech coworking spaces and accelerators
- Engage in open innovation campaigns where corporate problems are solved collectively by engaging with external startups, entrepreneurs, designers and developer.

THE HOW //

GETTING BUY-IN FROM THE TOP

So you know your company needs to innovate. But getting buy-in from the top for innovation programs can often be a different story.
As mentioned above, the 'technology curve' theorises that initially only 2.5% of the eventual market adopt a new technology. This can also apply to the rate of adoption by corporate executives of the mindsets, methodologies and tools mentioned above.

Many are simply yet to acknowledge the need, demonstrate an appetite for or simply prioritise innovation and break out of 'the way things have always been done around here' mentality. Despite the fact that at current rates of churn, 75% of the S&P500 is set to be replaced by 2027.

Most organisations are full of decision makers who ultimately got to a position of authority because they were great at playing politics, executing a set procedure, stretching the S-curve and achieving short term goals.

Unfortunately, to stay competitive, we must look not just at extending our existing S-curve, but at ways to catch the next S-curve.
Exploring disruptive innovation is anything but procedure, certainty, safety and achieving quarterly KPIs. As such, it does not present decision makers with an apparent green light to invest. Often, executives might pay lip service to lean

startup and disruptive innovation and the need to be bold but stop short of defining what this actually means and more importantly, how to go about it.

As far as they're concerned, it all sounds a little too risky, it feels radical, and if I'm getting paid a pretty penny for doing the duties outlined in my position description – which doesn't include shaking the tree - then why should I go out and do something purportedly 'crazy' when none of my peers appear to be doing so and I'm due to collect a bonus so I can take my family to Hawaii this summer?

As a result, intrapreneurs often bang their heads against their desk, figuratively and possibly literally, as they're told to focus on only their core competence, again, as outlined in their position description and annual performance review.

They often either leave the organisation to join more progressive companies, start their own company or stay onboard but become progressively disgruntled and unproductive.

So, if you're currently banging your head against your desk but don't necessarily want to take the aforementioned paths, what can you do?

Through our conversations and observations of how intrapreneurs at different companies have gone about doing this, we've outlined a handful of strategies that you can try to secure buy-in, support and resources to foster enterprise innovation.

PRESENT RELEVANT CASE STUDIES TO DECISION MAKERS

Corporate executives want you to speak their language. There's no point showing them examples of companies like Airbnb disrupting the hospitality industry if you're in mining. Find relevant case studies from like companies operating in similar countries, industries and facing the same economic, political and regulatory challenges.

Show them examples of companies that have adopted new practices to explore disruptive innovation and more importantly, the outcomes that these campaigns have generated. For example, have they run idea campaigns that have gone on to generate 500 ideas, 30 of which were commercialized and are now generating millions of dollars?

Show them examples of companies that have failed to address disruptive forces and have now found themselves and their market share being marginalized due to new players and/or new business models.

USE THE COST OF EMPLOYEE CHURN

Within any large organisation, sponsorship is usually required from different business units to free up resources and support new initiatives. Somebody has to pay, right? For example, inSync Surveys recently found that an average staff turnover rate of 18% costs organisations with 100 employees around $1 million every year. Got thousands of employees? Tens of thousands? Multiply it.

This cost is attributable to variables, such as on and off-boarding employees, training, interviewing and recruitment costs, lost knowledge, productivity downturn and the overworked


Press Releases
Eastman Kodak Company And Its U.S. Subsidiaries Commence Voluntary Chapter 11 Business Reorganization
By Business Wire 01/19/12 - 12:22 AM EST
Add Comment

impact on remaining staff.

Giving employees more say over company direction and strategy through initiatives such as idea contests, hackathons and corporate incubators can offer them a greater sense of ownership and belonging. This prompts greater loyalty and a longer stay at a company, particularly amongst natural innovators who are the employees that many companies need most in what is an era of rapid disruption.

Find out what the average cost of employee turnover is at your company. Then go and speak to Human Resources about how innovation initiatives can help to bring this down.

CONDUCT A 'PREMORTEM' TO GAUGE RISK PROFILES

Often, innovation doesn't get buy in because decision makers and corporate executives can be seen as risk averse and with short-term incentives and shareholders at the front of mind. As such, putting everything on red tends not to make sense. But it is not a case of all or nothing when it comes to exploring corporate innovation. We need to encourage taking lots of small bets.

You need to find out what the worst possible outcome the decision maker is willing to accept. If you know what this looks like, then you can frame your business case around it and if it's clear that the worst possible outcome will fall within the boundaries set by decision makers you're much more likely to receive support than you would if you didn't provide this comfort.

BLACKOPS: ASK FOR FORGIVENESS, NOT PERMISSION

Many intrapreneurs are setting up their own hackathons, agile and lean startup guilds to get people talking and doing things in their own time around different innovation practices. Often they build prototypes in their own time and show them to executives or if they're really keen, show them to a select group of customers and get some real feedback that they can take to decision makers.

Either you will win them over or have to ask for forgiveness.

Worst case scenario? You get fired. Perhaps working for a company that doesn't encourage out of the box thinking and employees who take ownership and initiative might not be where you want to be.

We call this approach "black ops!".

USE INNOVATION METRICS, NOT ACCOUNTING METRICS

If you've managed to get buy-in for a project, it's just as important to keep buy-in. Often, companies pull the plug on innovation projects because they're not generating X ROI within a few months of launch. Airbnb made $200 a week in their first year. They're now worth US$25B. Such is the nature of disruptive innovation – initially, the market is insignificant, and the only people interested in a product make up about 2.5% of the eventual market. As such, we need to give projects time. But how do take small bets if we give every project two years? How do we know which projects to give time to and which to pull tHhe plug on?

We need to encourage the use of actionable innovation metrics which track customer engagement against changes to the business model, product or marketing strategy. If we can align our actions with a progressive improvement in customer acquisition, activation, conversion and retention, then we can present this data back to decision makers and show that we're on the right track. Perhaps set weekly, monthly or quarterly go/no-go checkpoints.

If we've made a hundred changes based on validated customer learnings and still can't get the engine started, then it might be time to make an executive decision and invest time and money in another project.

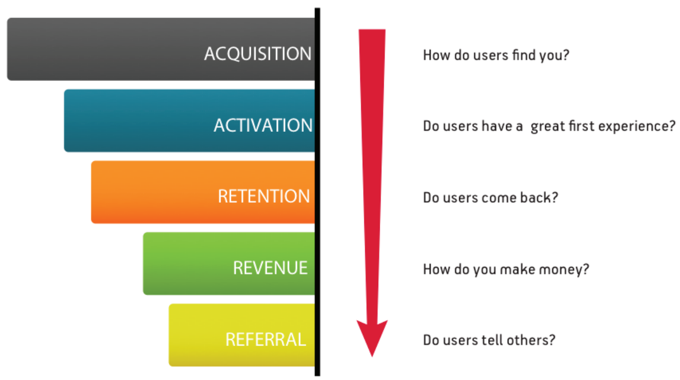
Applying the survey results to a company with 10,000 employees, the annual cost of employee turnover becomes $100 million. Suddenly, being able to justify, say a $100,000 investment in employee time and resources to an innovation project, which may serve to bring down that $100m cost, doesn't seem like such a bad idea.

We'll be talking more about innovation metrics in more depth later.

PROTECT THE BRAND

Often, decision makers are fearful, and rightly so, of doing reputational damage to their brand by releasing half-baked prototypes to market. But that needn't be the case.

Perhaps make it clear that the product is in beta



and target only a segment of customers, cap the number of users that can try the product or release it to market under a unique brand. These methods help us avoid reputational damage while still tapping into the value of obtaining customer feedback and validated learnings early in the piece.

INVITE EXECUTIVES TO PARTICIPATE IN SHORT HACKATHONS

Show, don't tell. Foster those "aha" moments that are critical in getting people to change long-held beliefs. If you can get a decision maker to give up some of their time to sit in a lean startup bootcamp, it should get you much closer to opening their eyes to the need to explore disruptive innovation and the value of taking lots of small bets to explore it successfully.

If you can't get them for a few hours, perhaps organize a keynote speaker to come in and give a lunchtime talk on the premises on disruptive innovation as it applies to industry incumbents.

Do whatever you can to foster "aha" moments – particularly when an independent third-party with social proof promotes those moments.

We've seen the proliferation of chief innovation officers, hackathons and idea contests, all signalling an appetite of varying degrees for a departure from the traditional way of thinking, geared towards the delivery of an existing business model, towards a new way of thinking, geared towards the discovery new business models.

However, Ernest Hemingway once said to "never confuse movement with action" and it is imperative that now, when large incumbents need their innovation programs to work more than ever, that they don't fall into the trap of celebrating movement without action.

Using idea capture software and hackathons are certainly a step in the right direction, but there are mistakes companies often make that reduce the effectiveness of these campaigns.

IDEA GENERATION

A key component underpinning a company's ability to become more disruptive is its ability to capture and harness the unique and diverse opinions, insights and perspectives of its workforce. Companies that have tens of thousands of employees are usually at the greatest risk of disruption because of their legacy infrastructure, a culture of avoiding failure at all costs and processes implemented to sustain, rather than create.

Should we not just leave innovation to the innovators? Innovation is as much about connecting the dots as it is about having a Steve Jobs moment.

In fact, Steve Jobs himself was all about connecting the dots, and many of Apple's most iconic innovations weren't the result of a lightbulb moment but were an evolution of previous innovations and Steve's own personal experiences.

Case in point: the original Macintosh typeface was the result of Jobs dropping in on calligraphy classes at Stanford, the minimalism of Apple's hardware is a testament to Steve dabbling in Zen Buddhism, the Graphical User Interface (GUI) of the original Macintosh was in fact 'borrowed' from Xerox after Steve had visited the company's research centre.

Jobs famously said "You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future." Every employee is capable of contributing dots.

EVERY WORKFORCE OFFERS A WEALTH OF UNTAPPED KNOWLEDGE

Whether a company has a hundred, a thousand or one hundred thousand employees, it has access to an untapped resource of unique, diverse and broad perspectives and insights that employees of these companies don't share effectively.

Any company with client facing staff has employees who make hundreds of observations each and every day, and generate new learnings, either consciously or subconsciously. The rest of the organisation aren't capturing these insights anywhere visible to, or usable, and as such, aren't capitalising on them.

The 'dots' and insights that underpin innovation are driven by the questions we ask, the observations we make and the people we meet. For client-facing companies in particular, these are plentiful and golden.
For example, a large consultancy such as McKinsey has a distributed workforce who all have access to different companies where consultants establish an intimate understanding of the inner workings of the client companies and are well placed to identify problems or challenges faced.

What if that one employee doesn't have a solution to a problem they're seeing, but somebody else in the organisation does?

What if one employee has a solution that others in the company also see value in because their clients face similar problems?

What if that employee has a half-baked idea that with input from others across the organisation can evolve into something seriously compelling?

KNOWLEDGE IS POWER

If we aren't capturing knowledge effectively then we are essentially shooting blanks.

Failing to capture the knowledge of our workforce is nothing short of tragic, particularly in an ultra-competitive landscape where companies need to be doing everything they can in order to just stay relevant and maintain market share.

THE HOW //

USING INNOVATION METRICS

Previously, we mentioned the importance of using innovation metrics, rather than traditional accounting and marketing metrics, to measure the progress and effectiveness of innovation programs.

Large organisations apply the same metrics and evaluation criteria on potentially disruptive, risky, 'out of the box' innovation as they do for incremental improvements and business as usual investment decisions. Clearly this makes no sense.

TRADITIONAL ACCOUNTING METRICS DON'T WORK

Large organisations exist to execute on a repeatable business model, and as such processes, policies and frameworks have been implemented to ensure this execution goes off without a hitch. Decision makers, as such, tend to place only safe bets that promise low to moderate rewards, based on an criteria of evaluating investments on some or all of the following variables:

- Market size
- Gross margins
- Revenue potential
- Time to breakeven
- Performance demands
- Existing customer requirements
- Return on investment
- Risk profile
- Short term KPIs

But the nature of disruptive innovation is such that:

- The market is small or insignificant, initially
- They promise low margins, initially
- They deliver small revenues, initially
- They can take years to deliver a sufficient return on investment
- They are often not good enough for existing customers, initially

Disruptive innovations however get better over time and as such, the market grows, the margins get larger and the revenue potential becomes significant.

The consequence of this is that large organisations miss out on opportunities to invest in or support potentially disruptive innovations and find themselves investing only on stretching their existing S-curve and sustaining their existing business model until they are disrupted by newcomers who embraced the disruptive innovation in a timely manner.

Just ask Blockbuster, Kodak, Compaq, Borders, Foxtel, taxi networks, mainframe vendors and on.

Airbnb is a great example of a company that made only US$200 per week in its first year of operating, but today is worth US$25B, a market capitalisation greater than that of the Starwood, Marriott and Hilton Hotel groups respectively.

Clearly, not investing in or pulling the plug early on disruptive innovation based purely on traditional metrics such as return on investment can not only restrict a company from exploring new growth opportunities, but render them unable to compete in a disrupted landscape.

Think Innovation Metrics

So, what can large companies with a repeatable business model to execute upon and external constraints and considerations such as regulators and shareholders do?

Two questions we need to ask:

- What evaluation criteria should we apply when assessing disruptive innovations?
- How do we determine and measure success to justify ongoing support of a project?

First, we must recognise that our objective at this stage is not so much on delivering a fully fleshed out product to market. Rather, our objective is to find product market fit. Unlike the mothership, we are searching for a repeatable business model, not executing upon an existing one. The risk associated with doing something new is at its highest at inception, and we need to focus our efforts on lowering that risk through immediate customer interactions towards finding product market fit.

Second, it's imperative that we step away from traditional metrics and look at disruptive innovation through the lens of innovation metrics. What evaluation criteria should we apply when assessing disruptive innovations?

- Apply the disruptive innovation litmus test[19] (does this idea have the potential to disrupt or is it a low risk, low reward incremental improvement?)
- What customer job[20] are we addressing and are customers over-served or under-served by existing solutions?
- Value proposition (are we actually solving a problem?)
- Ability to deliver technology (can we build it?)
- Existing competition (are we entering a treacherous red sea or a clear blue sea?)
- Analogs and antilogs (has it been done before? are there stories of success and failure?)
- Testability (can we test it relatively quickly, economically and effectively using our existing networks and ability to prototype?)

So, say these metrics have been satisfied and some funding has been allocated to an innovation project to explore a potentially disruptive concept.

How do we determine and measure success to justify ongoing support of a project?

First, we need to determine our baseline - where we are today? Second, where do we want to be tomorrow? Ignore dollars for the moment and focus instead on customer engagement.

MEASURING PROGRESS AND SUCCESS

We should be focusing on what Lean Startup author Eric Ries refers to as actionable metrics - metrics that actually help us make decisions and take action. There's no point knowing that visitors to our prototype website doubled, if we don't know why.

Actionable metrics include:

- Per customer metrics (for example, the number of pageviews per new and returning visitor)
- Split tests (A/B experimentation where we can simultaneously test different variations

of offers to learn what works and what doesn't)

- Funnel metrics (measuring acquisition, activation, retention, referral and revenue with each customer interaction - the focus being mostly on acquisition and activation initially)

For example, say it's 2006 and we're building a cloud storage solution. We have a number of assumptions underlying our business model.

Two that stand out include:

- People will store their files online instead of on local storage devices
- People will pay a monthly subscription fee of $X fee to do so

Rather than look at this through a traditional lens and say something like "we expect this new innovation to generate 5% of our revenue growth target for the year and if it doesn't within 6 months we'll can it", we should be bringing it back to the aforementioned innovation metrics.

WHERE ARE WE TODAY AND WHERE DO WE WANT TO BE TOMORROW?

