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The innovation commitment

To catalyze breakthrough growth, leaders must set bold aspirations, make tough choices, and mobilize resources at scale.

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Seven years ago, we unveiled research highlighting the existence of innovation's eight "essentials"—a collection of attributes and behaviors that appeared to underpin superior innovation performance.[1] Since then, we've validated the essentials through further research and seen them in action at hundreds of companies. This work has deepened our conviction that not only do the essentials matter but also that mastering them is critical to survival at a time when transformational growth is needed to defend against disruptive rivals (see sidebar, "Defining the eight essentials of innovation"). Simply put, the ability to develop, deliver, and scale new products, services, processes, and business models rapidly is a muscle that virtually every organization needs to strengthen.

Our latest research highlights a growing performance gap separating innovation "winners" from companies that merely muddle along. We recently compared innovation proficiency—based on competencies defined by the eight essentials—for 175 companies against a proprietary, company-level database of economic-profit performance. This analysis showed a strong, positive correlation between innovation performance and financial performance. Our research also shows us that innovation winners are extending their lead most conspicuously in two areas. First is the ability to set a bold yet plausible aspiration for innovation that is grounded in a clear view of the economic value that innovation needs to deliver. And second is the ability to

[1] The eight essentials themselves comprise some 100 specific practices that are critical to innovation-led growth. For more, see Marc de Jong, Nathan Marston, and Erik Roth, "The eight essentials of innovation," *McKinsey Quarterly*, April 2015, McKinsey.com.

Defining the eight essentials of innovation

Aspire
Regard innovation-led growth as absolutely critical, and set cascaded targets to reflect this

Choose
Invest in a coherent, time-risk balanced portfolio of initiatives with sufficient resources to win

Discover
Have actionable and differentiated business, market, and technology insights that translate into winning value propositions

Evolve
Create new business models that provide defensible, robust, and scalable profit sources

Accelerate
Beat the competition by developing and launching innovations quickly and effectively

Scale
Launch innovations at the right scale in the relevant markets and segments

Extend
Win by creating and capitalizing on external networks

Mobilize
Ensure your people are motivated, rewarded, and organized to innovate repeatedly

make tough resource-allocation choices about the people and funds required to seize innovation's value at a scale sufficient enough to make a difference.

This article focuses on these two essentials—*aspire* and *choose*—not because the other six are any less important, but because without these two in place, innovation investments often become scattershot and are more likely to disappoint. Setting aspirations and making tough resource-allocation and portfolio choices also are areas where a company's top leaders play a unique and disproportionate role in creating change. Some leaders are doing this by defining what we call the "green box"—a quantification of how much growth in revenue or earnings a company's innovation needs to provide in a given timeframe. As we'll see, it's a concept that can help animate the aspirations and choices that collectively separate innovation leaders from the rest of the pack.

What the numbers say

It bears repeating: simply mastering a few of the eight essentials—for example, by generating and harnessing consumer insights or engaging more effectively with start-ups—is not enough. As the innovation performance curve depicted in Exhibit 1 shows, companies that master five of the essentials enjoy a substantial uplift in economic-profit performance, and there is an even greater uptick with seven or more.

This finding is consistent with our experience, which is that the very best innovators benefit from interdependent, organization-wide activities and practices aimed at delivering innovation. Effective innovation operating models spur companies to generate, prototype, develop, de-risk, deliver, and scale innovation initiatives. A well-integrated system that's grounded in the eight essentials also challenges leaders to break out of their comfort zones, while giving them visibility into the ongoing portfolio of projects so that they can confidently invest valuable time, people, and funds to their best effect.

Another noteworthy finding is the widening gap we see in two of the essentials: *aspire* and *choose* (Exhibit 2). Here, it seems that leaders are getting better while laggards mostly run in place. In our experience, there are many reasons for this gap, starting with the enormous differences we've observed in how deeply executives focus—or don't—on innovation-related activities. A worrying datapoint from our survey is that despite the high importance that executives place on innovation, fewer than 25 percent said they were involved in setting innovation targets and budgets. That figure points to the shift in mind-set—and management approach—that many leaders must make.

