

THOMAS BLEKMAN

CORPORATE

Effectuation

What managers should learn
from entrepreneurs!

*Disturbingly
Good Book!
Beuk*

‘Corporate ventures are like teenagers and large companies find it difficult to raise them. Effectuation can offer a helping hand to let them grow into successful adults.’

– DRS.IR. CORINA KUIPER RC EMFC, Senior Director,
New Business Development /Venturing of Philips, fellow of
Bell-Mason Group

CHAPTER 6

Granularity of innovation

Causation and Corporate Effectuation at Philips

Open innovation and co-creation have become an inevitable necessity in a world in which every aspect of daily life is becoming more complex all the time. The megatrends may be predictable, the solutions however are far less so and are even, on the whole, entirely unpredictable. New categories of products and services are emerging. And companies that practice not only the causal approach but Effectuation as well will be tomorrow's winners.

By Drs. Ir. Corina Kuiper *RC EMFC*, and Dr. Fred van Ommen,
CTO Office, Philips

Royal Philips Electronics of the Netherlands is a diversified Health and Well-being company, focused on improving people's lives through timely innovations. As a world leader in healthcare, lifestyle and lighting, Philips integrates technologies and design into people-centric solutions, based on fundamental customer insights and the brand promise of "sense and simplicity".

In its "Vision 2015," Philips has identified the difficulty of coping with complexity as a major challenge for people in our time. One of the things that makes life today so complex is the fact that technological progress comes to us very often in a way that is too difficult to experience. Philips believes that this situation can be changed, and that it can help to make the benefits of its products and solutions easier to access and more relevant to people's needs and aspirations. Philips wants to further strengthen its leadership positions in key businesses such as home healthcare, LED lighting and healthy living and personal care platforms.



6.1 Megatrends call for trail-blazing innovations with partners

In view of megatrends such as urbanization, strong rise of emerging economies like China and India, the aging population, an increase in chronic diseases, climate change, the necessity of sustainable development, and the rise of social media, any contribution to business solutions will require more than merely improving the existing product categories. There simply will not be enough hands to counteract the aging of the population; only breakaway innovations will enable us to offer adequate and sufficient care to everyone. With the present rapid (technological) developments it is no longer possible to do everything ourselves. And indeed, companies, research institutes, government institutions, and universities are joining their innovative powers to an increasing extent: open innovation and co-creation have become an inevitable necessity in a world in which every aspect of daily life is becoming more complex all the time. In view of all this, the High Tech Campus Eindhoven was founded to serve as the institution synonymous with open innovation (see the box).

The megatrends may be predictable, the solutions however are far less so and are even, on the whole, entirely unpredictable. New categories of products and services are emerging. And companies that practice not only the causal approach but Effectuation as well will be tomorrow's winners.

High Tech Campus Eindhoven: "Hotspot for Human Focused Innovation"

High Tech Campus Eindhoven is synonymous with open innovation. In an area of just one square kilometre, more than 8,000 researchers, developers and entrepreneurs from about ninety enterprises work closely together developing the technologies and products of tomorrow.



High Tech Campus Eindhoven has developed into a dynamic mix of service companies, techno start-ups, innovative SME businesses, research institutes and global companies. Campus companies share the drive to create value for people and to develop innovative solutions that make human life healthier, more pleasant, easier and more interesting. According to the Intelligent Community Forum (ICF), greater Eindhoven is now already one of the seven smartest regions in the world.

History

The driving force behind the establishment of High Tech Campus Eindhoven was Philips. At the end of the 1990s, the R&D activities of the company were spread right across Eindhoven. In 1998, to remedy this, Philips established the High Tech Campus to act as a single location for all its national R&D activities. This approach proved highly successful. The atmosphere of openness and the concentration of high-end knowledge and facilities produced considerable interaction between the researchers. Knowledge sharing and mutual inspiration generated a definite boost for the innovative capacity of the organization. To further accelerate this process, Philips decided in 2003 to open up the Campus to other technological companies. The result was massive growth. Philips High Tech Campus now became High Tech Campus, and as of 2010 Philips no longer is the owner of the High Tech Campus.



The Strip

The beating heart of the Campus is The Strip. The 400 meters building has been designed to connect people and stimulate sharing of knowledge and cooperation. All social facilities are brought together in The Strip: three restaurants, two bars, a conference centre with auditorium, a range of shops and services, and the Campus Wellness Center. Residents and visitors to the Campus

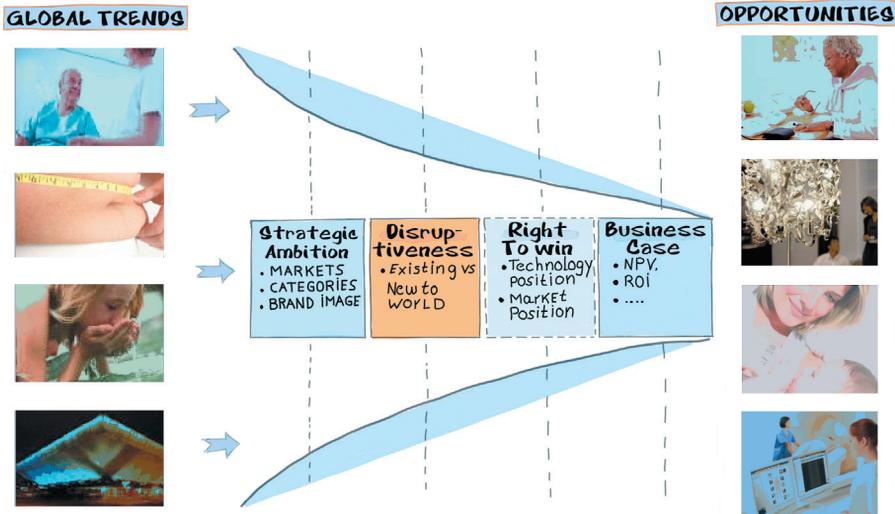
meet at The Strip every day, for lunch, an intensive workout or during one of the many network meetings, concerts or technical conferences. The Strip is the centre for meetings, inspiration and creativity.