Say, we build a simple prototype - a landing page with an overview of the proposed product and a form asking visitors to leave their email address to express interest. This is before we've built anything at all and are simply trying to determine market appetite for the concept. Perhaps we can take it a step further and include a "subscribe now" button with a "$10 per month" price next to it.
Using the aforementioned metrics, we might measure the following:

- For every 100 visitors, how many express interest?
- For every 100 visitors, how many hit the mock subscribe now button?

Where are we today?

We might find that, initially, for every 100 visitors, perhaps for the first few weeks we get zero expressions of interest. What then? Do we can the project? Or do we start making changes? Initially, the market size is small and new concepts take time to ferment. We might find that our initial market is a group of techies who are keen on trying new things as opposed to the broader mainstream who are yet to come to terms with such a new technology.

There are so many business model unknowns when exploring disruptive innovation such as the target market and customer persona, how best to reach them, what the pricing model should be, what the marketing message, branding and ad copy needs to look like, what core features people actually care about and so on. Get one thing wrong and it could be the difference between success and failure.

So we start making changes, of course. Changes to ad copy, to price points, to customer acquisition strategies, to target markets and so on. We can then apply innovation metrics to see whether or not any of these changes had a positive effect on visitor engagement.

Assume we brought back the price point and shifted our target market from a B2B model targeting enterprise to B2C, targeting techheads. Suddenly, at the end of our second month we're finding that 10 out of 100 visitors are expressing interest and 3 are hitting the mock subscribe button. We are moving in the right direction and as such, the numbers should be used to report learning, an improvement in visitor engagement and ongoing support for the project.

However, if we run hundreds of smart tests over several months and see a negligible improvement in metrics, then perhaps it might be worthwhile exploring a different idea or concept.

Using this approach, we can set monthly or preferably quarterly milestones, where reporting is based on innovation metrics and learnings as opposed to ROI. Once we've reached where we want to be tomorrow (say, 5 out of 100 visitors 'sign up'), we can then begin to apply a slightly more traditional lens having more confidence that we've found product market fit and are putting to market a product that solves problems people are willing to pay for.

Finally, it's incredibly beneficial for the ongoing support of innovation projects that we adopt a mindset of being patient for revenue, but not profit. Any profitable pursuit, even if it's barely in the black, is unlikely to get canned in times of corporate restructure and cost centre culling.

types developed will simply fizzle out post the hackathon. As a result, cynicism about the company's innovation efforts will creep in and the company will ultimately end up losing intrapreneurs to other more progressive companies or new startup ventures, at a time when they need these people more than ever.

THE HOW //

THE PROBLEM WITH BRAINSTORMING

Traditionally, companies have run the occasional brainstorming session with client facing staff or performed infrequent interviews, trying to capture some of that knowledge. This is a flawed approach for many reasons.

1 - It doesn't capture everyday observations, only those fresh in the memory, so we only acquire a tiny percentage of the employee's experiences

2 - Inspiration can strike at any given time (often while exercising, in meetings, upon waking up, or for many, in the shower) - it can not be forced upon us in brainstorming sessions, the mind simply does not work that way. Often the opposite is true and these sessions can be counterproductive, participants feel pressured to contribute during brainstorming sessions and come up with poor ideas at these sessions and do so for the sake of doing so, not because they are actually good ideas.

3 - the cost of interviewing staff individually or in groups over time is very expensive and again, it does not capture the insights collected throughout the year and only those that are fresh in the memory

HOW CAN WE BETTER CAPTURE AND HARNESS KNOWLEDGE?

Idea management platforms have emerged as a much more effective way to capture knowledge centrally so that visibility is ensured, dots can be connected and new opportunities for growth can be capitalised on.

How do idea management platforms work?

Essentially every member of your organisation can submit problems, challenges, ideas and so on, which can be accessed centrally by the entire organisation.

Submissions can be tagged according to different areas of interest and can also be aligned to a particular question or challenge that the company sets.

For example, the telco Three ran a four week campaign asking people to submit accounts of when they had gone the extra mile to make things right. In just four weeks 292 ideas were submitted and 5800 votes registered. The results of this campaign fed into a successful marketing campaign around how Three differentiates itself from competitors through its above and beyond customer service.

HOW TO RUN A DISRUPTIVE INNOVATION IDEA CAMPAIGN

It's important to first define your objectives and clearly understand what you are hoping to achieve by using an idea management platform.

Are you looking to capture general ideas, problems and challenges that employees observe or run a campaign around a particular theme or problem that the company is facing?

Where running a campaign, it's important to ensure that questions are asked in a way that prompts smart answers and submissions so that the quality of submissions remains high in order to support effective review of submissions later on and avoid death by volume.

Where possible, we should also look to provide some guidance around submissions.

For example, if we are looking for ideas with the potential to disrupt then we need to provide people with guidance and context as to what a disruptive idea might look like.

Using the disruptive innovation litmus test, made famous in Clayton Christensen's The Innovator's Dilemma, we can give would be idea submitters a lens through which they can look at their idea to ensure it fits the criteria before submission.

Far too often companies that run idea management campaigns to spur disruptive innovation solicit hundreds or thousands of ideas and far too often only a very small percentage of these ideas actually meet the definition of an idea that has the potential to disrupt.

For example, if it's disruption we're after we should ask people to answer yes to these questions before proceeding.

For disruptive ideas that build entirely new markets:

- Is there a large population of people who historically have not had the money, equipment, or skill to do this thing for themselves, and, as a result, have gone without it altogether or have needed to pay someone with more expertise to do it for them?
- To use the product or service, do customers need to go to an inconvenient, centralized location?
- For disruptive ideas that deliver cheaper disruptive solutions to over-served markets (a low end disruption)
- Are there customers at the low end of the market who would be happy to purchase a product with less (but good enough) performance if they could get it at a lower price?
- Can we create a business model that enables us to earn attractive profits at the discount prices required to win the business of these over served customers at the low end?

It's also a fine line between this approach supporting ideas and discouraging them, but essentially the value of idea management is in the outputs, not in the inputs and the added value of framing idea submission is that it will get people thinking about their ideas critically beforehand and in this case, begin to embed a culture of and knowledge of disruptive innovation throughout the company.

THE NEED TO BUILD UPON IDEAS

As indicated earlier, ideas are rarely great in isolation and we need to connect the dots between different insights and experiences. As such, idea management should let people from throughout the organisation comment on and build upon ideas. It is usually over a number of iterations and adaptations that ideas start to look compelling enough to be considered a commercial viability.

Votes Are Not Enough

Most idea management platforms provide you with the ability to vote on ideas and submissions. And that is absolutely imperative to helping make ideas more manageable and easier to assess.

But if we're working for a large financial services company, how many of our staff are well positioned to be determining what 'good' looks like? How many of them have built a startup? How many of them have experience commercialising new products?

As a result, it is recommended that votes too, are wrapped around particular guidelines.

For example, if we're looking for disruptive ideas we could consider asking people whether to 'upvote' or 'downvote' an idea on the following sample criteria:

- The disruptive innovation litmus tests are satisfied
- Analogs and antilogs (evidence where the idea has worked and hasn't is favourable)
- Value to target customer appears high

Other possible criteria could include:

- Technical ability to deliver on the idea
- Cost to produce prototypes to test ideas is not prohibitive
- Companies should steer clear of using the following criteria as it often doesn't apply to disruptive innovation:
- The technology is good enough for our existing customers
- The market is big enough to help us meet our growth targets
- It takes time to grow a new market and for the quality of disruptive innovations to become good enough for the mainstream - just look at Netflix and Airbnb.

Selection of Winning Ideas

Often, companies will run a campaign and select the most popular ideas for either subsequent exploration or commercialization.

However, it's important that people picking ideas have experience with innovation and are well placed to select ideas. Ideas should be chosen based on the voting criteria above as well as innovation metrics (i.e. are customer interactions with our product moving on a positive trajectory) as opposed to traditional accounting metrics around ROI.

Often, companies will allocate resources to ideas are ready for their market, where the market is big enough; however this only opens us up to small, safe, incremental innovation.

Disruptive innovation, by its very nature, is uncertain, the market is usually unknown, and the technology is generally not good enough for the mainstream. As a result of this, these ideas don't get selected by executives who are from a traditional school of management and of avoiding failure at all costs. These same executives have short-term incentives and shareholders they are accountable to so they are perhaps not best placed to be selecting ideas based on professional judgment because of an apparent conflict of interest.

Finally, if we do select potentially disruptive ideas for further exploration post an idea submission campaign, we need to understand that they will not generate an ROI within six months or help us reach our growth targets.
Ideas take a while to ferment. It can take years for ideas to become commercially viable. Airbnb made $200 a week in its first year of operations. It's now worth US$25B.

However, if we run milestones say every 4 to 12 weeks and define and measure the right innovation metrics, we can see whether ideas are on track and are slowly improving towards mainstream viability. If not, we can move on to other ideas if our key metrics are not tracking in the right direction after numerous adjustments to our business model and if the key assumptions underlying our business model appear flawed.

Outcomes Drive Engagement Drives Outcomes

Ensuring that tangible outcomes are delivered will also ensure that the innovators in the organisation, the intrapreneurs, will support campaigns the next time they are run as they become more than just theatre and are visibly being used to drive the company's growth strategy. In the absence of this, the most innovative employees will join equally innovative companies, leave to start their own companies or simply become disgruntled and unproductive. Done right with tangible outcomes, harnessing the knowledge of a large, distributed workforce can be a goldmine for companies.

It will help capture new growth opportunities and limit the duplication of effort and cost through lack of sharing knowledge, but it will also result in a more engaged and fulfilled workforce with more control and ownership over the company they work for.

Hackathons (or innovation bootcamps) are a great way to bring together teams with the common goal of quickly solving problems, building prototypes and validating market appetite. This not only helps teams test many ideas quickly to find out what works but also saves them by avoiding the trap of committing millions to building the wrong thing.

Hackathons, done right, open people's eyes to a different way of thinking and plant the seeds for a fail fast, "move quickly and break things" mentality, made famous by Facebook, that underpins innovation and the discovery of new business models.

What hackathons help facilitate:

- Moving quickly
- Validating market appetite
- Saving on unnecessary costs
- Shifting cultural mindsets and behaviours
- Engaging and retaining high performers and intrapreneurs
- Engage senior staff who are short on time
- Bring together cross-functional teams and external participants
- Building new revenue generating businesses (!)

Sadly, far too many hackathons throw people together in the pursuit of creativity and they are successful at getting the creative juices flowing but fall short of delivering any tangible value beyond that by way of prototypes or products that may actually generate new revenues for the participating company.

Firstly, we need to answer the following questions to the affirmative in order to develop an optimal hackathon environment, under which tangible outcomes are given the best chance of success.

- Can the right mix of staff get 2-3 days away from their day jobs?
- Are there problems that can't be solved through existing channels?
- Does the organisation have the ability to move quickly?
- Is there budget available to explore ideas post the program?
- Will staff be given adequate time to participate and explore their ideas post the hackathon?

If you can't answer yes to the above questions, there is a significant risk that your hackathon team will lack necessary skills and any prototypes developed will simply fizzle out post the hackathon. As a result, cynicism about the company's innovation efforts will creep in and the company will ultimately end up losing intrapreneurs to other more progressive companies or new startup ventures, at a time when they need these people more than ever.

WHERE ELSE DO HACKATHONS REGULARLY FALL SHORT?

1 - NO FOCUS ON MARKET VALIDATION

Hackathons often stress building prototypes quickly around a central theme but don't focus enough on understanding the customer job to be done, the problem being solved and value proposition, the development of business models and validation of underlying assumptions to best gauge market appetite for a product.

Recommendation: Use lean startup methodology to frame ideas around an actual problem and clearly defined value proposition. Use the business model canvas to determine key assumptions and build prototypes accordingly. A prototype should only be built to validate these key assumptions, otherwise it serves very little purpose.

2 - TEAMS LACK COHESION

Oftentimes people turn up to hackathons and are thrown into groups of people that either don't work well together, don't bring enough unique and different cross-functional perspectives to the table and lack a broad skill set to make the most out of the hackathon.

Recommendation: Ensure that teams contain a good mix of skills such as designer, developer, marketer, business mind as well as people with industry experience. Including customers in the process can also be very value adding.

3 - PARTICIPANTS PITCH THEIR IDEAS TO NON-INNOVATORS

It's no secret that large organisations usually require a business case when allocating resources to new projects. This business case includes metrics such as minimum gross margin and market size. But what happens when the market size is small or unknown, as is initially the case with most disruptive innovations?

Judges end up selecting safe bets, where the market is known. The problem with this is that we only choose innovations that are incredibly replicable, generate only some small short term value, serve only our existing customers and are ultimately incremental, not breakthrough or disruptive innovations.

Airbnb made US$200 a week in its first year - it's now worth more than US$25B. Think about that next time assessing products based on market size.

Airbnb investment rejection letter

Recommendation: Use innovation metrics when selecting winners. Selection criteria such as scalability, business model and market validation should be stressed above market size, gross margins and other predictable indicators.

4 - NO RESOURCES OR PLAN TO EXPLORE SUCCESSFUL IDEAS POST-HACKATHON

In the event of having built prototypes that show some early market validation, we should have a budget allocated to further explore the ideas, preferably in an incubated environment away from bureaucracy of the mothership.

Giving people movie vouchers for participating is great and all (I hear there's a new Rocky movie out!), but it won't stop your organisation being disrupted by the next Airbnb or Uber.

Recommendation: Ensure there are sufficient resources to explore promising concepts post the hackathon. Consider turning partnering with or investing in external startup teams with the right mix of talent and ability to move quickly in order to accelerate ideas.

The next time you or your company are considering running a hackathon, ask yourself why. If it's simply for the purposes of bringing people together, getting creative and exploring the fail fast philosophy of startups, then great, but if you are serious about transforming your company's potential to innovate then hackathons are one of many tools that can, if effectively applied, deliver tangible outcomes by way of products or services that you can take to market.

THE HOW //

RISE OF THE CORPORATE INNOVATION OUTPOST

We've come a long way from the humble suggestion box and top down decision making long synonymous with corporate innovation. Today, more and more companies are sourcing ideas from not only the entire workforce but also getting outside their building and engaging partners, customers and members of the general public.

While ideas are plentiful thanks to idea platforms and open innovation, what often hinders a company's ability to innovate is its internal policies, values, regulations, infrastructure and political structure.

You can run all the hackathons you want and preach lean startup and design thinking 'til you've run out of st, but unless an organisation's landscape effectively supports the behaviours required to innovate - think risk taking, taking long-term views, lots of small bets, challenging the status quo, sharing ideas, and so on - then it will all be in vain and amount to little more than innovation theatre.

More and more companies are waking up to this fact and as a result of that they are beginning to follow in the footsteps of companies such as Telstra, Barclays, BMW, Samsung, Verizon, Nike, P&G, GE and Disney, who have all set up innovation outposts, or corporate *incubators* away from the mothership, usually in the middle of innovative startup hubs and ecosystems.

Typically, organisations who create outposts do so for one of the following reasons:

- to partner with startups;
- to invest in and acquire startups;
- to incubate their own project teams; or
- a hybrid of the above

PARTNERING WITH STARTUPS

This form of the model typically involves synergy and alignment between the strategies of both parties - think target market, infrastructure, data and so on. For example, a peer to peer lending startup might partner with a large commercial bank who would give it access to domain expertise, operating licenses, networks, brand and customers in order to develop better solutions, gain exposure, build trust and perform customer testing to help find that elusive product market fit. Ultimately, everything a startup desperately needs but often finds in short supply.

Equity is not typically not exchanged however the supporting organisation may have an option to invest, have access to the startup's technology and/or data and/or be otherwise rewarded for its support of the startup. Diageo Technology Ventures partners with startups to solve specific business problems. "We want to explore opportunities beyond Diageo's current business model and ways of operating, that we think could result in growth for Diageo in the future" says Helen Michels, Global Innovation Director at Diageo which is home to popular alcohol brands such as Bailey's and Guinness.

