Beyond Keeping Afloat

How Established Business Can Get Breakthroughs

Tony Davila and Marc J. Epstein

There is a common myth, told and retold, from the boardrooms of industry-dominating behemoths to the opinion columns and business pages of newspapers and magazines. It's a myth that litters the internet, and strikes fear in the heart of many an established executive. While it may seem like reality to many, this myth is actually more like a distortion of reality, often caused by a kind of inadvertent, self-imposed blindness—a willful, if unintentional, shoe gaze of sorts. **The myth goes like this:** large, established organizations can't get breakthrough innovations on their own. Breakthrough innovations, it says, are the domain of feisty, scrappy, nimble startups.

Companies that once graced headlines as models of homegrown innovation, once they reach a certain point, it seems, often believe themselves incapable of developing the types of innovations that disrupt markets or even create entire new ones—the kinds of innovations that can radically change the outlook of a company, or even the world, when successful. If it is, in fact, a myth, then why does it feel so real to so many? And what can be done to avoid the seemingly inevitable drought of innovation that comes along with building and cementing the apparatus of an established organization?

The Logic of Business Units and the Innovation Paradox

Imagine, after years of pondering and prototyping, that you have just developed a game-changing, market-disrupting, even market-creating product. (Congratulations! You should be proud.)

For months and months, you put in long hours and the requisite body fluids to churn out a product after which the world will never be the same. You convince a number of backers to fund your proposal, and over years of research, developing an effective business model, and executing on your plan, you turn what was once little more than a glimmer in a would-be-entrepreneur's eye into a slick, well-oiled machine, producing, distributing, and spreading the good news of your product throughout the world. You made it—your product has become a success, perhaps even a market leader. You are the captain on a ship that seemingly can't be stopped.

Now, like many established organizations, your attention and energy shift. After all, no longer are you trying to break into a market. Once the ship itself has set sail, there seems little need to belabor the launch. The questions you now ponder move away from "what kind of champagne should we smash on the hull to set the ship in motion?" and closer to "how can we keep this ship afloat?" How, as an established organization, do we maintain, and perhaps even build on the successes we have achieved?

If you're like the leaders of most organizations, you have likely divided your "crew," so to speak, into a number of business units—divisional structures, allowing certain segments of your workforce to focus on specific tasks and markets. Having such a singular focus allows a business unit to be razor-sharp when it comes to execution, and allows an organization to improve, incrementally, its products, processes, and services over time.

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The kind of incremental innovations that business units often produce—the kind that allow for faster, cheaper, and more efficient development of products and services—are undeniably important to both the immediate and long-term health and wellness of an organization. Without incremental innovations—without taking the time to maintain and improve upon the inner workings of the organizational ship, so to speak—not only will an organization not function as smoothly or reliably as possible, but it will also make way for competitors to swoop in and take the market share that is rightfully yours.

On the opposite side of the same coin, incremental innovation isn't and can't be everything. What captain of what ship would ever send all hands below deck, into the engine room, to make sure the engine is running as efficiently as possible? Sure, doing so might make the ship itself run a little faster, a little cleaner, and maybe even a little cheaper, but a "plan" like that seems like no plan at all—or worse, it's a plan for a shipwreck. With all hands below deck, who is left to steer the ship? Who is out exploring areas off the charted course, or scouting ahead to warn the crew about rocks, icebergs, or pirates along the charted route? Who will notice as the water becomes shallower and shallower in the moments before the ship finds itself immobile, beached on some foreign, rocky shore?

Below deck is where many established organizations find themselves focusing the majority of their energy—on day-to-day, incremental improvements to current products and processes,

as well as developing operational efficiencies. While doing so is important and even necessary to a certain extent, focusing a disproportionate amount of an organization's energy, time, and resources on these sorts of incremental innovations can actually crowd out the possibility of organizations developing breakthrough innovations. In the most extreme cases, an undue focus on incremental innovations can lead to an organization becoming the fastest, most productive, and most efficient organization in a market that no longer exists. With heads so long below deck, these organizations never stood a chance when the market landscape changed around them—or vanished altogether. They were so busy, with their heads down, making incremental improvements, that the tide went out and left them stranded before they even realized it was happening.

