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Corporate Explorer

How Corporations Beat Startups at the Innovation Game

Charles A. O'Reilly III, Andrew Binns and Michael Tushman • Wiley © 2022 • 256 pages

Innovation / Innovation Management

Take-Aways

- Corporations are closing the innovation gap with start-ups.
- Corporate explorers are leaders from any level of an organization who turn their insights into initiatives.
- “Strategic ambition” encourages exploration by calling on decision makers to balance the risk of action against the risk of inaction.
- Manage uncertainty with ideation, incubation and scale disciplines.
- Ground ideation in solving customer problems.
- Incubation in large firms calls for controlled risks to gain knowledge.
- When scaling your venture, consider all of your options for building assets, and weigh them carefully.
- An ambidextrous business model lets core business and disruptive ventures operate according to their own logic, while sharing assets.
- For innovation to result in change, corporate explorers and senior management must demonstrate leadership.

Recommendation

Are corporations capable of change? Popular opinion sees disruption as damaging to corporations and favoring start-ups, but corporations are learning how to embrace change and foster innovation by empowering their most ambitious leaders. Professors Charles A. O'Reilly III, Andrew Binns and Michael Tushman share the hard-won lessons of corporations that have successfully pushed back against fear and inertia. These organizations recognize and support employees who possess and can act upon insights about the future of the business, and who drive change from within the corporate structure.

Summary

Corporations are closing the innovation gap with start-ups.

Conventional wisdom holds that large firms operate at a fundamental disadvantage compared to start-ups. Corporations rely on the profits of a mature business model. They are risk-averse and unwilling to commit significant resources to unproven ideas. In his book *The Innovator's Dilemma*, Clay Christensen argues that this makes corporations vulnerable to disruption: a new way of doing things that changes all the rules and makes old business models irrelevant.

> *"Explore leadership has emerged as a distinct capability in corporations, in both those we call Corporate Explorers and the leaders who are ready to commit resources to support new ventures."*

However, in the 25 years since the publication of Christensen's book, corporations have learned to leverage their assets to create an innovation advantage.

Corporate explorers are leaders from any level of an organization who turn their insights into initiatives.

Corporate explorers do not wait for permission from above; they see opportunity, initiate their projects and get leadership on board to create their own mandates.

Krisztian Kurtisz of UNIQA Insurance, for example, believed that the insurance industry had lost touch with its original mission: sharing risk among all members of a community. Instead, insurers focused on minimizing risk to the company and treated customers as liabilities. Kurtisz sought to create a simple subscription platform that saved money on administration – by assuming people were honest – and utilized digital technology to spot fraudulent claims after the fact.

Kurtisz's insight combined an opportunity for his firm with a personal mission: His firm could use its existing assets to serve an emerging digital market while Kurtisz worked to reinvent the relationship between the insurance industry and society. His sense of purpose sustained Kurtisz in the face of uncertainty and provided a compelling reason why the company should commit to his venture.

> *"You can succeed by engaging the CEO, rather than waiting to be given the responsibility to innovate."*

Corporate explorers are not entrepreneurs. Venture capital investors tend to be open to new ideas, but skeptical of the team implementing them because its members are newcomers. Within an established firm, the situation is the opposite: Executives know your track record, but are often hostile to change. Of course, you want to make the case for your insights in the strongest terms possible, but you should first gain support from executives who understand the risks and unknowns of your project. Bring executives on board to test your ideas and act as advisers.

"Strategic ambition" encourages exploration by calling on decision makers to balance the risk of action against the risk of inaction.

Managers and employees often balk at uncertainty, which is an essential element of corporate exploration. Corporate explorers face an uphill battle: Their initiatives are a cost center, and they have no proof of concept. They are trading on faith. Leaders can support this role by creating a corporate purpose that authorizes exploration.

Strategic ambition is ambition proportional to the level of threat posed by future challenges to the firm. Having strategic ambition at the senior management level, so company decision makers understand the reason for taking risks, raises the chances of success for corporate exploration.

Successful strategic ambition involves the following:

- Demonstrating an emotionally compelling and aspirational attitude.
- Setting new rules, describing the logic the firm will use to reach its aspirations.
- Creating a license to explore.
- Establishing a social network of support within the firm.
- Defining hunting zones to focus and align exploration with company strategy.
- Clearly articulating the ambition in a manifesto.

Manage uncertainty with ideation, incubation and scale disciplines.

Formerly, in corporations, subject experts like engineers defined innovation through rigid approval systems aimed at eliminating risk. Strategic ambition teaches corporate leaders to embrace a certain amount of risk, and innovation disciplines provide a framework to manage that risk. The goal is not to "fail fast," but to gain knowledge.

> *"Often, deep technical specialists, such as scientists, engineers and actuaries, get more satisfaction from pushing technical boundaries than from learning what customers want or value."*

Innovation consists of three fundamental disciplines: ideation, incubation and scaling. These three disciplines represent stages in a process, but explorers will move back and forth between them constantly, as all three inform each other.

Ground ideation in solving customer problems.

Humans have a strong desire to create new ideas. This addiction to ideation can lead people to spend too much time on this phase, constantly coming up with new ideas in a vacuum without acting on them. This distracts people from customer-led innovation. Corporate explorers should start with the customer's definition of success and innovate towards it. Rather than remaining wedded to your own ideas, start with an effort to understand the customer's needs.