Diageo initially invests $100,000 seed funding to support project teams as well as a Diageo team. Successful teams work collaboratively with world-class marketers, brand leaders and mentors.

INVESTING IN STARTUPS

As the name suggests, many large organisations are diversifying by investing in not only startups whose strategy aligns with their own, but all manner of startups tackling all manner of industries.

Telstra's muru-D accelerator has invested in startups from fields as far from its core business of technology and telecommunications such as surfboards, agriculture tech and children's education. The accelerator invests $40,000 seed funding into startups in exchange for 6% equity. muru-D is held at a co-location or coworking space away from Telstra's mothership offices where startups come together under one roof, receive training, mentorship, and access to corporate infrastructure, and are encouraged to share ideas, network, challenges, solutions and so on.

More recently, Westpac and National Australia Bank have both announced AU$50M corporate venture funds to invest directly in startups.

INCUBATING PROJECT TEAMS

As indicated, processes, values, infrastructure and corporate systems of a large organisation tend to inhibit the very behaviours that are necessary to support innovation. This is why there's a growing trend towards setting up corporate innovation teams in coworking spaces away from the mothership where they are not bound by the same rigid structure that serves only to support the delivery of what is, not the discovery of what if.

Often, post an initial incubation period, should there be sufficient evidence by way of innovation metrics and learnings, to suggest that a concept is worth exploring further, companies are setting up independent organisations in which they take some equity to pursue the idea. The organisation may be made up entirely of external people, internal employees or a hybrid of the two.

AT&T Foundry innovation centres, which collectively represent a US$100m investment from AT&T, Ericsson, Alcatel-Lucent, Amdocs, Cisco, Intel and Microsoft have started more than 200 projects and deployed dozens of new products and services.

It's becoming clear that in order to stay relevant in an era where one in three listed companies faces delisting in the next five years alone, companies are now doing what Steve Blank, father of the lean startup movement, has been telling startups to do for many years now....."get out of the building".

5 MINUTES TO A GOOD IDEA

At our recent 48 Hour Lean Startup workshop I helped guide an optometrist with no idea what he wanted to work on to a gamechanging concept in under 5 minutes.

What does your day look like?

I see patients.

What else do you do?

Administrative tasks.

How much time do you spend on these tasks?

2 hours a day.

What does this involve?

Updating files. Transferring data. Lodging documents.

Transferring data?

Yes, most of our imaging devices don't talk to each other and I have to manually export and import data.

This sounds like a manual workaround. Does this take a lot of time?

Yes, I spent about 30 minutes to an hour a day doing this.

Is this a problem that is common across medical profession?

Yes.

If you had a magic wand a product would appear that...

That automated this process.

What would an automated process achieve?

It would save me a lot of time to focus on patient care instead.

Just like that we identified a common problem which is pervasive across an industry and is a considerable pain point for medical practitioners. Whether or not it can be solved and scaled in any achievable or sustainable manner is another question, however this demonstrates how you can support ideation, when there is no direction at all, simply by asking smart, probing, open-ended questions.

Rubbish in, rubbish out...

What kind of questions are you asking in your brainstorming exercises?

STOP BREAKING AWKWARD SILENCES

Google "awkward silence" and you will find 443,000 results, mostly focused on how to fill awkward silences and how to avoid awkward silences.

Human beings have an innate desire to fill in the blanks. Failure to do so makes us feel uncomfortable, activates insecurities, questions our cognitive abilities and forces us to disengage entirely.
However, rushing to fill awkward silences is a recipe for disaster when it comes to our brainstorming and innovation efforts.

Why?

People will say the first thing that comes to mind because we don't want to seem like we're not contributing or a little bit 'slow to the party'. Consequently, we don't allow our thought process to evolve naturally and spew up half baked ideas and thoughts.

This is particularly true of leaders who feel the need to justify their positions (and salaries) by purportedly having all of the answers and therefore being quick to respond. Oftentimes, admitting that we don't have all of the answers, especially in a turbulent, fast moving commercial and technological landscape, is far more effective in helping us come up with better answers than simply filling the silence with the first thing that comes to mind.

Otherwise, we will waste precious time, money and other resources by pursuing the wrong thing.

The same applies not just for innovation but every day operations. Think about the meetings you attend. How much of what people say do you think is due to a pressure to contribute?

Let awkward silences be. Embrace them as a critical tool in supporting better decision making across your organisation.

THE HOW \\

SOLVING MYKI'S PROBLEMS USING HUMAN-CENTERED DESIGN

Myki, Victoria's now three-year old public transport ticketing system has been the subject of public abuse[21] and endless scrutiny since its rollout in 2013. Not only was it delivered seven years late and half a billion dollars over budget, but in 2014 the train body received over 190 complaints a day[22] regarding myki.

Myki was introduced to bring Melbourne's ticketing system up to par with the smart card systems of London and Hong Kong. Hong Kong's Octopus card[23] for example is more than just a ticket to ride. It has grown to be used for payment in retail shops across Hong Kong, from convenience stores, supermarkets and restaurants through to parking meters, car parks, service stations and vending machines – a truly holistic smart card. While Octopus has not been without its problems, it initially cost $100 million to introduce, a negligible fraction of the $1.55 billion[24] that myki has cost.

Today, myki can be used on trains, trams and buses – this does not represent a departure from its predecessor, which was not very dissimilar to the New York City subway's ticketing system. Mind you, New York's subway delivers over 1.75 billion rides a year, compared with Melbourne's 120 odd million.

This brings us to the question of human-centered design, or lack thereof, as it applies to myki's design and development.

Whether the $1.55 billion could have been put to better use is one question.

Given that the decision was made to invest in it – best efforts should have been made to ensure that end-user benefits were realized. Based on the ongoing complaints that the transport operator receives and various concessions made by the operator in light of these complaints, this did not appear to be the case.

HUMAN-CENTERED DESIGN

Steve Jobs famously said that "design is not just what it looks like and feels like - design is how it works". This is essentially the premise underlying human-centered design, or design thinking. In its simplest form, design thinking is a process—applicable to all walks of life—supporting the creation of innovative ideas and solving problems that cut to the core of need and emotion.

Design thinking follows a process of identifying and empathizing with the audience, thinking broadly, defining their challenges, identifying potential solutions, rapidly generating prototypes and testing them with real users to get obtain genuine feedback in order to iterate towards what wows, not just what (barely) works.

Key tools in the design thinker's toolbox are persona, customer journey and empathy mapping.

Persona mapping essentially defines who the end user or customer is (note, this is not always the same person). Think demographics, key motivators and behaviors. Without first identifying for who you are designing, chances are the solutions you develop will fall short of the mark.

Customer journey mapping is a visual representation of the end-to-end user story insofar as their relationship with an hvorganization, product, system or service is concerned. It is used to tell a story of each and every individual touch point a user has and by doing this, facilitate the identification of potential pitfalls, emotional highs and lows and moments of truth – lasting impressions made on the user.

Empathy mapping is essentially a study and definition of what users hear, see, think, feel, say and do.

- What pains are they looking to kill?
- What gains are they looking to create?

Cohesively, these tools put product teams in a much better decision making position when it comes to the design and provision of products and services.

If we revisit the problems that myki's system face to this day, it's clear that they forgot to design for the user[25].

- They forgot to design for tourists and irregular travelers, evident by the lack of single use or short term ticketing options.

- They forgot to design for customers touching off in the suburbs during peak hour, evident by the congestion of people scurried around myki consoles waiting impatiently to touch off (note: additional consoles were rolled out at many stations after initial observations were made shortly after myki's rollout)

- They forgot to design for customers using busy trams during the day, evident by people complaining of being fined for not able to touch on or over-charged for not being able to touch off. The CBD has since become a free tram zone costing the Government $100 million each year[26]. Whether this move is related to the myki bungle or not is unclear.

- They forgot to design for people who board trams at suburban tram stops where many myki machines are either not present or limit top up to those commuters who happen to have a spare $7 or so worth of coins on hand. Consequently, honest people looking to get to work or to social outings have been fined for not being able to do the right thing or have looked for alternative methods of transport.

- They forgot to design for people catching a train on a busy peak hour platform. Topping up your myki card can be a painstakingly slow process, particularly if paying by card. This is best evidenced by the long queues at any suburban railway station, particularly on a Monday morning. The result? Missed trains, late arrivals to places of business and other commitments and ultimately disappointed users.

I'll now examine whether using the aforementioned design thinking tools could have helped to drive better outcomes for Victoria's public transport using public.

Note: I am simplifying the process for the sake of keeping this as short and concise as possible and focusing on limited touchpoints. Design thinking is a skill that is essentially easy to understand but difficult to master and the ability to connect with the underlying emotions, motives and behaviors of people.

PERSONA MAPPING

Who travels on public transport?

- Office workers
- Builders
- University students
- Primary and Secondary School students
- Tourists
- Single parents
- Socialites
- Young people
- Seniors
- Occasional users
- Others…

There will no doubt be variations for each of the above and it is important that each is identified so that certain cohorts are not underserved by the system, for example in myki's case, tourists.

Sarah	Office Worker	35-45	1 - Get to work on time and economically 2 - To get home in time for dinner with family	To get promoted	1 Train delays 2 Long queues to buy tickets 3 Getting to work late through no fault of her own

I've offered a very scaled down persona map for an office worker.

In most cases a persona map would extend to more detailed demographics, personality information and motivations.
The job to be done essentially represents the underlying reason they catch the train. For example, we don't go to school to sit in a classroom and read. We go to school to learn and to help us get not only job ready, but functioning members of society. That is the underlying job to be done. If you fail to properly identify the user's job to be done, you are likely to create a solution that misses the mark. If you ask the wrong question, you will get the wrong answer.

CUSTOMER JOURNEY AND EMPATHY MAPPING

Normally you would map a user's entire journey from start to end and define every touch point along the way. For the purposes of this article I've honed in on two key touch points that Sarah would encounter during her daily exposure to Melbourne's train system, assuming she is travelling into the city from the suburbs.

I've only selected two customer touch points here and already we can see that two of the common complaints or grievances surrounding myki are being fleshed out early.
Performing comprehensive customer and empathy journey mapping for a complete set of users will help to identify all touch points and hone in on design requirements that support the delivery of a solution that works, one that doesn't leave people frustrated and disapproving.

There are numerous other questions to be asked when it comes to myki.

- Why was an unproven vendor used?
- Why was a solution built from scratch when numerous successes already existed in other markets?

- Why was the system needed in the first place?

But those questions are beyond the remit of this section.

The purpose of this section is to demonstrate that whatever the product, service or system being developed, taking a human-centered approach can help to flesh out a lot of potential pitfalls and pain points that drive public perception.

Connecting with the end user's emotions and designing for them supports the delivery of a solution that not only satisfies, but also delights.

Touch point	See	Think	Feel	Say	Do	Pains	Gains	Insights
Arrive 8am on a weekday	Long queue	I might miss my train. I'll be late to work.	Anxious	Express annoyance	Get on train without valid ticket.	1 Missed train due to long queue. 2 Pay fine.	Looking to catch desired train and get to work on time.	Ensure users can buy/top up ticket quickly to keep delays and queues at a minimum.
Arrive back at departure station at 6:30pm	Large crowd of people	I will be waiting a while to touch off. I just want to go home.	Uncomfortable. Large crowds concentrated around single touch-off points.	Express annoyance	Leave without touching off.	1 Getting home later than desired. 2 Get overcharged.	Get home to family in time for dinner.	Ensure there are multiple touch-off points and that they are spread out so that crowds aren't concentrated in one small area and people can touch off quickly.

THE HOW //

HOW TO RUN AN EFFECTIVE IDEA GENERATION PROGRAM

Leaders of large companies are coming under more intense scrutiny and pressure to drive innovation within their organizations, in order to avoid being disrupted by smaller, more nimble competitors. Many are responding to this threat by flagging innovation as a corporate value and running idea submission contests, designed to promote thinking outside the square and maintain competitiveness.

While it's encouraging that the innovation agenda is at least being given some mandate at most large companies, often the idea submission contests amount to little more than a case of innovation theatre. That is, leaders often need to be seen to be doing something in response to innovation so what better way than a very visible idea contest that garners hundreds of submissions. Unfortunately, movement is not akin to productivity, and these contests usually deliver little, if any value at all.

THE TYPICAL IDEA GENERATION CONTEST

If you work or have worked for a large company, you may be very familiar with idea generation contests, also known as innovation jams, bright idea contests and so on…

Usually, an online platform is set up on the corporate intranet designed to do little more than collect ideas and facilitate the voting and commenting on ideas.

An email is promptly sent to all staff promoting the initiative and those companies with a few spare dollars to burn might even go as far as hosting a catered event promoting the launch of the initiative!

Posters, complete with flashy images of lightbulbs and innovation buzzwords, are strategically positioned in common areas such as kitchens, meeting rooms and doorways across the office, complete with flashy images of lightbulbs and buzzwords like Apple's "think different". Unfortunately, most companies lack the DNA of an Apple and neglect to implement the processes required to be anywhere near as a innovative as the darling of Silicon Valley.

Ideas submitted are finally ranked in order of votes collected. Top ideas are sent to senior management to review and select some winners from, despite the fact that these same senior managers have never innovated themselves.

That's usually the end of the show. The cast takes a bow, the curtain promptly drops on ideas and the innovation theatre comes to a close. The whole process ultimately amounts to little more than innovation theatre and is broken for a number of different reasons.

EIGHT REASONS WHY IDEA GENERATION CONTESTS ARE BROKEN – AND HOW TO FIX THEM

1 – Idea Submission Portals Don't Facilitate The Shaping Of Ideas

Platforms used by large companies tend to be very simple and lack the ability to build on top of or add to ideas submitted, essentially the essence of creativity and an inherent advantages that a company with thousands of employees has over startups with less than 20. Comment boxes, while helpful, do not support building on top of ideas in any seamless, effective manner.

The odds that one person will come up with a commercially viable idea at the outset is incredibly remote. The products we know and love are the result of emergent strategy and evolution over time, based on validated customer learnings.

The best ideas are those that bring together the perspectives of different people with different experiences from across cross-functional roles.

Steve Jobs was a classic example of a broad thinker who was able to draw from his diverse experiences.

"Creativity is just connecting things. That's because they (innovators) were able to connect experiences they've had and synthesize new things. And the reason they were able to do that was that they've had more experiences. Unfortunately, that's too rare a commodity. A lot of people in our industry haven't had very diverse experiences. So they don't have enough dots to connect, and they end up with very linear solutions without a broad perspective on the problem. The broader one's understanding of the human experience, the better design we will have."

In the absence of one having the broad experiences of Steve Jobs, we can leverage off the broad experiences and perspectives from across an organisation to connect dots and come up with better products.

How To Fix It

Platforms like BrightIdea and Spigit both facilitate emergent, collaborative idea generation while numerous other platforms are available that facilitate building on top of ideas.

2 – Employees Who Vote On Ideas Aren't Trained In Innovation Theory

If you've not got a fundamental understanding of the dynamics of sustaining and disruptive innovation then the quality of your votes can be thrown into question. Given the alarming rate at which companies are being disrupted by smaller competitors and startups, it simply doesn't make sense that whatever little innovation budget is being made available is being spent on ideas selected by employees who don't have the foundation skills to tell good idea from bad. Would you let somebody without any knowledge of property, stocks or alternative asset classes make investment decisions on your behalf?

Probably not.

How To Fix It

Employees that vote on ideas should have a fundamental understanding of disruptive and sustaining innovation theory, as popularized by corporate innovation thought leader and author of The Innovator's Dilemma, Clayton Christensen.

Consider setting up a cross-functional innovation committee, made up of people that possess the requisite innovation skills, thus limiting the amount of training that must be delivered to a small cohort of people within the organization.

Be careful that innovation committee members are not 'tainted' or 'institutionalized' insofar as their way of thinking is concerned. They must also have some level of authority over the selection process and not be subject to being overruled by short-term incentivized driven senior managers.