www.hightechcampus.nl

6.2 Innovation portfolio management

Corporations can make a difference by the way they respond to the megatrends with tangible innovation projects. In their portfolio management, they employ different criteria. Does it match the strategy and comply with financial requirements? Does the project have adequate technological and commercial means and competencies at its disposal, and how would it make a difference compared with the competition (is there a *right to win*)?

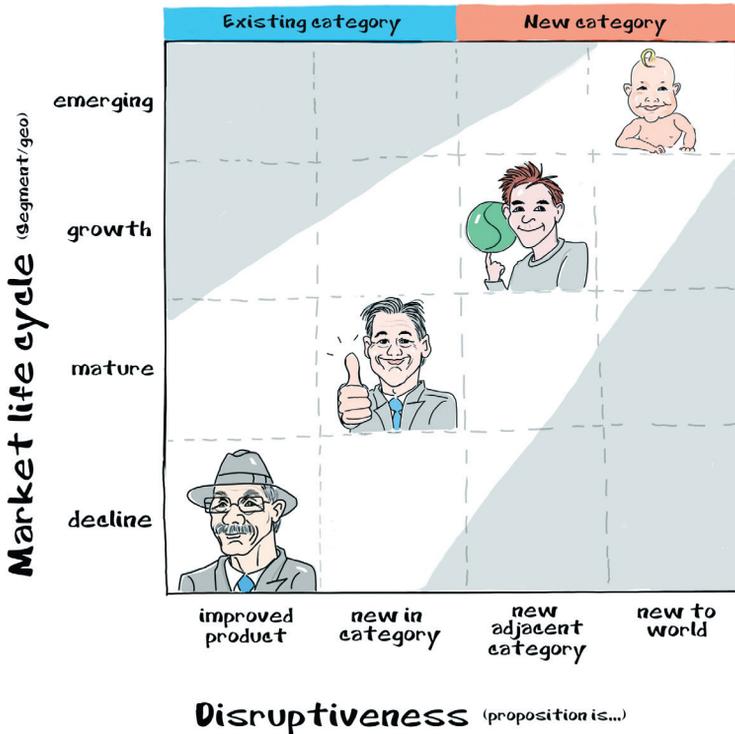
With open innovation, an increasing number of means and competencies are made available by third parties. It is no longer decisive whether a corporation itself disposes over the necessary components or knowledge. One parameter of increasing importance in Philips' portfolio management is the extent to which a new product or service will be disruptive to customers and end-users. Would it prove disruptive to their usual behavior, and will they then have to adapt themselves to it? In other words, does the end-user experience it as a new category of products and/or services? If so, this indicates that such a market segment remains to be developed and the necessary means, knowledge, and expertise are not yet available, not even by open innovation. Causal predictability is here of little help, and in such a case it would be wiser to employ the principles of Effectuation. In such a case, a distinction can be drawn within the portfolio between different types of innovation, which may then be thought of as "strategic buckets," as Robert Cooper calls them.³⁹



6.2.1 Philips' 4x4 innovation matrix

In 2006, Philips developed an innovation framework to define and manage these buckets of innovation. This 4x4 innovation matrix is the visualization of the granularity of innovation – *granularity of innovation* being the extent of differentiation

between the different types of innovation. The most significant characteristic of the matrix is the external focus: it is not Philips that is placed in the center, but the market and the customer.



On the vertical axis have been placed the different life-stages of the market, differentiating between emerging, growing, mature, and declining markets; on the horizontal axis, the extent of the disruption for the client is represented as being a function of four distinct possibilities:

- 1 Improvement of a product or service in an existing category;
- 2 Addition of a new product or service to an existing category;
- 3 Introduction of a new, emerging category, where the category itself is new but the end-user can still link it to other existing categories of products or services;
- 4 Introduction of an entirely new category of products or services.

A number of these sixteen buckets are not usually relevant; a new breakaway category will not be introduced in a declining market, nor an improved product in an emerging one.

By now, other companies too, such as DSM, have introduced the 4x4 innovation matrix in their organizations.

As Arie de Geus has suggested,⁴⁰ there are strong similarities between a corporation and a human being. The life-cycle of innovation on the diagonal of the 4x4 innovation matrix largely corresponds to the human life-cycle. The majority of the activities of a corporation consists of adults: existing products or services that provide for today's incomes. And yet if we're speaking of a healthy organization, we ought not to forget that it too will have its babies – the disruptive long-term innovation projects in their nascent stages (development business case). Management has to foster both the grown-ups and the babies. And the teenagers too, far more unpopular as they may be: innovation projects that already have progressed beyond the drawing-board stage and have started testing the first product or service of a new category in a first market sector. Viewed from the outside they already look like adults, but their needs are really quite different (for instance, a new business model, a new distribution channel, other prime customers). Frequently, the interests of these new nascent activities will clash with those of the established business units; as do most teenagers, they are exploring and testing their limits.

