

How hot companies fuel growth from within







Executive summary

What has your company *invented* lately?

Every entrepreneur knows the legends of great inventions. Take 3M's Post-it® Note, for example. Back in the 1970s, 3M scientists Spencer Silver and Arthur Fry were toying around with possible uses for an adhesive that Silver had discovered. The invention eventually resulted in the groundbreaking product that 3M launched in 1980 and which has since become an office and household staple.

Or take the Sony PlayStation®, launched in 1994. Originally a sideline project for Sony Sound Engineer Ken Kutaragi – one that nearly got him fired – the gaming system eventually received the blessing of then-CEO Norio Ohga and became the best-selling game console of all time. Kutaragi later founded Sony Computer Entertainment, one of the company's most profitable divisions.

What these and other revolutionary ideas had in common was that their creators benefited from a corporate setting that fostered creativity by allowing them to pursue their own projects. They were classic "intrapreneurs," a term coined in 1985 by Gifford and Elizabeth Pinchot to refer to what they called "free market entrepreneurship within the corporate organization."¹ Also referred to as "corporate entrepreneurship," intrapreneurship involves individuals or groups of individuals exploring high-risk, high-reward ideas within the safety and support of a larger, well-established corporate structure.

There are two factors without which this activity can't get off the ground:

1. Encouragement and support from senior management
2. Reassurance that even if the ideas fail, the intrapreneur will not lose his or her job or be "punished" in other ways

The second factor is particularly important in today's turbulent business environment. On the one hand, we grapple with a post-recessionary economy that is struggling to recover and propel new growth; on the other, we face fierce global competition that makes it especially difficult to develop speedy innovations to fuel that growth. In a 2010 Ernst & Young survey of 263 of the world's leading entrepreneurs (all winners of Ernst & Young's Entrepreneur Of The Year® awards), 82% of the respondents agreed strongly that the ability to innovate was critical to the growth of their organizations.²

But innovation demands a loose and agile organizational structure that fuels creativity and accommodates failure; large established companies are often comprised of rigid, hierarchical institutional structures that can stifle the entrepreneurial spirit and limit their growth. Nearly half of the respondents to our survey said that generating innovative ideas became more difficult as their organizations grew in size and complexity.

Enterprising corporations that consider intrapreneurship as essential, however, may find that they have the best of both worlds. They possess the necessary financial and marketing resources *and* a vast internal talent pool available to supply entrepreneurial ideas. By marrying the two, companies stand to benefit from innovations of all kinds – in products, processes, services and ways to develop and expand their businesses. At the same time, the supportive environment boosts employees' engagement with and loyalty to the organization, as their creativity is recognized and rewarded.

"Entrepreneurial thinking is not optional. Those who stand still fall behind, and market leadership changes regularly. This is why it's important for all companies – even large, established corporations – to cultivate innovation through intrapreneurship."

– Maria Pinelli, Americas Director for Strategic Growth Markets, Ernst & Young LLP



Effective leaders produce exceptionally creative thinking through diverse perspectives.

In the face of vigorous competition from all corners of the globe, now is the time to focus on renewed innovation – to kick into high gear the entrepreneurial fervor that got your organization to where it is today. And the best way to do that is to draw on resources you already have: your own employees.

This report provides an in-depth exploration of the secrets of successful intrapreneurship. How do companies fan the flames of innovation by tapping into the creativity of their existing employees? What are some practical strategies to foster a culture of innovation from within? To answer those questions, Ernst & Young conducted a series of global surveys of senior business leaders as well as interviews with leading academics, industry authorities and winners and finalists of our Entrepreneur Of The Year award. We identified six corporate strategies that underlie the most successful intrapreneurship efforts:

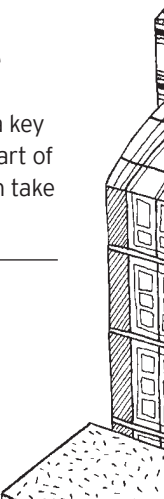
- 1. Set up a formal structure for intrapreneurship.** Give people enough time away from their “day jobs” to work on creative ideas, but set up formal processes to make sure those ideas go somewhere.
- 2. Ask for ideas from your employees.** They have their fingers on the pulse of the marketplace. Encourage everyone from all ranks and functions to contribute to the innovation dialogue.
- 3. Assemble and unleash a diverse workforce.** Statistical research has established that diverse viewpoints result in better ideas and better products.

- 4. Design a career path for your intrapreneurs.** They tend to be nonconformists who dislike conventional administrative jobs, so look for nontraditional ways to advance their careers.
- 5. Explore government incentives for innovation.** Ask how these can support your intrapreneurial ventures. Governments all over the world are offering new tax breaks and other incentives for research and development (R&D) – and corporations in turn are urging governments to support innovation.
- 6. Prepare for the pitfalls of intrapreneurship.** Backing bold ideas can backfire. Be prepared to deal with failed ventures, internal conflicts, financial risks and intellectual property battles.

While these guidelines are by no means guarantees of success, they provide a roadmap that frees up organizational gridlock and sets up a supportive environment for the creative process. In addition, these strategies achieve a key goal: *institutionalizing* intrapreneurship so that it becomes an inseparable part of a company's operations. Only then can the process of *continuous* innovation take place – allowing the company to become and stay a market leader. ▲

¹ Pinchot III, Gifford and Pinchot, Elizabeth, “Intra-Corporate Entrepreneurship,” Robert Schwartz’s School for Entrepreneurs, fall 1978.

² Ernst & Young internal entrepreneurship survey, September 2010.



creativity



Q&A Ford puts no brakes on innova



Bill Ford



James Turley

Henry Ford is a hard act to follow. Yet his great-grandson William Clay Ford, Jr., Executive Chairman of Ford Motor Company, has nurtured the automaker's legacy of innovation and is credited with reinventing the company for the 21st century. In a recent conversation, Ernst & Young Chairman and CEO James Turley asked Bill Ford to describe how the automotive giant remains a creative leader in a fiercely competitive market.³

James Turley: Where is innovation occurring in the auto industry today?

Bill Ford: Innovation is happening at a much faster pace today than at any time probably since my great-grandfather's time. And it's happening on all fronts. It's happening with alternative propulsion systems such as biofuels, electric vehicles, plug-in hybrids, and more conventional engines such as clean diesel and the tremendous fuel economy advances that we've pioneered at Ford on gasoline engines. On the in-vehicle communications front, we are seeing equally exciting advances. With driver connect technologies such as Ford SYNC® and MyFord Touch, we are bringing an iPod-like experience into the car but in an interface that works for drivers and minimizes distraction. With safety, we really are reaching a new frontier in technology that can save lives. We are introducing the world's first inflatable seat belt in the new Ford Explorer. This acts like an air bag within a seat belt in the rear seats and can reduce injuries, particularly with younger and elderly passengers. On the road today, we have radar-based technologies that can sense other vehicles and objects and warn drivers to take action before an accident happens. So, innovation is really happening on all fronts and happening at an unprecedented pace.

James Turley: You recently said closer collaboration internally has sped the pace of innovation at Ford. Can you elaborate?

Bill Ford: I think the biggest enabler for innovation within Ford Motor Company has been the globalization of our product development system, because if you think of it, we had distinct product development groups for many years in Europe, North America, South America and Asia, and each group would develop its own products with its own set of innovations. This is not only very expensive, but also very time-consuming. And the fact that we've now gone to global products has enabled us to have a much faster cadence of innovation introduction into our vehicles. That one element of collaboration across the company has really let loose a lot of terrific ideas that are now coming into the marketplace.

James Turley: What about collaboration with companies outside of Ford?