Innovation, growth, and the green box

Innovation, at its heart, is a resource-allocation problem; it is not just about creativity and generating ideas. Yet too many leaders talk up the importance of innovation as a catalyst for growth and then fail to act when it comes to shifting people, assets, and management attention in support of their best ideas. The portfolios of these companies tend to go heavy on near-term product improvements and other presumably "high certainty" efforts and much lighter on potential breakthroughs or new business models—forms of innovation that are "less certain" but often hold greater potential to generate sustainable, new sources of growth and outsized returns.

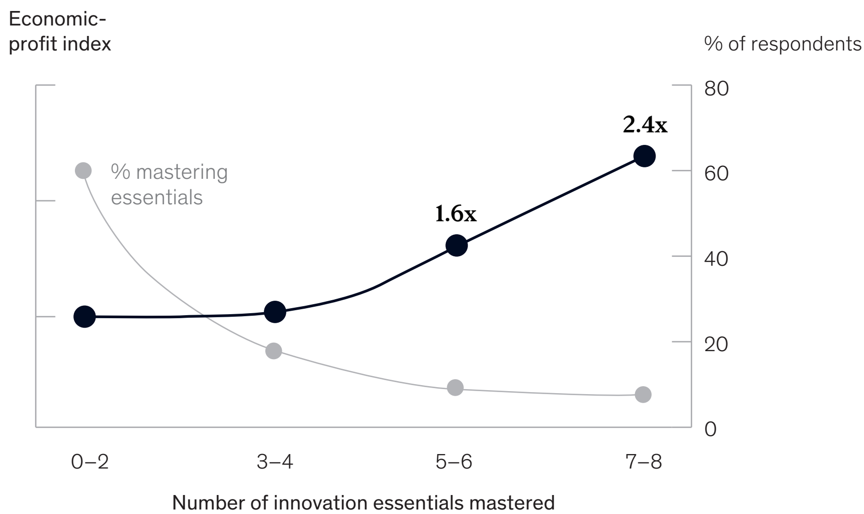
For example, we recently analyzed a chemical company's innovation portfolio and found that 65 percent of it was dedicated to small, product-related initiatives. The figure was 80 percent for a global consumer-products company—and many of the initiatives were dilutive, resulting in revenue or earnings growth that was slower than the average for the company as a whole. The pull of this approach is understandable: the individual projects in the portfolio appear "certain to deliver." The result is often a false sense of security, however, because over time it becomes harder and harder for such projects to achieve ever-rising growth expectations. Even the best-run companies struggle to remain on this type of innovation treadmill. The need for more and more incremental initiatives necessitates investment rates that are unsupportable and that can easily fracture a company's innovation-delivery system. Teams continually race to meet short-term goals (straining even the strongest company culture), while the organization's ability to conceive and introduce more ambitious innovation atrophies.

To get off the treadmill, organizations must revisit their growth model—specifically, where and how the company expects to source growth and what role innovation should play in securing it. A concept that can help a company commit, tangibly, to that role is the green box. At its core, the green box is the value the company generates from all forms of innovation—breakthrough and incremental—over a finite planning period (perhaps five years), quantified using metrics such as net new revenue, earnings growth, or both. Critically, the green box represents the amount

Exhibit 1

Mastering five or more innovation essentials appears to be correlated with strong financial results.

Index of economic profit generated by mastery of innovation essentials



of growth that *only* innovation can produce, after netting out all other possible sources (including market momentum, in-year pricing adjustments, distribution and marketing activities, and M&A). This amount is then cascaded into a set of objectives and metrics for the company's operating units, which reflect them in their own innovation portfolios. When you define your green box, you may not know what specific innovations will fill it (that's why we call it a box) but you know it will require an abundance of new growth ideas (that's why it's green) whose potential will guide your resource-allocation decisions (Exhibit 3).

The green box fills a void in many organizations. Consider the experience of a leading global insurer that struggled for more than a decade to stimulate innovation-led growth. The company enjoyed a few sporadic "hits," but in general its innovation performance was inconsistent. A key reason: most business-unit leaders felt comfortable that they could achieve their performance targets by running their core operations effectively and relying on incremental initiatives. Because more ambitious (and, hence, more uncertain) innovation projects weren't necessary, they inevitably slipped down the priority list. To spur more breakthroughs, the company's frustrated CEO had tried starting a corporate-venture arm, an incubator, and a collaboration space for external partnerships, but none of these moves touched the core problem—that company leaders didn't truly need innovation to meet their performance objectives.