Philips purposefully chose a 4x4 matrix and not a 3x3 one in order to be able to address the challenges of the aging population as well. To discontinue old and trusted products and services of the business in declining markets is a hard decision, and the decision to outsource is often made far too late. Outsourcing and partnering are common in fast moving consumer goods and are an effective way to free up resources for investment in new strategic directions.

The 4x4 innovation matrix outlines an innovation portfolio with insight and structure. The types of innovations, each with its own approach, become transparent. And this is not limited to R&D and marketing; competence management, supply-chain management, partnering and acquisition strategies can also be mapped in this way in order to provide insight into their differences. Moreover, the matrix is a perfect tool for measuring innovation costs (not only in R&D but also in marketing) and to assign *boxed budgets* to each sort of innovation.

6.2.2 *The granularity of innovation*

The essential distinction made in the 4x4 innovation matrix is between the right side and the left: on the left, we see traditional product creation, on the right there is the creation of *new business*. The left side is predictable, meaning that it is possible to extrapolate from historical data; markets, players, and products are familiar, the customer knows what he wants, and opportunities may be identified by market research and competition analysis. Furthermore, means can be acquired and a detailed plan developed and implemented; employees will work according to a strict scheme of forecasting, prioritization, budget management, and individual development plans; and progress will be measured by monitoring the deviations from the plan. Everything unexpected and unforeseen will pose some threat; what will matter is *damage control* and managing the risks.

The right side of the matrix is quite a different story. Here markets are undefined; this is the domain where the customer does not yet even know what he does not know. The information that is available is both overwhelming and contradictory. What matters here is to transform possibilities into opportunities, which is not a static process, but dynamic, interactive, and barely predictable; the strict execution of a preconceived plan is not possible. With every new surprise, one has to look as unabashed and flexible as one can, for the sake of the various potential and unprecedented opportunities. The advantage is not with the one who prepared best, but with him who meets all that he comes up against in the most deliberate and proactive manner.

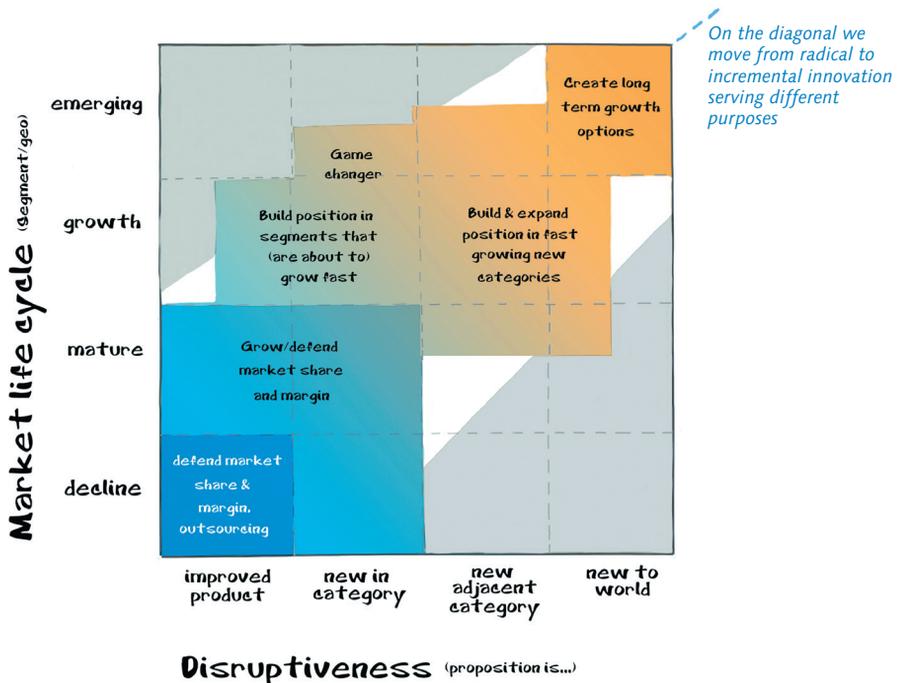
Established business Product creation 	 New business New business Creation 
<ul style="list-style-type: none"> • Recombine existing resources • Existing ecosystem • Market share battle • Customer insights known • Utilization of existing channels • Established business models • Focus on execution and synergies • Short/medium term • Existing organization/competencies 	<ul style="list-style-type: none"> • Create new opportunities • New ecosystem • Crossing Moore's chasm • Changing customer behavior • Building channels • New business models • Focus on learning/iterative • Medium long-term • New capabilities/competencies  

Commensurate with the right-hand side is an approach that asks, what do I have at my disposal (bird in hand), and what can I achieve with it? Whereas in the cases presented on the left-hand side, all know precisely what they want and are able to decide in advance what is needed to achieve it.

In short, the answer to the question if one or more actors in the value chain need to change their behavior is decisive in establishing whether it is better to apply the principles of causation (left-hand side) or Effectuation (right-hand side). Whether the prospective change would be new to Philips, is of lesser importance. A good example is the fully automatic espresso machine: an existing, but still growing market. As it was a new product category for Philips but not so for the customer or the trade, it was a matter of product creation. Market data were available. Philips decided for the open innovation approach. To begin with, Philips sourced important components of the machine from a partner; then it broadened its position in this market with the acquisition of Saeco.