Bill Ford: We have a terrific R&D capability at Ford, and one of the things I'm most proud of is that during the dark days that our industry went through, we continued to heavily invest in R&D and new products. So we have great internal

“Innovation is happening at a much faster pace today than at any time probably since my great-grandfather’s time. And it’s happening on all fronts.”

capability, but that alone will never be enough. We work extensively with universities across the globe on specific projects and we’ve gained a lot of knowledge from those partnerships. We also are working with nontraditional suppliers to Ford like Microsoft, Google and other software and hardware providers that have never really been in the automotive field. So as the information age really starts to merge with the automobile, it is bringing us into collaboration with some of the best and brightest minds in the technology world.

James Turley: Are there methods and approaches used by other car manufacturing nations such as Germany and Japan that US companies can learn from to create a more entrepreneurial culture?

Bill Ford: I think we have a very strong entrepreneurial culture here at Ford. That’s not to say we are so arrogant that we don’t believe we can learn from what other companies are doing. We do all the time and we have some fantastic global competitors. I’m simply saying that it’s not correct to assume another nation introduces innovation more rapidly than we do. That may have been true in the past, but it’s not true today.

James Turley: Much of the manufacturing in the auto and auto parts industry has moved overseas to take advantage of lower costs. You have been quoted as saying that innovation is one of the key ways to preserve American manufacturing; can you talk about that a little bit and how that has played out for Ford?

Bill Ford: If the game is only to be the lowest-cost producer of every component and thereby turn every component into a commodity, that’s not a game the United States is particularly well positioned to compete in. We need to bring knowledge, expertise and real value creation to the table in the US. A perfect example of what I’m talking about is that we just moved the focus of our electric vehicle activity from various parts of the world to Michigan because of the tremendous knowledge here in Michigan, both in our workforce and in our universities. For us, Michigan is the right place to pursue this very new technology, which is filled with innovation.

James Turley: Ford shares were up more than 50% in the past year. How much of this rise can be attributed to innovation?

Bill Ford: After 53 years of being intensely interested in the fortunes of Ford stock, I’ve come to realize that it is impossible to attribute any short-term gain or loss to any rational behavior. Having said that, there is no question that Ford is being recognized across the globe as an innovation leader. And to the extent that’s true, I suspect some of that is being played out in our stock price. But perhaps a more direct measurement of how innovation is affecting Ford Motor Company is the rise in our corporate reputation. It’s something we measure on a regular basis, and over the last couple of years we’ve seen a meteoric rise in our reputation just as our products are winning awards and accolades for their degree of innovation.

James Turley: Ford is a giant company. To what extent has it given its people the freedom to act in an entrepreneurial fashion?

Bill Ford: I think our people have always wanted to be entrepreneurial, but ironically, one impediment was our own system. For instance, it used to be that any time an innovation was proposed, the vehicle program manager that was first to take it had to bear the cost of that innovation, which made it challenging for the team to achieve financial goals. As a result, program managers always wanted to be the second or third to adopt the innovation because they didn’t have to bear that initial cost. We’ve been working to change our system to take away that penalty so the first program manager to adopt MyFord Touch, for example, doesn’t have to eat all the development costs. Now we have program managers that are really pushing to make sure their vehicles have the latest innovations. ▲

³ Ernst & Young interview, October 2010.

1. Set up a formal structure for intrapreneurship

Simply put: formal processes *work*. Sixty-eight percent of the entrepreneurs we surveyed described their approach to innovation as unstructured and free-flowing. Forty percent, however, also said that their companies came up with lots of good ideas but couldn't get enough of them to the commercialization stage. Research shows that structured and formal processes for innovation are more likely to result in viable new ideas. In a McKinsey Global Survey of more than 2,000 executives conducted in July 2010, respondents from companies that set formal priorities for innovation were more likely to say that their firms were better at innovation than their peers. More important, the absence of a formal process correlated with poor performance in bringing new products and services to market.⁴

One of the most effective ways to encourage internal innovation is to give individuals or teams enough time away from their day jobs to work on creative projects. At 3M – considered one of the most innovative companies in the world – employees are allowed to spend up to 15% of their time working on ideas that they think might benefit the company. If an idea is proven viable, the company officially funds it. One such funding program is called the Genesis Grant, which offers researchers up to \$85,000 to carry their projects past the idea stage. A formal panel of technical experts and scientists reviews the ideas submitted and sends promising projects to another committee of senior technical experts and management. This group specifically looks for creative ideas that might lead to a competitive advantage, projects where some preliminary experimental work has already been completed, and projects for which resources required from both

within and outside 3M have been identified. About 15 grants are awarded each year. According to 3M, products that have resulted from this program include Scotch® Pop-Up Tape and the 3M's multilayer optical film technology, Vikuiti™, for laptop and cellular phone displays.

Similarly, Google has set up a formal process for encouraging internal entrepreneurship. Several years ago, Google implemented its concept of Innovation Time Off to encourage creativity among its employees and support continuous innovation. About 20% of an employee's time was to be spent on company-related work that was of personal interest. Almost half of Google's new-product launches – including Gmail, Google News and AdSense – are said to have originated from the Innovation Time Off program.

Global specialty glass and ceramics manufacturer Corning Incorporated has remained vigorously entrepreneurial despite its size. One reason is that Corning gives its scientists and engineers a great deal of freedom, allowing them to use 10% to 15% of their time to work outside their current projects. "From the outside, we might look like a really large, process-oriented company," says Waguhi Ishak, Division Vice President of Corning Incorporated and Science and Technology Director of the Corning West Technology Center in Silicon Valley. "But when you go inside, you'll see that our process rigor is grounded in an innovative and risk-taking spirit. Let's say I'm an engineer working on a new display, for example. While I'm waiting for my new prototype to be built, I can use 10% to 15% of my free time to pursue a biotech idea that uses some of the knowledge generated by



the display project. I'm free to contact another business unit and find out what they need. In that way, I may produce another invention in a totally different area from the one I'm formally working in."⁵

Another effective strategy to cultivate innovation is to be tight with the approval process but loose with the idea generation. A far-reaching survey of the innovation processes at 30 large US-based consumer packaged goods (CPG) companies, conducted by The Nielsen Company, reveals that firms whose senior managers are less involved in the creative process generate 80% more new-product revenue than firms with heavy senior management involvement.⁶ But it turns out that the big bosses can play a keen role – the same study found that senior managers are essential to manage the *process* of new product development, not the ideas themselves. In fact, in an interesting twist, CPG companies with rigid "stage gates" – points at which a new product idea must pass certain formal criteria to move forward – average an amazing 130% more

new product revenue than companies with loose processes. Nielsen's research found that the most innovative CPG firms were those with two to three rigorous stage gates, a formal scorecard for innovations and a standardized post-mortem for all new product development efforts.

"From the outside, it can often feel like innovation simply 'happens,' arriving like a bolt of lightning out of the sky," says Tom Agan, Senior Vice President of Professional Services at Nielsen. "The truth is that companies with successful innovation track records go to great lengths to create an ideal creative environment and the right behaviors, supporting policies and procedures."

⁴ McKinsey & Company, *Innovation and commercialization, 2010 Global Survey*, 2010.

⁵ Ernst & Young interview, September 2010.

⁶ Agan, Tom, "Secrets to Revenue and Innovation in New Product Development," *The Nielsen Company website blogs*, <http://blog.nielsen.com/nielsenwire/consumer/secrets-to-revenue-and-innovation-in-new-product-development/>, 22 June 2010.

