

LINKAGE

**The 2007 Linkage
Excellence in Management &
Leadership Series**

How to Create New Growth Businesses in a Risk-Minimizing Environment

Participant Guide



Featuring Clayton Christensen,
author of Seeing What's Next

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Dear Participant:

Welcome to the Linkage broadcast, *How to Create New Growth Businesses in a Risk-Minimizing Environment*. This is the sixth of eight broadcasts in Linkage's 2007 *Excellence in Management & Leadership Series*. It features Dr. Clayton Christensen, the Robert and Jane Cizik Professor of Business Administration at the Harvard Business School and author of three best-selling books on innovation: The Innovator's Dilemma, The Innovator's Solution, and Seeing What's Next.

In this 90-minute program, Dr. Christensen will focus on the difference between sustaining and disrupting innovation, aggregate project planning, corporate structure strategies, and business model innovation. Organizations must constantly reinvent themselves based on the demands of the economy, the industry, the company, and customers in order to be a relevant and dominant player in their business. Drawing from his extensive research and consulting experience, Dr. Christensen will provide theoretical and practical insights to help you anticipate and leverage innovation in your company and in your industry.

In this 90-minute presentation, you will learn:

- About the power and methodology of disruptive innovation.
- How to create new growth businesses.
- How to balance the allocations of resources across projects that sustain the health of current businesses and those that create new ones.
- How to create the products that customers demand.

These participant materials have been designed to complement your participation in this broadcast with Dr. Christensen. Use the materials **before** the broadcast to learn more about Christensen's theories on innovation and what they mean to businesses and their leaders.

Dr. Christensen will present for 60 minutes. Use the materials **during** the broadcast to record your notes, ideas, questions, and insights. After a five minute break, Dr. Christensen will respond to your questions for the remaining 25 minutes; throughout the broadcast, you can submit questions directly to the presenter via fax, telephone, and/or email. Your submission of questions is critical to the success of this program.

Most importantly, use the materials **after** the broadcast to help you implement the principles and techniques as you lead your organization. Use the materials as an ongoing source of renewal, energy, and direction.

About Linkage

Linkage, Inc. is a global organizational development company that specializes in leadership development. Serving the public and private sectors, the company provides clients around the globe with integrated solutions that include strategic consulting services, customized onsite training experiences, tailored assessment services, and benchmark research.

With a relentless commitment to learning, Linkage also offers a full range of conferences, institutes, summits, public workshops, and distance learning programs on leading-edge topics in leadership, management, HR, and OD. More than 100,000 leaders and managers have attended a Linkage program since the company's founding in 1988.

Linkage is headquartered in Burlington, Massachusetts, with regional offices in New York, Detroit, Minneapolis, Atlanta, San Francisco, Brussels, Bucharest, Johannesburg, London, Seoul, Singapore and Tokyo. On two occasions, Linkage has been named to the Inc. 500, a list of the fastest-growing private companies in the United States.

Upcoming Events

Linkage's broadcasts represent the best in leadership and management thinking, providing you with:

- Idea-generating programs by world-renowned and inspirational leaders.
- A convenient, on-site option for educating your leaders and managers.
- An innovative vehicle to deliver and drive the learning.

Please join us for these upcoming programs. These broadcasts are offered live, by Linkage, on the following dates and times. Please check with the individual responsible for the broadcasts within your organization for any internal changes to the schedule.

- November 1, 2007 11:00am-12:30 pm Eastern Time
Leading High Performing Virtual Teams
With Kimball and Mareen Fisher, co-authors of [The Distance Manager](#)

Today's global companies conduct business 24 hours a day, 7 days a week from 6 different continents. Today's teams do not share an office, floor or even a zip code but cross space, time and cultural boundaries. What are the challenges faced by leaders of these virtual teams? More importantly what are the solutions available to maximize a leader's effectiveness in allowing these teams to function seamlessly around the clock and around the world. In this program Kimball and Mareen Fisher will share the expertise collected from consulting with some of the world's finest global companies.

- November 28, 2007 11:00am-12:30 pm Eastern Time

Leading Change

With John Kotter, author of Our Iceberg is Melting

As the pace of change continues to accelerate, successful companies will need leaders from all levels to react to and steer the organization through the bevy of challenges it will face. Companies will be affected by such factors as technological changes, globalization, mergers and acquisitions, and the need to transform a corporate culture. Professor Kotter will share his insights from 20 years of research and real world experience on leading change. In his latest release, Our Iceberg is Melting, John Kotter combines this research with the power of a fable to produce a valuable tool for those at all levels.

Did you miss the live broadcasts of the previous speakers featured in Linkage's 2007 Excellence in Management & Leadership program? Don't worry; these experts are available On-Demand:

- C.K. Prahalad on Making Strategy Work: The Future of Value Creation
- Marshall Goldsmith on Coaching for Leadership
- Warren Bennis on The Most Common (and Often Fatal) Failures of Top Leadership
- Marcus Buckingham – Leverage Your Strengths
- Michael Useem on Reaching the Go Point
- Clayton Christensen on Building a Successful Innovation-Driven Organization
- David Breashears on Vision, Courage and Passion: Leadership at 26,000 Feet
- Tom Davenport on Maximizing Knowledge Worker Productivity; The Next Generation of Management
- Tony Schwartz on Building Individual and Organizational Capacity in the Age of Overload

Check Linkage's website (<http://www.linkageinc.com>) for additional programming, details, and dates.

