



CHAPTER 02

How to Think About Growth



www.jeffdegraff.com
734-604-1012



02 How to Think About Growth

Innovation is a new way of seeing something old. Before you start to innovate, you need to rethink how you think about growth and the structure and dynamics of innovation.

Innovation is **time-based**—it has a shelf life. It goes sour like milk. An innovation doesn't stay an innovation for very long. Think about all the cool new technology you bought last year. This year, it's junk. Last year it was an innovation, but this year, it's simply not an innovation anymore. In this way, there is a competitive spirit that underlies all innovation: what we do this year has to be better than what we did last year.

Innovation happens in the future—for which we have no data right now. What's going to happen with the currencies? What's going to happen with European policy? What's going to happen with the political conflict in the Middle East? We never know for sure.

In order to find out what's going to happen in the future, we have to **run meaningful experiments**. We can't just keep planning. Excessive planning is a form of resistance. Planning is inaction. It's like having a meeting about another meeting. Instead of planning, try many things—**run multiple experiments at once**—and see what works as you feel your way to the future.

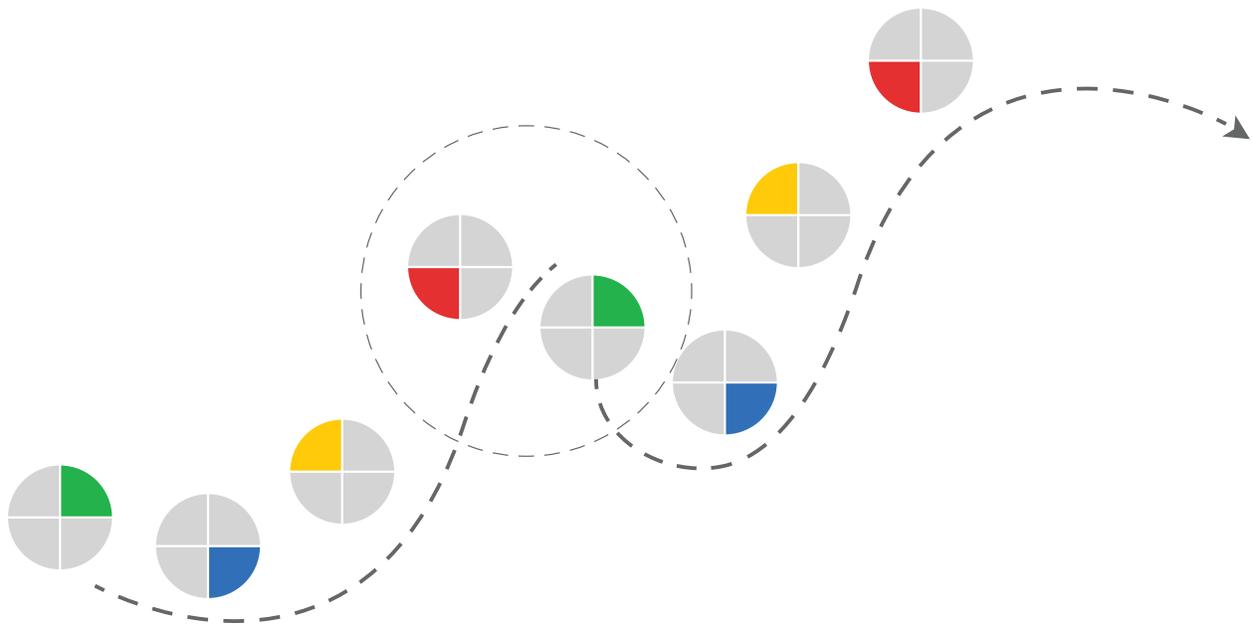
Organizations grow in a developmental process. At their onset, organizations are entrepreneurial, using the Create form of innovation to do things better and new because they can't compete on scale with larger organizations. In this early stage, organizations often have great ideas, but they can't get the processes or finances together, so often they implode. Then, a new type of capability shows up that's about focus and money—the Compete form of innovation. With Create and Compete working together—two externally-facing forms of innovation, looking for new markets and technologies—the organization begins to grow very fast. This is called the sigmoid “s.” Organizations don't grow in nice, smooth lines—they grow ballistically.

When it starts to grow, the organization has to get the right people and community involved and develop the best customer relationships—hallmarks of the Collaborate form of innovation. Finally, when the organization gets really big, it needs structure, processes, and hierarchy—features of the Control form of innovation.