Ideally though, a company should strive to have everybody in the organization trained, perhaps as part of an on-boarding process, in the dynamics of innovation theory as this will not only improve the quality of ideas submitted during a contest, but keep people's eyes and ears open to new opportunities throughout their time with the company.

3 – Idea Contest v Popularity and Marketing Contest?

It's not a stretch to imagine that people from within the organization who command greater authority or popularity receiving more votes than their lesser-known colleagues. Likewise, people within the organization who do a better job at marketing their idea through various channels are also likely to collect more votes – not unlike successful Kickstarter campaigns. Unfortunately, in both cases the number of votes secured has little to do with the underlying revenue generating and disruptive potential of ideas.

How To Fix It

Make submitters names anonymous and consider doing away with voting altogether and delegate the selection process to an appropriately trained and empowered, cross-functional committee (for more on that, see 2).

4 – The Purpose Of Idea Generation Contests Is Not Effectively Communicated

No distinction is often made between whether the contest is after sustaining or incremental innovations as opposed to more big bang, disruptive ones.

Naturally, these warrant not only different ideas but a totally different assessment criterion. It's important not to confuse or prioritize one type of innovation over the other as they serve two distinct purposes, one to sustain the operations of the core business, the other to find new, high growth markets.

How To Fix It

Be clear from the outset as to what kind of ideas the company is after.

Consider providing a simple criteria of what these ideas look like. For example, if the company is after disruptive ideas then providing an overview of the disruptive innovation litmus tests to assess whether ideas meet this criteria before submission will not only ensure that only potentially disruptive ideas are submitted, but will also limit the number of ideas submitted so that resources allocated to review and select ideas are not stretched by receiving hundreds of bad ideas.

5 – Winning Ideas Are Selected Based On The Wrong Criteria

Senior managers, particularly those at listed companies, are incentivized by short-term bonuses and are often not thinking about the company's health five or ten years from now. What this lends itself to is the selection of ideas based purely on core business and existing customer needs. While this will lend itself to sustaining innovations and incremental improvements, such ideas only ever amount to small, replicable innovations.

As captured best in Geoffrey Moore's Crossing The Chasm, the market for disruptive innovations is initially way too small for large companies to be interested in and therefore, senior managers will not select such ideas, forfeiting significant growth markets in several years time.

How To Fix It

Incentivizing senior managers based on an innovation ROI and training them in disruptive innovation theory can both go a long way to improving the selection of ideas.

Consider proving staff with small amounts of cash and frameworks to smoke test their ideas before submitting results for review. This will restrict ideas submitted to those from intrapreneurs who have actually committed some time to build prototypes and test appetite for an idea, not only providing a form of early validated learning, but also demonstrating entrepreneurial qualities in the submitter, who may later be rewarded with responsibility for driving an initiative should their idea be selected for further development. Adobe's recently announced Kickbox is a fantastic example of this approach.

6 – Selected Ideas Don't Get Developed

Funding or resources are not made available to explore the winning ideas or funds are pulled early because a lack of instant results. Again, this is symptomatic of short-term mindsets plague most large companies.

How To Fix It

Ensure that at least 10% of the R&D budget (which itself should be between 5% and 20% of a company's expenses, depending on industry and company maturity) is put aside for exploring big bang disruption. A further 20% of R&D should be reserved for adjacent innovation while 70% should be invested in safer, sustaining core innovations.

Ensure that winning ideas, or at the very least, minimum viable products, are developed, to validate and invalidate assumptions underlying their business models. Attempt to find product market fit, which is an exercise in marketing, not product development. This is where methods outlined in The Lean Startup are incredibly useful.

As outlined in The Innovator's Method by Nathan Furr and Jeff Dyer, be patient for growth but impatient for profit. The quicker a new initiative can pay its own way, the greater its chance for survival when the axe starts falling.

7 – Submitters Don't Receive Feedback

When first launched, idea generation contests can result in quite a bit of positive energy, movement and activity across the company, engaging a lot of employees who previously felt flat. The problem is that apart from a few ideas that are ultimately selected, the remainder don't receive any form of acknowledgment, let alone tailored feedback. It's important that all submissions receive some form of feedback to encourage repeat submission and not disenchantment with the program for oftentimes it can be a person's second, third or forth idea that may have some legs.

How To Fix It

Ensure that all submitters receive at least some form of feedback. While there is a cost involved in doing this, particularly when hundreds of ideas are submitted, the value in an engaged workforce and successful idea submission contests cannot be discounted.

8 – Execution > Ideas

As all good entrepreneurs know, it's not the idea but the execution that matters most. You can gift a large organization 100 good ideas but unless the organization has tuned its culture, processes and resources to successfully innovate, new ideas will ultimately fall victim to the realities of a large company that is built to execute on a repeatable, scalable business model, rather than search for one.

How To Fix It

Ensure that the company culture, processes and resources align with what's required to successfully innovate. This may be done internally but more often than not it will require that independent companies are set up, that aren't the policies and procedures of the mothership, or that new companies are acquired with the capability to innovate.

INDUSTRY

INDUSTRY//

HOW TO INNOVATE IN A REGULATED INDUSTRY

Regulation is often used as a scapegoat for a company's decision not to truly embrace an innovation agenda and the practices that support it.

"We can't experiment with new products because we have our operating licenses to maintain, a reputation to protect and shareholders to serve" is what many a corporate executive will tell you.

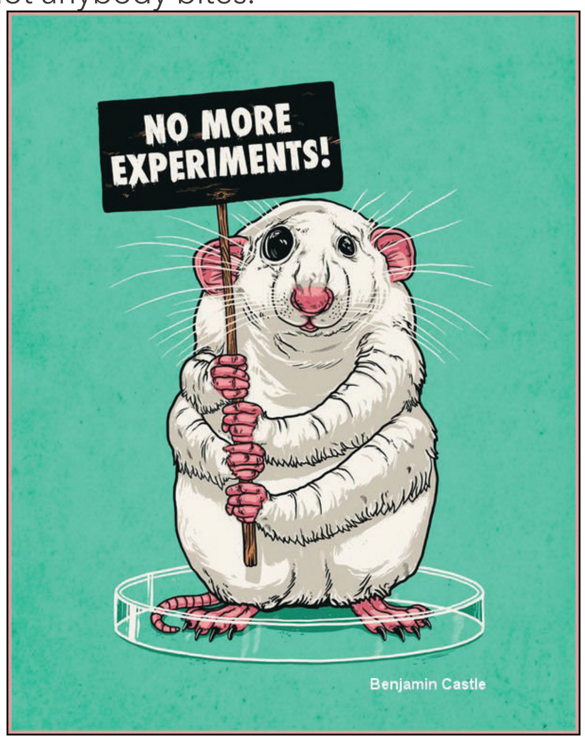
However, in an era where listed companies have a one in three chance of being delisted in the next five years[1] (six times the delisting rate of companies 40 years ago!), large organisations simply can't afford not to experiment given that it is critical to the development of disruptive innovation and new business models, what organisations need most right now.

But how does one experiment when a corporate watchdog is breathing down your neck and watching your every move?

EXPERIMENTATION IS ABOUT TESTING ASSUMPTIONS, NOT FINISHED PRODUCTS

First, we need to be clear about why and how we experiment.

If you're a large insurance company then it's not a matter of simply releasing a new policy via your website to the public and testing whether or not anybody bites.



As an insurer, any new insurance policy would no doubt require regulator approval before release to the public, which would add significant time and cost to the entire process. This goes against the nature of experimentation which is all about moving quickly and taking lots of small bets to determine what customers like and what they don't like in order to support strategy and find opportunities for product market fit.

So how do you move quickly then?

Experimentation is about validating key assumptions that underpin a business model. For example, if you're thinking about launching a new online peer to peer lending service targeting young adults you've got a few key assumptions to test which might include:

1. There is a percentage of young adults that aren't satisfied with existing lending channels

2. These young adults are not credit risks
3. Young adults would use an online platform to borrow and lend money
4. Interest rates charged are sufficient for both borrower and lender

These are but a few key assumptions that may apply. Others might extend to different aspects of the business model such as distribution channel, payback periods, customer profiles, customer acquisition strategies, fees and so on.

Taking the above example though, do we really need to go through the motions of building, releasing and promoting a full blown peer-to-peer lending solution to simply test whether these assumptions hold true? Of course not. That would be fiscally irresponsible, a case of "me too" and putting the cart before the horse.

These assumptions can be tested using a combination of tools such as design thinking exercises, online and offline surveying, consumer credit reports and hitting the streets.

A CASE STUDY IN GETTING OUT OF THE BUILDING

Medibank, a listed Australian private health insurer with a market capitalisation of AU$6.9B, hit the streets to test some key assumptions underlying its Gym Better product, a policy that targets gym goers or 'would-be' gym goers with casual access to a number of partner gyms across Australia. I personally find this particularly appealing as a health conscious professional who often travels around the country but is not a member of a large franchise gym. Paying $25 to $30 for a casual gym visit is hardly ideal!

Medibank didn't simply release the product because this would have required regulatory approval, thus requiring a massive time commitment and financial outlay. Not only that, but spending all that money to release a product to market without sufficient customer validation up front is a recipe for disaster and the number one reason why most new ventures fail[2].

To that end, a new corporate venture is no different to a startup in the sense that they are both new temporary institutions looking for product market fit and a scalable, repeatable business model.

Instead, the insurer dispatched a number of staff in plain clothes with iPads in hand to the busy Bourke Street Mall, in the heart of Melbourne's CBD. They were able to validate and more importantly perhaps, invalidate some of the key assumptions underlying their business model by simply speaking with gym goers and the like.

This was their way of refining their product before over-investing in a flawed one. In some cases where willing participants expressed their interest in buying the product, they were simply told that the product doesn't actually exist and were offered some Gold Class movie tickets for their time. Everybody wins!

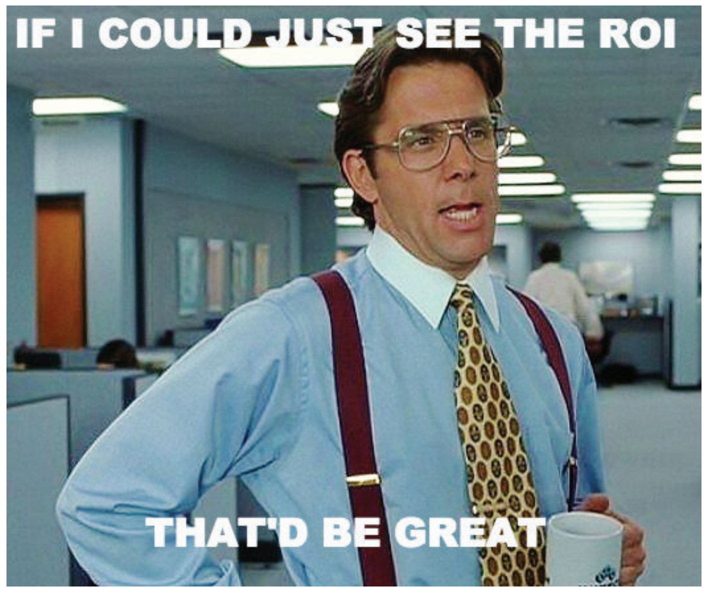
In addition, health insurance agencies in Australia can only change their price point once a year on April 1. Getting a better idea of price point directly from target customers before going to market is obviously important, less you want to release a product that's priced poorly and have to stick by it for up to a year.

Gym Better has gone on to be a much talked about addition to the suite of products that Medibank offers, giving members access to over 600 gyms.

EXPERIMENTATION LEADS TO EFFICIENCY

So much of what companies do is based on efficiency, so much so that we've created ratios and metrics to measure effiency such as Return on Investment (ROI), Net Return on Assets and Internal Rate of Return (IRR). As a result, managers often focus only on the D in R&D[3] in order to bring down the denominator and increase the chance of healthy short term returns.

This generally supports only replicable, safe, incremental innovations that serve only existing customers and don't help companies carve out new markets or catch new S-curves which is critical at a time when, need I remind you again, one in three public companies are at risk of



being delisted in the next five years alone.

However, what if experimentation actually supported efficiency? Well, it does.
Products developed using traditional methods such as 'waterfall' are said to fail 75% of the time[4].

While waterfall might make sense when developing what is known. It simply doesn't lend itself to experimenting with potentially disruptive innovations when there are so many unknowns to contend with. When waterfall projects fail, a big part of the reason goes back to market failure and not having a strong enough understanding of the customer, the problems they are facing and gains they are trying to create.

Experimentation helps us identify those flawed assumptions before investing in building finished products. It supports releasing products to market only once comfort has been gained around the proposed business model and its revenue generating potential.

As such, if identifying and tracking assumptions and metrics correctly, you can pull the plug on doomed projects much earlier in the piece because of a more intimate understanding of customer needs and re-allocate to more promising endeavours, thus improving efficiencies over time. Methodologies like the lean startup help to keep risk to a minimum and align with company risk profiles, a key aspect to getting buy in from senior executives as well.

TAKE A PORTFOLIO APPROACH

The risk of taking few large safe bets in today's environment far outweighs that of taking many small risky bets. The fact is though, we need to maintain a balance. We should never compromise the core business at the expense of the new and reconfigure all of our processes, policies, values and infrastructure to support "move fast and break things" unless we want to bring on the death of the company.

Taking many small bets helps to mimic the venture capital approach which is that for every ten investments, expect maybe one or two to deliver the desired returns and the majority to completely fail. Thus, taking small bets gives us more room to fail small but also increases the likelihood that we can win big with the few. If venture capitalists, whose job it is to invest in early stage companies, concede that they don't get it right all the time (only 10% of the time in fact), then why should it be different for corporate executives whose job it has not traditionally been to develop new ventures and innovative

business models? It's not.

If we want to succeed every time, we can do that, but we do so while conceding that we will never deliver anything great. We will only succeed in stretching our existing S-curve as far as it will go, as did Kodak, Nokia and Borders before us. Perhaps John F Kennedy said it best when he lamented that "there are risks and costs to action, but they are far less than the long range risks of comfortable inaction".

An environment needs to be created under which delivery of the existing and discovery of the new can co-exist. This should extend to the processes, values and infrastructure that support each approach.

While it's difficult to experiment and move quickly in a large, often bureaucratic organisation that has implemented processes to protect and execute on a winning business model, there are many things that successful Fortune 500 companies are doing to counteract this.

Open innovation campaigns, idea contests[5], hackathons[6] and innovation outposts[7] (or corporate incubators), corporate startup partnerships[8] and venture funds, or a combination thereof, are just some of the different methods that companies can use to successfully explore potentially disruptive business models in a fast, safe to fail environment.

A growing number of companies are looking outside the building and looking to pair their significant networks and experience with that of the structure, values, processes and talents of startups to help deliver mutually beneficial outcomes. Open innovation and the corporate startup partnership helps large organisations leverage their strengths without the burdensome bureaucracy they may operate in, without an impact on reputation, without a need to host on expensive internal systems and without regulatory pressures to worry about.

What about our brand?!

It is perfectly responsible to ask about the damaging effects of testing half baked ideas and products with the market, which is why we need to be careful about how we go about it. Remember, it's not about finished products, it's about validated assumptions.

How to get around it?