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SECTION 1

PROGRAM MATERIALS

Introduction and Basic Premise

Many innovations fail not because of some fatal technological flaw or because the market isn't ready. They fail because responsibility to build these businesses is given to organizational units that aren't capable of succeeding. Corporate executives often make this mistake because the very capabilities that propel an organization to succeed in sustaining circumstances will systematically bungle the best ideas for disruptive growth. An organization's capabilities become its disabilities when disruption is afoot.

"Assessing Your Organization's Capabilities: Resources, Processes, and Priorities,"
Clayton Christensen, et al, Harvard Business School Press, 2006.

Dr. Christensen identifies two kinds of innovation – sustaining and disruptive – that companies can consider when assessing their capabilities. Sustaining innovation is what happens to good products at good companies: they are enhanced and improved; features are added and functionality is increased based on the opinions of valuable consumers. Industry leaders sustain their current level of innovation because it yields high profits and secures their place in the market.

Disruptive innovation, on the other hand, creates new markets or significantly alters the definition of the traditional market, often to a point where incumbent companies don't want to participate in this new market. Industry leaders aren't attracted to disruptive innovation because it doesn't result in high profits initially and the benefits of entering this market – and changing the way their company functions – are unclear.

An organization's readiness to innovate depends on its capabilities – a company's resources, processes, and priorities. When viewed as integrated parts, resources, processes, and priorities enable executives to determine whether a team or business unit is more suited for sustaining innovation, disruptive innovation, or functional efficiency.

Innovation capabilities are clearly illustrated by looking at company growth. A start-up company relies heavily on its *resources*, specifically the knowledge-base of its founders. When companies become more secure in their positioning, their reliance shifts from resources to *processes*. By continually refining routine tasks – like bookkeeping, project reporting, and customer relationship management – and proprietary processes – such as product development, marketing/branding, manufacturing, and customer service – businesses quickly establish repeatable and scalable best practices. Over time, the core competencies of the business begin to take shape, mission statements are formulated, and visions are proclaimed; these pronouncements indicate the company's *priorities* and allow everyone within the company to make relatively autonomous decisions that support the company direction.

Many companies are founded with great resources (financial, material, and/or intellectual), only to wither in their early stages simply because they were unable to extract and tap into their processes and best practices. Successful established organizations, on the other hand, rely heavily on their processes and priorities, enabling virtually anyone to fill a particular position. Processes and priorities enable a company to rely less on its resources – and often make the company vulnerable to competitive attack.

The list of leading companies that failed when confronted with disruptive changes in technology and market structure is a long one. One theme common to all of these failures, however, is that the decisions that led to failure were made when the leaders in question were widely regarded as among the best companies in the world.

Christensen in The Innovator's Dilemma

p xii

Disruptive innovations typically pose difficulties for an industry's incumbent leaders, who are faced with the choice of investing to improve their products along the sustaining trajectory or investing in disruptive innovations. The choice is difficult because sustaining innovations appear to be much more attractive than disruptive ones, even though disruptive innovations often ultimately drive more long-term growth.

Christensen in [Seeing What's Next](#) (p 279)

As companies rely more heavily on processes and priorities to accomplish work, the more these processes and priorities replace thinking and objectivity. Employees perform tasks robotically instead of questioning whether or not the process in place is best, or whether we should be doing the task at all! Dr. Christensen observes that when a company's "capabilities have come to reside in its processes and business models and *especially* when they have become embedded in culture, change can be extraordinarily difficult" ("Assessing Your Organization's Capabilities: Resources, Processes and Priorities," p 5).

According to Dr. Christensen's research, companies who are the clear leaders in their industry generally win sustaining-technology battles and, conversely, almost always lose battles of disruption. Industry leaders routinely rely on sustaining innovation (incremental improvements to existing products/services) with the hope of maintaining a slight edge over other competitors and generating consistent profits. Achieving consistent sustaining innovation requires – you guessed it – processes and priorities, ultimately leading to an engrained capability – a culture – for producing sustaining innovations. When a disruptive innovation emerges, industry leaders tend to pass on the opportunity because disruptive innovations usually yield a lower profit margin and do not target the ideal customer set. In short, the company's processes and priorities don't allow for disruptive innovations.

Newer companies, however, are well equipped to leverage disruptive technologies because their priorities align with the pursuit of smaller markets and they can afford to produce products and services with lower profit margins. Similarly, their organizational structure isn't yet bogged down with processes so they can analyze disruption based on intuition as opposed to past precedents established with sustaining technologies.

