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Intrapreneurship Can Turbocharge Companies

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In his book Lean Startup in Large Organizations (http://leanstartup.biz/) *, corporate innovation expert Jim Euchner* (https://www.linkedin.com/in/jimeuchner/) *offers a systematic approach to successfully implementing Lean Startup practices in established companies, providing a set of complementary tools and processes to help intrapreneurs successfully drive change.*

The book draws on his work -- he's a former a corporate strategy and innovation VP at Pitney Bowes and Goodyear -- as well as interviews with such innovation experts as Steve Blank, Eric Ries and John Rossman, who created the Marketplaces business at Amazon. In Lean Startup in Large Organizations, Jim explains steps intrapreneurs can take to adapt Lean Startup tools and processes inside a large organization, and the complementary set of practices they need to put in place to manage the relationship between the core business and a new venture.

Jim is a visiting professor and co-chair of the Advanced Services Partnership at Aston University in the UK; the Editor in Chief of the Research Technology Management journal; and a Partner at Outside Insight Consulting, LLC, where he helps companies manage corporate innovation.

In this edited interview with EIX Managing Editor Cathy Buday, Jim explains how a culture of innovation can be built inside established companies; how to incentivize corporate innovation efforts; common mistakes companies make when trying to innovate and how to avoid them; and other best practices innovation leaders need to embrace to stay competitive and drive growth.

Cathy Buday:

How does innovation in an established firm differ from innovation in a startup?

Jim Euchner:

Large companies have established ways of doing things. This means that any attempt to innovate can inadvertently disturb the universe in some way. People involved in the innovation effort must do two things at the same time. One is to create a new business with a focus on meeting a compelling customer need; the other is to leverage the assets of the existing business to create competitive advantage for the new business. This is challenging because support of the new business can disrupt the work of people in the existing lines of business, who are just trying to do their day jobs efficiently. There's a kind of a natural tension that can arise.

There are two kinds of innovation. The first is innovation that feeds the existing profit engine: faster, better, cheaper products, process innovation, innovation that cuts the costs out of a product. That innovation can be difficult at times, but it's not nearly as difficult as innovation that creates a whole new revenue model or a whole new business. New business innovation can challenge the very identity of the firm. It also awakens real fears about cannibalization, resource drains from the existing business, and disruption of operations. The two types of innovation need to be treated differently inside a large company.

The Innovation Stage Gate

Buday:

How do you do that? Can you take the freewheeling innovation piece of a large company and kind of put it in a box where it's safe to play in?

Euchner:

You can separate the innovation function out, but then it can become so divorced from the core that it's hard to create competitive advantage. The new company might just as well be an outside entrepreneurial venture (https://eiexchange.com/content/379-champions-make-diverse-spinoff-teams-mor) because it will not be able to leverage the assets of the company. If the new venture is too deeply embedded in the core business, on the other hand, it's very likely that it will be smothered or starved for resources by the exigencies of the ongoing business. The operating functions might resist giving permission for activities that the innovation team needs in order to go where the customer wants to take it.

One way to keep the core business and the new venture aligned is through an "Innovation Stage Gate." This is an adaptation of Lean Startup that tends to work well for large companies. It essentially unravels the Value Hypothesis, the Business Hypothesis and the Growth Hypothesis, the three goals that are pursued simultaneously in the Lean Startup. Most corporations need the sense of control afforded by reviewing progress at milestones, which in the Innovation Stage Gate are the answers to the three key hypotheses.

The first stage of the Innovation Stage Gate is focused entirely on understanding the customer, customer needs, the value proposition, and sources of value creation. It includes cycles of experimentation that start with hypotheses about customer needs, building prototypes to test them, and pivoting based on whatever is learned. This stage borrows heavily from the field of design. This can happen in a very chaotic way, but at the end of this stage, you've got a value proposition that can be reviewed and challenged.

The next stage in the Innovation Stage Gate is developing the business model. This too involves a lot of experiments, pivots, and re-directions, so it can also seem chaotic. But at the end of this stage, you have a validated business model. The business model can also be reviewed and challenged. Finally, during incubation – which is when you're actually in the market at small scale – you continue the experimentation (https://eiexchange.com/content/can-you-afford-to-experiment-reflections-on-innovation) . You are now learning about how to make the new business profitable and scalable.