- Test on small isolated groups that match the target market assumptions
- Test with a new brand
- Test with full transparency the product is in beta mode and offer it for free purely for the purposes of soliciting early customer feedback (Intuit Labs do this with their "rough-cuts" program)[9]

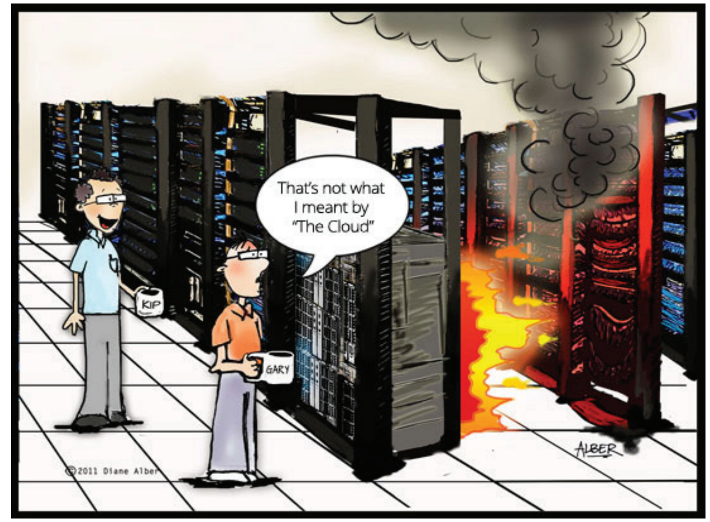
INFRASTRUCTURE CONCERNS

Finally, what we're often seeing in the market is infrastructure demands and legacy systems slowing down innovation which we can break down into internal and external demands.

Internal demands:
IT departments often demand that all software be hosted on their big, costly, in-house systems, which compared to hosting on the cloud, drives development and hosting costs way up, while bringing speed of innovation teams way down. There is a valid reason why this is done for core systems, pertaining to integration, security and privacy.

Oftentimes however, an innovation team will be permitted to test new ideas in the cloud on a platform like Amazon Web Services (AWS) but as soon as additional investment is made to commercialise the product, company policies and the IT department dictate that it be hosted on the core technology and as such, budget to take the idea forward evaporates.

In the odd case that budget exists, the increase in cost means that X times more revenue is required in order to hit those efficiency targets we spoke of earlier and given that truly disruptive innovation can take several years to deliver returns, the plug is often pulled on promising innovation projects before they get near the



hump.

As a lifelong Manchester United fan (please don't hold that against me!), I can draw parallels between this plug pulling and the career of former manager Sir Alex Ferguson. Sir Alex joined the club as manager back in 1986 and was given seven years to build a team (unheard of in a time when managers come and go like seasons and loyalty is pledged only to one's personal bank account). However, after several seasons of poor performances Ferguson was on the cusp of losing his job in 1992 if not for the unwavering support of the board.

The end result? 13 Premier League titles, 5 FA Cup titles and 2 European Cups in the 20 year period from 1993 through to his retirement in 2013.

Of course, football and large organisations are not exactly the same. In the aforementioned case the bet was taken on the core business of its top tier professional team, instead of as an isolated side project. However there is a lesson in here on patience.

We need to support innovation projects by either configuring our internal policies to support hosting on fast moving platforms or create new companies with their own policies and values.

External demands:
In the case of regulation demanding that we host particular records in house, then creating new independent companies may help to get around these problems. Companies that don't fall under the banner of the regulator.

A FINAL THOUGHT ON REGULATORS

Ultimately though, regulation should exist to protect the consumer, not the incumbent. And unless we want to revert to a time when the first cars weren't allowed to drive faster than horse drawn carriages to protect the then powerful horse and carriage lobby, regulators need to do a better job at exercising professional judgment when evaluating the steps that companies are taking to innovate and add value to the economy.

A job without purpose is a waste of time and regulators need to hone in on their ultimate purpose of delivering value to consumers and growing the economy instead of the archaic, process oriented ticking and crossing of boxes.

INDUSTRY//

WHY ACCOUNTING FIRMS NEED TO INNOVATE

"Why should we innovate? Our industry hasn't changed in over fifty years."

This is a common belief amongst accounting professionals, particularly auditors. While regulation and accounting standards change, the 'tick and flick' nature of financial audit in particular makes it easy for one to neglect the need to innovate.

However, this couldn't be further from the truth.

A CHANGING OF THE GUARD

89% of companies that were in the Fortune 500[10] in 1955 are no longer in the list, having either gone bankrupt, merged or simply failed to keep up with the big boys. The rate of change is getting faster with only 26 of 100 companies that appeared in the Fortune 100 in 2005 appearing in the list in 2014. Finally, according to a study undertaken by the OECD[11], at current rates, less than half of existing Fortune 500 companies will be in the list come 2025.

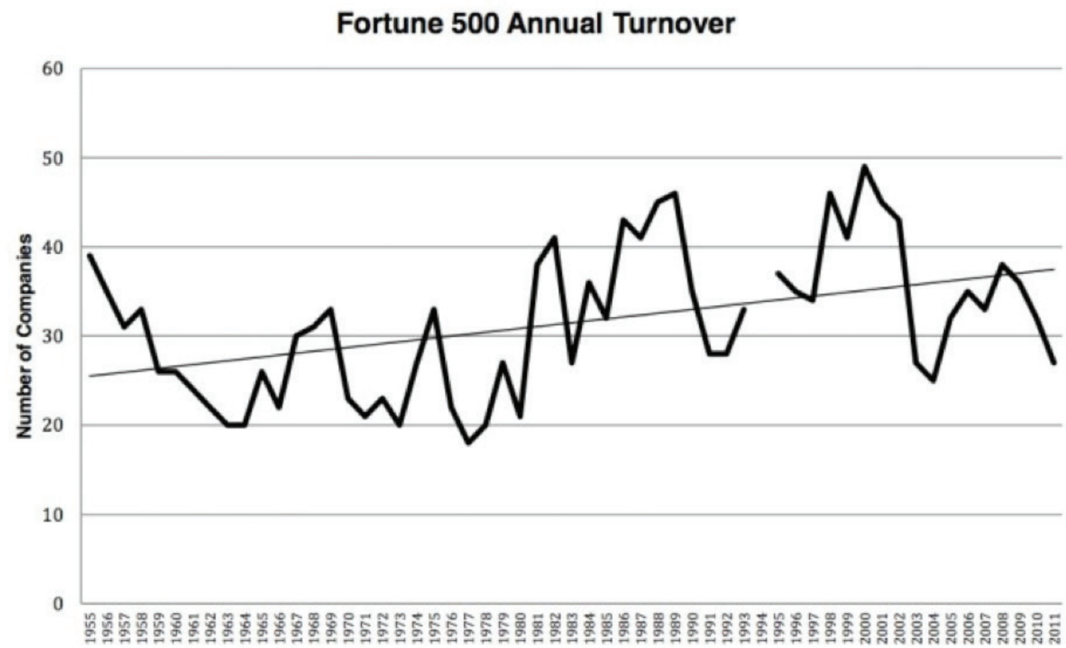


Image Source: Wired.com

What Does This Mean For Accountancy Firms?

Client relationships have long been the lifeblood of accountancy firm revenues, particularly recurring audit revenues. A changing of the guard in the Fortune 500 and equivalent country-specific lists, suggests that firms can no longer rely on existing customers to generate revenues well into the future and that they have to not only start cultivating relationships with the next wave of large companies, but also find ways to speak their language and appeal to their intrinsic values.

Earning and retaining clients is no longer simply about filling a need. Accounting is fast becoming commoditized and firms need to find new ways to differentiate themselves. Today's purchasing decisions are driven not only by function, form and price but also by emotional connection and client experience.

This extends to playing close care and attention to the end-to-end customer journey, including individual touch-points as well as the holistic customer experience. Accountancy firms need to exceed expectations and make doing business with them easy and leave the customer with a positive experience. Accounting has to be seen as more than just a "necessary evil" by clients.

While it may seem easy to dismiss such rhetoric as not applicable to accounting firms, the next generation of Fortune 500 companies, without a pre-existing relationship to incumbent accountancy firms, are offered no shortage

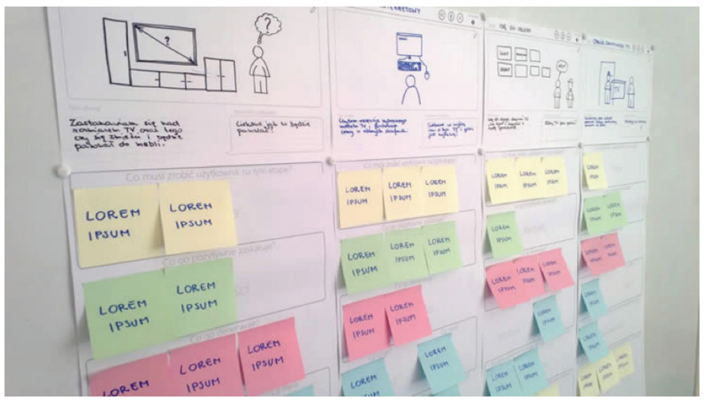


Image Source: UsabilityGeek.com

of competitors to choose from, and with the growing emergence of new firms both locally and off-shore as well as vastly improving cloud-based accounting technologies, neglecting client experience may result in a rapidly deteriorating market share.

INNOVATION IN ACCOUNTING

1. Process and Technology Innovation

The first and obvious thing to look at, and perhaps something that accountancy firms have already been doing (with varying degrees of success) for a few years now, is to leverage technology to offer services faster and better. This serves to reduce cost structures, increase margins and/or become more price competitive. Such innovations however are easily replicable and if first to move and seize a competitive advantage, this tends to apply only for a short period of time.

Still, not adapting emerging technology to promote continuous improvement can leave incumbent firms playing catch up and as such, incremental innovations like these should be embraced.

Offshoring

Process innovation extends to the outsourcing of mechanical tasks to cheaper off-shore locations, something accountancy firms have been doing more and more of over the past few years.[13]

Technology

Using technology and software to streamline and introduce efficiencies to audit activities is also an area that accountancy firms have done well in, although many an accountant at a large firm will question the software packages that the firm has subscribed to, sighting inefficiencies in many platforms designed to make the accountant's jobs more efficient.

Pre-Engagement Activities

Setting up portals that clients can use to pre-populate certain activities and bring down cost, increase margins and limit false starts is also a form of incremental innovation that can have a profound impact on the numbers of a firm over thousands of audits.

Internal Tasks

Introducing automation around menial tasks like expense report processing to speed up processes and eliminate duplication can also save lots of time and money in the long-term. Money that can be reinvested back into innovation or into the reward pool. Nothing kills motivation and productivity quicker than having your educated workforce waste, what can be sometimes hours, processing expense reports.

2. Service Line Innovation

Firms such as Deloitte and PwC have demonstrated leadership in areas of diversification, whether it is through internally developed services, acquisitions or a hybrid of the two. Deloitte leap-frogged KPMG and EY[14] in Australia's accountant tables with over AU$1.16BN in revenues, thanks mostly to service line innovation such as its Digital consulting practice[15] as well as strategic partnerships with the likes of Kaggle[16], a leading data analytics company. Revenue from consulting, which is now Deloitte Global's number one revenue earner, topping traditional revenue lines such as audit, grew 10.3% last year.[17]

Strategic acquisitions of consulting firms such as PwC's acquisition of Booz and Co[18] and Deloitte's acquisition of Michael Porter's Monitor Group[19] have served to further diversify, expand the competitive position and bolster bottom lines at these firms.

Internally, PwC Digital[20], is leveraging off changes in the business landscape to offer services in innovation encapsulating design thinking and lean startup methodologies, user experience design, data analytics, mobile and conversion optimization. This is being driven by a brand reset that appeals to emerging companies and is a far cry from the yawn inducing branding that we have become accustomed to from many talismanic accountancy firms over the years.

Another example of proactive service line innovation in response to a changing technological and business landscape is EY's Advanced Security Centre[21]. Essentially ethical hackers, the ASC offers infrastructure security assessments, application security solutions and security training services. The ASC is helping clients mitigate the threat of the cyber-attacks that embarrassed the likes of eBay[22], PlayStation[23] and JPMorgan[24] in recent years.

3. Product Innovation

It may be easy to dismiss audit services as just that, a service, and product innovation outside the remit of what accountants do, but let's think about that Fortune 500 turnover again. How can accountancy firms tap into relationships with emerging companies early without misallocating resources on what are initially low or no return on investment customers?

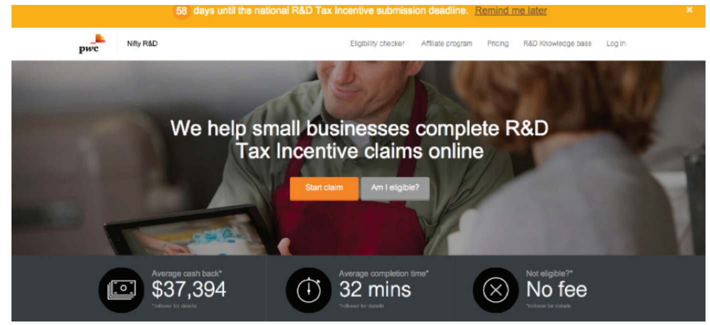


Image Source: PwC Australia

PwC Australia has attempted to begin answering this question with the introduction of their Nifty R&D[25] tax platform. Nifty makes it easy for startups that don't have the time, patience or money, to apply for the R&D Tax Incentive in Australia. Using an online tool that looks and feels like many of today's progressive web platforms that startups are accustomed to, Nifty aims be the most accessible, appealing and fastest way for startups to tap into an R&D tax refund, which can be up to 45% of R&D expenditure.

PwC is essentially tapping into a non-consumption segment of almost 75% of Australian small businesses that normally don't claim R&D, despite the fact that they are eligible. This is a classic case of competing with non-consumption[26] and the nature of the platform means that the time spent reviewing applications is minimal.

The pay-off? While PwC earns a commission on R&D tax returns, the real pay-off is in the shape of relationships formed. Startups using the Nifty platform are far more likely to continue their relationship with PwC than another other firm should they scale the lofty heights of the business world. Not only that, but the relationships forged put PwC in a position to facilitate mutually beneficial connections between corporate clients and startup clients, a value adding service that rival firm KPMG have been exploring.

KPMG's recently announced partnership with venture fund Artesian[27] is said to "allow the engagement of corporates in the startup ecosystem as customers, partners or potential acquirers and will help startups and technology become a substantial industry, as we (Australia) move away from a reliance on mining and resources".

This is yet another example of firms thinking outside the square and establishing new ways to create value, based on an assessment of where business is headed and by taking advantage of their unique and somewhat privileged place in the world of business.

WHAT ABOUT THE THREAT OF PRODUCT INNOVATION?

While smaller accounting practices and competing accounting software packages have already been disrupted by the advent of easy to use cloud-based platforms such as the ever growing Xero[28] and Australian Government applications such as e-Tax[29], mitigating the need for traditional accountants, there is nothing to say that larger firms with larger customers are immune to similar threats.

Clayton Christensen's Disruptive Innovation Model[30] stipulates that technologies and products improve faster than market demands warrant. Incumbents tend to focus on small sustaining bets and drive up-market, focusing on large customers through existing technologies to satisfy their ever-increasing growth targets.

Incumbents concurrently ignore disruptive innovations because the markets they satisfy are too small to satisfy growth demands. As the disruptive technologies get better they eventually becomes good enough for the mass market and often offer something much better, for cheaper, making them the preferred option. By this point, the high cost structure of the incumbents impairs their ability to play in the mass-market space; unless they take a massive hit on margins and/or operate at a loss.

The figure below best captures this model. As technologies and supporting processes in this space become more mature, it is not difficult to imagine companies disrupting the top end of town, similar to what Xero has done in the small business space? Just think of ERP-integrated accounting solutions, audited by a team of purely off-shore staff with the requisite skills and capabilities, to deliver radically cheaper but no less legitimate audits?

Sure, this sounds like it is fraught with regulatory burden and challenge, but like most disruptive innovations, while regulators and incumbents often cry bloody murder, the disruptor usually wins out in the name of consumer interests. Just ask AirBNB[31] or UBER[32], both show no signs of slowing down despite ongoing regulatory tussles[33].

We are already seeing more and more accounting jobs, traditionally performed by graduates and second year auditors, being shipped offshore. The AFR recently reported[34] that offshore providers in South East Asia are offering bookkeeping services for $8 an hour and self-managed superannuation fund audits for $400.

As such, accountancy firms can ill afford to ignore disruptive products and services as they could find themselves priced out of the market with nothing other than a redundant and comparatively expensive model to offer customers.