Separate but equal

Akamai Technologies was launched in 1998 to end what many called the “World Wide Wait” caused by internet congestion. The company commercialized a technology initially developed at the Massachusetts Institute of Technology (MIT) that uses mathematical algorithms to get around bottlenecks and accelerate the flow of web traffic. “If you’re watching a movie, downloading a song or doing almost anything online, you’ll have a better experience because of Akamai,” says CEO Paul Sagan.⁷

Today, the company handles hundreds of billions of daily web interactions for clients ranging from Apple to the U.S. Department of Defense. It continues to be laser-focused on innovation. “We’re close to being a billion-dollar business, with thousands of employees worldwide, but we’re not operating in a mature market,” Sagan says. “We’re still in the early days of the internet, and if we don’t keep innovating we’ll end up being a footnote when the whole story is told.”

Sagan knows how tough it can be for a large company to stay nimble, having worked for one in the early days of the web. “It was one of the most innovative companies in new media,” he says. “Unfortunately, it didn’t wind up profiting in a lot of those areas. It was innovative early on, but then struggled to maintain that entrepreneurial capability as the opportunities associated with the internet emerged.”

Time horizons and firewalls

So what can companies do to remain entrepreneurial as they grow larger? The main thing, according to Sagan, is to compartmentalize different areas of the business according to their investment time horizons. “The true entrepreneurial space has a longer-term horizon,” he says. “You really have to keep those resources separate and let projects rise or fall on their long-term capabilities, without being affected by the short-term needs of the larger organization. If you put both horizons together in the same room, the near term will always be the thing that’s ‘on fire’ and so it will always win out. The long-term, crazy, *new* stuff has to live in a different place.” This means it gets budgeted and reviewed differently, and that its people report to someone higher in the organization than those running a small business unit normally might.

Entrepreneurial or emerging businesses also should be managed by a different type of person – someone who’s more of an entrepreneur and a dreamer, and less of an administrator skilled at optimizing processes and getting short-term results. “The skills needed to take an established business and run it for maximum cash flow are very different from those for conceiving, experimenting and being an entrepreneur,” Sagan says. “Find the entrepreneurial people in your organization, pull them off any projects with short- or medium-

term time horizons, and tell them you’re going to measure them differently. If they continue working doing the same job, working for the same boss in the same department, it’s unlikely that they’ll be successful ‘intrapreneurs.’”

Sagan also points out that entrepreneurship is often accomplished by relatively small groups of people – sometimes only one or two. In large companies, “the committee process fights entrepreneurship,” Sagan says. “That’s why entrepreneurial teams should be kept separate from the rest of the organization: because everybody else is going to hate them and try to thwart them. So put them somewhere no one can find them, until they’re big enough to stand on their own.” ▲

⁷ Ernst & Young interview, September 2010.

2. Ask for ideas from your employees

Recent research published in *MIT Sloan Management Review* shows that engaging employees across all functions and ranks in “innovation communities” can lead to some highly creative ideas, as well as practical suggestions for their implementation.⁸ For example, the research describes the case of food retailer SUPERVALU Inc., where each year 35 to 40 mid- and director-level managers break up into four teams to discuss strategic issues suggested by executives in the different business units. The managers examine issues outside their own areas of expertise and work on their leadership development at the same time. Over periods of five to six months, they hold electronic meetings at least weekly and meet in person at least five to six times to discuss the issues, all while continuing to perform their regular duties. They then send their recommendations to company leaders, who determine which ideas to implement and whether revisions are necessary. SUPERVALU reports that over the past 10 years recommendations have been implemented from 22 out of 29 projects completed.

At Honda Motor Co., innovation communities in the US draw members from sales, engineering and development, and from different business units across North America. Some companies, like General Electric Co., involve consumers and business clients in new product discussions as well. Since 2001, IBM has used “Jams” – massive online brainstorming conferences – to generate ideas and solve problems. Its famous 2006 InnovationJam involved 150,000 IBM employees, family members, business partners, clients (from 67 companies) and university researchers. Participants posted ideas from 104 countries, and conversations continued 24 hours a day. The InnovationJam resulted in US\$100 million being appropriated to start 10 new businesses for IBM, including a 3D internet systems unit and a unit called “Big Green Innovations” to develop and apply environmental technologies. A subsequent Jam held in 2008 tapped

employees from more than 1,000 companies across 20 industries – including thousands of IBM employees – as well as independent authorities from a variety of fields.⁹ In addition to generating new businesses for IBM, the ideas resulting from the Jams sparked Big Blue’s transition from computer hardware innovator to a provider of business and technology services, ideas, solutions and results for its clients. In 2002, IBM acquired PwC Consulting and formed a new business unit, IBM Business Consulting Services. Another big change came in 2004 as IBM, responding to the rapid commoditization of personal computers, got out of the business by selling its PC division to China’s Lenovo Group.

Tapping the wisdom of crowds will become an indispensable source of ideas for companies, according to Christopher Tucci, Professor of Technology Management at the Ecole Polytechnique Fédérale de Lausanne (EPFL) in Switzerland and previously an industrial computer scientist at Ford Aerospace. “A digitally networked world offers the unique ability to broadcast a problem to a large group of people or community (called the ‘crowd’) and call for solutions,” he says.

Tucci notes that “crowdsourcing” – the term was coined by *Wired* magazine writer Jeff Howe in 2006 – has produced some interesting results already and will undoubtedly get bigger with time. For example, Facebook, which was entirely in English at first, recruited its own users to translate its pages into different languages. The process was highly efficient: Facebook launched a complete Spanish site in just a few weeks, and repeated the process with many other languages. It also incorporated an automated quality-control element by asking users to vote on which translations were the best, raising the overall translation quality.

Q&A The moon's the limit



Ole M. Daugbjerg



Gregory Ericksen

An internal idea contest is a great way for employees to learn to act as entrepreneurs, challenge conventional thinking and network with colleagues from around the world. Ernst & Young's Gregory Ericksen, Global Vice Chair for Strategic Growth Markets, discussed this topic with Ole M. Daugbjerg, Chief Reputation Officer at Danfoss, a Denmark-based multinational maker of mechanical and electronic components and creator of "Man on the Moon," Danfoss' internal business plan competition.¹⁰

Gregory Ericksen: How important is innovation to Danfoss?

Ole M. Daugbjerg: It's the key to our long-term survival. Customer satisfaction is a crucial part of our business strategy, so we have to innovate – not only to meet today's customer needs, but certainly to meet tomorrow's. If you want a sustainable company, you have to start solving problems that your customer may not be aware of yet. The idea is that 20 years from now, your current customers won't be able to live without you.

Gregory Ericksen: What's the idea behind the Man on the Moon program?

Ole M. Daugbjerg: We wanted entrepreneurial ideas and thinking to take root in a large company. We wanted our people to be thinking about innovation, and we knew that there probably were ideas floating around inside the company that were good, but perhaps not in line with what might be called the Big Machine. Man on the Moon is designed to tease out those ideas. Originally, when we launched the program in 2004, we thought mainly about

having fun while learning some entrepreneurial skills. But soon we found that some of the ideas submitted by contestants were of high enough quality to become real products.

Gregory Ericksen: How do you harmonize entrepreneurial thinking and behavior with the processes of a big company?

Ole M. Daugbjerg: A typical entrepreneur may have a brilliant idea and may see its commercial potential in a way that no one else does. Often, however, entrepreneurs don't know a great deal about finance, or how to deal with banks, or establishing sales channels or setting up production lines. Entrepreneurs have drive and initiative. Corporate entrepreneurship aims to take that passion and combine it with the resources of the corporation. That's basically the goal of Man on the Moon.

Gregory Ericksen: How does the Man on the Moon program work?