If you use this staged approach, the chaos doesn't happen in an innovation sandbox in the corner, but it's also not completely constrained by the existing business. The innovation team has a lot of freedom within each stage, and then checkpoints between them.

Where It's Worked

Buday:

Is this possible at any kind of company?

Euchner:

It's technically possible but not always culturally possible. It requires that companies get real clarity about where they want to innovate and which assets they can leverage into new spaces. Amazon is very good at doing this. They see a growth opportunity and an asset that can help to make the business real – maybe it's the customer base or a piece of infrastructure. Then they build the new business leveraging the existing assets. When Amazon opened up its customer base and online store to others, it was controversial inside Amazon because it seemed like the company was giving away the crown jewels, but it helped made the company into what it is today. It enabled Amazon to move beyond a few items, like books and CDs, to become "the everything store." Similarly, when Amazon decided to open up its cloud computing infrastructure to others, it took the step of making a valuable asset available to anybody – including competitors. Why would they want to do that? Their view was that it was a unique asset, but one that could also create a growth business. And now Amazon Web Services is one of Amazon's largest, most profitable businesses.

I worked for Goodyear which, in addition to having a lot of technical assets and a large customer base, also had a service infrastructure. That service infrastructure could be leveraged into new services businesses that were broader than the tire business. Goodyear began selling services to improve uptime for trucking companies and to sell tires as a service. We used the Innovation Stage-Gate approach to develop these businesses. I think this is possible in many, many instances, but will not be appropriate to all.

Separate but Connected

Buday:

Your book talks about the "separate but connected" model. How does that work?

Euchner:

The people who pioneered the separate but connected concept were Vijay Govindarajan and Chris Trimble at Dartmouth. It is an organizational model that establishes the new venture as an independent entity, but with a set of very defined relationships that have been negotiated with the core business. The venture is free to develop its

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own culture, to move at a pace that's appropriate to its business, and to make decisions about hiring and other factors appropriate to its business. But it must negotiate with the core business on specific things that affect the core: how we go to market, the relationship between the two sales forces, access to product, and other specific agreements designed to help the venture and the core business work well together.

Many people think they can just figure this out as they go along or they try to manage the new company as a project in the core business. When companies do this, the pressures on the existing business will very likely kill it. There is always a need for investment in sustaining the core business, and it can seem like a very poor bet to put money into an uncertain new venture. In addition, the core business is often concerned that the new company will hurt the existing business in some way. One secret to this dilemma is to actually sit down with all the parties and disucss what the relationship between the new and the existing will be, and to do this before you go to market.

Managing their 'Day Jobs'

Buday:

How do you manage the intrapreneurs who are part of the core company? They have their own ideas, their own incentives, their own bonuses on the line. What do you reward them for in order to encourage innovation? Why should someone sacrifice something that's within their core responsibilities to further a new venture?

Euchner:

At the operating level, people have the incentive of running the business very efficiently. A contract lawyer's first priority will likely be to fulfill the contracts that are needed to keep the core business running. Salespeople have quotas. Procurement professionals need to control the purchasing process in order to get the best prices from supplier. The innovation team first needs to acknowledge and understand the concerns of the functions and then figure out how to work together to alleviate the concerns and still innovate.

A process I call graduated engagement works very well. Over time, as you move through the innovation stage gates, the functions are engaged at an increasing level. At the early stages, the innovation team is responsible just for keeping the corporate functions informed. They gradually increase engagement as the program progresses. The commitment that the innovation team makes in return for the freedom to operate in the early stages is that it will collaborate with the functions during incubation to resolve any outstanding issues that are points of conflict.

Ambidextrous Leadership

Buday:

You mentioned earlier that you need executives who can see the big picture and help to smooth things out. Is that what you mean by ambidextrous leadership in your book?