When an organization matures, it typically stalls. This is called flat-lining. The sigmoid “s” suddenly starts to decelerate. This is where most organizations die—at the point of creative destruction. At this moment of **creative destruction**, the organization needs to find a way to reinvent itself. All practices of the organization are intended to run a smooth and efficient operation and eliminate slack, but what they need is creativity and radical innovation, which require slack and variation. At this moment, what the organization needs are the exact items the current processes try to eliminate. Unless the organization can make this jump, it destroys itself.

This is also apparent when we look at the reorganization efforts. A common mistake is to cut the organization diagonally, maintaining the same ratio. So nothing really changes. Instead, they need to incorporate more green or blue or yellow or red, whichever form that will add more variance to their current situation.

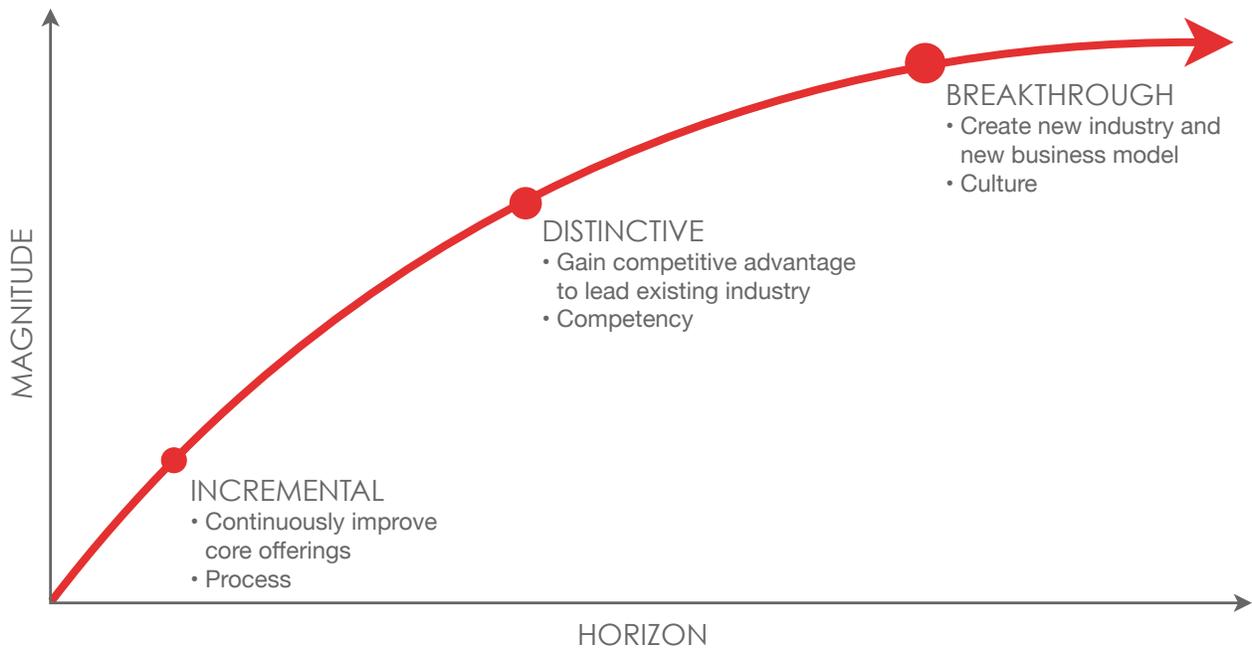


In diagnosing how to move forward and change your approach to growth, there are two things to think about: the **magnitude**, or how much innovation you seek, and the **speed**, or how fast you want innovation to happen.

Ask yourself these questions: **What kind of innovation do you want and how much time do you have?**

If you seek **incremental** change, you can make changes in the processes of your organization, or the **red** quadrant. This will take little time to execute.

If you seek more **breakthrough** changes, you need to diversify your gene pool by hiring more visionary people, or **green** thinkers. The more breakthrough the change you want, the longer it will take to accomplish it. You also need to change the culture of the organization to sustain these changes. The two ways to change an organizational culture are to eliminate the leadership and change your business practices. However, changing organizational culture takes a long time and a lot of effort.