An example of creating a new business (the right-hand side) is DirectLife: a new category of products designed to monitor one’s own lifestyle. Anticipating the trend that people often do not have enough physical exercise, Philips marketed an exercise program that helps people to lead a more active life. The solution being tested by this young venture does not only offer the “Activity Monitor,” which measures how much exercise one has had, but also a personal web site and coaching. What this teenager among Philips’ offerings must still prove is that it can change a person’s behavior in an enduring and inspiring way. This message must be brought to the market through new sales channels and new business models. To achieve this, new competences will have to be developed inside Philips, and co-operation with other partners has to be established. It is still too early to know precisely what the features of this new market will be.

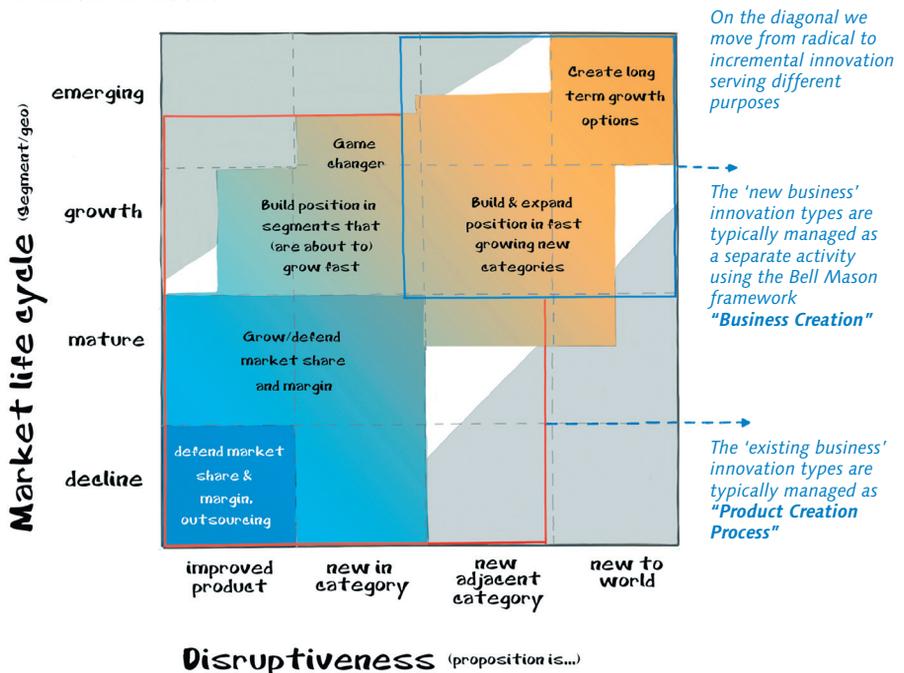
And there is more granularity than only the distinction between creating products and creating new business. On both the left and the right-hand sides of the matrix, different types of innovation are distinguished, each having its own approach, performance indicators, and different time scope. Emerging economies such as China and India offer new possibilities for growth (left-hand side: achieving a position in an emerging market). Although this form of innovation is ranged under product creation (left-hand side), it requires its own approach governing the adaptation of existing products or services to the specific needs of these markets. Also, there is an increasing number of examples of “reverse innovations,” where the emerging econ-



omies are the introductory market for new categories of products and services, which are only afterwards brought to the mature markets of America and Europe (right-hand side: building a position in fast-emerging markets). An example is the GE MAC 800, a low-cost ECG system developed for India, aiming specifically at a rural population that cannot afford expensive health care. An improved version was launched in America a year later, in 2009.

6.2.3 Managing the teenagers at Philips

Big corporations often have thoroughly solid processes for managing effectively the traditional product-creation processes (the red outlined box in the chart below refers to Red Oceans). In past years, Philips has adapted these processes in a more *end-user-driven* way. This requires a multifunctional approach in which Research & Development, Marketing and Sales, Design, and Supply Chain Management closely work together. On the other hand, large companies often have great trouble in managing new business-creation initiatives and cannot resist everyday pressure (for more on this subject, see paragraph 6.3.2). Extra protection will be imperative to shield the offspring against the immune system of the parents (see the box, “Large company syndrome”). In its absence they would become obese because they are granted no latitude to experiment and are forced to work out everything to the tiniest detail. They are promised additional possibility of investment if they succeed in realizing the predicted turnover in a shorter time than planned; but as soon as these babies become teenagers, they are put on a severe diet regime. They often die of anorexia in the end ...



The large company syndrome

Established corporations have great difficulty in nurturing breakaway innovations.

There are several reasons why a business unit within a large company concerned with existing products cannot really handle ventures:

- Difference in time scope. The creation of new business takes a lot of time (average five years, in healthcare even up to eight years). Most often the *company patience* will last for no longer than three years.
- Mistakes are thought of as being failures, rather than as learning experiences. Neither the market, nor the clients, nor the venture itself knows what it does not know, and experimenting is the best way to find out. This calls for a policy of "failing fast and cheap."
- Both the degrees of security and the risks can be mapped, whereas uncertainties are unpredictable. Extrapolation based on the past is not possible.

**"Don't bother me
with new ideas,
I've got a battle
to fight!"**



- Linear execution of what was planned versus the iterative approach. Philips' motto for venturing is: "Think big, act small, accelerate fast." The only thing a venture knows for certain is that plan B will be necessary since plan A won't work (however needed to get to plan B).
- Venturing is a "Darwinist portfolio game" since only a few out of every ten initiatives will turn out to be successful. Nevertheless, you have to initiate them all since nobody can predict in advance which ones will survive – yet a business unit often cannot afford to work on ten different initiatives.
- *Out of the box* thinking is called for. Although the market that is the ultimate target can belong to the scope of a business unit, the first market of the venture can fall outside this scope and be small in size. Moreover, opportunities often emerge when certain parts of several business units work in combination; but exploiting this synergy from within one single business unit is often difficult.