Ole M. Daugbjerg: It's a business plan competition. The essence of it is to develop an idea, see its possibilities, and then figure out how to sell it to our group committee, which consists of the top 10 people at the company. The committee will ask the same questions that a bank would, but it will also include experts on supply chain management and a range of other business issues, and they'll ask a lot of questions as well. This forces whoever competes in the Man on the Moon program to cover all of their bases and assemble an effective team. That, in turn, makes it more likely that the idea will come to fruition.

Gregory Ericksen: Is talent management part of the program?

Ole M. Daugbjerg: Yes, part of the idea behind Man on the Moon is to give intrapreneurs a career path. They can stay with the venture as it develops, but they don't have to. We have four career paths at Danfoss: general manager; specialist; intrapreneur; and leadership. You can be a specialist or intrapreneur and still rise quite high, even if you're not on track for the CEO job.

Gregory Ericksen: Recently, Danfoss changed the way it will run Man on the Moon. Tell us about that change.

Ole M. Daugbjerg: We're refocusing our strategy to do more innovation around our core businesses. That's where we have the greatest knowledge of customers and markets, and where we have the skills needed to convert ideas into real businesses. For those reasons, we believe that innovation will have the most impact in our core business areas. When we evaluate new ideas generated by Man on the Moon in the future, we'll ask whether they're close to our existing markets and customers. With traditional corporate entrepreneurship, you tend to take whatever resources are available and spread them thinly across many ventures. Maybe only 1 in 10 will ever make money, so you need 50 ventures to see any long-term profit. Our new thinking says that if we stick to our core businesses, we're more likely to succeed. We haven't shrunk the betting pool, but we're making fewer and therefore bigger bets. ▲

¹⁰ Ernst & Young interview, September 2010.

3. Assemble and unleash a diverse workforce

Similarly, Tucci explains, companies can do “internal crowdsourcing,” which means tapping the knowledge base of their own employees. This can be done using traditional techniques, such as ratings and feedback on R&D projects or a virtual suggestion box. Or it can take a radically different approach, such as creating an “idea exchange” or “market for innovation.” The latter is a technique for evaluating the quality of ideas and predicting which are most likely to work and therefore deserve backing. It resembles a stock market (or a prediction market used to predict election outcomes), except that instead of stocks, people trade in ideas, using virtual currency. Popular ideas rise in price; unpopular ones drop. The price forms a kind of forecast about whether an idea is strong enough to merit continued investment. “This trend is in its infancy, but expect to see many varieties of crowdsourcing in the years ahead,” Tucci says.¹¹

It's official – diversity improves performance. Academic research, led by Scott Page, a professor of complex systems at the University of Michigan at Ann Arbor, has established that diverse groups tend to outperform homogeneous groups, even if the members of the latter group are more capable.¹² Diversity can improve an organization's performance by enhancing creativity or team problem-solving. Researchers at Stanford University and Cornell University have shown that by “stirring the pot” in positive ways, diversity encourages the intellectual debate and conflict that lead to innovation.^{13 14} Other research supports these findings:

- ▶ In a study of 28 teams, heterogeneous teams solved complex tasks better than homogeneous teams. The diverse teams exhibited a higher level of creativity and a broader thought process.¹⁵
- ▶ In a study conducted in Germany, higher levels of innovation and R&D correlated with higher levels of cultural diversity.¹⁶
- ▶ In a study of 45 teams from five high-tech firms in the US, teams composed of people with different functional specialties worked more effectively with other internal teams and showed a higher product innovation rate.¹⁷
- ▶ Where innovation is critical, companies should construct teams with equal proportions of men and women so that they can benefit from the most diverse talent pool.¹⁸

It's no coincidence that effective leaders look to diverse perspectives to produce exceptionally creative thinking that may not occur otherwise. Nancy J. Adler, a scholar of organizational behavior and one of the world's leading researchers on cultural diversity, cites the example of a Swedish pharmaceutical firm that benefited from intercultural conflict. Adler quotes a company executive as saying: “We traditionally carried out product design at our Stockholm headquarters. Once, by accident or design, we brought in an international team to discuss the design of a new allergy product. Due to extreme differences in opinion on what constitutes good medical practice, the team designed the new product with maximum flexibility to suit the requirements

⁸ Ernst & Young interview, September 2010.

⁹ IBM Corporation, *InnovationJam 2008 Executive Report*, 2008.

¹¹ Ernst & Young interview, April 2010; Ernst & Young, *Redrawing the map: globalization and the changing world of business*, January 2010.

“The long-term, crazy, *new* stuff has to live in a different place. ... That’s why entrepreneurial teams should be kept separate from the rest of the organization: because everybody else is going to hate them and try to thwart them. So put them somewhere no one can find them, until they’re big enough to stand on their own.”

– Paul Sagan, CEO, Akamai Technologies

of each country. We later discovered that the greater flexibility was a huge advantage in developing and marketing a wide range of internationally competitive products.”¹⁹

Most large corporations today have a diverse workforce that is scattered all over the world, and the enormous diversity of culture and viewpoints is fertile ground for innovation. This has been repeatedly demonstrated in practice. Leading companies have shown that innovative products, services and business models result directly from leveraging a diverse and global workforce. For example:

- ▶ The 1,100 employees at Google’s facilities in India come from a spectrum of religious backgrounds and speak several Indian languages in addition to English. This diversity has resulted in Google Finance, Google’s first innovation born in a foreign R&D center.
- ▶ PepsiCo has 50% hiring requirements for women and minorities; has an India-born woman, Indra Nooyi, as its CEO; and attributes one percentage point of PepsiCo’s 7.4% revenue growth, or about US\$250 million, to new products inspired by diversity efforts.
- ▶ HP developed its new Latex Printing Technology through teams consisting of 120 engineers working together in four countries; the company believes that diversity of teams was critical to the project’s success.
- ▶ As of 2008, Procter & Gamble had delivered, on average, 6% organic sales growth since the beginning of the decade, virtually all of it driven by innovation from diverse teams.

¹² Page, Scott E., *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies* (Princeton University Press, 2007).

¹³ Mannix, Elizabeth and Neale, Margaret A., “What Differences Make a Difference?” *Psychological Science in the Public Interest*, Vol. 6, No. 2, 2005.

¹⁴ Cornell University, WorkLife at Cornell, Office of Human Resources, *Relationship between leader racial diversity and firm financial performance*, 28 June 2007.

¹⁵ Higgs, MJ, Plewina, A. and Ploch, G., “The influence of team composition on team performance and dependence on task complexity,” *Henley Working Paper Series*, 2003; studies carried out at Ford Motor Company in Cologne and Dunton, Germany.

¹⁶ Niebuhr, Annekatrin and German Federal Employment Agency (IAB), *Migration and innovation: Does cultural diversity matter for regional R&D activity?* 2006.

¹⁷ Ancona, Deborah G. and Caldwell, David E., “Cross-functional teams: blessing or curse for new problem development?” *Working papers, Sloan School of Management, Massachusetts Institute of Technology*, July 1990.

¹⁸ London Business School, The Lehman Brothers Centre for Women in Business, *Innovative Potential: Men and Women in Teams*, 2007.

¹⁹ Adler, Nancy J. and Gunderson, Allison, *International Dimensions of Organizational Behavior* (South-Western/Cengage Learning, 2008).

Q&A Diversity drives innovation at SAP



Jim Mackey



Maria Pinelli

Leveraging diversity to meet customer demand for new products is a key priority for business software giant SAP. Maria Pinelli, Americas Director for Strategic Growth Markets at Ernst & Young LLP, discussed this strategy with Jim Mackey, SAP's Senior Vice President of Corporate Development.²⁰

Maria Pinelli: How do SAP's recent acquisitions relate to the company's desire to innovate and develop new ideas?