Innovation happens in a **sequence**:

The **forward position** privileges **Create** or **green** thinking: intense brainstorming of breakthrough, visionary ideas. This is called **hedging**: when you run many experiments at the same time and see what works and what doesn't work.

The **middle position** privileges both **Compete** or **blue** thinking and **Collaborate** or **yellow** thinking. Now that you've brainstormed and ran experiments, it's time to keep that momentum going by bringing a team together that has shared values and can make profits. This is about assembling the right people to make your experiments sustainable and successful, while maintaining the momentum. This is the most difficult and the longest part of innovation.

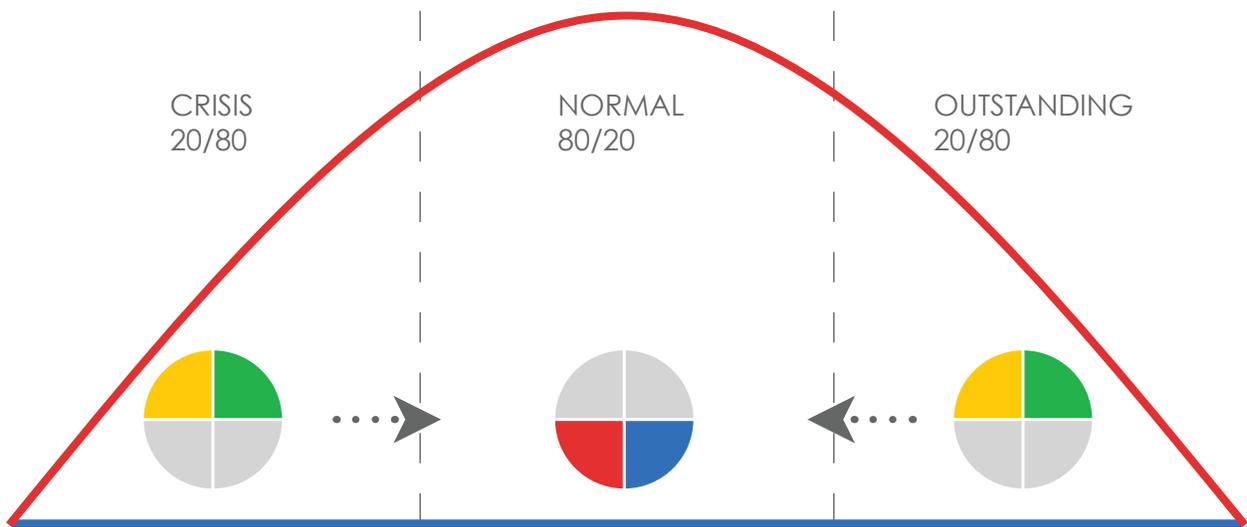
The **aft position** privileges **Control** or **red** thinking. Once you've learned what works and doesn't work, it's time to choose the best strategy and take it to scale. This is about institutionalizing your innovation—creating the set of rules and processes that will allow you to standardize your form of growth and make it turnkey, easily reproducible on a larger scale.

Innovators need to hedge. This is what venture capitalists do: they diversify the array. Instead of picking just one project you think is going to work, design many small projects that you can test. While you run those experiments, you need to be open to change: make adjustments as you go based on what's working and what's not working. Failure along the way is inevitable. The key is to fail during the experimental stage, when the stakes are low. Then you can learn from those failures and succeed when it really counts.



What is the 20/80 rule?