It is unnatural for industry leaders to consider disruptive innovation; it is even more unnatural for companies to adopt those threatening technologies into their already well-established product mix. Yet industry leaders cannot afford to rely on sustaining innovation alone. In [Seeing What's Next: Using the Theories of Innovation to Predict Industry Change](#), Dr. Christensen advises companies to take the following steps when integrating disruptive innovations into their business model:

1. Continuously and vigorously scan the market for emerging innovations.
2. Invest in smaller companies that introduce innovations.
3. Push the technological demands in their core market so that core market performance staves off competition from emerging disruptive technologies.

By being open to new and different ways of conducting business, organizations position themselves for success in any market setting. At the same time, true industry leaders continue to build upon the knowledge-base and product expertise that made them successful in the first place.

Question-and-Answer Session

Dr. Christensen will devote the last 25 minutes of the live broadcast to answer your questions. Complete the Question Sheet found on the next to last page of this participant guide and:

- If you are participating in the live presentation of this program, fax, e-mail, or call in your questions using the instructions on the Question Sheet. Your program coordinator may collect your questions and send them in collectively.

Fax 1.877.892.0170 (from within U.S.)

Fax 646.349.3661 (from outside U.S.)

Email: leadership2007@linkageinc.com

Tel 1.800.218.0530 (from within U.S.)

Tel 303.262.2131 (from outside U.S.)

- If you are participating in a recorded presentation of this program, share your questions with your program coordinator to be used during your post-broadcast activities.

When the Session Has Concluded

- Your feedback is valuable in ensuring the integrity of future programs. We take pride in providing relevant, thought-provoking and enlightening programs – and we rely on you to help make this happen. Please complete the program evaluation form on the last page of this guide.
- To further reinforce your learning from today's program, as well as hone other aspects of your leadership skills, complete the recommended post-broadcast activities that begin on page 24 of this participant guide.

The reason that innovation often seems to be so difficult for established companies is that they employ highly capable people and then set them to work within organizational structures whose processes and priorities weren't designed for the task at hand.

Clayton Christensen,
"Assessing Your
Organization's
Capabilities: Resources,
Processes Priorities,"
p 14

Pre-Broadcast Reading: The Right Team for the Job

All too often, leaders and managers try to encourage innovation, but their hopes quickly turn into frustration. Likewise, employees tasked with coming up with sustaining innovation – making products and services incrementally more appealing – or even disruptive, “think-out-of-the-box,” wild innovation are quickly smothered. Often, the problem doesn’t lie with the employees or even the leader; the problem lies with the team structures within a company.

According to Dr. Clayton Christensen, there are four different team structures to consider when beginning a specific project or business department. Naturally, different models are more conducive to introducing and fostering innovation, while others are better at maintaining efficient operations or at incremental (sustaining) innovations. The four team structures are outlined below:

Functional Teams

Companies that use the functional model are generally organized based on business disciplines. For example, all of the accountants work together, all of the marketers work together, and all of the analysts work together, but very rarely do the three functional groups interact. However, the employees within the marketing department that do have varying tasks, like advertising, market research, and web site design, work together to ensure that the company’s overlying marketing message is communicated via all possible channels. When, however, two departments must work together to accomplish a project, the groups only meet to discuss the task at hand in relation to how it affects their individual camps. As such, functional teams often miss the bigger picture of what an organization is trying to accomplish. Because of this independence, functional teams can focus solely on completing their own specific tasks. Once their aspect of the project is done, one department can “throw it over the wall” to another team, completely transferring responsibility.

Lightweight Teams

When some interdependency between functional camps exists, a lightweight team manager exists to act as the go-between for the two departments. This kind of team typically forms when two groups frequently, and predictably, rely on each other to accomplish their designated functions. The main work and responsibility still lies mainly in their function groups, however. It is common for lightweight team managers to attend both team meetings to ensure that each team is fulfilling on its promises. An example of a lightweight team could be the finance and human resources departments at a corporation. In order for the human resources employees to hire the best candidates for open positions, they need to know how much money is available in the budget for them to do so. This interaction must occur on a regular basis so both teams can be well prepared to perform their specific tasks.

Heavyweight Teams

Heavyweight teams are created to address the unpredictable interdependencies between two or more functional groups. In this scenario, different people must work with different people on different projects at different times than the company is able to predict. Often, one functional group must sacrifice their own best interests in favor of creating an optimal work environment for the two departments to work successfully. In heavyweight teams, employees frequently need to be working in two different teams and managed by a leader with power and respect. It is crucial for people to put aside the goals of their functional teams and to try to solve the immediate problem at hand. The best heavyweight team members are those people with solid management skills who are comfortable working outside of their typical skill set.

Autonomous Business Units

When attempting to create or foster disruptive innovation, the chances for success increase if existing company business models are ignored. Because disruptive innovation often comes from exploiting the vulnerabilities of the existing market leaders, it is virtually impossible for a company to create or foster disruptive innovation using the same business models that helped it achieve success in sustaining innovation. Organizations seeking to create or foster disruptive innovation need to create (or acquire) an autonomous business unit. When other business units aren't able to give the innovation top priority when considering all other investments they could possibly make, an autonomous business unit is required. As an autonomous business unit, the unit must create a new business model to give the disruptive technology the priority and processes it needs to succeed.