A well-defined green box helps reverse these dynamics. It keeps innovation front and center in the planning process—which is where it should be, since big, innovative moves are often drivers of competitive differentiation and strong corporate

Exhibit 2

Strong innovators have extended their lead over the past five years—especially their ability to aspire and choose.

% of companies that have mastered given innovation essential

performance—and serves as a counterweight to less ambitious annual plans built on the foundation of "last year's performance plus a little bit better." And for skeptics worried that analytical, green-box thinking might stifle creativity, we have a simple answer: to think outside the box, you must first have one.

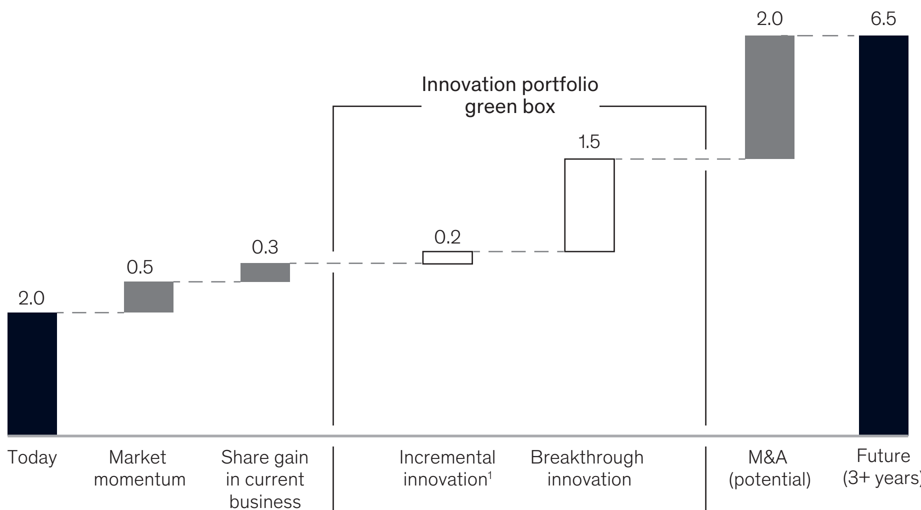
How to aspire

That said, the first of our eight essentials isn't "create a green box," it's "aspire," because even though a green box is critical to a well-crafted aspiration it isn't enough on its own to motivate an organization. You also need to paint a picture of the potential for innovation to transform your company, and your industry. This

Exhibit 3

The 'green box' defines the amount of growth that a company needs to generate through innovation.

Illustration of targeted growth for a sample organization, $ billion



Sample targets

Innovation theme	Target growth
Protect the core	0.8
Diversification and adjacencies	0.3
Ecosystem innovation	0.2
New business models	0.2
Incremental innovation	0.2
Total value of green box	1.7

[1]For example, changes in processes or products that are more functional than groundbreaking.

should encompass a bold and plausible "north star" vision that describes in detail what success will look like, translated into a strategy and key actions that include qualitative and quantitative metrics for measuring progress (including the sizing of the green box), as well as accountabilities for leaders and other key stakeholders to deliver innovation results. All of these elements—collectively—are the aspiration, and they are mutually reinforcing. Inspiring words are necessary but insufficient for ensuring committed, coherent innovation in most organizations—as are goals and metrics alone. You need the total package.

Here is an aspiration that a consumer-oriented company is using to galvanize innovation:

We aspire to create quintessentially recognizable offerings that responsibly reshape the global market for [disguised], while reinventing our core processes to enable us to deliver [$X billion] in net new earnings by 2025. To achieve this aspiration, we must do the following:

- *Predict and adjust to changing customer purchase patterns, using advanced analytics and flexible technology platforms.*

- *Develop new ways to engage our consumers in new channels.*

- *Change the delivery of core innovations by dramatically improving the flexibility and efficiency of our process—which we will measure.*

This aspiration is bold, specific, and measurable. Teams understand the magnitude of what they need to accomplish, and they are shaping and filling their innovation portfolios accordingly. What's more, they're not only measuring progress along the way, they're also managing against it—translating the initiatives into discrete goals to ensure that individuals do their part (a vital, and often overlooked, piece of the innovation puzzle).