4. Business Model Innovation

Visit the website of many an accounting practice and you might be shocked by the questionable design of what is supposed to be the online, and oftentimes global, face of the company. Worse still, many such firms who purport to have expertise in areas such as user experience design and digital innovation, fail miserably when it comes to practicing what they preach and putting their best foot forward online.

Accountancy firms will struggle to speak to and connect with the next generation of Fortune 500 companies if they don't convey a warm message wrapped in a positive customer experience and 'cool' brand.

While previous generations (let's call them web 1.0) saw the Internet merely as an information source, Gen Y and Z (let's call them web 2.0) see it as a platform for interaction and experiences so firms can no longer afford to simply treat their digital brands as purely an information source.

This applies to every customer touch point

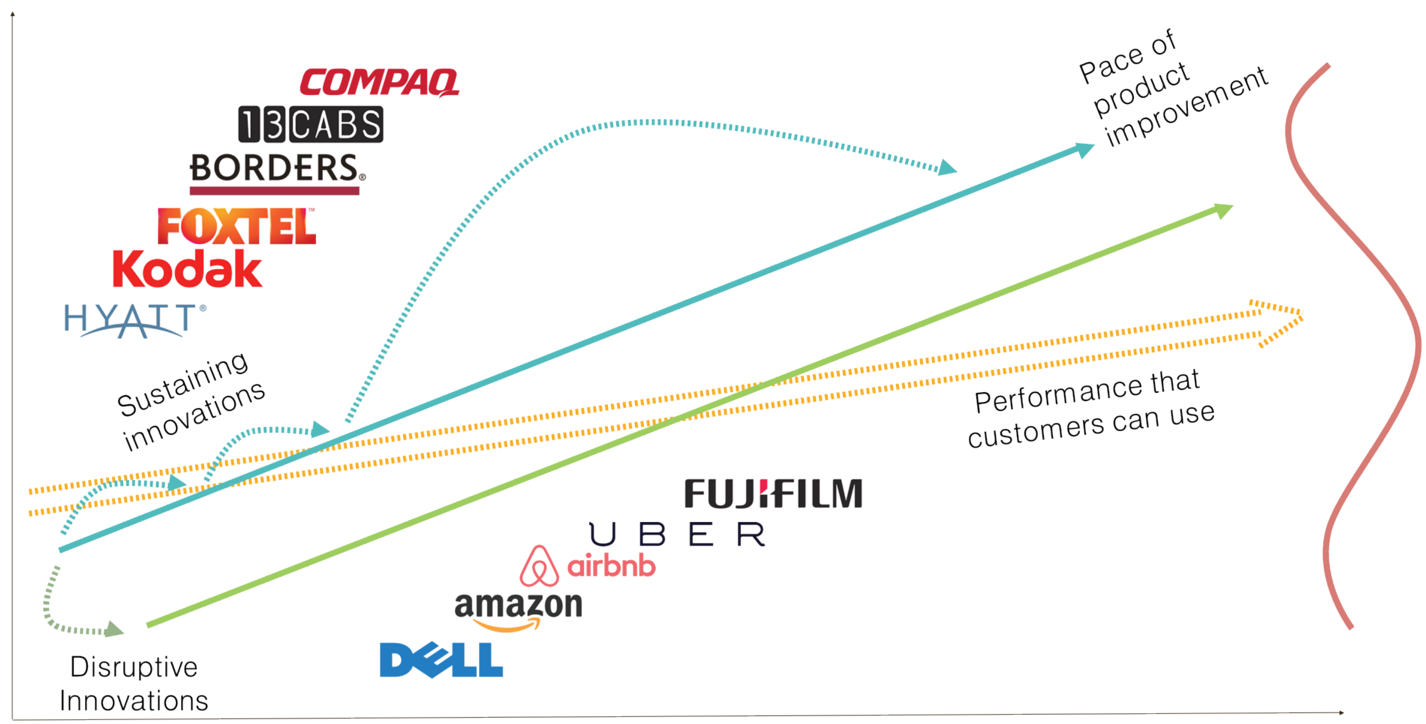


Image Source: Innosight.com

including websites, apps, reports, whitepapers, articles, emails, videos, infographics, slide decks, proposals, memos and most importantly, people. As the face of the F500 changes from pin-stripe suits and ties to rolled up chinos, t-shirts and blazers, a cultural and image re-

Image Source: AlexOsterwalder.com

think may also be on the cards, at least when serving such clients.

Firms that have been operating under the same business model for decades now need to rethink almost every component of their business model, from activities, resources and pricing through to distribution channels, customer acquisition and even, and perhaps especially, their value propositions.

Just some things firms could be thinking about:

- Billing (value billing v hourly, monthly subscription models, bulk rates)
- Bundling and unbundling services
- Ownership structures (equity v partnership)
- KPIs (short-term v long-term, business unit v organization wide)
- Performance Reviews (accounting metrics such as billable hours v less tangible but no less performance review valuable metrics)

HOW CAN ACCOUNTANCY FIRMS ENABLE INNOVATION?

Before accountancy firms can even think about coming out with the next big thing and revolutionizing their industry, they need to review their firm's capability to innovate[35], particularly when it comes to disruptive 'big bang' innovation as opposed to purely sustaining, incremental innovations.

The RPV framework[36], consisting of resource allocation, processes and values, popularized by celebrated Clayton Christensen in The Innovator's Dilemma, demonstrates why most accountancy firms are simply not built to innovate. Rather, they are built to focus on executing a known strategy by satisfying their existing clients and short-term growth targets while its people are hired to execute pre-determined processes, rather than think laterally.

This is all well and good in an environment of certainty where the rate of change is slow and the risk of having market share stripped away is negligible. Unfortunately, for many accountancy firms, that is far removed from the realities of the day.

A great idea will go nowhere without a properly configured RPV framework and buy-in at the top. Christensen summarized this best in his award-winning book when he outlined that:

- Resources are allocated based on existing customers and circumstances;
- Currently small markets don't meet the growth needs of large companies;
- Technology progresses much faster than market demands;
- Market data for new disruptive innovations does not exist (and therefore traditional corporate decision making is impeded); and

Image Source: Innosight.com

- Processes and values inherent to large companies clash with those required for disruptive innovation

WHAT CAN ACCOUNTANCY FIRMS DO?

1. Raise Awareness – First and foremost, there needs to be buy-in from the top and awareness across the organization of the need to innovate, of organizational capabilities and gaps and the fundamentals of innovation theory.

2. Recruitment and Innovator Spotting – High performing lateral thinkers need to be identified and given the opportunity to be innovation champions.

Gen-Y will make up 75% of the workforce by 2025[37] and this generation wants more than just a paycheck at the end of the day. They want fulfillment and they want to go home at the end of the day knowing they contributed and made a difference.

The predictability of most specialist, process-oriented corporate gigs leaves Gen-Y feeling bored, unmotivated and eventually browsing job boards on employer time. Top talent at accounting firms often feel like sitting ducks, waiting to be picked up and placed onto a new engagement, often with little to no regard to their inherent and developed skill sets or career aspirations.

Exposing such staff to engaging, cooperative design thinking workshops and having them test ideas using rapid prototyping, where they test ideas rapidly and deliver working products quickly, can no doubt do wonders for employee empowerment, engagement and retention. It beats 'sitting on the bench', accountant speak for not being currently allocated to an engagement.

While it is true that not everybody needs to be an innovator, recruiters should play closer attention to the characteristics of graduates and lateral hires to ensure that a steady flow of recruits with the innovator's DNA enter the firm.

According to AccountingToday[38], recruiters should look for characteristics such as the following when hiring:

- The ability to connect and associate different perspectives (clients, multiple advisors, trends, technology and etc.)
- The ability to question the status quo.
- The ability to hold self and others accountable.
- The willingness to participate in "safe haven" meetings with peer leaders.
- The ability to manage, not avoid risk. The quantity of new ideas improves the quality. Create the environment to promote, not stifle innovation.

3. Tools and Techniques – This extends to using methodologies such asdesign thinking,

the lean startup and agile along with supporting tools and techniques such as dynamic idea portals and hackathons to name just a few.

Dr. Jeanne M Liedtka of the University of Virginia's Darden School of Business says that managers at large companies (and firms) are great managers, trained to limit uncertainty, leverage data, avoid failure and take slow, big bets. As we've discussed, such attributes work well in environments of certainty, but innovation by its very nature, is inherently uncertain and innovation processes lend themselves to inefficiency because while there are tools and techniques to radically improve chances for success, there is still no magic formula when it comes to disruptive innovation.

Venture capitalists appreciate this best and as such they expect one or two of every 10 bets they make to succeed while managers at large companies (and firms) expect 10 out of 10 bets to succeed. They have been taught in business school and in the corporate world to plan diligently and execute to perfection. Taking uncalculated risks is perceived as a form of career suicide because constructive failure

Image Source: Exploratownium.com

is not embraced; it is seen as a poor reflection of one's competence or lack thereof. Avoiding failure is simply not possible when dealing with disruptive innovations.

"If things are not failing you are not innovating enough", says Tesla and PayPal founder Elon Musk.

Firms need to embrace the inefficiencies that come with disruptive innovation, embrace rapid prototyping and promote failing fast and cheap as they iterate towards product-market fit. Accountancy firms need to get comfortable with the concept of making many small bets that if successful promise large pay-offs, as opposed to few large bets that if successful promise only small, incremental and replicable innovations.

If we learn only one thing from the turnover of Fortune 500 companies, it's that no one industry is safe from disruption. Acknowledging this is the first step to doing something about it.

INDUSTRY//

APPLYING LEAN STARTUP TO HEALTH INSURANCE

If any industry is in need of applying emergent strategy to its product development methods, it's health insurance.

The health insurance industry is facing significant disruption on a number of fronts, such as but not limited to:

- Pricing aggregators such as Australia's iSelect and CompareTheMarket disrupting pricing models[39];
- New, progressive and transparent business models such as Health.com.au[40];
- Unbundled and cheaper products targeted at over-served demographics;
- Data analytics and customer insights-driven policies;
- Wearable technology and gamification driven policies[41];
- New entrants[42] (i.e. Google, Amazon, Woolworths, Australia Post);
- Process automation and off-shoring of roles decreasing cost structures and increasing margins; and
- Redefining the customer experience to support differentiation in a commoditized marketplace[43].

Okay, okay, so how do we go about applying lean startup methodology to a highly regulated, bureaucratic insurance industry incumbent then?

Highly regulated indeed. In Australia, health insurance products need to be cleared by the regulator, the Private Health Insurance Administration Council(PHIAC)[44], before going to market.
Not only that, but policy prices can only be changed once a year on April 1.

So given these nuances, how does an insurer go about getting out of the building and testing their assumptions with real people and real customers?

APPLYING LEAN STARTUP TO HEALTH INSURANCE PRODUCT DEVELOPMENT

One company we recently talked to successfully used lean startup principles to develop a winning product.

So, how did they do it?

Once they had mapped out their initial business model and defined the key assumptions underlying this specific product, they decided that they would tap into the wealth of customer opinions at their fingertips…the 5,000+ employees in the building.

Insurance company employees need health insurance too and the demographics across the building vary considerably.

Yes, I know I said get out of the building, but that was purely figurative!

The company installed both iPads and posters across the building which aimed to engage employees passing by and gather initial feedback on product features.

On a daily and weekly basis, different product features would be tested, essentially a form of A/B testing[45], or split testing (a method used by lean startups to determine which product variables perform better).

Once the results were in, the product development team refined their initial product based on these new learnings and then decided to physically get out of the building.
In plain clothes, on a busy street in Melbourne's central business district, the product development team used iPads and aimed to see if any passer-byers would want to buy the product. Now, getting passer-byers to stop and engage with you on a busy Melbourne street is no mean feat at the best of times, as many a charity fundraiser will attest to, but the team managed to speak to quite a few people and was ultimately successful in 'selling' the product, without finalizing any sales of course.

This helped to provide more comfort that they were onto a winner.

THE BUFFER CASE STUDY

The unsuspecting test case was readily told that the product wasn't actually available yet. One successful web startup that employed this very strategy is email marketing platform Buffer.[46]

The Buffer team essentially tested demand for their product with a website widget that asked customers who had read all about the product features to 'buy now'. Those that were ready to open their wallets were readily told that the product wasn't ready quite yet but that they would be placed on a mailing list. This gave the Buffer team some comfort before they spent resources developing their product, today worth more than an estimated US$50 million[47].

LEAN STARTUP IN THE 1950S

This concept of emergent strategy, or stretching your resources until you stumble upon a winning formula, is nothing new.

Honda did the very same thing with the entry of its Supercub motorcycle into the American market[48] in the 1950s. Initially, Honda had aimed to tackle Harley Davidson head on, but soon discovered that its bike, used to short trips in Japan, was simply not built for long highway trips. Not only that, but motorcycle distributors preferred to focus on the higher margin Harley, and not compromise their relationship with the incumbent American manufacturer.

But Honda didn't waste all of their resources pursuing this deliberate. They discovered that the few people who had purchased a Supercub were using it in a way that they hadn't expected – for recreational purposes. And with that, Honda hatched a distribution deal with sporting goods retailers and the dirt bike phenomenon was born.

Emergent strategy, or validated learning, can be the difference between success and failure when it comes to new product development, particularly when operating in uncertain environments with previously untested products.

So, you work for a big over-regulated industry incumbent that can't innovate do you?

INDUSTRY \\

HOW TO INNOVATE IN GOVERNMENT

Victorian Public Sector (VPS) spending has doubled in the past 10 years, according to the ABS.

This comes at a time when other industries are learning how to do more, not by allocating additional resources, but by embracing emerging technologies and business models to do more with less.

ABS: VPS Spending, 2004-2014

EDUCATION

World class education can now be accessed in remote areas all over the globe, often for free, using massive open online courses, or MOOCs, such as Khan Academy[49] and Coursera[50]. The cost to serve of these organisations is significantly lower than that of say, a University.

COMMUNICATIONS

We are now paying less than ever to communicate with people in not only the next postcode, but the next country code too. We are capable of having free real-time video calls with people on the other side of the world using platforms such as Skype.

TRAVEL

The real cost per mile for air travel has halved in the past quarter century and business model innovation means has made international air travel more affordable than ever. My last return trip to Singapore from Melbourne cost me under $400, whereas a similar trip 20 years ago would have cost me well over $1,500. It's not always about technology but about how a business model shift such as no frills airlines, can support additional aircraft turnover and subsequently lower cost per seat.

TRANSPORT AND ACCOMMODATION

Companies like Uber are not only offering a cheaper and more enjoyable experience than cabs, but their cost to serve is significantly lower than that of a traditional taxi network, given that they don't own any of the Ubers on the road. The same can be said of Airbnb whose market capitalisation of US$25B is larger than that of the Starwood, the Marriott and the Hilton, despite not actually owning a single property.

While new, emerging technologies and business models are enabling many enterprise companies to deliver more with less, the same can't be said of our public sector.

Government, like enterprise, can essentially innovate on three fronts.

- Improve what is
- Take what is working elsewhere and apply it locally
- Create radical, breakthrough innovation
- However, like enterprise, it faces numerous barriers to innovation.

Government has been built to deliver a reliable and repeatable operating model.

It has not been built to search for new operating models, which requires a different approach and is normally the domain of newly formed ventures and startups.

What prevents Government's ability to search for new operating models?

A combination of values, processes, systems and resource allocation procedures prevent Government from adopting the behaviours and mindsets required to effectively support innovation.

Most of these are in place to mitigate risk more than anything.