Creating Innovative Business Models

As noted above, autonomous business units are the most effective at facilitating disruptive innovations because they have the freedom to rethink and recreate processes and priorities unlike a team that is dependent on and in support of the parent company. Autonomous business units must have the power to establish their own cost structure to support the sale of their still developing products and services. To truly be autonomous, disruptive business models need the freedom to compete with and even dissolve fellow business units in the company.

Purchasing Valuable Resources, Processes and Priorities

It is also important to note that recently acquired companies can also be viewed as autonomous business units in the eyes of the parent company. In some cases, such as smaller, entrepreneurial companies, it makes sense to integrate that business into that of the parent company. Newer businesses have yet to establish processes and priorities, unlike the larger parent company, but they do possess valuable resources – people, technologies, or products – that the parent company can easily disperse among its existing business units. Cisco Systems mainly grew by acquiring smaller firms that were less than a few years old. In those instances, Cisco recognized that the most valuable parts of those companies were their resources and quickly moved to adopt the new products and employees into their already strong processes and priorities.

Creating new business units rather than transforming the business models of existing units is the best way to manage business model innovation because the disruptive game almost always begins while the established business still has substantial, profitable sustaining potential.

Clayton Christensen,

“Assessing Your Organization's

Capabilities: Resources, Processes Priorities,”

p 12.

However, when a parent company acquires a well-established, successful organization, it often makes sense to keep that business unit autonomous to ensure maximum innovation. This is especially true when the acquired company is successful mainly due to its processes and unique business models. In that case, the parent company can incorporate its resources into the autonomous business unit and achieve greater success than would be possible otherwise. When Cisco was purchasing larger organizations with valuable processes and profit models, like StrataCom in 1996 and Linksys in 2003, it provided those businesses with the resources to function autonomously from the rest of the parent organization.

As Christensen concludes in The Innovator's Dilemma (p 207):

In their straightforward search for profit and growth, some very capable executives in some extraordinarily successful companies, using the best managerial techniques, have led their firms toward failure. Yet companies must not throw out the capabilities, organizational structures, and decision-making processes that have made them successful in their mainstream markets just because they don't work in the face of disruptive technological change. The vast majority of the innovation challenges they will face are sustaining in character, and these are just the sorts of innovations that these capabilities are designed to tackle. Managers of these companies simply need to recognize that these capabilities, cultures, and practices are valuable only in certain conditions.

We, as today's managers and leaders, must all recognize our organization's capabilities in the face of disruptive innovation. Executives must acknowledge the inability of their current business model – one built for sustaining innovation – to adapt to a new and disruptive innovation; they must not abandon its model, but embrace it and simultaneously build in a capability to push innovation, staving off competitive disruptive innovation.

Pre-Broadcast Activity: Assessing Your Capabilities

Dr. Christensen believes that the organization’s capabilities – the unique combination of its resources, processes, and priorities – in large measure equip the organization for success in sustaining innovation and hinder the organization in anticipating or dealing with disruptive innovation.

- 1) List two critical resources – people, technology, equipment, product designs, cash, brands, information, relationships with suppliers, etc – that contribute to your organization’s current success. How might you leverage these resources to anticipate, deal with, or enable disruptive innovation?

- 2) Processes create value by transforming inputs into outputs. Processes, while less tangible, are nonetheless real and often immovable. Processes are useful – they allow resources such as people to be easily replaced; they allow scalability; they can be examined and refined. Like ruts in the road, processes can prevent companies from deviating too far off course; if the ruts are deep, deviation becomes impossible. Describe one or two processes which have contributed to your organization’s success. How might they (have they) prevent disruptive innovation from occurring within your company or department?

Creativity methods provide senior management with a unique tool to tap into a massive organizational resource. Learning to leverage the creative thinking skills of every individual, regardless of their level, creates the sustainable competitive advantage every corporation is striving for.

Jim O'Neal

Keep on the lookout for novel ideas that others have used successfully. Your idea has to be original only in its adaptation to the problem you're working on.

Thomas Edison

3) Dr. Christensen states that priorities determine the decision making throughout an organization. Priorities enable employees at all levels to make appropriate autonomous decisions – which customers to call on, which project to work on, which initiative to fund. Priorities help people throughout the company determine what they can do, and what they cannot do. Priorities that focus on profitability, sustaining innovation, and efficiency will naturally preclude decisions to invest in untested innovation. (See sidebar.)

Priorities Are Constraints
In the early days of PCs, 8" and 5¼" floppy disks reigned supreme as the storage medium of choice. One of the large computer disk manufacturers invented the technology for 3.5" disks, an untested innovation. It decided NOT to pursue the unknown market and chose to continue leveraging its existing resources and process in 5¼" and 8" disks, a decision that – in hindsight – was clearly misguided but one that – at the time – was clearly supporting the priorities of the company.