Jim Mackey: Even a company as large as SAP is limited in how many development projects we can undertake. But our customers' needs keep growing. We attempt to address those needs through partnering or selective acquisitions.

Maria Pinelli: SAP is a large company. Do you think you've done a good job of staying innovative and entrepreneurial?

Jim Mackey: I believe we have. A few years back, we realized that we'd had a bit of a slowdown on the innovation front, so we began to rely on "lean" principles. By that, I mean that we shrank the development groups on each project, making sure that they were flexible and able to develop products more quickly. At the same time, we removed some of the typical, larger-company processes so that our people could just get out there and start developing code.

Maria Pinelli: Was it difficult to create that new environment?

Jim Mackey: It wasn't the short-term thing you do with the stroke of a pen, but neither did it require a massive reorganization. We had to maintain collaboration between our quality assurance and customer support groups. We made sure that developers were concentrating on the hottest trends and on the larger

revenue-generating applications. In some ways, this was challenging for us as a mature company because we have significant customer expectations. You have to be cognizant of what you've already committed to. You make the changes gradually, over time.

Maria Pinelli: How do you keep high-risk projects from getting killed too early?

Jim Mackey: We try to stick with innovations that are natural extensions of existing business processes or applications. If you prioritize your projects so that you already have customers who are willing to buy the solution, you know there's a market for the innovation. We concentrate on projects that we know have significant value, and we don't let them fail. We do whatever it takes to make them successful.

Maria Pinelli: Some people advise companies to place their innovation efforts in a separate division or business unit to shield them from the daily pressures of the business. Has SAP done this?

Jim Mackey: There has been some of that, but we really wanted to bring innovation to our existing solutions, those we've been offering for years, not just the new ones. One way we've done that is by encouraging more diversity. We've gotten new geographies involved in coding, including India and China. We've also mixed up the age groups of our development teams to bring fresh new ideas to the way people structure the software code. This goes back years, to when we launched significant campuses in Palo Alto, Bangalore and China. Waldorf [Germany] remains at the core of our development, but to get new ideas, we felt we needed to diversify the locations of our labs.

Maria Pinelli: What positive results did that produce?

Jim Mackey: One recent example is our SAP

Business One product for small and medium-sized businesses. We bought it in Israel in 2002, did organic development on it for about six years, and then moved a lot of the application development to China. Over the last two or three years, it's improved by leaps and bounds, beyond what we thought possible. We've added real-time analytics and an in-memory database – changes that have really enhanced the product's performance. And the developers in China were largely responsible for that change.

Maria Pinelli: How valuable have SAP's acquisitions been in fueling innovation?

Jim Mackey: We see significantly more innovation post-acquisition, including enhancements to our existing products. For example, we acquired the Sybase mobile unit, a mobility platform that will enable us to innovate by developing mobile apps and by mobile-enabling our pre-existing applications. Of course, there are aspects of acquisitions which can't necessarily be measured but which nevertheless bring significant value. One of those things is diversity – the new perspectives that arise when you have people in multiple geographic areas or with different kinds of industry experience. Also, the acquisition target may be working on applications which, when they're combined with yours, start taking on a life of their own. The development groups are happy about acquisitions because the engineers can get together in the same room and brainstorm about all the possible things they can do together. So acquisitions are turning out to be a significant value-add for us, one that enhances our capability for further innovation down the road. ▲

²⁰ Ernst & Young interview, September 2010.

4. Design a career path for your intrapreneurs

Intrapreneurs are often glad to have the technical and marketing infrastructure of a large company at their disposal. For example, for Microsoft developers Robbie Bach and J. Allard (both of whom worked many years at the company and retired earlier this year), creating the software giant's Xbox game console might not have been possible without Microsoft's vast resources, infrastructure and talent. Intrapreneurs, however, tend to be mavericks whose philosophies and ideas are at odds with those of the organization – they often quit to form their own businesses and take their ideas and innovative cohorts with them. A classic case of an intrapreneurship effort that didn't work out is that of the founders of Adobe Systems, John Warnock and Charles Geschke. They believed that their new product ideas were not encouraged by their former employer and left in the 1980s to form their own business. Today, Adobe has annual revenues of more than US\$3 billion.

This is why it's vitally important not only to make room for intrapreneurs in your organization but also to provide incentives for them to stay, including a well-defined career path. In fact, new research into intrapreneurship suggests that "companies fundamentally mismanage their innovation talent," in the view of scholars Gina Colarelli O'Connor, Andrew Corbett and Ron Pierantozzi. "Although there are plenty of great jobs in innovation, there are no careers," they write in a *Harvard Business Review* article. "One member of an innovation hub in a large consumer products company explains, 'I could help launch \$4, \$5, \$6 billion businesses over the next five years, and I won't get promoted into leadership for this company.'"²¹

According to Pierantozzi, an adjunct lecturer at The Wharton School and principal at Cameron and Associates LLP, an innovation consulting firm in Philadelphia, the whole notion of a career path is inherently problematic for innovative people.²² "Let's say you're really good at exploring the frontiers of business, technology, whatever – you're looking for the next big thing," he says. "You nurture it until it's spun off. The only reward

"Innovators have to *celebrate* failure. You should expect that 60% to 70% of what you're working on will never pan out. Smart companies realize that if you want to be innovative, it's part of your job to fail sometimes."

– Waguhih Ishak, Division Vice President, Corning Incorporated





you get is to run the company, to become a general manager. But the people who excel at discovering and incubating new opportunity don't want to be general managers. What's more, they often lack the skills to do it well."

Pierantozzi says that this was a problem 25 years ago, when he was a young scientist. Some scientists want to be technical experts and inventors, but not managers. In response, companies that employed scientists created what they called "technical ladders," career paths that allowed technical people to do what they did best, while enabling scientists with managerial ambitions to take on administrative roles. He believes companies should do something similar for innovators.

Rewards are also an effective way to go. 3M offers intrapreneurs awards for marketing excellence for reaching US\$2 million in new product sales in the US or US\$4 million worldwide, and another award for technical innovation. Recipients are regarded as "corporate scientists," and there is no management intervention in the award decision. In addition, intrapreneurs can join technological or R&D forums where membership is a source of pride because it is by invitation only. Participants also must sign a confidentiality agreement and attend a course on intellectual property rights before being admitted.

²¹ O'Connor, Gina Colarelli, Corbett, Andrew and Pierantozzi, Ron, "Create Three Distinct Career Paths for Innovators," *Harvard Business Review*, December 2009.

²² Ernst & Young interview, September 2010.

“From the outside, it can often feel like innovation simply ‘happens,’ arriving like a bolt of lightning out of the sky. The truth is that companies with successful innovation track records go to great lengths to create an ideal creative environment and the right behaviors, supporting policies and procedures.”

– Tom Agan, Senior Vice President,
Professional Services, The Nielsen Company

Don't leave it to luck

Can innovation be turned into a business function, like Marketing, Finance or HR? It can and it should, according to management professor Gina Colarelli O'Connor, Faculty Director of the Severino Center for Technological Entrepreneurship at the Rensselaer Polytechnic Institute.²³

“To get breakthrough innovation, where there is a lot of risk and uncertainty and the organization is being asked to change its behavior across many dimensions, you have to institutionalize innovation,” says O'Connor. To do so, companies need the right processes, metrics, talent management and governance – all of which, O'Connor says, differ markedly from those used in traditional management. For example, processes for achieving breakthrough innovation encourage companies to experiment and change direction. Conventional process-oriented tools such as Gantt charts and work breakdown structures simply don't apply to innovation projects. “When you're innovating, you're feeling your way along,” says O'Connor. “You may not know what Step 1 needs to be until you've completed Step 2.”

