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VALUEPOINT™

Do Not Let Uncertainty, Fear and Ambiguity Inhibit Innovation

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As Machiavelli warned centuries ago, one treads a perilous path when posing a new order of things. Today's innovator faces similar challenges—within his/her organization and from external forces over which he/she has little control. Uncertainty and ambiguity is the norm.

Game-changing ideas that can have a major impact on revenue and profits inherently involve high risk. There can be a great deal of uncertainty around many, if not most, of the factors that contribute to success; such things as the size of the market for a new product, price, margins, cost, technology and customer acceptance. If these challenges weren't enough, the innovator must often contend with ambiguity when things are open to more than one interpretation with the organization.

> *All courses of action are risky, so prudence is not in avoiding danger (it's impossible), but calculating risk and acting decisively. Make mistakes of ambition and not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer.*
> *— Niccolò Machiavelli*

At last month's Back End of Innovation (BEI) conference, SmartOrg and thought leaders from Ingersoll Rand, Hewlett Packard, DuPont Pioneer and the University of Oregon led 30 innovation executives in a spirited session "Solving Your Million-Dollar Problem—Making Uncertainty and Ambiguity Your Allies."

The executives were asked to surface issues they believed were inhibiting their ability to foster innovation within their companies. Corporate culture was at the top of many lists—unless an organization's culture provides a safe haven for innovative risk-takers, it is doubtful that innovation will flourish.

The Need for a Safe Haven

By its very nature, innovation is a high-risk undertaking, even for the most experienced companies. A.G. Lafley, CEO of Proctor and Gamble, stated it well, "Many CEOs—including me—use innovation and acquisition to grow organically and inorganically in a balanced and sustained way. Both innovation and acquisition are risky and have high failure rates: 80% plus for new product innovation in our industry; 70% plus for acquisition. So I had a team at P&G do a detailed analysis of all our acquisitions from 1970 to 2000. And the sobering story was that only 25% to 30% succeeded the investment case and going-in objectives."

Fear of Failure and Risk Aversion

Fear of failure leads to risk aversion and is often a reflection of command and control culture. If management punishes failure, innovation will tend toward mediocrity and incremental improvement as people are afraid to stick their necks out. A culture that cultivates innovation will provide the freedom to fail—even reward failure as a learning process.

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When There is No Data

The executives pointed out a lack of data to support projections makes it difficult to obtain support and budget from decision makers. They agreed that there is no data about the future, and reliance on past data—especially accounting data—as a predictor of the future is dangerous. An effective approach is to develop business models that enable consideration of ranges of values around potential market size, price, cost, technology and other variables that can have an impact on product success. Sensitivity analysis can reveal areas that pose downside risks as well as upside opportunities. At the outset, these are rough measures that will provide guidance. As a new product moves through development, experimentation, market research, learning plans and related tools will enable updating of the model.

Be Careful about Metrics—Too Early or Too Soon

It is important to avoid placing value assumptions on an innovation too early in the process. One of the thought leaders cited examples of senior management's anchoring on optimistic revenue projections used to obtain budget and then killing projects when they failed to meet the rosy—and unwise—projections. Given the uncertain nature of innovation, it is a huge mistake to apply formal accounting metrics and P&Ls too early while a product is in an adolescent stage.

Avoid the Need for Instant Gratification

Really new and innovative products need time and patience as they move from ideas through development to commercialization. There can be many pitfalls along the way and the need to redirect or take new directions can be expected. It is important to avoid unduly optimistic expectations.

Machiavelli Redux

Machiavelli's observations are as valid in 2015 as they were in the 16th century; little has changed for those who are committed to a new order. The successful innovator will always be one who has persevered while facing uncertainty, ambiguity and the wrath of naysayers.

Meet Us at Upcoming Events

New Product Innovation & Development 2016
A Frost & Sullivan Executive MindXchange

This year's Executive MindXchange revolves around the topic of driving revenue and accelerating growth within your organization. This event is uniquely collaborative in nature: wildly candid discussions between participants will generate ideas and insights you will not get anywhere else.

David Matheson will be leading an interactive session on Tuesday, January 12th during the Concurrent Collaboration Zones ThinkTanks. Focusing on "Improving the Odds of Winning in your Portfolio", David will discuss how dynamic portfolio management can help your innovation projects rocket to success in the marketplace.

Use code **smartorg250** to save $250 off registration.

11-13 January 2016 | San Diego, CA | More information

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