

# True or False: Strategic Innovation Is Too Scary



By **Gina O'Connor**

Professor of Innovation Management, Babson College  
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Why do organizational leaders keep backing away from “beyond incremental” or strategic innovation? We know this about strategic innovation:

- It results in above-normal returns to stock market value.
- It prevents being on the receiving end of disruption.
- It offers whole new pathways of growth, providing opportunities for companies to renew themselves as their businesses commoditize or come under threat.
- It generates employee enthusiasm and pride.
- It can dramatically enhance a company’s reputation in society for addressing important problems and bringing entirely new sources of value to the market.
- It thrives under a structural ambidexterity approach.

Look at Adobe, Corning, DSM, Fujifilm, IBM, Olympus, each of whom has completely renewed itself, some several times, by shedding businesses that were suffering from technological change, and creating entirely new markets that novel, emerging technologies enabled. And, while acquisitions played a part in each of these, internally based innovation capabilities powered the change.

We know it’s the rational approach to running a business, yet most companies stall over and over in their attempts. Here are some assumptions leaders make that prevent successful development of strategic innovation (SI) capabilities.



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### **Assumption #1: It's too expensive.**

We sometimes see a glamour project, i.e. one that promises to be the next big thing, soak up disproportionate resources and attention. The belief is that the more money we apply, the faster the project will generate returns. Breakthroughs are hard, so let's fund them liberally. However, the learning and experimentation activities of discovery and incubation are not particularly expensive. Corning spent less than .75% of top line revenue on new business creation. And, the longer they were at it, the more expert they became. The expense comes when it's time to scale. By then, however, discovery and incubation have dramatically reduced the uncertainties that plague SI projects.

### **Assumption #2: It's too hard to learn.**

Since the world of uncertainty feels so foreign, many companies choose to outsource SI efforts. Hiring others to find the opportunities that will leverage your company's deep know-how and drive your new businesses of the future is a frequent path companies take. But, oftentimes those reports end up gathering dust because the mechanisms for implementation and integration into the company are missing. Why would you outsource your organization's renewal to others? It's your primary source of competitive advantage for the future. Unless you bring the entire organization along, they will not be willing to cooperate when you need them to the most.

If you don't know where to begin, try learning from the success stories of companies such as IBM, Corning, and WL Gore. Their implementation of strategic innovation capabilities gives us tried and true case examples to learn from and follow — no need to start from scratch.

### **Assumption #3: You can build SI expertise quickly.**

We know much more today about how to execute on strategic innovation imperatives, and, not as an exception, but as an ongoing capability in an organization. And, while this work is not rocket science, it's difficult to build any new capability. Consider how long it took for companies to institute a supply chain management capability, or to embed Total Quality Management throughout the design and manufacturing process. A senior manager at one of the companies we worked with described that, in their experience it takes up to three years to develop a full-fledged strategic innovation capability. Year One is dedicated to understanding its principles and beginning to practice them through applying them in your organization. Year Two is spent tweaking the practice of strategic innovation to their organization's context, without losing sight of the principles. Year Three is about continuous improvement and institutionalizing the capability, so that the organization becomes increasingly effective and efficient at strategic innovation.



*Strategic innovation is the major source of competitive advantage that any mature company has ...*

## Advice: Take baby steps

Developing a new capability to increase organizational health is important, and it happens with every improvement in management sophistication. It takes commitment but need not be overwhelming. In fact, with strategic innovation, rushing it probably won't help. Slow, experiential learning built on a solid foundation of principles learned from research on other companies' attempts over time, helps to embed this capability so that it's actually used, and not viewed as a once-in-a-while, crisis management defense mechanism. Strategic innovation is the major source of competitive advantage that any mature company has, given the dynamic environment filled with rich opportunity that companies face today.

Sincerely,

**Gina O'Connor**

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**Dr. Gina O'Connor** has expertise in Breakthrough Innovation, Corporate Entrepreneurship, Organizational Design for Innovation, and New Market Creation. She develops curricula and action plans for executives based on her research in Breakthrough Innovation capabilities in large mature companies. Dr. O'Connor works with companies from strategy to execution phases.

Before joining Babson, Dr. O'Connor spent 29 years at the Lally School of Management at Rensselaer Polytechnic Institute. She has also worked as a contract administrator for McDonnell Douglas Corporation and as a research analyst for Monsanto's Department of Social Responsibility. She was named a Crawford Fellow by the Product Development and Management Association, one of only six recipients of that award.