- The biggest conflict of interest is frequently with the sales organization. The solution of a venture is not often understood by the current customers and the sales organization, and it requires another business model and sales channel to the market. Sales people often use the first products or services of a venture as a gadget to sell more existing products, but in so doing, they position the venture in a faulty manner, and with the wrong clients. ("If you buy two systems instead of one, you will get this new application for free!")



- A venture needs a dedicated and integral team with domain knowledge of the first market it intends to approach. However, inside a business unit people often have to combine their work on the venture with their everyday tasks; they have no knowledge of the domain and therefore no network in the market where the venture plans to create a new category.
- Performance indicators for a business unit are turnover and profit in the coming period. But ventures, especially young ventures, should be managed on their cash.

In 2006, Philips purposefully decided to develop a specific dedicated approach to manage new business creation (the blue outlined box in the chart above refers to Blue Oceans). The basic elements of this approach are the following:

- 4x4 innovation matrix: an explicit distinction between the different types of innovation, all having their own approaches.
- Strategic choices: defining themes of innovation that serve as a strategic filter for the new-business-creation initiatives (focus).
- Boxed budgets: each type of innovation is to have its own budget.
- Incubators: separate “delivery rooms” that afford protection against everyday pressure and offer the opportunity to experiment with new business models, market approaches, sales channels, etc.

- One language and way of working for managing new businesses, based on the stage-gated framework of the Bell-Mason Group.⁴¹ Implementation of this framework started at the top level of Philips, and by now more than a thousand employees have been trained.
- Transparent funnel of all new business creation initiatives (ventures).
- Balanced scorecard for ventures with different performance indicators according to their phase.
- Dedicated governance: Business Development Boards manage the venture portfolio by sector.
- Limited (cornerstone) partner in two Corporate Venturing Funds: offering a window to the market as well holding up a mirror to internal ventures.

6.3 Effectuation principles applied to the 4x4 innovation matrix

In short, we can observe that the principles of causation are applicable to the left-hand side of Philips' 4x4 innovation matrix, while the principles of Effectuation are relevant for the right-hand side. The company's babies and teenagers live in accord with the Effectuation principles; in daily practice, the parents, who operate mainly by the principles of causation, often do not know how to handle this adequately.

6.3.1 The bird in hand principle

R&D organizations are used to developing products in a linear manner. Projects are frequently subdivided into functional sub-projects which will be reassembled later on. This is possible provided that at the outset what is to be achieved is exactly defined and also that the means that will be needed have been clearly identified. When the project does not have the proper means at their disposal, they can either be bought or built from scratch.

In venturing, it is exactly the other way round. There is a vision of what one is aiming at, but a precise description of the end-goal cannot be given. The situation can be compared to a voyage of discovery: with the means and possibilities at one's disposal, together with the people one knows, one formulates a couple of theses and one tests them in an iterative manner (*trial and error*). Based on the outcomes one decides what the next step will be, and one modifies one's goals. One of the few things one knows for certain in venturing is that there is a very large chance that one's first plan will not work and that eventually only plan B or even plan Z will be a success. In their book *Getting to Plan B*,⁴² John Mullins and Randy Komisar explain with clarity how one should handle business plans in accordance with the Effectuation principles. According to them, one should concentrate on what one does not know, instead of on all that one already does know. They think one shouldn't reinvent the wheel but should look for elements in other companies' business cases that might also prove useful for one's own venture (which they term "analogs"). On the other hand, there will also be elements that one certainly intends to implement

differently (“antilog”). The next step is to identify the questions raised by these *analogs* and *antilog*s or other questions for which there are neither analogs nor antilog that provide reliable answers. These questions you cannot answer from historic precedent lead to the *leaps of faith*. These can be tested only by experiment. Thus, posing the question “Are people willing to pay to download separate songs?” represented a *leap of faith* on Apple’s part. Similarly, the question “Are people willing to buy coffee pads that are more expensive than regular coffee?” constituted a *leap of faith* when Philips and Sara Lee were developing Senseo together.

6.3.2 *Affordable loss principle*

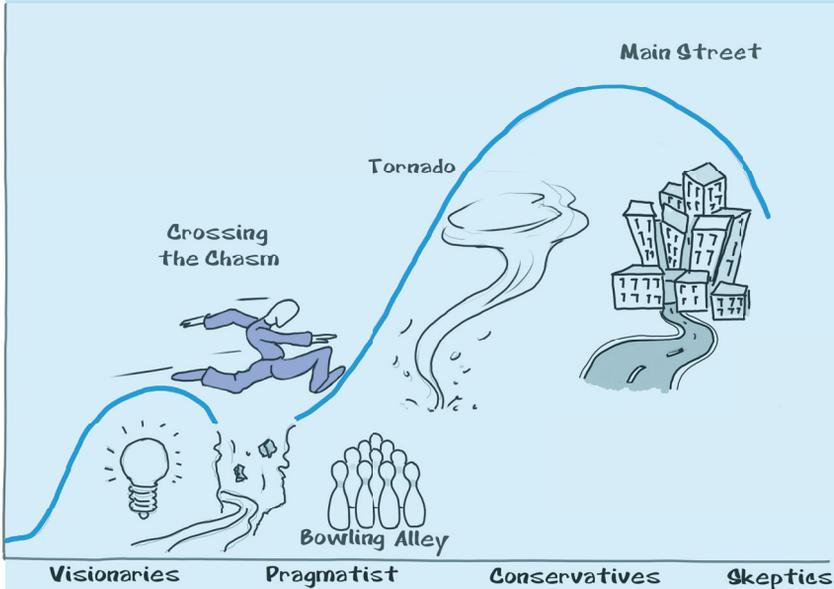
‘Garage’ ventures lack a secure home port in order to identify and develop the appropriate means they have to brave the outside. They are forced at a very young age to stand on their own two feet and discover everything themselves. For them the *affordable loss* principle is a necessity for survival. They don’t have to account for the results of the experiment, but they have to ask themselves constantly whether it still is feasible and worth the effort, whether they themselves still can and want to do it. There will be no safety net when things go wrong.

