

# Governance for Innovation



*“Men and women want to do a good job, a creative job, and ... if they are provided with the proper environment, they will do so.”*

- William R. Hewlett

*“A mind is like a parachute ... it works best when it's open.”*

- Jordan Ayan, author of, "Aha! 10 Ways to Free Your Creative Spirit and find Your Great Ideas"

## Governance

Governance is determining how the innovation environment is established. It is the highest order of abstraction in a project and is almost always the domain of general managers. It encompasses the policies, guidelines and reward system that enables the business to be successful.

Mature companies emphasize controlling and perfecting their processes, striving for efficiency and predictability. If they persist in this mode of operation they risk becoming the victims of radical innovation – from the competition.

## Creative Environments

Consider how much working time individuals are allowed for free-range thinking, or pursuing topics that are most enticing to them. 3M, famously, allows 15% of the workweek for projects that most interest the individual and since creativity comes from pursuing that which we find most delightful or most frustrating it has borne fruit.

Creativity also comes from freeing the mind from other worries and cares and focusing on the problem at hand. This requires “clear air” time for the mind, time that it has been set aside to stew on the alternatives. This is not a “time slice” activity. It requires a certain amount of dedicated time to bring the problem being worked to the front of the mental stage and acted upon in thought, inquiry, conversation, or proposal.

## Be Open to New Models and Ideas

It may be easy for us to explore the new or different, yet when we discover a point of view or idea that diverges from our belief system, it is easy to ridicule, criticize or compare rather than just assimilate and appreciate it for what it is, something different. This is why in many organizations it takes only an average of ten seconds after someone presents a new idea for someone else to start presenting all the reasons the idea won't work.

*"I think there is a world market for maybe five computers."*

*"Good judgment comes from experience. Experience comes from bad judgment."*

*- Thomas Watson, IBM, 1943*

According to Edward De Bono, "A highly intelligent person can take a view on a subject and then use his or her intelligence to defend that view. The more intelligent the person the better the defense of the view. The better the defense of the view the less that person sees any need to seek out alternatives or to listen to anyone else. The quickest and most reliable way to get rewarded for intelligence is to 'prove someone else wrong.' Such a strategy gives you an immediate result and also establishes your superiority. Being constructive is much less rewarding. It may take years to show that a new idea works. Furthermore, you have to depend on the listener liking your idea. So it is obvious that being critical and destructive is much more appealing use of intelligence. Critical destruction of one hypothesis has never produced a better one. It is creativity that produces the better hypothesis."<sup>1</sup>

### Rewarding the Innovation Process

People follow their report cards, explicitly or implicitly. Rewarding innovation also means rewarding the "failures" that lay on the path to success. Being able to distinguish avoidable failure from necessary learning will enable the manager to construct a report card that will foster successful risk taking and innovation.

#### Don't reward for:

- Concealment
- Misdirection
- Not considering suggestions (regardless of source)
- Poor stewardship
- Lack of attention to market/customer changes
- Preventable failure to meet deadlines
- Not asking for help
- Uninformed judgment
- Not invented here (N.I.H.) syndrome
- Political infighting
- Throwing it over the fence to manufacturing, marketing, sales, customer, etc.

#### Don't punish for:

- Bearing bad news
- Failure from stochastic shock or exogenous events

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<sup>1</sup> From: *De Bono's Thinking Course*, Edward De Bono, Facts on File, 1994

- Corporate strategic shifts
- Asking for help
- Quick, informed decision making
- Information that became available after the fact
- Decisions based on rational information
- Limitations of technology
- Stating unpopular or unpleasant information

Bruno et al. identified ten causes for venture business failures, most of which were centered on the fit between the company, the product, and the market. Financing and people problems fell a distant second and third in priority as a cause of failure. People issues consisted of relationships with management, team dynamics, and human failings<sup>2</sup>.

### Levels of Investment in Innovation

A conscious decision needs to be made as to what percent of a business' portfolio will be used to fund innovation. Of course this is a decision that is driven by the type of business one is in, the stage of the life cycle of the market, etc. Once the funding level is decided upon it should be allocated and managed following "risk capital" rules and principles. These rules and principles are often very different from the methods of managing existing businesses and may require learning new skills. If management tries to measure the performance of its risk capital by using current processes they run the risk of stifling innovation before it begins. Returns should not be expected to fall within the same times, or at the same rate as existing businesses.

There is nothing soft and fuzzy about the way venture capitalists manage their portfolios. Their management style is not designed to kill the opportunity, rather it is designed to find every possible way to help the opportunity flourish and generate extraordinary returns on their investment. However, should the investors exhaust all possible avenues for success they will move swiftly to cancel the venture and quickly move the people onto other more promising endeavors. On the other hand many venture capitalists consider failure an advantage: they recognize that failure is often the best teacher.

"Success is 90% failure."

- Soichiro Honda

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<sup>2</sup> Albert V. Bruno, Joel K. Leidecker, and Joseph W. Harder, "Patterns of Failure among Silicon Valley High Technology Firm," in Ronstadt et al., *Frontiers of Entrepreneurship Research*, 1986, p. 667.

## New Financial Models

Perhaps the newest financial model for innovation is that there should be little support or belief in exhaustive financial analysis. Those who manage risk capital typically look for greater than 20% compounded annual return for their portfolio. Since only one in five ventures succeed, any business that a risk capitalist invests in must hold the promise of greater than 100% compounded annual return within a five-year timeframe. Also, these returns typically come in the last 1-2 years of the venture. This is in stark contrast to the typical high-tech product development model that looks for a mid-teen return within one year.

Investors and venture capitalists, therefore, pay more attention to questions concerning cash flow.

- When does the business have to acquire resources, people, and supplies? When does it have to pay for them?
- How long does it take to get a customer? How long before the customer sends a check?
- How much does it cost to support a customer?
- How much capital equipment is required to support a dollar of sales?
- How will the product or service be priced?

Concentrating questions around the viability of the business model will result in more pragmatic answers. Fanciful forecasts for markets where there is little or no organizational experience result in poorly set expectations.

## Innovating Across Divisions

Most companies are a rich tapestry of innovative ideas that are looking for application. Established businesses are replete with success stories that result from cross-fertilization of seemingly disparate ideas residing in dispersed parts of the organization. There are indications that innovation happens because there was a person who acted as the cross-pollinating bee in the organization.

As large companies grow enormously and disperse throughout the world it is impossible for one or two individuals to act as “busy bees” and enhance cross-fertilization. Managers need to keep in touch with their counterparts and key customers in order to develop flexible, organic, systematic ways of bringing its widely dispersed and disparate businesses into contact with each other. Only by constant

scanning can opportunities for leverage across organizations be realized.

### Finding a Place to Grow

Nothing is easier to kill than a new idea (see above). Once an opportunity has been identified it needs to be nurtured outside a traditional project management process. This is not to say the project does not need measures and checkpoints, just that they are different, even unique, in tone, scope, and nature.

For some projects a new division is formed, for others merely rearranging cubicles is enough. Many businesses have developed 'skunk works', or teams, that live and work offsite in rented shop space or trailers in the parking lot; some have even moved states in order to escape the stifling constraints of an existing business. Finding a home for a project depends as much on the existing culture as it does on those undertaking the work. Be objective, take a long view and determine what you need to do to allow the creative process to take its course.