Euchner:

Ambidextrous leadership is a term a coined by Michael Tushman and Charles O'Reilly. It's the idea that any business has to do two things: one is to exploit the current business and make it as profitable as it can be; the other is explore new businesses for the future. It can be hard for executives to jump from one context to the other because the mindsets are so different, but more executives will need to be able to do this in the future. It just doesn't come naturally to most people.

Intrapreneurship in Practice

Buday:

How have your own experiences with the intrapreneurship process worked in practice?

Euchner:

I worked for six years at Goodyear, where I concentrated on launching new businesses outside the core tire business. A number of structural things were done well and helped to make new business innovation successful. First, it was something that the CEO wanted to do, and therefore innovation teams got the funding necessary to make it work. The company also was open to this idea of incubating new businesses, and we actually sequestered funds for incubation – a certain amount of money was earmarked during budgeting that could only be used for incubation, so funds were available when we were ready to go to market. Of course, we had some issues in making innovation work, but over time some of the practices that we've talked about were effective. Goodyear is a very process-oriented company, and the Innovation Stage Gate helped reassure people that the process of launching these new businesses would not be chaotic.

Buday:

What kinds of companies have had the best results with

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your methods?

Euchner:
Every company has its own context and its own challenges. Lean startup is the idea that innovation is essentially about learning. It involves doing experiments, reducing risk over time, creating deep interaction with customers, spending time in the business ecosystem. This, I think, can work in every context, but it's often thwarted because the practices themselves can create resistance inside the company. I don't think the key is to replicate specific practices within every corporate setting, but to replicate the thinking around them. If I'm a process-oriented company, maybe I want to do something similar to the Innovation Stage Gate. If I'm not process oriented, I still need to ask what practices will work to make sure that I've got an understanding with the core business that lets me leverage its assets.

There are two basic frameworks that help in any case. The first was observed by Kurt Lewin, a famous pioneer in organization development. He made the point that when you have resistance to something, the best way of overcoming it is to reduce the barriers to compliance, not to increase the pressure on people to comply. This might mean making time and resources available to people in the function, or giving them air cover with their bosses. The second is game theory. It helps you to understand the motivations of other people in the organization. Game theory helps you to think about how to shift the payoff matrix for those with whom you need to work so that they are more likely to collaborate.

VC Functions at Big Firms

Buday:
A lot of large companies are starting their own VC-like functions to foster innovation. Are there some lean startup principles that can be applied to this method of harnessing innovation?

Euchner:
I think working with startups is an extraordinarily powerful way of moving innovation forward. When I have had design teams working to discover unmet customer needs and new value propositions, I have often found that there were startups working in a similar space. In some cases, we were able to partner with startups to accelerate progress. The only caution I would give about a VC model to innovation is to remember that you can't totally outsource innovation. You need to know enough about the opportunities of interest to you to place good bets. Decide where you want to play; do the customer insight work so you know where you can create value for customers; think carefully about your assets and where you have the ability to contribute. And then, using that information, figure out which startups you want to partner with. Keep the focus on what you want to accomplish for the customer and ask which startups can help to do it.

Some companies have also chosen to use the VC model to make decisions about their internal ventures. The idea is to recreate the dynamism of the marketplace inside the company. It certainly helps to create the right kinds of mindsets inside the company, which is a very good thing. In some ways, though, an internal VC is over-constrained. To use a VC term, it has a very limited deal flow, which reduces its prospects. People are experimenting with a lot of different models for accelerating internal innovation in large companies, and I think that we will learn from all of them.

Future Paths

Buday:
Are there any questions about how lean startup can be applied to large organizations that you would love to see people research?

Euchner:
I would like to see more research on the specific frictions caused by introducing a new business model (https://eiexchange.com/content/is-structure-good-or-bad-for-startups) into an existing company. It would be great to learn more about both structural solutions and how leaders can be selected and developed with a stronger innovation orientation. Innovators would benefit from more research into the ways that they can care for the existing business and the new business at the same time.

Buday:
What's next for you?

Euchner:
I'm working with companies to help them implement my book in practice. As an extension of this, I'm trying to understand how large established companies can effectively leverage some of the new technologies, like AI and blockchain, because they create so much opportunity. I have a particular interest in how industrial

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companies can design digital capabilities into physical products to create new value for customers.

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