Unlike a garage venture, a corporate venture frequently can take it for granted that it will have sufficient means at its disposal during the early stages. As was pointed out earlier, big companies love babies; and in addition, nascent corporate ventures are small and can easily fly under the radar and make many of their arrangements informally. Moreover, they have access to many competencies and tools free of charge. Here the big threat is that they would overeat, so to speak. The worried parents encourage the babies to examine many things down to the last detail and to strive for the perfect solution that comprises everything. This is how to raise an obese baby. Experimenting in the streets is discouraged; the parents are concerned and want to spare their offspring the bruises, so with each and every request from their child for permission to experiment, they want to know what it will deliver.

As soon as the baby grows up and becomes a teenager, we see the parents adopting an entirely different attitude. The corporate venture becomes more costly and goes outdoors, exploring the marketplace. The costs of the venture begin to have an influence on the short-term results of the business unit. Moreover, the venture wants to enter the market in a different way, with other business models, and thus starts to represent a challenge to the sales organization. Sales people may like new things, but they prefer products that are easily sold because the customer understands them, to those that neither they nor their clients will grasp (since these latter products do precipitate a great deal of *disruptiveness*, thus requiring changes in attitudes). Ultimately, parents run out of patience (generally speaking, *company patience* lasts three years at the most) and everyone begins to rush. The venture is now forced “to launch in order to sell” and is no longer allowed to “experiment in order to learn.” Everyone forgets the existence of Moore’s Chasm⁴³ (see the box), a yawning

abyss; and the venture is required to jump immediately. Usually this leads to the death of the teenager, who had already been seriously weakened by the merciless diet the parents prescribed to hold down the costs. On the other hand, the teenager in the garage, accustomed to the *affordable loss* principle from a very early age, remained “lean and mean” and learned to permit itself small mistakes, drawing a great deal from them, for instance, knowledge of what doesn’t work.

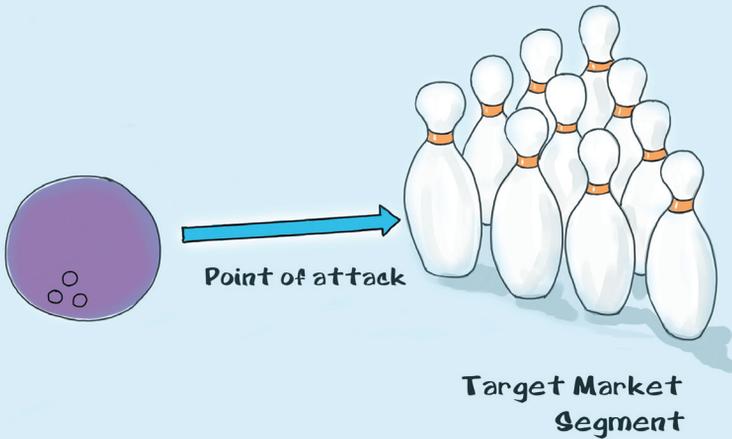
Crossing Moore's Chasm⁴⁴



The bell-shaped curve that outlines the adoption of new products is well-known. One begins with a couple of visionaries and once one sheep leaps over the ditch all the rest will follow. But in the case of the creation of new business (disruptive innovation), there is not a single adoption curve, but rather two. In our view, Moore's Chasm does not originate from a hiccup in one adoption curve, but from a delay that occurs between the two curves. The more disruptive an innovation is, the longer this delay will be.

The first adoption curve aims to develop the first market and to collate proof sufficient to show that the new category of products or services actually has a right to exist. Here, answers are sought to questions such as the following:

- “How can we change the attitude of the client?”
- “What business model fits best?”
- “What sales channels do we need?”
- “Whom do we need as our partners?”



This first market, frequently of quite a small size and being outside the scope of the corporation's core activities, will serve as the stepping-stone to the second adoption curve, which must provide the intended growth and profit (this second market often fits within the strategic scope of the corporation).

The first market acts as a bowling pin. The selection of the first pin is decisive for the success of the entire venture, since success in this market is the key to all the following ones. Whenever this success fails to materialize, one remains stuck in the first curve and the venture will stay small. Thus, a market road-map showing how one market leads to the next one will be of the utmost importance.