To get around this problem, O'Connor advocates something called a “learning plan.”²⁴ This is useful for the earliest, most ambiguous stages of experimentation. By explicitly recognizing that

innovators proceed on the basis of assumptions rather than facts, this approach can save projects from being killed during the review stage. It's also helpful to use activity-based metrics that are linked to innovation rather than outcomes, because they reflect the inherently experimental nature of the process. For instance, a company committed to radical innovation might develop metrics that assess whether the enterprise is extending its networks and getting into new arenas.

In addition, O'Connor believes an organization focused on experimentation and learning can't succeed if its management system is geared only toward operational excellence. To get innovation right, organizations must change the way they think about it. “Managers see innovation as being about making exceptions to how they normally do things, and about breaking the rules, but I don't think that's a winning approach,” O'Connor says. “Innovation is a management discipline. We should be teaching it in MBA programs. It can't be an exception, but instead must become part of how companies do business. It is a function that is missing in most companies.”

²³ Ernst & Young interview, September 2010.

²⁴ Rice, Mark P., O'Connor, Gina Colarelli and Pierantozzi, Ronald, “Implementing a Learning Plan to Counter Project Uncertainty,” *MIT Sloan Management Review*, winter 2008.

“We concentrate on projects that we know have significant value, and we don’t let them fail.”

– Jim Mackey, Senior Vice President of Corporate Development, SAP



5. Explore government incentives for innovation

As the economic downturn deepened through late 2008 and into 2009, one of the most pressing concerns for many nations was that businesses would significantly reduce their R&D expenditures to improve their bottom line. Governments have been spending “stimulus” money to support industries and fund infrastructure and jobs to stabilize their economies, with the OECD estimating that 54% of the stimulus is occurring through the tax systems.²⁵ To provide added incentive for companies to maintain their investment in innovation, and to attract new R&D activity, many governments have enhanced their R&D tax credit provisions. They’re also paying closer attention to the administration of large funds, including incentives and tax programs; officials want to make sure the money is going where it is intended to get the return on their investment.

Entrepreneurs in general tend to believe that government regulations stifle innovation, although this view is not consistent across geographic regions. Our survey of the world’s leading entrepreneurs found that overall, 51% of the respondents disagreed that their governments encouraged innovation.²⁶ Only 35% of Asia-Pacific respondents held this view, though, compared to 64% in the Americas and 45% in the EMEIA region, perhaps reflecting the greater role that state capitalism plays in several Asian countries, including emerging-market giants China and India.

“The support from government in areas such as R&D and patent regulation varies significantly across Europe, the Middle East, India and Africa (EMEIA),” says Julie Teigland, Ernst & Young’s Strategic Growth Markets Leader for EMEIA. “For many

companies in this region who operate cross-border, navigating patent applications and grants or incentives for R&D can be a challenge. It is not surprising, then, that respondents from this region chose simplifying the patent process as one of their top three ways for governments to encourage innovation. Attitudes toward intellectual property in developing markets are also changing: for example, our survey indicated that nearly two-thirds of respondents from South Africa strongly agreed that the ability to protect intellectual property was increasingly important, compared to just 28% of overall responses.”

Another Ernst & Young study reveals a healthy skepticism toward government among midcap (turning over more than £20m and employing more than 250 people) entrepreneurial businesses in the UK. According to Bob Forsyth, Ernst & Young Leader of Strategic Growth Markets, UK and Ireland, 33% of midcaps believe the regulatory environment will not be supportive of businesses like theirs and 29% say the tax environment will not be supportive.²⁷ This is also reinforced by Ernst & Young’s 2010 European attractiveness survey, which found that 27% of 814 international decision-makers think that governments should support technology and innovation, and 22% want to see taxation reduced so that lean and liberated companies can emerge from the crisis and capitalize on new business opportunities.²⁸

While the increasing role of government in the private sector continues to generate debate, companies shouldn’t ignore the many government-funded options for R&D and innovation, especially those that support intrapreneurial

ventures. In a recent Ernst & Young survey of our international network of R&D tax and incentive practitioners, we found that the types of incentives in use differ greatly around the world, with significant variations between developed and emerging economies. As the size of the economy increases, incentives for R&D generally move from grants to a blend of policy tools that involve grants and super deductions and, eventually, tax credits that become part of the permanent tax policy of the country.²⁹ One of the more innovative set of policies that has emerged in many countries in recent times is the concept of patent boxes. Patent boxes are characterized as a tax measure where income derived from qualifying intellectual property is typically taxed at a lower rate than it would have been otherwise. Examples include the Netherlands innovation box, with an effective tax rate of 5%, and the UK's proposed patent box regime, which will apply 10% corporation tax on income from patents from April 2013.³⁰

When looking at government incentives for R&D, it's important to keep in mind that R&D work is typically





much broader than many people think; it is not limited to people working in white lab coats and it often includes large elements of new product and process development, evolution and continuous improvement. As such, corporations have considerable elbow room to lobby governments to support entrepreneurship through legislation. For example, US-based Xconomy.com, an information website for business and technology leaders, recently hired a full-time lobbyist to voice the concerns of San Diego's technology innovators on Capitol Hill. Their concerns include a provision of the recently passed Dodd-Frank Wall Street Reform and Consumer Protection Act (HR 4173) that makes it more difficult for

angel investors to fund startups.³¹ Pending patent reform legislation is another issue that worries technology companies, especially smaller ones that consider themselves at a disadvantage when claiming patent protections.

²⁵ OECD Economic Outlook – Interim Report, 31 March 2009.

²⁶ Ernst & Young internal entrepreneurship survey, September 2010.

²⁷ Ernst & Young, *Growing Britain into recovery: putting midcaps on the map*, June 2010.

²⁸ Ernst & Young, *Waking up to the new economy: Ernst & Young's 2010 European attractiveness survey*, March 2010.

²⁹ Ernst & Young, *Research incentives in the new tax landscape*, 2010.

30 *Ibid.*

³¹ www.xconomy.com, April 2010

Q&A Staying close to customers pays off for Dell



Steve Felice



Steve Howe

One of the trickiest things for large companies to achieve is keeping their entrepreneurial zeal. Despite being a multibillion-dollar global technology giant, Dell retains much of the vigor and dynamism that founder Michael Dell brought to his \$1,000 dorm-room startup. Ernst & Young's Americas Area Managing Partner Steve Howe sat down with Steve Felice, President of Dell Consumer, Small and Medium Business, to learn the secrets of Dell's innovative strategies.³²

Steve Howe: The goal of intrapreneurship is not simply to avoid losing your entrepreneurial zeal, but also to sustain market leadership. As they get larger, how can companies continue acting as if they're small and nimble?

Steve Felice: The most important thing is to stay close to your customers and never stop listening and adapting based on what you hear. One of the things we've done at Dell is to form distinct customer business units to get us closer to our customers and their unique needs. Each, like our Consumer, Small and Medium Business division, has its own global P&L and budgets for R&D, product development, industry-specific solutions, marketing, and sales and support. This enables each leader and team to make the right decisions on behalf of the customer – whether it is a large hospital group, global 1000 company or small business with five employees.

Steve Howe: Could you talk about a time when Dell went through a challenging period that forced the company to become more entrepreneurial to keep its leading position?

Steve Felice: Speaking of growth, it is no secret that Dell experienced exponential growth quite

rapidly. In 1984, Dell was PCs Limited run out of a University of Texas dorm room. Three years into the business, Dell started our journey to globalization. We grew very fast but worked hard not to lose our entrepreneurial roots, spirit and can-do attitude. In the more recent past, we've been focused on moving from a product company to services to solutions that meet our customers' diverse and changing needs. One way we are doing this is to "incubate" businesses inside of Dell.