What are the priorities within your company or department? How might these priorities prevent you from recognizing disruptive innovation? What can you do to simultaneously maintain these priorities (for sustaining innovation) while allowing for disruptive innovation?

It is important that you constantly reevaluate your company's resources, processes, and priorities to ensure that you are prepared to anticipate, recognize, or even enable disruptive innovation.

Despite all the pro-innovation rhetoric that one encounters in annual reports and CEO speeches, most still hold the view that innovation is a rather dangerous diversion from the real work of wringing the last ounce of efficiency out of core business processes. Innovation is fine so long as it does not disrupt a company's finely-honed operating model... As change becomes ever less predictable, companies will pay an ever-escalating price for their lopsided love of incrementalism.

Gary Hamel, author of
Competing for the
Future

Innovation Blog

For interesting perspectives on disruptors and sustainers in today's innovation landscape, check out Innosight's Innovation blog at <http://www.innosight.com/blog/>.

Some current topics (as of this writing) include:

- Innovation Blunders in Municipal Wi-Fi
- The E-Lance Economy: From Interdependency to Modularity
- Google + Sun > Microsoft revisited
- Online Storage Solutions Herald Disruptive Change in Personal Computing
- Nintendo Stays Healthy
- You Can't Win If You Don't Play the Game (Blockbuster Video)

During The Program

- Participate!
- Submit questions to be addressed by Dr. Christensen during his broadcast. He will speak for the first hour and then, after a short break, respond to questions for the next 25 minutes, so again, your submission of questions is critical to the success of the program. To submit questions, complete the Question Sheet (found on the next to last page of this guide), submit an e-mail, or call in when prompted during the program.
- Dr. Christensen asks that you engage in the questions and answers. If you wish, use the following pages to take notes on points important to you during the broadcast.

Innovation is the specific instrument of entrepreneurship. The act that endows resources with a new capacity to create wealth.

Peter Drucker

First, you know, a new theory is attacked as absurd; then it is admitted to be true, but obvious and insignificant; finally it is seen to be so important that its adversaries claim that they themselves discovered it.

William James

Notes

Dr. Christensen has graciously provided the slides he will use in his presentation. These slides are copyrighted to Dr. Christensen and are not to be used, reproduced, or distributed without written permission from him. Please note that Dr. Christensen may deviate from these slides.

How to Create New Growth Businesses in a Risk-Minimizing Environment

Clayton M. Christensen
Harvard Business School

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Principles Taught that aren't Universally True

1. Listen and respond to the unmet needs of your best customers
2. Focus investments in those opportunities that promise the most attractive profit margins
3. Large markets represent the biggest growth opportunities
4. Understanding the customer is key to successful innovation
5. Outsource those activities that are low value-added and are not your core competencies
6. You should ignore fixed and sunk costs, and make investment decisions based on future, marginal outlays and revenues

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Disruptive Innovations: A driver of failure and the source of new growth opportunities

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The practice of R&D involves making mistakes, realizations, corrections, and more mistakes. Trial and error is a fundamental part of the process. Too many managers in corporate America learn to avoid invention and new thinking because they have been convinced that their careers depend upon not making mistakes

Tom Huff

More notes

Horizontal lines for taking notes.

Three Levels in the Architecture of a Job

- 1. What is the fundamental job or problem the customer is facing? This includes its political, functional, emotional, and social dimensions.
2. What are the experiences in purchase and use which, if all provided, would sum up to nailing the job perfectly?
3. What are the product attributes, technologies, features, etc. that are needed to provide these experiences?

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When Companies Segment their Markets by Job, They Find:

- The market is much larger
- Their share is smaller
- Their real competitors aren't in their product category
- They understand the constraints that keep more customers from hiring their product for the job(s)
- They can build powerful brands at low cost

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What is a Valuable Brand? How is it Built?

- 1. Design a product that does a job well.
2. Give it a brand that uniquely links that product to that job.
3. As people hire it to do that job and find that it does it well, they learn to trust the brand for that purpose.
4. They begin hiring it whenever they land on that "job space" - and talk about it.
5. Advertising can then remind other people that they, too, land on this job, and that they should hire this branded product when they do.

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An established company which, in an age demanding innovation, is not able to innovate, is doomed to decline and extinction.

Peter Drucker

More notes

Horizontal lines for taking notes.

Success Stories

 Purchased Data General to blunt disruptive attacks; smaller-sized storage products now 40% of revenue	 Low-end Celeron chip blocked advances by AMD & Cyrix; now biggest volume product. Major Flash supplier.	
 Created new growth by targeting simple handheld ultrasound product to non-providers	 Set up an autonomous unit with top talent and right budget to pursue a low-end disruptive product	 Built portfolio of disruptive education businesses that now accounts for more than 50% of the company's revenues
<small>8/27/2007</small>	<small>Copyright Clayton M. Christensen</small>	<small>22</small>

The disruptive technology almost always takes root in a very undemanding application, and the established market leaders almost always try to cram the disruption into the established application. In so doing, they spend enormous amounts of money and fail.