Although we've talked primarily about financial metrics—revenue or earnings, specifically—there are cases where other metrics, such as the number of subscribers (or patients) or customer satisfaction, may be more appropriate. The key is to pick a metric that serves as a direct proxy for value creation. For example, a leading Chinese insurer sought to innovate in order to access a profit pool associated with 300 million consumers. Because the company's leaders believed that rapidly achieving scale would be key to the success of its future business model, they encouraged their people to develop innovations that would support the acquisition of millions of new subscriptions. In another context, one of the largest US healthcare payers sought to encourage innovation aimed at improving patient satisfaction and the quality of care. Satisfaction and quality metrics became paramount as the company worked to safeguard itself from disruption by experience-focused attackers such as Oscar Health, and to prepare itself for a shift toward outcomes-based business models.

Nonfinancial innovation targets can be even more important for organizations in the not-for-profit sector. Consider Gavi, a public–private partnership that was founded to save children's lives and protect their health by increasing access to immunization in poor countries. In the first 14 years since its inception, in 2000, Gavi had prevented seven million unnecessary deaths. But the organization began to realize that the low-hanging fruit had been plucked, and the organization would need innovative approaches to scale its efforts further. Gavi's response was an aspiration to reach another 300 million children and prevent up to six million more unnecessary deaths by 2020.

This bold, specific, measurable, and time-bound aspiration is yielding results.

Returning to the green box for a moment, we'd note that in some circumstances it can become a source of inspiration that extends beyond metrics. We were surprised recently to see a small, plastic green box on the desk of every employee of a basic-materials company in Russia that had been working hard to increase its pace of innovation. The CEO had used the green box as a visual artifact when talking about innovation's role in realizing the company's potential, and the concept had caught on. It was the best example we've seen of the inseparability of metrics and vision when it comes to setting effective innovation aspirations.

How to choose

As with setting aspirations, prioritizing and choosing innovation opportunities is a top-management task. Senior leaders are best positioned to take a comprehensive look at initiatives and resources across the organization and then to ask tough questions about how to improve the portfolio by changing its composition. These decisions coalesce in portfolio-management approaches that manage the flow and mix of initiatives captured in the green box. The linkage between *aspire* and *choose* is very important, as it is virtually impossible to reallocate meaningful amounts of resources if the initiative portfolio and "north star" are not clear.

Avoid false comfort

In the absence of strong aspirations, and sometimes even in contradiction of aspirations that have been articulated, many companies fall back on popular rules of thumb. One is the "70/20/10 rule," which says that 70 percent of innovation efforts should be aimed at the core, 20 percent at adjacent step-outs, and 10 percent at breakthrough innovation. At the other extreme, we have seen companies that are so bent on "self-disruption" (an ambitious goal but too vague to be an effective innovation aspiration) that they place disproportionate emphasis on risky investments.

In our experience, management teams do far better when they avoid the false comfort of averages, crude benchmarks, or pie-in-the-sky dreams. There is simply no substitute for the hard work of clearly linking innovation portfolios and aspirations, on the one hand, with a clear intent for each initiative and the associated resources required, on the other. This is much more than a mathematical exercise, because it starts with a deep understanding of the kinds of opportunities (for instance, related to customers, technologies, or new business models) that are aligned with innovation aspirations. To find new opportunities and determine the appropriate number and mix of initiatives, leaders need to do the following:

1. Confirm the total value of the portfolio needed (hint: use the green box).

2. Evaluate existing innovation projects based on incremental value delivered, risk (recognizing that not all projects will succeed), and alignment with strategic priorities.

3. Determine portfolio sufficiency (the degree to which the existing mix of projects could plausibly deliver the green box).

4. Get comfortable with saying "no": stop projects that are dilutive, and resist the siren song of incremental initiatives (perhaps requested by a customer or two) that are unlikely to pay for themselves.

5. Reallocate those resources—including competencies and skills—to new initiatives or to current ones that additional support can accelerate or amplify.

6. Identify portfolio gaps and define new initiatives to close them.

Such rigor stands in stark contrast to the innovation practices of many organizations. And, obviously, it's never a one-time act, but rather a constant, dynamic process of assessing the initiatives underway, doubling down on those that are succeeding, quickly killing those that are struggling, and assessing the resulting balance. As companies become more adept, they can start measuring innovation performance in more granular ways. For example, a leading medical-technology organization assessed its innovation-performance track record (including average success rates, incremental earnings, and development cost and time to market for core versus breakthrough initiatives). Such exercises made it possible to more accurately model what a rebalanced portfolio could realistically provide, and helped the company identify the most valuable improvements to make in its innovation system. The value at stake can be huge: the medical-technology company learned that every month of reduced time to market was worth about $90 million in earnings for its innovation portfolio.