The art of corporate venturing is the creation of an environment where the venture can profit from the vast knowledge, expertise, and means of the parents, on the one hand, yet remains “lean and mean” and from an early age is given enough room to experiment, on the other hand. One of the most important prerequisites for corporate venturing, therefore, is that the parents know how and when to let go of their children. The use of the *affordable loss* principle in corporate surroundings requires that the costs of young ventures be kept low. They should be managed with a view to the cash flows, not to EBIT. In most phases of a venture (almost until the end of adolescence) sales must be considered as constituting negative costs. Attracting a lot of customers at the start-up of a venture may result in more turnover, but it leads to loss of focus since all deals closed will be accepted without considering the question of what would thereby be contributed to the learning process. Such oversights frequently lead to the death of a venture. During these initial phases it is far more important that the first customers open the way for the market sectors that will be focused on next. The degree of leverage is of far greater importance than the first sales themselves (which pin must be hit in order to score a strike?). It is not a matter of getting as many orders as possible, but of receiving precisely those orders and information with which one can build the bridge for a safe crossing over Moore's Chasm.

6.3.3 *The lemonade principle*

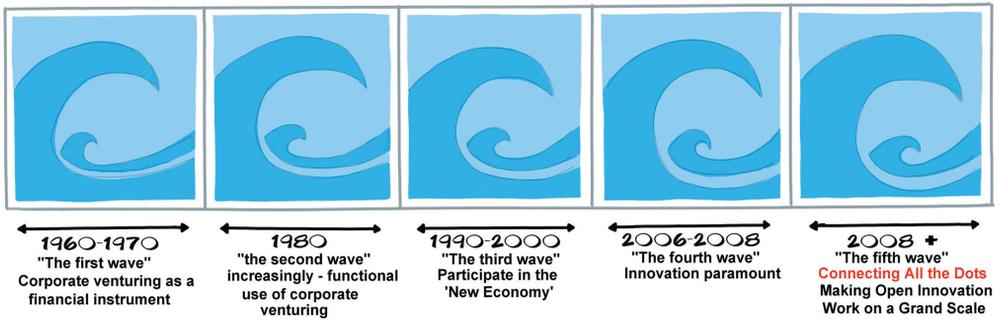
One of the core characteristics of venturing is exploiting the unexpected in the most profitable manner. Napoleon always wanted to know if someone was a lucky fellow before he promoted him to the rank of general. Much more recently, it was quite by chance that Steve Jobs knew the drummer and lead singer of the Eagles, Don Henley, who was willing to make the music of his band available. This is how iTunes started in 2003, with no less than one million downloads on the first day; though of course the services of two hundred lawyers were required, who had to work around the clock to draw up the contracts that facilitated the selling of single songs through the internet.

Stuart Read has demonstrated that managers working in divisions located on the left-hand side, when confronted with the uncertainties of those on the right-hand side, will cling to predictions (see chapter 1). The unexpected and unforeseen is considered a risk and a danger, and the remedy will be *damage control*. But what the right-hand side requires is an entirely different sort of behavior: converting unexpected occurrences into opportunities. Teenagers are fond of investigating the unknown, whereas this will make their parents very nervous. White swans can be found on the left-hand side, but the black swans gliding over the Blue Oceans of the world are situated on the other. These black swans are unpredictable; the art is to turn any encounter with them in one's favor.⁴⁵ Yet in large companies, these inexplicable deviations are often disposed of as mere incidents.

6.3.4 *The crazy quilt principle*

As was said earlier, no single corporation will have all the competencies required to solve the overarching problems on its own. Partnering has become a necessity. This will lead to complex ecosystems of strategic alliances and of partnerships with stakeholders who are all stitching, each in its own way, the final unpredictable crazy quilt. For example, whereas the CD was developed by two leading companies, Sony and Philips, in the development of the DVD tens of corporations were already involved, and in creating Blue Ray hundreds of them have participated. The plain predictable quilt has been succeeded by a complicated, spotted, colorful one.

In corporate venturing, too, partnering has become a necessity. According to Heidi Mason,⁴⁶ *innovation partnering* is at the core of the fifth wave in corporate venturing. After the economic crisis of 2008, few if any ventures at all went public, and the only exit still open to the Venture Capitalists (VCs) was an acquisition by the corporations of their portfolio companies. For the corporations themselves, as well, the need to build partnerships has also increased. The modes of co-operation are also becoming more diverse all the time. Heidi Mason argues that it is critical to recognize that innovation partnering is a two-way street. Success requires a significant shift in corporate behavior, and a new skill set – a “give to get” approach that is flexible and adaptable.



Partnering is relevant in all fields of the 4x4 innovation matrix, although in the various fields there are differences in the nature of the relations between the partners. On the left-hand side, what the quilt will eventually look like may be described in advance. Here, purchasers strive to reduce the number of suppliers and put their efforts into reducing costs. Very detailed contracts stipulate quite precisely who will run which risks and define everyone's rights and obligations.

Products and services on the right-hand side call for co-creation: an associative, creative, interactive process in quest of new possibilities. When teenagers start to date, their parents feel their hearts skip a beat and suffer from sleepless nights. The capabilities needed to sustain these sorts of right-hand side relationships center around creativity, ability to learn, enthusiasm, adaptation, and flexibility. Since the ecosystem designated on the right-hand side is still in the making and every stakeholder is still looking for its best spot in the chain, partners can also change over time. They can even become competitors – and vice versa. Here, therefore, any open-ended exclusivity is inadvisable. The diversity in the types of partnerships and co-creation is on the increase and is no longer restricted to the typical relationship of customer and supplier. These days, partnerships evolve both vertically and horizontally in the value chain. No longer is it decisive what one's abilities are, but, for the most part, who it is whom one knows and what it is that one does in conjunction with one's abilities. People as well as corporations with a good network have a clear advantage.

