

How to innovate like a start-up for innovation breakthroughs

The pursuit of operational excellence can get in the way of breakthrough innovations, a new book argues, and explains what can be done about it.

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Why do start-ups seem to have an easier time coming up with breakthrough innovations, while established companies find it harder? Is it the people? The organizational structure? The systems? The culture?

More than anything else, it is incumbents' obsession with "incremental innovation," say professors Tony Dávila of IESE and Marc J. Epstein of Jones Graduate School of Business at Rice University in their book titled [*The Innovation Paradox: Why Good Businesses Kill Breakthroughs and How They Can Change*](#).

When a company pursues incremental innovation -- i.e., increasing efficiency here and improving execution there -- R&D investments can end up making companies less able to make breakthrough innovations. That is the "innovation paradox" at the heart of this book.

Building on ideas put forward in their bestselling *Making Innovation Work* (co-written with innovation consultant Robert D. Shelton), Dávila and Epstein step up to offer advice on how to foster different types of innovation for times of stability and for times of change.

"Incremental innovation delivers results as long as the industry structure remains stable, yet it can fail miserably when unexpected developments redefine an industry," the authors explain. The goal is to avoid being left behind -- like Nokia or Blackberry's maker RIM -- as industries are transformed by paradigm-changing breakthroughs.

A double-edged sword

The problem is that many corporations fail to realize that there are different types of innovation -- and that they require very different management approaches.

At one end of the spectrum, "incremental innovation" usually means reducing costs and adding customers by gradually improving operations and products. Incremental innovation is about managing knowledge effectively. At the other end of the spectrum, "breakthrough innovation" is about managing ignorance. Pursuing breakthroughs requires the handling of a high level of uncertainty to build products for markets that might not (yet) exist -- such as space tourism, nano-robots or an ageless society.

The organizational design that works well for improving operational excellence can often get in the way of the kind of breakthrough innovations that leaders seek in changing times.

Defying the innovation paradox

Yet, some established companies succeed in defying the innovation paradox. IBM, for instance, completely reinvented itself after facing near certain death. Apple revolutionized the mobile device market after having been dismissed as a relic of the past. Nespresso, part of the food giant Nestlé, created a totally new market -- coffee by the cup -- now worth several billion dollars.

To help other incumbents defy the innovation paradox, the authors develop a new model called "the Start-up Corporation" which identifies the fundamental traits of successful start-ups that large corporations should borrow from to foster breakthrough innovation. In a Start-up Corporation, leaders should:

- *Foster innovation at all levels of the organization.* People with breakthrough ideas are likely to be found at any level of the company. Effectively managing innovations that come from below the C-suite is crucial.
- *Look and reach outward.* Breakthrough innovations often come from collaborations with outsiders -- such as universities, suppliers and customers. Larger corporations usually have more valuable networks, but they need to better leverage those networks to make breakthroughs.
- *Be supportive and create a culture of discovery.* Learn from (rather than punish) failures. Encourage employees to take calculated risks and to go after hard but high-potential challenges. Leaders of innovative organizations trust their people beyond

what many would consider reasonable.

Granted, changing a corporate culture and organizational model is not easy, especially for large incumbents set in their ways. But large incumbents bring their accumulated resources, their networks and their abilities to execute. As a model, the Start-up Corporation is designed to leverage incumbents' strengths, adding start-ups' agility to meet future challenges.

The alternative is to cling to a let's-hope-my-industry-stays-the-same-forever strategy, which opens the door for new or more aggressive players to redefine the rules of the game -- or start a new game altogether.

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