Clayton Christensen
in an interview with
CIO Magazine.

Post-Broadcast Activities

Complete and submit the Broadcast Evaluation Form found on the last page of this guide.

Activity 1: Self-Reflection and Discussion

1) What in Dr. Christensen’s presentation struck a special chord with you? Why?

2) In what ways does your company sustain innovation?

3) How might disruptive technology impact the success of your company in the near future?

4) Name an instance when your organization faced disruptive innovation. How did it handle the challenge? What lessons were learned?

Historically, innovation has been embedded in organizational structure as the responsibility of the R&D department, focused almost exclusively on the development of technology in supply-driven markets. What is now required, however, is a business process focused on innovation, rather than a business structure focused on R&D.

Howard Smith,
Computer Sciences Corporation

The customer rarely buys what the company thinks it is selling him.

Peter Drucker

Activity 2: Getting the Job

In his broadcast, Dr. Christensen drew an analogy between creating a new product or service and applying for a job. In essence, the customer is hiring us for a “job” that they have. Even if our function is buried within an organization, we are all being hired by the customer. Use this activity to determine how to increase your chances of “being hired by the customer.” If you are participating in this broadcast with other employees from your department, please form small groups once you have all completed the exercise and share your answers.

- 1) As it relates to your function, what is the fundamental job or problem the customer is facing that your function addresses? This includes its political, functional, emotional and social dimensions.

- 2) What are the experiences in purchasing and using the product or service that would embody the perfect solution? From the customer’s perspective, what would they consider the perfect answer to their needs? Why would they choose one product/service over another?

- 3) What are the product/service attributes, technologies, features, etc. that are needed to provide these experiences?

I'm looking for a lot of men who have an infinite capacity to not know what can't be done.

Henry Ford

Activity 3: Teaming with Innovation

This activity is designed for middle managers and others responsible for managing a number of teams or a department although it CAN be used by any leader. The purpose of this exercise is to open your eyes to the organizational structures around you and their impact on innovation. What kind of teams have you created to deal with your responsibilities and tasks? What kind of teams **would** you create if you were faced with a new technology or process that goes against the traditional business of the company? What would be required for you to even consider addressing such a disruptive innovation?

Dr. Christensen describes four different team structures, the definitions of which are included below and outlined in greater detail in the pre-broadcast reading:

- **Functional teams** – Employees are grouped with other people in their particular business function. For instance, all of the engineers work together with very little input from the marketing department.
- **Lightweight teams** – Employees are mainly organized based on business functions, but a predictable and regular interdependency exists between two or more functional teams. For instance, a lightweight manager is required to attend meetings with both the engineers and the marketers to ensure both parties are accomplishing their individual goals.
- **Heavyweight teams** – Managers cannot predict when various business units will need to work with each other. Employees must be able to cross functional boundaries and forgo their individual group’s best interests to solve the problem with the specific project’s needs in mind.
- **Autonomous business unit** – Managers are responsible for tackling the creation of a disruptive business model innovation. This structure is necessary when the organization cannot prioritize this work in relation to the numerous other investments they are making. The goal of the autonomous business unit is to establish a new economic model to justify and effectively serve the newly created market.

Keeping the above team structures in mind, address the following questions.

1) Describe the kind of team(s) you manage. Which of the four teams listed above most accurately describes your environment?

Even if you're on the right track, you'll get run over if you don't move forward.

Anonymous

2) Given your team's particular emphasis on innovation – from not innovative to disruptive innovation focused – how might you better balance your emphasis, creating structure and processes if you are disruptive innovation focused or creating sustaining (or even disruptive) innovation if you are not focused on innovation at all?

Real knowledge is to know the extent of one's ignorance.

Confucius

3) All teams over time develop processes and efficiencies that make them well-oiled machines. Yet, as Dr. Christensen explains, it's the very processes and efficiencies that make teams and organizations impervious to disruptive technologies – often to their ultimate demise. Consider your own team structure; what can you do to (at the very least) not be blindsided by potential competitive threats due to new disruptive innovation, or (at best) lead disruptive innovation while simultaneously maintaining current business processes?

Activity 4: Building an Innovation Dynasty©

This activity is designed for CEOs and other high-level executives.

The questions that follow come from the Building an Innovation Dynasty© questionnaire developed by Innosight, whose consulting and customized training sessions help companies improve their ability to create innovation-driven growth. Innosight was founded by Clayton Christensen in 2000. For the online version of the questionnaire, including detail on each question, please visit

<http://www.innosight.com/learninglab.php> and click on The 8 Pillars.