6.3.5 The pilot-in-the-plane principle

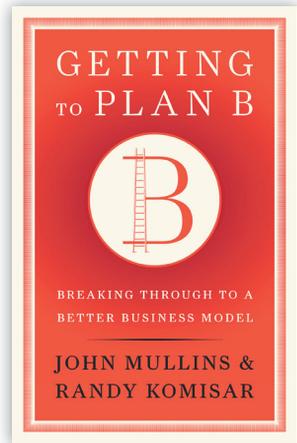
The notion of control has very different meanings on the two sides of the 4x4 innovation matrix. On the left-hand side, it is frequently understood as verification. Many things are predictable and the managers see to it that everything is executed as planned; but when they are faced with uncertainties, these managers cling to the predictions and fall victim to the analysis-paralysis. On the right-hand side, things are not really predictable and it is wiser to take the future into one's own hands in order to take control and to operate according to the *affordable loss* principle.

On the left-hand side, the quality of the plan is decisive: a good cook-book can help even the less experienced get started. On the right-hand side, it is harder to respond to what you don't know. In a venture team, there is no substitute for experience and domain knowledge. Here too, a good network will assist the venture manager in getting and keeping a grip on the venture. At Philips, in a very early stage a venture is asked to form an *advisory board* with (external) experts in the fields most relevant to its success. And this holds for domain expertise, functional expertise, and entrepreneurship. When you lead a venture for the first time, it may be wise to have a seasoned entrepreneur on your advisory board. Such advisors not only are a source of knowledge and experience, they also have a large network and can open doors that otherwise would remain shut to the venture. Furthermore, they make sure the venture will remain honest to itself. As a venture manager, one is passionately intense and thus may turn a blind eye to the signals indicating that plan A is not working at all and it is time to move on to plan B.

6.4 Conclusion

Innovation is not one single selfsame thing; rather, it calls for a granular approach. Each type of innovation has its own mode of operation, management, and performance indicators. In order to manage the granularity of its innovation, Philips developed a 4x4 innovation matrix. In particular, it is the extent to which a new product or service would be disruptive to its consumers and end-users – in other words, will they be required to adapt their behavior? – that will be decisive for the form of innovation that is required.

Large companies cherish their adults and their babies, but find it to be far more difficult to raise their teenagers. Without teenagers, though, there will never be new adults, which in turn are needed if the corporation is to grow and flourish. Parents who, on the one hand, give their children room to develop and, on the other hand, coach and motivate them, will witness their teenagers, after some years of turbulence, turn into successful grown-ups. When corporate parents are aware of the principles of Effectuation and can apply them in raising their 'venture children', it will increase the chances that their teenagers grow into successful adults'.



TAKEAWAY

- Corporations that can deploy both the Causal approach and Effectuation will be the winners of tomorrow.
- An increasingly important parameter in Philips' portfolio management is the extent to which a product or service is disruptive to its consumers and end-users: do they have to adapt their behavior?
- The information available is overwhelming and contradictory. What counts is the ability to transform possibilities into opportunities. The victory goes not to the one who is best prepared, but to the one who is most conscientious and proactive in leveraging whatever he meets on his way.
- Any "teenager" operating in accord with the *affordable loss* principle does not get obese but stays "lean and mean" and learns to allow himself small mistakes, precisely in order to get to know what doesn't work.
- To employ the *affordable loss* principle in corporate surroundings it is important to keep the costs of young ventures low; they should be managed with a view to cash flows, not to EBIT.
- The selection of the first *bowling pin* is decisive for the success of a venture, because it's success in this market that will open up the next ones.

What managers should learn from entrepreneurs

Did you ever wonder why successful entrepreneurs always seem to accomplish 'magical' results, even in uncertain times, while others struggle on a daily basis? What do they do differently? What can managers really learn from successful entrepreneurs? Thomas Blekman from *De Beukelaar Groep* and *Rotterdam School of Management, Erasmus University* presents the answer.

Corporate Effectuation brings a scientifically proven method called 'Effectuation' to corporate organizations. Effectuation consists of 5 principles that help managers cope with uncertainty and unpredictability:



PHOTO: SJAAK RAMAKERS

- **Bird in hand** principle
- **Affordable loss** principle
- **Crazy quilt** principle
- **Lemonade** principle
- **Pilot in the plane** principle

The 5 principles are proven in a corporate context in collaboration with 17 path banding co-authors. In this book, valuable case studies are presented such as Philips, RWE Essent, Rabobank, KVD, University

Hospital of Maastricht and De Beukelaar Groep.

A changing world requires strategic flexibility. *Corporate Effectuation* offers a new view of 'corporate entrepreneurship' and illuminates insight into new tools for corporations such as *Business Modeling* and *Reframing*.

After reading *Corporate Effectuation* there is no longer reason to be a 'smart-follower'. Apply these new insights and you too can be a 'smart-creator'.

'Thomas Blekman offers insight into where new opportunities come from and the process and tools by which they are created.' – Stuart Read, Professor in Marketing, Innovation and Entrepreneurship at IMD Switzerland

'Enterprises that can deploy both the causal approach and effectuation will be the winners of tomorrow.' – Dr. Fred van Ommen, CTO, Senior Vice President of Innovation Excellence, Philips Electronics

'It is a paradigm-shifting work, and therefore a serious candidate to become the Management Book of the Year 2012.' – Marco van Veen, Manager of Heineken International Web Center



ISBN 978 90 5261 909 5

NUR 801



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