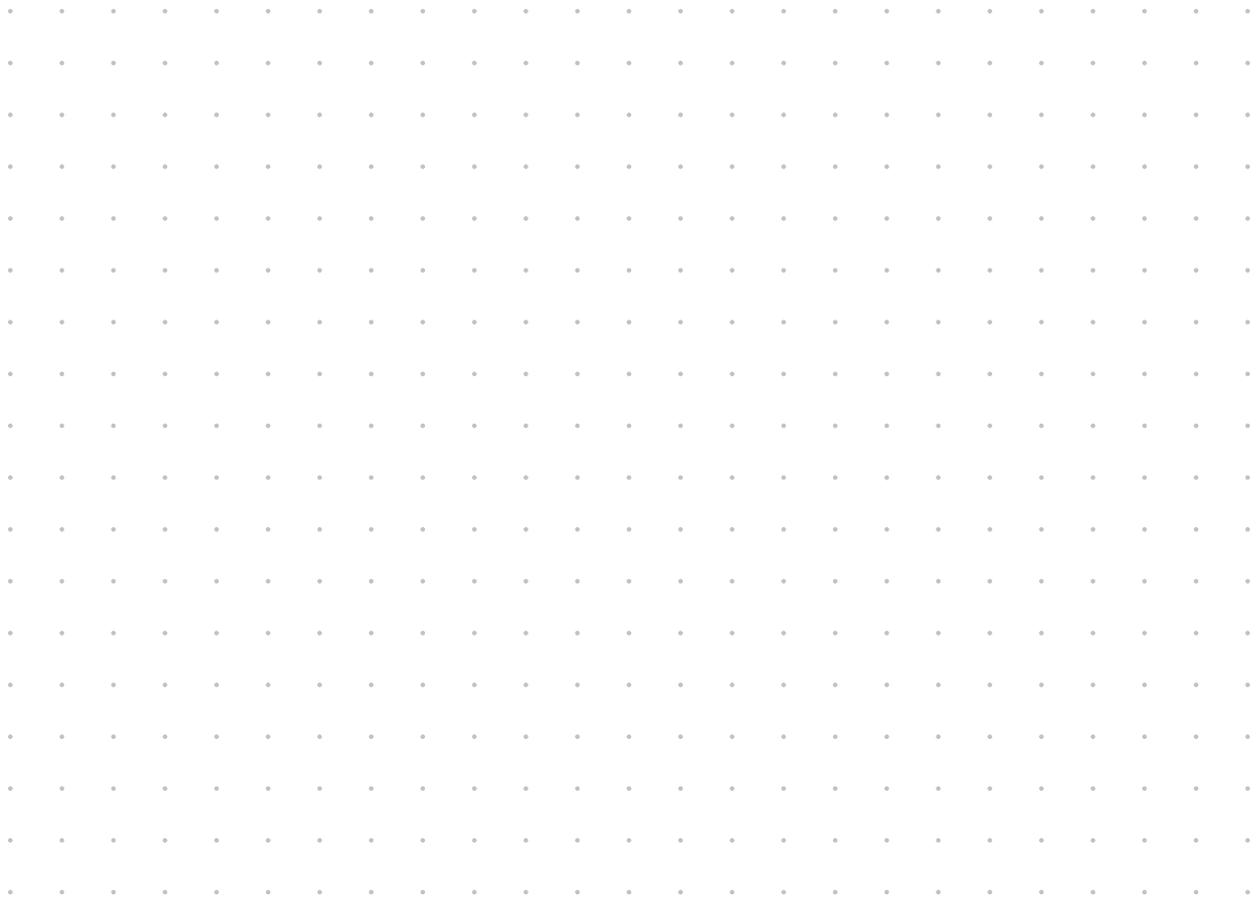
It is easier to change 20% of an organization 80% than it is to change 80% of your organization 20%. Think of your organization like a bell curve, with the middle of the curve marking normalcy and the two ends marking crisis points and success points. Innovation happens at the ends of the bell curve, where things are going either really poorly or really well. It is at these points where the risk of innovation is low and the rewards are high. Act at these points of extremity. Think of Apple in the 1990s, when it almost went bankrupt before the ousted founder Steve Jobs took over.



A large grid of small grey dots, intended for taking notes or drawing.

Be mindful of these common mistakes of innovators:

Mistake	Correction
Believing you can see the future	Make smaller and wider bets
Choosing big over fast	Pick up your pace
Mistaking your managers for innovators	Encourage and support your deviants
Having more ambition than capability	Base your strategy on your capability
Starting at the center and moving out	Work your innovations from the outside-in
Listening to the wrong customers	Follow the customers that move first
Failing to connect the dots	Create cross boundary solutions and sync up business models



PRACTICE

PRISMATIC THINKING

<ul style="list-style-type: none">• Moderate magnitude• Slow speed• High sustainability	<ul style="list-style-type: none">• Breakthrough magnitude• High risk• Moderate speed
<ul style="list-style-type: none">• Incremental magnitude• Low risk• Moderate speed	<ul style="list-style-type: none">• Moderate magnitude• High speed• Low sustainability

1. What is the magnitude of your innovation initiative? Speed?

.

.

.

.

2. Where is your organization on the development cycle now? Where will it be next?

.

.

.

.

3. What culture and capability will you need to achieve your initiative?

.

.

.

.

.

.

.

.