Scale: 1=Strongly Disagree; 2 = Somewhat Disagree; 3 = Neutral; 4 = Somewhat Agree; 5 = Strongly Agree

Pillar	Response	Notes
<p>1) <i>Our core business is healthy.</i></p> <p>Explanation: A healthy core business is the first part of creating wave after wave of disruptive growth. An unhealthy core will almost always—appropriately—suck time and attention away from new growth businesses.</p> <p>Compare your year-over-year revenue and profit growth rates to the average of your category or industry. If you aren't performing at least as well as that average, focus first on fixing your core business.</p>	1 2 3 4 5	
<p>2) <i>Our goals and boundaries are clearly defined and articulated.</i></p> <p>Explanation: Innovators that know a company's goals (what it wants to do) and boundaries (what it won't do) can more sharply focus their creative efforts.</p> <p>If you define the boundaries too loosely, managers can wander in the wilderness down fruitless paths. If you define boundaries too tightly, you risk missing the new growth business that powers transformation in your industry.</p>	1 2 3 4 5	
<p>3) <i>We speak a common language of innovation and avoid mindset traps that will limit growth.</i></p> <p>Explanation: Succeeding with disruptive innovation requires taking action that may be unfamiliar to many corporate managers. A common language helps companies avoid some of the many mindset traps that make the pursuit of disruption difficult, such as pursuing perfection when "good enough" would be sufficient, overestimating knowledge of new markets, and planting big bets when a small start is more appropriate.</p>	1 2 3 4 5	

Continued on the next page.

*The historian in all of us cares about the past.
The decision maker in all of us cares about the future.*

Clayton Christensen in Seeing What's Next, p xxxi.

Scale: 1=Strongly Disagree; 2 = Somewhat Disagree; 3 = Neutral; 4 = Somewhat Agree; 5 = Strongly Agree

Pillar	Response	Notes
<p>4) <i>Our innovation portfolio reflects our goals and strategy.</i></p> <p>Explanation: Companies that look at their innovation portfolio closely often find that their investment allocation doesn't match their intended strategy. Oftentimes, the great majority of their investment lands in close-to-the core, incremental improvements with a single, highly risky new growth initiative that has a large chance of failure.</p> <p>Try to achieve a stronger balance between the incremental improvements required to sustain the core, logical adjacencies that leverage a key part of the core business, and completely new and novel growth initiatives.</p>	<p>1 2 3 4 5</p>	
<p>5) <i>Resources are allocated to different types of growth projects.</i></p> <p>Explanation: It takes great discipline to create separate buckets of funding and people for different types of initiatives. In the early days, the biggest investment that companies need to make is time, not dollars. New growth ventures have the greatest chance of long-term success if they follow the "patient for growth, impatient for profits" mantra.</p>	<p>1 2 3 4 5</p>	
<p>6) <i>We have distinct approaches for different types of innovation.</i></p> <p>Explanation: Generally speaking, new growth approaches must go through a more iterative development process where the focus is on identifying and addressing the key assumptions and risks behind success. The metrics that guide a new growth idea in an early stage should <i>not</i> be the metrics like net present value or return on investment that are favored in the core business; rather, companies need to assess how well a concept fits a defined pattern of success and what the overall level of risk is.</p>	<p>1 2 3 4 5</p>	

Continued on the next page.

Scale: 1=Strongly Disagree; 2 = Somewhat Disagree; 3 = Neutral; 4 = Somewhat Agree; 5 = Strongly Agree

Pillar	Response	Notes
<p>7) <i>External insight informs the generation of growth opportunities.</i></p> <p>Explanation: Companies should involve external perspectives deeply in the innovation process. They should have regular ways to interact with their core customers, learn from non-customers, monitor on-going industry experiments, scan for emerging technologies, and learn from other industries. Setting up regular ways to draw on these kinds of external stimuli can expose previously invisible opportunities for innovation.</p>	<p>1 2 3 4 5</p>	
<p>8) <i>Senior management is actively involved in strategic innovation.</i></p> <p>Explanation: Too many companies feature adversarial relationships between senior managers and project teams. Senior managers often act as “devil’s advocates” that poke holes in a project’s team plans. When a company is heading in a new direction, senior managers need to be problem solvers, not hole-pokers.</p>	<p>1 2 3 4 5</p>	
<p>9) <i>We have different HR policies in place for different types of growth opportunities.</i></p> <p>Explanation: Companies must consider re-architecting their policies, incentives, and development paths to align them with the needs of different kinds of growth initiatives. Instead of looking for “right stuff” managers who have succeeded in core assignments, companies need to look for managers who have attended the right “schools of experience” that will help them spot and nurture new growth businesses.</p>	<p>1 2 3 4 5</p>	
<p>10) <i>We match the organizational structure to the opportunity, borrowing and buying as necessary.</i></p> <p>Explanation: A great deal of organizational autonomy is necessary for companies to successfully create businesses that are disruptive to their core business. While there is strong temptation to borrow assets from the core business, oftentimes those assets carry “DNA” that limits degrees of freedom or takes a team off a disruptive course. Consider carefully the hidden DNA of the assets you are thinking about borrowing.</p>	<p>1 2 3 4 5</p>	

(Adopted with permission from Innosight.)

An ounce of action is worth a ton of theory.

