

GROW FROM WITHIN

MASTERING CORPORATE
ENTREPRENEURSHIP
AND INNOVATION

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PROLOGUE: ORIGINS OF THIS BOOK

Grow from Within grew from demand from corporate executives. Coauthor Robert C. Wolcott is the founder and executive director of the Kellogg Innovation Network (KIN), a unique invitation-only forum at the Kellogg School of Management. KIN members—executives and innovation leaders at companies in a variety of industries—meet on an ongoing basis to discuss business growth and innovation challenges and to share solutions. Kellogg faculty members act as facilitators and pursue research in collaboration with KIN members and their companies.

In 2003, our executive colleagues expressed strong interest in understanding how established companies can most effectively build new businesses. Like most business leaders, they were keenly aware of the requirement that they drive meaningful growth beyond modest improvements within their core businesses. They were also well aware that within large, complex organizations, building truly new opportunities outside core businesses can be challenging. It can even feel futile at times.

Three KIN member companies—Motorola, PepsiCo, and Cargill—funded a research project at Kellogg to benchmark

current corporate entrepreneurship practices across a range of industries and define the options available to companies that were interested in growing through internal entrepreneurship, or *corporate entrepreneurship*. The authors of this book were the principal investigators on this study.

We began by conducting a review of academic and trade publications. The academic literature predominantly examined related but distinct issues of corporate innovation and ordinary entrepreneurship. Among those that focused on corporate entrepreneurship, the findings were generally too abstract or conceptual to be useful for managers who were seeking insight into how their company should make corporate entrepreneurship actionable. Books and articles in the trade literature tended to focus on practices for inspiring creativity, empowering project champions, managing innovation projects, achieving breakthrough or radical innovations, and creating corporate entrepreneurship teams or groups. The recommendations were often sound and thought-provoking, but it was rarely clear which of the multitude of practices were worth implementing in a corporation's particular situation, or even where to begin. It was also unclear how different practices might support various kinds of strategic, corporatewide initiatives.

Our field research began with interviews with managers regarding corporate entrepreneurship strategies, structures, funding methods, project management processes, incentives, and results. We quickly discovered that leading companies were already employing many of the ideas and project management practices that were described in the trade literature. Companies that were approaching corporate entrepreneurship in a deliberate fashion had implemented systems for soliciting, collecting, and evaluating ideas. Special management systems, distinct from ordinary new product development processes, existed for moving promising projects forward. In many cases,

top management oversight and steering organizations had been formed. Implementation of the basics of corporate entrepreneurship management at the individual and project level was surprisingly uniform across companies and industries. We observed no companies, for instance, for which a lack of good ideas was an issue.

We noted three particular gaps, however. First, companies lacked the tools for designing new businesses. Second, there was a certain lack of conviction, even among companies that were pursuing corporate entrepreneurship successfully, about how the pieces ought to fit together at the organizational level. Third, nearly all of the new business growth leaders with whom we engaged expressed the challenge of taking successfully validated and developed new businesses and transitioning them to their companies' business units to achieve meaningful growth for the company. This book addresses these gaps. We hope our readers will find it of value in meeting their corporate and career objectives.

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Robert C. Wolcott and Michael J. Lippitz
Evanston, Illinois

INTRODUCTION

CORPORATE ENTREPRENEURSHIP, INNOVATION, AND ORGANIC GROWTH

[The] time has now come to do for . . . innovation what we did for management in general some thirty years ago: to develop the principles, the practice and the discipline.

—PETER DRUCKER, 1985

Let's start with what this book is *not*. This is *not* a book about creativity or "thinking outside the box." Companies typically have more promising, innovative concepts around than they can pursue. Nor is it a book about managing innovation projects. There are many fine books on conceiving, developing, and launching radically new products and services.

This *is* a book about taking creativity and making it real, about turning innovation projects into substantial new paths to growth within established enterprises. Corporate entrepreneurship is the strategy and practice of conceiving, fostering, launching, and managing new *businesses*—not just new products or services—that are distinct from but make significant use of a company's current core assets, market position, or capabilities.

For many, the view of Kurt Estes, a former corporate entrepreneurship leader at Motorola, is apt: "A company that does not innovate to create new growth opportunities will be reduced to a purveyor of commodity products and services on

its way to oblivion.” In a world of increasingly global markets and fluidity of technical and business talent, where competitive threats come from unexpected directions, more and more businesses are looking for new ways to grow.

Corporate entrepreneurship is a strategic answer to the challenge of organic growth. It is an essential component of a well-balanced, long-term growth portfolio. The best corporate entrepreneurship programs are partners with a company’s traditional innovation programs and new business development efforts, such as research and development, corporate venture capital, and acquisitions.