We like to call the phenomenon whereby an overzealous focus on incremental innovation and operational efficiency crowds out the possibility of breakthrough innovation the *Innovation Paradox.* It is the culprit when it comes to the oft-told myth that established organizations can't get breakthrough innovations.

From Whence Innovation?

Innovation comes from many places. For some organizations—like Apple under Steve Jobs, for example—innovation seems to flow from the fountainhead that is their visionary leader, and their operational structure reflects that. Organizations like Apple are set up such that innovations handed down from on high can be developed and implemented as effectively and efficiently as possible. They are often secretive, and are far less interested in ideas coming from elsewhere within the organization as they are from higher levels.

The trouble with the innovations of visionary leaders—top-down innovations—is that they are seldom right more than once. Just as lightning rarely strikes the same place twice—although it does happen—the odds of one person coming up with breakthrough-after-successful-break-through are simply not great. Thankfully, the Steve Jobs-es and Elon Musk-s of the world are not the only repositories of breakthrough thinking.

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Other, perhaps more democratic organizations attempt to harvest the fruits of the law of large numbers by betting on the ingenuity, forward thinking, and breakthrough ideas lying latent within their own walls. Companies like Google, for example, not only allow their employees to spend a portion of company time and resources tinkering and experimenting with ideas not necessarily related to their everyday duties, they actually encourage it. A number of successful Google products and initiatives have come from this sort of bottom-up innovation—bubbling up from the wellspring that is an engaged, adventurous, and creative workforce.

If Apple and Google and other similarly innovative companies can succeed in the arenas of developing both incremental innovations to be competitive and breakthroughs to encourage radical growth, then it should be safe to say that the myth of established organizations being unable to develop breakthroughs is debunked. If that's the case, the question is no longer whether or not established organizations can get breakthroughs—but how?

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On Planning and Discovery

It's not so much that established organizations can't get breakthrough innovations as it is they often don't get them because business units and traditional metrics of business health depend on a kind of certainty in the short term that breakthrough innovations just don't provide.

In many established organizations, the business plan is the go-to tool for deploying a strategy in known and stable markets. They chart out a course, with very specific timeframes, budgets, and other similarly rigid metrics to ensure that the organizational ship keeps moving in the right direction. In this sort of environment, incremental innovations that align with existing strategies are heralded and supported, while those that might stray from the planned route are seen as costly diversions—red flags that must be pulled back in line. In this atmosphere, is it any wonder that breakthroughs seldom, if ever, occur? What might have begun as the start of a breakthrough, before it even has the chance to make its case, is often thrown back overboard, or forced into an incremental mold until it fits the guidelines of some predetermined plan.

Put simply, breakthroughs are just not planned in the traditional sense. Rather, breakthrough innovations tend to emerge from sometimes unpredictable, often time-consuming, and almost always experimental processes of discovery. They come from exploring emerging and not-yet markets—from the tiny submarines sent out to scour the darker waters outside the main ship's

route. While breakthroughs can flourish in an environment that espouses and encourages creativity and experimentation, they are often stifled, strangled, or outright rejected by established organizations with rigid metrics for what determines success.

For these reasons, breakthrough innovations often seem like they are the sole domain of fledgling startups. Like the newborn who doesn't yet know fear, smaller, nimbler organizations seem more likely to embrace the kind of risk and uncertainty that comes along with seeking out breakthrough innovations.

Now, established organizations need not just become large startups—but there is certainly something to be learned from the spirit of discovery, and almost reckless abandon that characterizes many emerging companies.

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The Startup Corporation: The Best of Both Worlds

Small size is no requirement for breakthrough innovation. As the example of companies like Apple and Google and many others who have maintained an ability to develop breakthrough innovations despite their maturity can attest, established organizations really can get breakthroughs. In fact, once they get them, their networks, resources, and ability to scale put them at a distinct advantage in terms of making those breakthroughs a success.