For example, at the end of last year, we created the Communications Solutions Group to invest in and drive our strategy around the next phase of mobility. This small team is delivering communication solutions for wireless operators and their customers. We're working with select carriers around the world to make the most of a person's mobile experience, on any network, using any application. So far, we've brought a 5-inch tablet to market called the Streak, as well as a new smartphone, and you can expect a lot more from this innovative, entrepreneurial group in the near future. Another example is what we are doing in the area of systems management through our acquisition of KACE, which helps companies effectively manage their technology assets as they grow from tracking capacity usage to life-cycle management to application deployment, as well as key security features. The founder of KACE, Rob Meinhardt, is running this "startup" inside of Dell and growing the business at a record pace while staying true to the Dell KACE value proposition.

Steve Howe: What can governments do to encourage innovation in new and established companies?

Steve Felice: There is a lot governments can do

to support business growth – from making credit available to smaller companies to tax structures that drive business growth to support in employee development and networking. Another positive role for government to play is to encourage big businesses to partner with smaller companies to become joint suppliers to government agencies, healthcare, education and corporations. Through our Supplier Diversity program, we spend more than US\$1 billion annually with small and diverse suppliers in the United States and have formed strategic partnerships with many small businesses worldwide for IT contracting opportunities.

Steve Howe: People always talk about encouraging corporate entrepreneurship by giving employees the freedom to fail. Gifford Pinchot, the first writer on intrapreneurship, said that intrapreneurs should "come to work each day willing to be fired." How realistic is it to expect someone to adopt this attitude in today's job market? And is it really necessary?

Steve Felice: What Pinchot means is "Don't be afraid to take risks." The current economic climate won't curtail innovation – which is where intrapreneurs live – it will inspire it. And that spirit is most definitely part of our culture, purpose and values at Dell. We ask ourselves, "Is there a new or better way?" For example, Michael Dell tells our online teams he wants experiments or tests run on Dell.com each day. While many of these are subtle changes to the design of a page rather than completely new products, the point is that experimentation is important – as is the rapid correction of mistakes. "Just try something," he says. "The market will tell you if it's a good idea or not." ▲

³² Ernst & Young interview, October 2010.

6. Prepare for the pitfalls of intrapreneurship

The movie *Apollo 13* immortalized the line “Failure is not an option.” But while the astronauts in the doomed spacecraft could not afford to fail, entrepreneurs can – many times. The number of new products or services that actually make it to market (whether they come out of an intrapreneurship effort or through formal R&D) is a mere fraction of the ideas and even prototypes that are discarded or fail market tests. Companies, therefore, need to set the “price of failure” up front: How much are they willing to risk before pulling the plug? How many failures are too many? What can they do to keep their best inventors from defecting to competitors or worse, becoming the competition?

There is no definitive answer to those questions, but a paper published at an Indian management conference hints at one: “Intrapreneurs need to be given the space in which to fail, since failure is an unavoidable aspect of the intrapreneurial process. This is not to say that organizations should simply condone failure, but rather that organizations need to begin to measure and attribute failure to either intrapreneur fault, or circumstances beyond the intrapreneur’s control – and punish and reward accordingly.”³³

Failure doesn’t necessarily have to be the fault of the product or service; it can also have to do with timing. One of the biggest risks an innovator takes is that the market may not be ready for the invention at a particular time – thereby allowing someone else to reap the rewards several years down the road. A prototype of the ATM, for example, was invented as far back as 1939 and field-tested at a bank, but the bank discontinued its use after six months because of low demand. It wasn’t until the mid to late 1980s that ATMs made their way into mainstream banking. When the first color copier was designed in the early 1970s, few companies even had color printers, so market demand for the copier was almost nonexistent and the manufacturer pulled the product. But a few years later, a competitor came out with its own color copier and enjoyed the payoff as technology evolved and demand picked up.

Another risky issue is that of reward – a huge sticking point for intrapreneurs. Fed up with small bonuses and a few pats on the back, they often quit to form their own far more lucrative businesses. Companies cannot always prevent this brain drain, but it’s worth revisiting the suggestions of the original intrapreneurship gurus, Gifford

“Innovation is a management discipline. We should be teaching it in MBA programs. It can’t be an exception, but instead must become part of how companies do business.”

– Gina Colarelli O’Connor, Faculty Director,
Severino Center for Technological
Entrepreneurship, RPI

and Elizabeth Pinchot, who wrote extensively on the topic of compensation. They advocated an equitable division of profits between the intrapreneur(s) and the corporation. The Pinchots proposed that a company establish “a trusted committee to ‘buy’ completed research from its intrapreneurs for some pre-established fraction of its value to the company as determined by an established accounting system.” Furthermore, they said, the intrapreneur “could earn in addition to his cash bonus, complete control of a definite amount of R&D funds, funds which he would have a completely free hand in investing on behalf of the corporation in his future R&D projects.” By building up this “intra-capital,” the innovator would have a stake in and therefore loyalty to the company.³⁴

Ultimately, however, personality characteristics may be the determining factor in who stays and who leaves. Intrapreneurs are almost always nonconformists who ruffle organizational feathers – one reason that businesses committed to a single strategy (such as franchises) should probably steer clear of them. The noted leadership consultant Ken Blanchard points to other negative attributes of intrapreneurs, including insufficient transparency, lack of humility, the tendency to over-promise and under-deliver, and ignoring or rejecting checks and balances.³⁵ In addition, intrapreneurs are at heart akin to their entrepreneurial counterparts: at the end of the day, they’d much rather go it alone. A new comparative study of intrapreneurship across 11 low- and high-income countries, based on data from Babson College’s *Global Entrepreneurship Monitor 2008*, shows that intrapreneurship usually leads to entrepreneurship; “indeed, ... the incidence of nascent entrepreneurship as well as of intended entrepreneurship is higher for intrapreneurs than for other employees,” note the researchers.³⁶ The key takeaway from that is to realize that despite your best efforts, your top intrapreneurs may leave and take their brightest ideas with them. ▲



³³ Mahatma Gandhi University, School of Management and Business Studies, *Conference on Global Competition & Competitiveness of Indian Corporations*, 2009.

³⁴ Pinchot III, Gifford and Pinchot, Elizabeth, “Intra-Corporate Entrepreneurship,” Robert Schwartz’s School for Entrepreneurs, fall 1978.

³⁵ Blanchard, Ken, “Managing and Motivating Intrapreneurs,” *Perspectives*, 2008.

³⁶ Bosma, Niels, Stam, Erik and Wennekers, Sander, “Intrapreneurship – an international study,” *Scales Research Reports*, EIM Business and Policy Research, January 2010; Babson College, *Global Entrepreneurship Monitor 2008*.