Friedrich Engels

Final Activity: Action Planning

Today is the first day of your innovation initiative. Picture your department or company six months from now. You're reflecting with a sense of pride and satisfaction on what you've accomplished since the broadcast. As you look back, what one thing brings you the most pride?

Back to the present. With the above goal set for six months from now, what intermediary steps do you need to take to reach that goal?

- What do you need to do within three months?

- What do you need to do by the end of this month?

- What do you need to do by the end of this week?

- What do you need to do tomorrow?

Materials Written By Clayton Christensen

Books

Christensen, C. M., Scott D. Anthony, and Erik A Roth. Seeing What's Next: Using the Theories of Innovation to Predict Industry Change. Boston: Harvard Business School Publishing, 2004.

Burgelman, Robert A., Clayton M. Christensen, and Steven C. Wheelwright. Strategic Management of Technology and Innovation. 4th ed. McGraw-Hill/Irwin, 2003.

Christensen, Clayton M., and Michael E. Raynor. The Innovator's Solution: Creating and Sustaining Successful Growth. Boston: Harvard Business School Press, 2003.

Christensen, Clayton M. Innovation and the General Manager. Homewood, Ill.: Richard D. Irwin, 1999.

Christensen, Clayton M. The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail. Boston, Mass.: Harvard Business School Press, 1997.

Articles

Dr. Christensen has written many articles, including:

Christensen, Clayton M. "The Ongoing Process of Building a Theory of Disruption." *Journal of Product Innovation Management* 23 (January 2006): 39-55.

Christensen, Clayton M., Scott Cook, and Taddy Hall. "Marketing Malpractice: The Cause and the Cure." *Harvard Business Review* 83, no. 12 (December 2005).

Christensen, Clayton M., and Scott D. Anthony. "New Avenues to Growth." *Strategy and Innovation* 2, no. 6 (November 15, 2004).

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Christensen, C. M., and Scott D. Anthony. "The Rules of the Game." *Strategy and Innovation* 2, no. 3 (May 15, 2004).

Christensen, Clayton M., and Scott D. Anthony. "Cheaper, Faster, Easier: Disruption in the Service Sector." *Strategy and Innovation* 2, no. 1 (January/February 2004).

Anthony, Scott D., and Clayton M. Christensen. "Performance, Convenience, Price: What's Your Brand About?" *Strategy and Innovation* 1, no. 4 (November/December 2003).

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Christensen, Clayton M., and Scott D. Anthony. "Solving the Dilemmas of Growth." *Strategy and Innovation* 1, no. 2 (July/August 2003).

Christensen, Clayton M. "Beyond the Innovator's Dilemma." *Strategy and Innovation* 1, no. 1 (March/April 2003).

Website

You may also benefit from visiting the Innosight website at <http://www.innosight.com>.

SECTION 2

FORMS

Question Sheet

Use this form to write your question for Clayton Christensen. Please write legibly.

Name (optional):

Organization:

Location:

Your question (25 words or fewer):

Fax 1.877.892.0170 (from within U.S.)
Fax 646.349.3661 (from outside U.S.)

Email: leadership2007@linkageinc.com

Tel 1.800.218.0530 (from within U.S.)
Tel 303.262.2131 (from outside U.S.)

Broadcast Evaluation Form

We invite your feedback on this presentation: *How to Create New Growth Businesses in a Risk-Minimizing Environment*. Please complete and return this form to your site coordinator or fax it to 781-402-5556.

NAME _____ TITLE _____

ORGANIZATION _____

Please indicate functional area (only check one):

Finance Human Resources/Organizational Development Manufacturing/Operations

Marketing R&D Sales Other (specify) _____

How many people do you have reporting to you (include all levels)? **Number:** _____

Please indicate your job level (only check one):

President or Officer Vice President Director Manager/Supervisor Individual Contributor

1) Please indicate a rating for each of the statements below by checking the appropriate box.

	Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
The length of the presentation was ideal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
As a result of participating in this program, I will be more effective in my role.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The participant materials were useful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Q&A session was valuable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2) Please give a general overall comment about the program: _____

3) How can we improve these broadcasts? _____

4) May we use these comments for promotional purposes (including name and org.)? **Y N**

5) On a scale of 1-10 (10 = Outstanding), how would you rate this session? **Rating:** _____

6) Which speakers are you most interested in seeing at the next Linkage Excellence in Leadership & Management Series? (*Please rate your top five, "1" being most interested.*)

- | | | |
|--------------------|--------------------|--------------------|
| ___ James Kilts | ___ Noel Tichy | ___ Ram Charan |
| ___ Keith Ferrazzi | ___ Paul Tagliabue | ___ Chris Anderson |
| ___ Ann Mulcahey | ___ Andrea Jung | ___ Other _____ |

7) Which types of speakers are you most interested in seeing? (*Please rate your top five, "1" being most interested.*)

- | | |
|-------------------------------|--------------------------------------|
| ___ Former C-Level Executives | ___ Thought Leaders/Management Gurus |
| ___ Political Leaders | ___ Athletic Leaders/Coaches |
| ___ Military Leaders | ___ Other _____ |