The Startup Corporation is a set of tools intended to bring together the strengths of startups when it comes to making breakthrough discoveries with the strengths of established organizations when it comes to execution. While each company and market presents its own unique set of challenges and circumstances, the Startup Corporation can be helpful in terms of guiding established organizations in the search for market-disrupting and market-creating breakthroughs.

THE STARTUP CORPORATION

Create an Environment Conducive to Discovery. Nobody talks back to a drill sergeant, and if they do, they have a pretty good idea of the number of pushups they'll be doing for raising

their voice. If your organization is structured for top-down innovation, and employees are lauded for keeping close to the beaten path but discouraged from straying, don't be surprised when incremental innovations are all you develop. Many innovative companies possess leadership, culture, business strategy, incentives, and management systems that embrace the idea of discovery as foundational for developing breakthrough innovations.

Companies that are successful at coming up with breakthroughs create an environment that encourages exploration and experimentation. Allocating a certain amount of time, resources, or even number of employees to seeking out and investigating emerging and not-yet markets is a simple and effective way to increase your chances of developing breakthroughs. A fleet of even part-time explorers sailing into uncharted waters is a lot more likely to turn up new and promising ideas than is a crew always at its predetermined post.

Of course, while business plans shouldn't be the main guide for exploration, none of this is to say that there can't be some strategy behind where exploration begins or ends.

Learn as Quickly and Cheaply as Possible. One of the most important lessons that the Startup Corporation takes from early stage startups is also the most scientific. Since startups are rarely married to a predetermined plan as closely as many established organizations, if an idea isn't working, it is no problem to rework it or throw it out, regardless of how well it might align

with some existing goals. Through a continuous process of trial and error, the Startup Corporation pulls up its nets, weeding through the garbage and setting aside the gems for closer inspection.

Unlike many established organizations, companies taking lessons from the Startup Corporation see the value in their employee networks, and often possess a kind of openness unlike companies with a more top-down model. They embrace the idea of copying and combining innovations, and have let go of the old school prejudice that holds if something wasn't developed in-house, then it can't be worth much.

Most importantly, the focus is always on learning as quickly and cheaply as possible. For the Startup Corporation, there is no such thing as a failed experiment—only an opportunity for learning.

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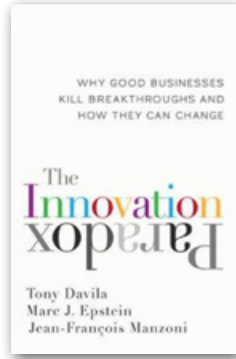
Execute, Execute, Execute. Once a promising idea has been identified and honed, established organizations really have an advantage. Even with all of the foundations in place, turning a breakthrough innovation into anything more than a passing fad requires the ability to execute.

Where fledgling startups still need to essentially figure out how to scale and run a company, established organizations can throw the full weight of their networks and resources behind this potential breakthrough. From here, established organizations move their potential breakthrough from the uncertain terrain of the exploratory phases to the sort of execution mentality that has made that organization a success—the place where operational excellence and incremental innovation determine long-term success.

When it comes to innovation in general, putting too much weight on either end of the spectrum between incremental and breakthrough—that is, keeping all hands below deck, or sending everyone out to explore at once—can be a recipe for disaster.

Finding the right balance, learning to embrace the inherent risk and uncertainty that accompany breakthroughs, and executing when it counts will all go a long way towards keeping an organization not only afloat, but prepared for a long and profitable journey on ever more competitive seas. ⌸

Info

WHY GOOD BUSINESSES
KILL BREAKTHROUGHS AND
HOW THEY CAN CHANGE

The
Innovation
Paradox

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ABOUT THE AUTHORS | **Tony Davila** heads the Entrepreneurship Department and the Entrepreneurship and Innovation Center at IESE Business School in Barcelona. He was previously on the faculty of the Graduate School of Business at Stanford University and a visiting professor at the Harvard Business School. He has a doctorate from Harvard Business School. **Marc J. Epstein** has held positions as distinguished research professor of management at Jones Graduate School of Business at Rice University and professor at Stanford Business School, Harvard Business School, and INSEAD. He has written or co-written nearly twenty books and more than two hundred papers, and has worked extensively with leading global companies on innovation.

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