Corporate entrepreneurship is a vehicle for the innovative opportunities that don’t fit neatly into your core businesses. Several books have been written recently about disruptive or radical innovations. Breakthrough technologies or products usually require a new business design if they are to reach their potential, but they’re not the only opportunities that benefit from a corporate entrepreneurial approach. Sometimes what appears to be an incremental innovation in an established line of business will grow larger and faster if it is approached as a new business rather than just an extension of business as usual. Corporate entrepreneurship requires innovating in dimensions of an established enterprise that too often are insufficiently considered, such as the customer experience, channel strategy, and value capture.

There are numerous examples of companies that have succeeded by taking modest product or process innovations and rethinking their prevailing business models. In 2003, a top Sony executive lamented to us, “The iPod should have been a Sony product!” Indeed, Sony had the heritage, the brand, the technology, the channels—everything. The company effectively redefined the portable music space in 1979 with the Sony Walkman, at a time when people were not accustomed to thinking of a tape player that could not record. It was Apple’s

Steve Jobs who recognized that the potential of portable digital music in the Internet age could be unlocked *only* through the creation of a new business, not just a better MP3 player. Apple was late to the digital music game. Its success with the iPod and iTunes had less to do with the design of the product, however elegant, than with the fact that it developed a comprehensive solution to consumers' needs. It transformed the music supply chain to provide a better customer experience. In other words, Apple *designed a new business*.

To be effective at corporate entrepreneurship, most firms need to do more than just create a separate group for coddling and prototyping disruptive or radical innovations. Incubation is not enough. The right solution for your enterprise might not include creating a separate development organization. It may not make strategic sense for your business to focus on breakthroughs. For instance, if your objective is to find new customers and markets for your existing technologies and capabilities, you may wish to establish a group that coaches and supports your business units in discovering and exploiting adjacent markets. If your objective is to discover and retain the entrepreneurial employees who are already working for you but are not realizing their potential, then you may benefit from a program that moves these people into high-growth areas of your existing businesses.

We'll focus frequently on objectives—your objectives—throughout the book, making sure that you know exactly what you're trying to accomplish before you select tools and approaches. In our experience, corporate entrepreneurship initiatives often become overly focused on generating creative ideas. There are plenty of creativity experts who would be delighted to help you jump-start innovative thinking. This can be a breath of fresh air, but it won't amount to much if there are no management structures and processes in place to turn

the resulting bunch of ideas into new business designs, then convert them into growing businesses. How many brainstorming sessions have you and your colleagues attended where nothing much happened after everyone returned to the office? If good ideas are consistently ignored or seed funding to investigate them is slow or insufficient, people become conditioned to stop trying.

Even if concepts spend time in incubation, how often do they languish there without being successfully scaled into a meaningful new business? Or how often are they suffocated by existing business units that are protecting their own turf or killed because revenue or profit goals are applied prematurely? We refer to this as the *transition and scaling challenge*, and it's an issue that corporate entrepreneurs and innovators across industries must face. The real question is, what does it take to build new businesses within your organization, not just invent something novel, *and* take them to market?

This book provides frameworks and tools for the early stages of new business design and advice on how to plan and lead an ongoing corporate entrepreneurship program based on strategic objectives and corporate context. Different corporate contexts require different structures and processes. Each company will set different goals for its corporate entrepreneurship initiatives and for its innovation efforts more generally. Building the right approaches starts with clearly understanding your objectives.

This is not just a book for internal venture leaders or budding corporate entrepreneurs. The approaches described for winning at corporate entrepreneurship are often useful in planning and implementing other innovation and growth initiatives. Building truly new businesses within established companies raises many issues that are similar to those raised by enabling innovation more broadly. But new business creation often poses even more complex challenges that affect a

range of activities within the parent company, from operating and investment procedures to talent development and corporate mindsets. This book is about overcoming these impediments and building paths to the future.

Of course, investments in the future are typically a difficult sell for businesses that are under pressure to make their numbers today. It can be an even greater challenge when economic times are tough. A few brave and resilient companies manage to take advantage of economic hardship to expand their market share, but most companies hunker down. Andrew Razeghi of the Kellogg School of Management notes that some forms of unmet customer needs are easier to discern during a period when customers are thinking harder about their spending, particularly those that promise to conserve capital. New value propositions can keep your company relevant in people's lives when they are otherwise scaling back. Moreover, in the volatile industry of telecommunications equipment, Cisco Systems's CEO, John Chambers, directs his management to "prepare for the upturn" during hard times. If you wait to build growth paths until times are good, you'll find yourself behind those companies that took a consistent, disciplined approach to long-term growth.

Perhaps most important, a corporate entrepreneurship program can help keep your most creative, passionate employees from walking out the door. A serious corporate entrepreneurship effort does not have to be expensive in order to unleash those with exploratory spirits and keep your best talent focused on helping your enterprise grow from within.

Entrepreneurship and Corporate Entrepreneurship

Which *great* companies were not founded to exploit some fundamental innovation and built through the drive and deter-