Avoid bad bets

While we've spent much of our time in this article describing ways to expand your innovation ambitions, we'd be the first to acknowledge that many companies would also benefit from exploring the opposite impulse: namely, recognizing how innovation suffers when bad ideas go too far, leading to failed product launches, disappointment, and subsequent retrenchment. To be sure, risk is intrinsic to innovation; you'll never eliminate failures altogether. Still, you can reduce the odds of placing bad bets—or, worse, doubling down on them—through better decision-making processes and closer scrutiny of assumptions.

This was the case for a global consumer-packaged-goods (CPG) company that was frustrated that its innovation "funnel" had become a "tunnel" where flawed initiatives proceeded to market despite misgivings from both the teams and leaders, and resources were rarely reallocated between initiatives. In response, the company shifted its governance and resource-allocation approach and borrowed leading practices from venture capital. These included "investor boards" empowered with decision rights on what to fund and what to cut, and metered funding that allocated resources in increments based on demonstrated performance. Within six months, the company redirected 30 percent of its initiatives dramatically and killed another 20 percent (including a nationwide launch that company leaders recognized was highly likely to fail). None of this would have happened without the new governance approach, and it's consistent with our experience that at many companies up to half of all innovation initiatives could be stopped or substantially changed.

High failure rates, in our experience, are often correlated with inattention to assumptions, which underlie all innovation initiatives. Companies often confuse assertions with assumptions, stating confidently what "should be true" for an innovation concept (for example, the price premium that customers will pay) instead of acknowledging that it is merely a strong hypothesis that needs to be validated. We therefore encourage management teams to place assumptions at the heart of the initiative review process: identify what must be true for the initiative to succeed, define a learning-driven development plan to test these assumptions, and run sprints to substantiate or invalidate them. When teams are unable to validate early, critical-path milestones, they should stop their projects or pivot them to a path that can be supported. We call this approach "assumption-based development" and have found that it dramatically improves innovation performance. When management teams understand the number and uncertainty level of core assumptions, they are better able to compare the relative risk of different initiatives, make trade-offs across the portfolio, and clarify for innovation teams the rationale behind tough choices.

The CPG company we described earlier started paying more attention to the critical assumptions that mattered for each project (and stopped paying attention to standard, stage-gate checklists). To support its more strategic approach, the company implemented a simple review tool that explored the following:

- the initiative's role against the company's aspirations (for example, "Unlock snacking occasions that create premium pricing opportunities")

- the critical assumptions that must be true for its success ("Consumers will pay a 10 percent premium for the new format")

- how the company would test each assumption through iterative sprints ("We will rely on a mock e-commerce test site")

- the evidence gathered and the resulting implications ("Consumers will not only not pay a premium but also probably cannibalize our existing product for the new format—so here is our proposed pivot . . .")

It's no accident that the review tool links the initiative to a top-level aspiration—another example of how aspirations, metrics, and choices go hand in hand at companies with coherent innovation portfolios.

Executives who wish to carry their organizations across the growing divide between innovation leaders and laggards must start with a commitment to making innovation an essential part of the organization's growth model and future success—not a vague hope, fallback option, or happy accident. That means embedding innovation in the heart of their objectives, orienting their resources and organizing accordingly, and holding themselves and their teams accountable for results.

A leader in the financial-services and insurance space is currently seeking to transform its innovation effectiveness by following these practices. It aspires to earn $1.5 billion annually in net new growth by 2022 (its green box), has translated this target into clear criteria for evaluating and funding innovation initiatives, and has set corresponding objectives for the leaders of each one. The company also has put in place a new operating model for scaling initiatives, including getting them the talent they need and building the necessary interfaces with the core business. All this work has taken place in about nine months. It's still early days, but the signs are promising: for starters, the portfolio of innovation initiatives will generate a profit in year one. Moreover, four new businesses are on track to generate hundreds of millions of dollars in new top-line growth over the next few years, and the company's management is crystal clear about the assumptions that must be true for these efforts to succeed.

It's possible, in short, to make real progress toward transforming your innovation performance in a relatively short period of time—provided you take the first step: committing your organization to innovate. Q

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