Ernst & Young survey: Leading entrepreneurs speak out on innovation

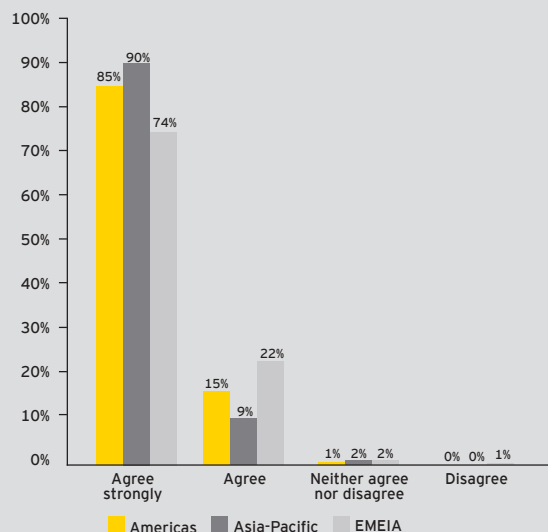
“Dream big.” “Go with your gut feeling.” “Make innovation part of the company culture.” These are not platitudes from management consultants but on-the-ground advice from real-world entrepreneurs. They are just a few of the wealth of insights we gained from our 2010 survey of how 263 of the world’s leading entrepreneurs (all winners of Ernst & Young’s Entrepreneur Of The Year awards) approach innovation. While our respondents differed on specifics, they agreed on some key issues and challenges:

- ▶ Eighty-two percent of the entrepreneurs strongly agreed that innovation was critical to the growth of their business. The same percentage said it was the one genuine advantage they had over their rivals.
- ▶ Yet almost half (47%) of the entrepreneurs said that setting formal priorities for innovation played no role in their strategic planning process, or that they did this badly.
- ▶ Combining innovation and scale is a pressing challenge. Almost half (49%) of the entrepreneurs said that innovation had become more difficult as their organization had grown in size and complexity.

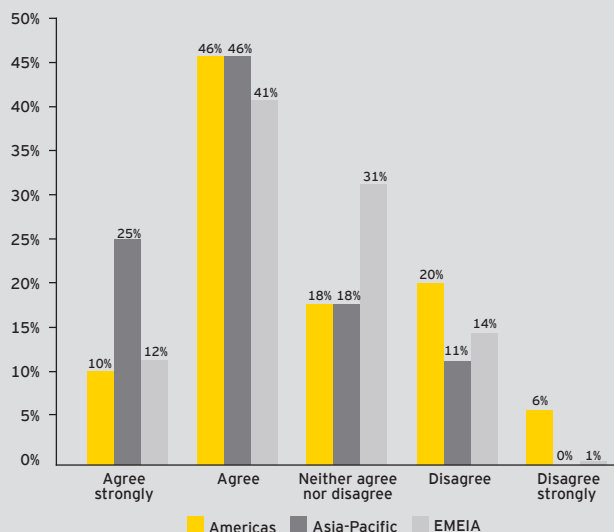
- ▶ Across geographic regions, entrepreneurs broadly agreed about the kind of government support they wanted. They called for tax breaks, R&D incentives and direct subsidies to help finance innovation.
- ▶ Around half of the entrepreneurs in each region felt they innovated well in parts of their business, but rarely scaled this across their organizations.

Our 2010 survey revealed some interesting regional differences. For example, 38% of entrepreneurs in the EMEA region adopt a structured approach to innovation, compared to 33% for the Asia-Pacific region and only 24% for the Americas. Most entrepreneurs do not offer their staff monetary rewards to encourage innovation or give them a set amount of “ideas time”; however, those from the Asia-Pacific region are more likely to use these methods. More entrepreneurs in the Americas (62%) say innovation takes place throughout their organization, whereas respondents from the Asia-Pacific (44%) and EMEA (36%) regions tend to feel that innovation is the responsibility of a centralized leadership team or the company owner. Asia-Pacific entrepreneurs are more likely than their peers in other regions to say that they execute well on a few good ideas but need a more robust pipeline of big ideas. ▲

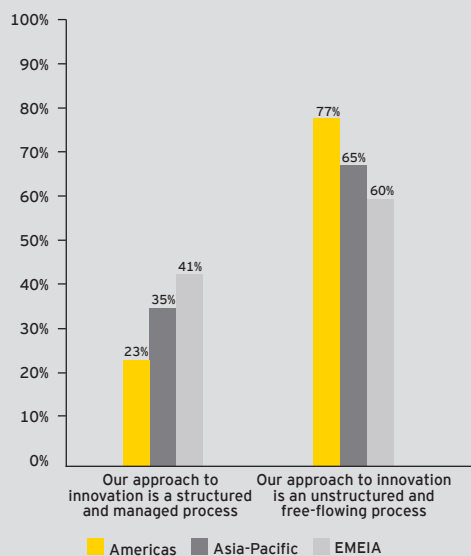
The ability to innovate is critical to the growth of my organization



We execute well on the few good ideas, but need a more robust pipeline of big ideas



Which of these statements best characterizes your approach to innovation?



Numbers may exceed 100% due to rounding.

Keep up the good work!

Maintenance is usually the most difficult part of any program, whether it's an individual exercise regimen or a large corporate initiative. The six strategies outlined in this report are most likely to succeed if implemented within an organizational framework that views intrapreneurship as an end-to-end process. That means supporting it with staff, resources and formal development procedures, from the very beginnings of the idea right through to the market debut of the product or service. To do that, however, companies of all sizes need to set in motion behavioral changes that challenge conventional organizational thinking:

- ▶ **Create a culture of flexibility.** Established companies with well-defined processes may never be as nimble as entrepreneurial startups. But they can still streamline or eliminate cumbersome procedures that may prevent them from bringing an idea to market quickly. More important, though, is an organizational mindset that takes market uncertainty for granted, and develops the flexibility and resilience to deal with it in constructive ways. At lithium-ion battery manufacturer Boston-Power, Founder and CEO Christina Lampe-Önnerud says she deliberately fosters a culture that promotes experimentation and calculated risk. "It's okay to make mistakes, just as long as you make them before you enter the market," says the scientist and Ernst & Young Entrepreneur Of The Year award winner. "We do a lot of peer review and collaboration among multidisciplinary teams. But you need

to give people a voice, and culture is the key to that. In other words, when processes are too strict, it's easy to say no instead of trying something new. That shuts down the entrepreneurial spirit. We're almost six years old and we still have it."³⁷

- ▶ **Examine your risk parameters.** An intrapreneurial culture inevitably generates greater legal and financial risks for the company. In fact, in their original manifesto on intrapreneurship, Gifford and Elizabeth Pinchot wrote that an intrapreneur should be financially prepared to take on the risks of failure, including "financial sacrifices such as having no salary increases until the new business becomes a success, or even a salary decrease until project bonuses arrive."³⁸ While this may not always be feasible, companies should certainly reevaluate their risk profiles to allow for intrapreneurial efforts.
- ▶ **Manage internal tensions.** It's not enough for intrapreneurial individuals or teams to get support from the top. Buy-in from employees of all ranks is necessary as well. Research shows that many promising ideas have been derailed by co-workers who are jealous of the attention paid to their innovative colleagues or line managers who don't want to carry a risky venture on their budgets. It's therefore vital for senior leaders to "sell" the idea of internal innovation as a tool vital for market leadership – and even survival – not only to their bosses but to everyone in the company.

invention



- **Look to the long term.** But you needed that new product yesterday! It's difficult to think 5 or 10 years down the road when competitors are beating down your door *now*. True innovation, however, requires a pipeline – a predictable flow of new ideas that the company can rely on. Setting up an “intrapreneurship unit” within the company gives you an idea bank to draw from at any time.
- **Encourage the happy accident!** Don't be discouraged because there really isn't anything totally new out there in your industry. Many entrepreneurial

successes have happened because someone found new uses for an old product, chanced upon a discovery or ventured into new industries or geographies. It's hard to always keep thinking about the Next Big Thing, especially if your company is already the industry leader, but it's a surefire way to rekindle the entrepreneurial spirit. Remember, that's what propelled your company to the top, and it's what's going to keep it there. ▲

³⁷ Ernst & Young interview, September 2010.

³⁸ Pinchot III, Gifford and Pinchot, Elizabeth, “Intra-Corporate Entrepreneurship,” Robert Schwartz's School for Entrepreneurs, fall 1978.

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