Just some of these include:

- Procurement processes[51]
- Oversight committees
- Auditor scrutiny
- Media scrutiny
- Reputational Risk
- Politics
- Departmental Changes
- Poor Cross-Functional and Cross-Departmental Communication
- Lack of Procedures to Support Ideation
- Lack of Resources to Support Ideas
- Regulation[52]
- Legacy Infrastructure
- Approval Processes

Of course, Government can't just "move fast and break things", as was the Facebook mantra in their early days, so it must take a different approach if it is to become more efficient at spending taxpayer money to ultimately derive maximum benefit for all. This is essentially what emerging customer-centric tools and methodologies such as design thinking, lean startup and agile support.

So, what can Government do to overcome these barriers?

OPEN INNOVATION & CROWDSOURCING

Government can implement idea platforms such as Crowdicity or Spigit to solicit opportunities, challenges and ideas from not only their employees but also their partners, suppliers and perhaps most importantly, constituents or members of the general public.

Just some tools that Government can use:

Idea Contests[53]- run challenges to solicit ideas from your workforce and the public.

Open Data[54] - make sanitised records and data available to developers and the public to support new product development (the NSW Government launched its Open Data initiative last year)

Open Innovation[55] - work with the public to solve problems and build solutions (the Queensland Government recently piloted such an initiative with PwC)

The United States has been running its Open Data initiative for under three years[56] and in that time has co-developed almost 100 applications[57] to help achieve its mission which includes cost savings, efficiency, improved public services, fuel for business and transparency.

ON PROCUREMENT

When looking to work with SMEs, startups and members of the general public, it's critical that procurement processes align with the reality of these businesses. Most small organisations don't have the time or resources to invest in the often painstaking process of winning a Government contract. They are cash flow driven and simply can't afford to over-invest limited resources where the payoff is unlikely to come through.

Existing procurement processes have been implemented to ensure probity and minimise risk. However, when we're looking to do discover new operating models then limiting ourselves to these standards usually results in not only cutting out most of the emerging and disruptive players, their talent and technologies. but engaging large incumbents who are likely to pass on large fees in order to keep hitting their growth targets.

HACKATHONS & INNOVATION BOOTCAMPS

Traditional product development processes such as waterfall and stagegate, like procurement processes, are geared towards mitigating risk and maximising certainty.

However, when looking to discover new operating models, lower the cost to serve and transform the way Government fulfills its mission, there are too many unknowns and methods that rely on variables being known simply don't work. In such instances we need to be embracing iterative, discovery driven development in order to maximise benefits realisation and spend of taxpayer funds.

How does one do this in a Government that is fraught with red tape, requires multiple sign-offs and simply can't move quick enough to reap the rewards of a fast-paced, iterative product development process that builds on the build-measure-learn feedback loop set out by Eric Ries in the lean startup?

Hackathons and innovation bootcamps help provide some relief. They bring together cross-functional and cross-hierarchical teams for anywhere between one day and one week to apply design thinking and lean startup methods to gather insights, define problems, ideate solutions, develop prototypes and test their prototypes with constituents.

Essentially many ideas can be tested in a short frame of time which means that in a short space of time, with minimal outlay, we can help to determine where capital should be allocated. It's important to engage outsiders during these hackathons who will bring unique perspectives to the process and therefore help craft more novel solutions. Think partners, suppliers, constituents, designers, developers, marketers, technologists, innovators and strategists.

GOVERNMENT INCUBATORS

Business incubators have birthed some of the world's most notable modern companies - think Airbnb, Reddit, Dropbox, Uber and Spotify. Y Combinator, 500 Startups and Techstars are just three of thousands of incubators developing tomorrow's Fortune 500.

The latter has also worked extensively with enterprise organisations such as Barclays, Disney, Nike and numerous others to help incubate new business ideas and technologies in a safe to fail, fast moving environment away from the bureaucracy of the mothership.

18F[58] is essentially the United States' incubator. It is a team of people working on all sorts of new, disruptive ideas geared towards their mission of 'building the 21st century digital government'.

RECONFIGURE PROCESSES AND SYSTEMS

When it comes to innovation in Government, as in large enterprise, there is no silver bullet, and only by doing can we identify all of the major roadblocks, be they people, process or technology, that inhibit innovation. With a clear picture of what these roadblocks are we are better placed to break them down and find ways to support the behaviours required to innovate, withoutcompromising the existing delivery of services.

If our answer to every problem is simply to throw more money at it, we will find that our cost to serve continues to skyrocket, without having a noticeable benefit on the quality of service.

FINAL THOUGHTS

By embracing emerging technologies and exploring operational model innovation, Government can do more with less. This will help to bolster Government, increase the pool of funding available for economic development and make room to decrease the pinch that taxpayers feel each year.

INDUSTRY \\

HOW GE SAVED 80% IN DEVELOPMENT COSTS

Think your organisation is too big, bureaucratic and over-regulated to apply lean startup? Think again.

General Electric[59], with its $493B in assets and 200,000 employees worldwide, is doing exactly that. And it's exactly this kind of progressive thinking, entrenched in GE's DNA, that sees the company enter its 125th year in a commanding position, ranking eighth in the 2015 Fortune 500 list[60].

With one third of listed companies facing de-listing in the next five years[61], it's no wonder that GE is looking to change the way it thinks, makes decisions and delivers outcomes, in order to keep up with the rapid pace of change disrupting every industry.

GE is fast becoming a model of how to implement lean startup in a large organisation.

Eric Ries, author of the Lean Startup[62], a new solution development methodology that has radically transformed the way startups get products to market, approached GE with a simple question, after introducing a group of stakeholders to the philosophy that was rooted in software development.

"Is this something you can use to make things like turbines and jet engines, as well?"

Rather than simply shoot down Eric's question, GE got testing. They put together several new product introduction (NPI) teams at Crotonville, the company's leadership institute. Eric was brought in and taught the teams how to apply the methodology.

When asked whether this was something that was applicable to their respective businesses, the resounding response was "yes".

BUT HOW?

As soon as team members returned to their respective business units, their ideas and new ways of working were quickly squashed. They realised that applying lean startup would not only require training but a cultural shift in the organisation.

GE promptly created its Fastworks program - geared towards the successful adoption and use of lean startup philosophy across GE.

Step one? Get senior leaders, "the top 5,000", trained and educated in lean startup. This formed part of a roadshow that Fastworks' co-founders and partners Viv Goldstein (Business Innovation) and Janice Semper (Human Resources) embarked upon, together with Eric Ries and David Kitter (author of The Startup Playbook[63]). You'll note that the partners together represent methodology and culture, not just one or the other.

The Fastworks team spent 2 days with senior leaders teaching them all about lean startup and this was not without its challenges. Many senior leaders have spent years at GE and most grew up with Six Sigma and as such were process driven, perfectionist and anti-variation. The lean startup sessions were as much as about challenging them to think in a different way as much as they were about lean startup methodology.

GETTING BUY-IN FROM SENIOR MANAGEMENT

Because of the structural hierarchy of GE, getting senior stakeholder buy in was critical to the success of the program. Getting support at purely a grassroots level wouldn't be enough to get traction.

However, recognising the benefits that grassroots employees could bring by way of testing projects and gathering proof points, they could take these validated learnings as 'money in the bank', so to speak, and say "here is the impact, here is the evidence" to obtain real and ongoing support from senior stakeholders.

They quickly realised that Eric Ries is just one person and that they needed to bring the expertise in-house. As such, GE created a community of coaches and trained them to build the expertise internally.

Was there a specific plan to train 'X' amount of teams and coaches? No, GE essentially applied the lean startup principles to its rollout of this program.

"Let's start small, learn and build it up from there" says Semper.

GE's different businesses own Fastworks, as opposed to it being a top down corporate initiative, which supports buy in. They are given a framework but are allowed to determine how many coaches, who becomes a coach, whether it's a part time or full-time role and so on. "Here's the framework - it's up to you how you want to own it."

While this was initially uncomfortable for a lot of people because it requires judgment, it also gives them ownership, critical to buy-in.

They've found that both part time and full time coaches can work in varying degrees.

WHAT ABOUT NON-TECH COMPANIES?

"This absolutely works outside of technology and software and GE is a great proof point for that", having applied the philosophy in areas such as transportation, energy and finance.

IT'S NOT JUST ABOUT TRAINING PEOPLE

"What we learned at Crotonville early on is that as soon as people went back to their business they struggled to use the methodology", says Semper. "You need to think more broadly about your organisation and the ability to make sure that behaviours and culture can support the application of a lean startup approach."

Questions to ask:

- Will lean startup behaviours be permissible and rewarded?
- Does performance management support lean startup?
- What are your expectations of your leaders in supporting lean startup?
- What competencies do you need to develop?
- Like health and fitness, a holistic approach is required to successfully implement lean startup - a personal trainer is pointless if

your house is full of high carb, sugary temptations

EVERYTHING MUST BE ALIGNED WITH THIS WAY OF WORKING

At GE, limiting characteristics that embody the values of its people are failure not being an option, an addiction to being right and a lack of customer-centricity and empathy when developing new products. Why engage customers when you have all the answers right?

Semper zeroed in on these cultural challenges and started to attack them by creating a new belief system that aligned with the Fastworks and lean startup principles.

This belief system was summarised by the following:

- *Empower and inspire each other*
- *Customers determine our success*
- *Stay lean to go fast*
- *Learn and adapt to win*
- *Deliver results in an uncertain world*

This was supported by senior management projecting to their people that "this is what we believe".

New beliefs underpin new behaviours and these new behaviours are critical to the success of lean startup in a large organisation.

Performance management system was out of sync

GE's performance management system was representative of your standard run of the mill linear system. The type where goals are set and reviewed once a year. In order to support the very experimentation and adaptability that lean startup advocates, the performance system had to also embody these values. GE is currently moving towards a more adaptable system where ongoing management is stressed over once a year check-ins.

Still, there are challenges as one would expect of a company the size and scale of GE - 200,000 diverse employees across 175 countries.

But the results speak for themselves...

h RESULTS

Transport: Using lean startup, GE developed and commercialised a new engine based on regulatory changes brought on by the EPA. It got to market 2 years before its competition not only resulting in significant cost savings, but bettering the EPA's requirements. This positioned them extremely well with customers, gave them first mover advantage.

Energy: GE developed a gas turbine which enabled it to deliver the most efficient, low cost energy solution it could to customers and it decreased development costs by 60% by doing so!

In its Industrial business GE:

Reduced time of NPI by two thirds

Reduced time to customer validation by 80%

The latter not only represents a significant cost saving but also frees up NPI funds to reinvest into new ventures, rather than over-invest building the wrong thing and scrambling to find budget for new projects. This snowball effect enables GE to explore a much higher number of new innovations and products in a much shorter time-frame with much lower expense.

POSITIVE IMPACT ON EMPLOYEE MORALE

In a time when customer churn can cost organisations more than $50,000 per person, improving employee engagement and therefore retention is also top of the agenda for most HR managers. Implementing lean startup means that employees are engaged on projects that are delivered quicker and actually realise benefits. This is light years away from traditional, waterfall based 'transformational' projects.

FUNDING PROCESS

The Fastworks process has been embedded into operations.
If an employee has an idea they add it to a growth board and seek seed funding to validate their idea. If validated, then the employee qualifies for additional funding. If invalidated, then things simply stop (stopping anything at GE is also something that was counter-cultural before lean startup reared its head). Now, if a customer says that a new product or feature wouldn't create value for them, the project isn't pursued. Makes sense, in retrospect.

ON REGULATION

I often hear leaders from regulated organisations say that "it's impossible for us to implement lean startup - it's too risky, we're so regulated."

The fact is that lean startup is a de-risker. The cost to go to market with a regulated product is higher than normal, given the compliance requirements and checks that need to take place.

"Using lean startup allows us to mitigate risk before putting things to market - it is a risk mitigant that applies across our healthcare, transportation, finance businesses (and so on)".
By testing quickly, we are taking lots of small bets rather than few large ones and only going to the regulator with products that we know our customers have an appetite for.

Australian health insurer Medibank tested appetite for its Gym Better product by sending employees out to a busy shopping strip in plain clothes with iPads trying to sell a fictional product under the guise of a fictional company to passerbyers and gym goers, purely to gauge customer interest. If somebody wanted to buy on the spot they were simply reminded that "sorry, this doesn't actually exist but thanks for your cooperation - here's two movie tickets!"

This approach cost much less than jumping through regulatory hoops and putting a product to market that there is not enough appetite for.

ON WHY

"Look at the level of disruption that's happening in our industry. It's unprecedented and it's happening today. If we don't change we run the risk of becoming obsolete in less than a decade." This is the reality that's communicated to influencers at GE to inspire their jumping on board the good ship lean startup.

We make it clear that "this is not an initiative, this is a fundamental way we are changing how we make decisions, how we work together, how we align with customers, how we hold eachother accountable", says Semper.

ON COLLABORATION

Remote teams are a nature of the beast that is GE.

The company created a Fastworks site within GE where methodology, proof points, stories, tools and coaching resources are available. Digital training is also being rolled out to move this way of thinking beyond just project team.s.

ON STARTUPS

On startup culture, Semper says that GE has learned two fundamental things:

1. Startups are extremely purpose driven and have a strong connection to the company
2. Dedicated co-located teams achieve amazing things

She has been exploring ways to replicate these startup traits within GE.

The underlying message is clear - if an organisation the size of GE can implement lean start-up, then chances that your organisation can too.

CULTURE

THE CULTURE \\

Innovation is more than just following a set of processes.

Just as a company's existing processes' conduciveness to innovation is important, so is the company's culture. If the management team nor the staff are inspired to innovate and contribute, then a company's growth will stall.

What this takes is a cultural shift.

A company's innovation attempts are often not undermined by an inherent technological flaw, or a market that's not ready, but rather, a misunderstanding of its innovation capabilities. As a result of these misunderstandings, companies waste money, time and opportunities by bungling acquisitions, innovation outposts and internal innovation programs.

There are three factors that underpin what an organisation can and cannot accomplish; resources, processes and values. In an established company, these three factors are usually all geared towards, and very successful at propelling the company in sustaining circumstances. Yet these same capabilities are usually lead to poor exploration of disruptive innovation.

Resources are usually things that can be bought, sold, hired or fired. They include people, equipment, technologies, branding, cash, suppliers, distributors and customers. Resources are easy to measure, flexible, and usually can be transferred around.

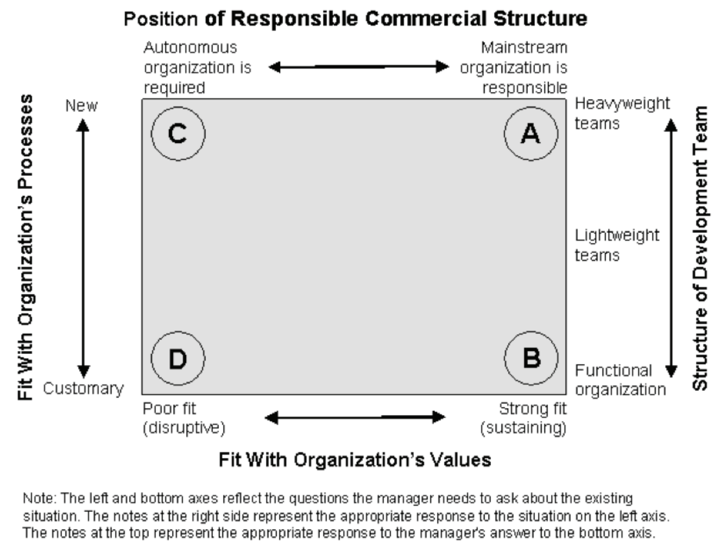
A process defines the capability in executing certain tasks. Unlike resources, processes are not designed to change, and are there to help resources, in particular, employees, execute a task repeatedly and consistently. They don't just include the obvious value-adding processes such as manufacturing, logistics and customer service, but also how research is done, investment decisions are made, or how budgets and plans are negotiated and executed on.

Values, the third capability, defines how employees prioritize decisions - whether a customer segment is more important than another, whether a new product or service is attractive, or whether an order is engaging. Overtime, these values evolve in a predictable fashion - as the company grows, products and services will get upgraded, capturing more premium customers. Overheads will increase, and margins that used to be attractive will no longer be so. Managers will often push for this continual growth.