> *"All innovators are vulnerable to falling in love with their own ideas."*

Beware of the solution trap: thinking your idea is great and then seeking proof, instead of analyzing the customer problem first and adapting an idea to that. This happened to Mozilla when, seeing the success of the browser-based Google Chromebook, decided to invest $400 million in the Firefox phone: a mobile phone with a browser-based OS. Customers rejected the phone because it offered no access to iOS or Android apps.

> *"Had Mozilla learned by getting outside-in feedback on their business idea, they might have quickly seen that when people have phones, they want to run apps on them."*

An "outside-in" approach to ideation starts with customer discovery. Use these strategies to understand the customer's point of view:

- **Be open investigators** – Acknowledge your biases – for example, towards current or prevailing opinions – and take them into consideration, so they do not influence you unconsciously.
- **Apply a discovery discipline** – Follow a system that forces you to consistently challenge and justify your ideas from a customer perspective.
- **Engage in an immersive experience** – Engage with your customers to break down your assumptions and biases, for example, through in-person interviews.
- **Be an observer** – Go beyond interviews and study what your customers do.

Use what you learn to identify where the customer journey breaks down. This will identify high-value customer problems to solve. Then move on to ideation to find solutions for those problems.

Incubation in large firms calls for controlled risks to gain knowledge.

In the start-up world, weak business models vanish and the strong survive. Corporations should gain the same insights through controlled experimentation.

> *"Business experimentation has its roots in the scientific method."*

Incubation comprises five stages: hypothesis, test, learn, iterate, decide.

A hypothesis needs to be explicit and testable. Be clear about the assumptions you are making when you claim a business model will succeed. A hypothesis must contain metrics that you can measure, for example, a 50% reduction in time or a 30% reduction in fees.

Start with the hypotheses that are the most uncertain and the most important for success. In essence, this means starting by testing the minimal viable offering or product – the most basic version of the service you can offer to customers. Once you have sufficient data, interpret the results, take what you learned and create a new hypothesis based on a new iteration of your business design. Doing this multiple times will reduce uncertainty about your venture. You can then decide objectively whether to move forward, pivot or abandon your business's model.

When scaling your venture, consider all of your options for building assets, and weigh them carefully.

Scaling involves assembling assets to allow your incubation-tested business design to start generating revenue at full scale. You will need assets from three general categories:

1. Access to customers, through distribution channels and sales teams.
2. Capabilities in the form of technology, skills and knowledge.
3. Capacity to meet demand, such as manufacturing, fulfillment, logistics and call centers.

Acquire these assets in the form of other firms with existing assets, build them internally, leverage them from the core business or access them through partnerships. Choose the sources that most efficiently fill your gaps. Don't rely too heavily on acquisitions.

> *"The existing customer base and brand are the most likely assets that an established firm can bring to the new venture. Bringing a new technology capability to an existing customer base is an excellent strategy for rapid scaling."*

Choose an entry point close to the core business, then prioritize assets that let you move quickly to secure your market. Apple launched the iPod and iTunes before launching the iPhone. iTunes delivered an existing customer base for the iPhone and provided the company with immense resiliency as competition grew.

An ambidextrous business model lets core business and disruptive ventures operate according to their own logic, while sharing assets.

A firm's core business and its explore business operate according to different logic. The former makes incremental changes to optimize revenue, while the latter operates in a context of uncertainty.

> *"Our first instinct is to set the new venture free in a garage to make things happen."*

Adopt an ambidextrous structure:

- **Give exploratory ventures autonomy with a structure that separates them from the core business** – Bottom-up accelerator programs ensure a steady stream of initiatives from lower levels; top-down or focused programs depend on management to name initiatives.
- **Design your firm's teams to provide the explorer business with access to resources** – Hybrid teams answer to the core and explorer arms, but this often strains a team; sprint teams move people from core business to explorer for a limited time to achieve a specific goal; extended teams supplement the explorer arm's native team with self-selected advocates in the core business.

- **Look out for sources of conflict when structuring the sales team** – Existing sales agents may fear competition with existing products. They may not know how to sell to a new market, or they may treat new products as add-ons to sweeten the pot.
- **Don't let corporate functions control ventures** – Finance and HR should not place rigid demands on new ventures, which require flexibility.
- **Invest resources into the explorer team based on milestones rather than current financial performance** – Milestones are a better metric of whether an explorer venture is on track.
- **Evaluate explorer ventures based on forecasts, not past performance** – Rather than performance indicators, you should evaluate explore ventures on "feed-forward" metrics, such as customer adoption or user engagement that measure progress towards a goal.
- **Don't try to bring the venture model of incentives into the corporate world** – The motivation for entrepreneurs is fairly straightforward: large payouts. Corporate explorers tend to have different motivations.
- **Build executive attention into your design** – Executives should devote separate time to explore ventures at set intervals with a focus on pre-established indicators and long-term vision.

For innovation to result in change, corporate explorers and senior management must demonstrate leadership.

The core business and corporate explorers are interdependent. The core business has the assets venture needs and corporate explorers prepare the core business for the future. Change calls on leaders in the core business to reconsider their professional identities and relax their focus on short-term optimization.

Corporate explorers are pathfinders for the firm. They teach the core business what the organization of the future will look like and how its abilities and needs will change. They are storytellers for their ventures and communicate to the organization to create networks of support.

> *"Corporate Explorers succeed by setting a new normal. They create a movement for change inside the organization that initiates doubt that defending past professional identities makes sense."*

Corporate explorers influence leaders by reframing the choices between short-term financial results or growing new business as a choice to drive current results while securing the future of the business. This "both and" logic creates readiness to act.

About the Authors

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