These values will go on to form the culture of the company.

Large, successful companies will have an abundance of resources to pursue both sustaining and disruptive innovation. However, it is their processes and values that often pose a stumbling block. Conversely, startup stage companies might have limited resources, very few formalised processes, and their values allow them to chase smaller margins in the lower end of the market. This puts them in a far greater position to explore emerging markets.

So what determines whether a company spins off an independent startup company to pursue an innovation, or keeps it lightweight?
This chart, from The Innovator's Solution, shows how to determine companies should use an autonomous organisation to explore an innovation, and what kind of team would be required.



Companies will often try to strengthen their capabilities with acquisitions. An important lesson is if the acquired company's processes and values are the real drivers of its success, then the last thing that needs to be done is to integrate the company into the new parent organization. Integration will vaporize many of the processes and values of the acquired firm as its managers are required to adopt the buyer's way of doing business and have their new-growth proposals evaluated according to the decision criteria of the acquiring company.

A better strategy is to let the acquired business stand alone, and for the parent to infuse its resources into the acquired firm's processes and values. If, on the other hand, the company's resources are the primary rationale for the acquisition, then integrating the firm into the parent makes a lot of sense – essentially plugging the acquired people, products, technology and customers into the parent's processes.

CULTURE//

FAILURE TO INNOVATE BECAUSE FAILURE TO READ?

Outside of values and processes, there's another surprising factor when it comes to companies not innovating.

A lack of curiosity.

The modern white collar professional seems to have limited time to, or simply chooses not to read. Business literature and thought leadership is seldom discussed.

Executives are far more interested in becoming competent at their specialized roles and climbing the corporate ladder through a careful navigation of office politics than they are about learning of emerging trends and technologies that may translate to opportunities and threats. Many are instead content to rest on their laurels and subscribe to a "that's the way things have always been done around here" approach as long as they possibly can because it's worked for them until now. If following set process and procedure is all you've ever known after gaining employment at a large company fresh from University and it's helped you climb the ladder, why would you dare question or challenge the way things are done?

The opposite is true of startup coworking spaces and innovation hubs. There has never been a shortage of discussion on books, authors and ideas. Some of the more widely read books come from the minds of thought leaders like Steve Blank, Eric Ries, Clayton Christensen, Michael Raynor, Richard Branson, Jim Collins, Seth Godin, Brian Tracy, Dale Carnegie and Stephen Covey, amongst others.

Most people I have had the pleasure of working alongside in this time are great advocates of Socrates' famous quote that "the only true wisdom exists in knowing you know nothing". This awareness of self prompts people to exchange books, share insights and constantly pursue a higher or more informed and enlightened state.

In the corporate sphere, books were rarely, if ever discussed, and the only reading material available in common areas was often a tabloid newspaper (left open to the sports pages), a consumer retail catalogue of some persuasion and if you were lucky, a copy of the local financial rag. But be sure not be caught looking at that last one one unless you wanted to be subjected to puzzled looks and peers questioning why you would reach such drab and "boring" material.

This is especially surprising seeing it comes from people whose primary job is to serve corporate Australia. Yet most appeared to have a distinct lack of interest in learning about or keeping abreast of the market forces affecting their clients' going concern prospects.
This is a cultural problem inherent across many large companies and exists for a number of reasons, including but perhaps not limited to the following:

Graduates who apply for roles within large companies have often not shaped what they are passionate about and what they want to do with their lives.

Scoring a gig at a large consultancy or bank with a big name and a big salary seems to make sense to the fresh faced graduate. These decisions are based purely on status and financial incentive, not on personal fulfillment.

Many reading this will appreciate that a job without passion is not sustainable and is not where one is going to be at their absolute best.

Borrowing from Jim Collins' 'hedgehog theory' as outlined in Good To Great, great companies share three traits – not only are they the best in the world at what they do, not only are they able to make sufficient money doing it but they are truly passionate about what they do. The same can be extended to professionals.

Without passion, one will not be curious. Without curiosity one will not learn and without learning, one will hardly be in a position to identify the opportunities that will drive change and promote growth at a given company.

Professionals are put into a 'box' where their success is based on the careful execution of set process pertaining to a given role which exists purely to sustain a winning business model and not to improve it.

Challenging the status quo is generally frowned upon in an environment where there is little to no structure in place to identify and incubate new ideas from the ground.
People are taught and hired to be specialists which is exactly what large companies need to sustain their winning business models but it also comes with a price – a distinct disinterest in anything outside of job boundaries limiting the ability to see and think outside the square
.

Recognition and reward mechanisms in place at large companies are based on the execution of set process (and aligning oneself with the right people and playing office politics)

Mechanisms are rarely based on a demonstrated ability to think differently and add additional value to the organization.

Reading is not actively encouraged in today's organizations nor fed into key performance indicators

Our whole lives, from elementary schools through high school and then University we are taught to read and then when we enter the workforce, that simply stops dead in its tracks unless we take the initiative ourselves.

Some of the best innovators of our time read extensively. Steve Jobs' favorites included The Innovator's Dilemma, Inside The Tornado while others like Elon Musk sight Tesla: Inventions of the Electronic Age and Benjamin Franklin: An American Life, as influential.
Evolution and innovation is based upon building on what was left before us, but if we are not learning from those who came before us and standing on the shoulders of giants we are standing still.

Curious minds tend to shy away from large companies where their desire for improvement and change is not nurtured and often sapped.

In many cases it is the people who occupy these every day, BAU roles that are best positioned to identify opportunities for growth, however there appears to be a catch 22 of sorts operating here.

Those occupying such roles must be great at executing set process and as such these roles tend to be full of non-curious types who are happy following procedure. These guys are great at executing but they are not so great at thinking outside the square, nor do they really want to.

Does that mean large companies should fill such positions with entrepreneurial types? Hardly. Such people want to ideate, innovate and ultimately 'change the world' and these BAU roles are hardly suited to them. It is likely that having such people occupy these roles may be detrimental to the company as they are likely to be unhappy with a conformist gig and ultimately do an unsatisfactory job.

But perhaps that's it? Perhaps that's why large companies need sustainers and people who are happy executing set process.

Perhaps that's why innovators need to work for startups, small businesses where they have more freedom and independent companies set up by larger organizations. The latter is exactly what many thought leaders such as Clayton Christensen and Michael Raynor prescribe when it comes to solving the woes of large companies being disrupted by the little guys.

This prescription suggests that the curious few who read, who read alone, should essentially be left to work alone, apart from the parent organization, as a member of an independent company. This company should have KPIs independent of the company, budgets independent of the company, and processes and reward structures independent of the company.
Only then, with the creative and procedural freedom, time and money to build, test, learn and adapt, can new ideas truly flourish in a large, established and already successful company.

CULTURE//

HOW TO EFFECTIVELY SUPPORT AN INNOVATIVE CULTURE WITHOUT COMPROMISING BUSINESS GOALS

How to effectively support an innovative culture without compromising business goals

"Move fast and break things."

This was the mantra of Facebook in its early days, as is the case with most startups that subscribe to the iterative product development method popularised by the Lean Startup.

However, a startup's primary job is to discover new sustainable business models, unlike large organisations which are built to deliver existing business models that already make money. Unfortunately for the latter, standing still is not an option. One in three publicly listed companies is at risk of being delisted in the next five years alone. Such is the pace of change and disruption driven by technological and business model innovation.

Simply donning hooded jumpers, setting up a table tennis table and throwing some bean bags about the office, while fun, isn't going to do anything to shift the underlying values and culture that ultimately impede innovation.

So, how do large organisations go about building an innovation culture without compromising the core business which, after all, currently generates the majority of revenues?

MINDSET

First, we need to give our people an opportunity and safety to step out of the traditional corporate mindset, one which avoids failure at all costs. If we only ever take safe bets, we will only ever invest only in safe, incremental innovations which are easily replicable and generally don't serve to radically grow revenues of create a defensible position.

What is the worst possible outcome we are willing to accept? Once you know the answer then your employees are free to work within these boundaries. At the moment this is not being articulated in most organisations and risk is still a dirty word. Taking lots of small bets, as opposed to few large ones, supports learning through failure, supports incremental learning and identifying opportunities that would have otherwise remained invisible. This ultimately helps to identify solutions worth building but also helps to embed a critical entrepreneurial trait into the psyche of employees, one that mitigates risk by doing, as opposed to analysing the past - which is rarely a strong indication of the future, especially not in today's turbulent landscape.

METHODOLOGIES

While traditional product development methodologies such as stage gate and waterfall play an important role in product development, they are best used when there are few unknowns. Only under such circumstances can we have greater certainty over what we're building, who the customer is, how much it'll cost, how long it'll take and so on.

If we put a certainty lens on inherently uncertain projects, in order to get our business case signed off, then we are destined to do one thing. Deliver what generates little value on time and on budget.

Applying a waterfall lens on projects that have too many question marks associated with them is a major reason why projects implemented using waterfall fail to deliver benefit 66% of the time[1]. Not enough focus on the customer job, the value proposition and too much insular thinking are causes for this. We need to, in the words of Steve Blank, get out of the building[2] from day one.

Building on a mindset that concedes we don't have all the answers, our employees can learn how to better identify and test problems and solutions using methodologies such as the human-centred design process and the lean startup. As opposed to committing several years and X millions of dollars to building the wrong thing that serves little benefits realisation, as is the case with many 'transformational' projects, we can teach our employees the value of moving and iterating quickly.

Design thinking and lean startup workshops are easy ways to help plant entrepreneurial thinking in people's minds and the very nature of learning by doing will serve to retain those learnings. Not only that, but the short term nature of these courses increases the likelihood that people can get away from their job to take part, especially important for senior stakeholders. The alternative is to keep investing valuable training dollars in vanilla certifications that have employees competing on how many mints they've eaten in order to stay awake.

TOOLS

Idea contests and hackathons[3] (or innovation bootcamps) are a great way to encourage cross-functional employees from across the organisation to share challenges, opportunities and ideas that they come across in their day to day, often left untapped. This increases employee engagement and gives them a creative outlet and ownership over the company's investment in innovation.

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ABOUT \\

STEVE GLAVESKI

Steve can trace his passion for creativity back to Grade 3, recalling when he mistook the teacher's instructions to create a small flipbook with putting together a 50 page story on his imagined ascension to fame in the NBA (this was at the height of the Michael Jordan era in 1992), complete with hand-drawn, coloured in images of Steve soaring like an eagle and a bound spine.

This passion to create was later reflected in his hand drawing entire magazines, complete with pin-ups, on topics such as rock music which sparked his interest when he was 13. He promptly picked up his first guitar and many hours of imitating Eddie Van Halen in his bedroom mirror followed, culminating with his first live performance at the age of 21 in front of a few hundred people.

Of course, Steve never became a rock star...

Like most adults, this creativity was beat out of him by the white collar profession. Creativity is about boundlessness and a linear approach to business and life is anything but.

However, like any entrepreneur, a number of chance encounters and actions resulted in a serendipitous journey that awoke the creative spirit, synonymous with his childhood.

Having earned his Bachelor of Business and Masters in Accounting in quick succession, Steve spent 8 years working for organisations such as Westpac, Dun & Bradstreet, the Victorian Auditor General, Ernst & Young and Macquarie Bank. During this time, Steve gained an appreciation for the inner workings of large enterprise organisations, Government and professional services firms. One thing he didn't appreciate was the way these organisations were all set up to deliver, not to discover and how they all incentivised and rewarded following procedure, not questioning a "way things have always been done around here" mentality that seemed pervasive across each company he worked for.

After having several efforts to create stunted by direct managers, who were understandably driven by short term KPIs and were incentivised to deliver, not discover, Steve eventually decided that he would take matters into his own hands. He set about building a web startup called Hotdesk in 2012, having observed a disconnect between surplus office space available in the commercial property market in Australia and a lack of flexible space for startups and mobile workers to access - essentially Hotdesk was an 'airbnb for office space', if you will.

Steve was proactive - he spent little more than $2,000 creating a prototype, promptly collected as many emails of tech journalists and writers as he could and proceeded to send them all a press release he'd written himself to try and get some press for his idea. Fortunately for him, one of life's beautiful butterfly moments ensued - The Australian saw the idea as 'hot' and published a full page article called Hot Idea With Room For Growth. This, while Steve was still a full time employee at Macquarie - a fact that his direct manager picked up on and promptly questioned Steve's commitment to the bank.

He was right to do so. Within three months of the article coming out Steve was lucky enough to secure seed funding to the tune of $156,000 from angel investors. Not a bad return on such a small outlay. Steve promptly left the Sydney headquarters of the bank and moved back to the city of his birth, Melbourne, upon which he embarked on his entrepreneurial journey.

Steve spent two years building Hotdesk up to 1,200 locations across Asia-Pacific. It was during this time that he met his co-founder at Collective Campus, Sean Qian, then proprietor of Collins Collective, a tiny coworking space in Collins Street in Melbourne's CBD.

Having moved to a larger space on the other side of the CBD called Queens Collective, an opportunity presented itself. Steve had now walked both sides of the fence - startups and established organisations - and after devouring hundreds of books, podcasts, videos and coffees discussing innovation and entrepreneurship, Steve and Sean teamed up to build Collective Campus, an innovation hub, school and consultancy, which has also been home to companies such as Uber, Zomato, General Assembly, Suppertime, Coinjar and Drawboard, to name but a few!

This was an opportunity for Steve to help established organisations adopt the mindsets, methodologies and tools to successfully explore new business models and disruptive innovation in an era of rapid disruption - and an opportunity to support all of the other stunted intrapreneurs who were struggling to circumvent the entrenched values and processes of their organisations to create, contribute to the company's innovation strategy and deliver new value and growth.

Today, Steve is co-founder and chief consultant and facilitator at Collective Campus where he works with companies such as IBM, Sportsbet, Metlife Insurance, King & Wood Mallesons, National Australia Bank and numerous others.

He also hosts the Future^2 podcasts, is a keynote speaker, blogs almost every day and heads up Lemonade Stand, a business school for kids that he has co-founded.

Steve is passionate about liberating companies from the values, processes and systems that are a product of the early 20th Century and guiding them towards an approach that supports today's core business while keeping an eye on the discovery of tomorrow's emerging business.

ABOUT \\

COLLECTIVE CAMPUS

Collective Campus is an innovation hub based in the heart of the Melbourne CBD that help companies adopt the tools, mindset and methodologies required to stay competitive in an era of rapid disruption.

Collective Campus is also a startup co-working space and have been home to world-class startups such as Uber, Zomato, Drawboard and Coinjar in addition to bodies such as Startup Victoria and Startup Grind Australia and regularly run industry events on innovation and entrepreneurship

Sean Qian was the founder of Collins Collective and Queens Collective, both tech startup co-working spaces in Melbourne's CBD. Steve Glaveski was a former management consultant, innovation writer, and web entrepreneur, having worked with the likes of Ernst & Young, KPMG and Macquarie Group. In 2013, Steve founded Hotdesk, an online office sharing marketplace that now boasts over 1,200 locations across Asia Pac.

Both Sean and Steve received a lot of interest from corporates wanting to send their employees to work out of tech startup coworking spaces, which prompted both Steve and Sean to ask - 'why were corporates so interested in these early stage start-ups?' Surely there was more to it than simply being cool by association?

Steve and Sean began to investigate, and after months of customer discovery, practicing the lean startup philosophy that they now preach, they met with a whole host of ASX50 companies (often having 5 coffees a day!) and top professional services firms. They discovered something - established companies are built to execute on a repeatable business model, they are not built to search for new business models. Large organisations need to learn how to successfully explore disruptive innovation not just to carve out new markets and stay relevant, but to inspire their people to be their best and be a part of the social, technological and commercial transformation of the 21st Century.

It was this need to create and nurture a culture of innovation and intrapreneurship within the enterprise that drove the founders to create Collective Campus.

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