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From No to Go: How to Say Yes to Disruptive Ideas

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Problem of Practice: *While most large companies are making conscious efforts to make their businesses future-ready, truly disruptive ideas face multiple hurdles. Even before a new venture faces the market test, it must attract investment — and decision-makers often hesitate to invest precisely because a radical new idea is so unfamiliar. Research by Mount and team[1] reveals novel and useful ways to protect a company against this 'unfamiliarity bias.' First, the idea evaluators' background and expertise should be relevant to the ideas under review. Second, the evaluators should engage a lens of 'how?' instead of 'why?' while making the investment decision. Using a warm-up task is one application of the 'how?' approach.*

Why it matters

The disruptions humanity faced during the Covid pandemic also highlighted how much we, as a species, were ready to embrace change. As the need emerged, we rapidly adopted new social norms, medical therapies, business practices, and shopping behavior. During the global pandemic, new venture funding — a rough proxy for the value we place on innovation — experienced record-breaking growth in 2021. An innovation survey[2] by the consultancy BCG (Boston Consulting Group) reported that 75% of companies reported that innovation was a top-three priority in 2021. Yet, established companies often say 'no' to breakthrough ideas — in the BCG study, only 45% invested in big innovation. One of the well-studied reasons for missing the next big thing is the uncertainty and risk associated with investing in genuinely radical business ideas. The 'go/no-go' decision often boils down to how far outside the decision-maker's expertise a new proposal is. The farther out it is, the more likely it is to get nixed.'

Consider the tale of Jony Ive, Apple's former design chief, whom Steve Jobs considered his spiritual brother. Ive left

[1]Featured in the August 2021 issue of the Strategic Management Journal, authors Mount, M. P., Baer, M., & Lupoli, M. J. identified barriers and approaches for investing in disruptive new ideas in their article: 'Quantum leaps or baby steps? Expertise distance, construal level, and the propensity to invest in novel technological ideas.'

Research shows that use of 'low-level' approach, which focuses on concrete and specific details of the idea/solution related to its feasibility, is more suited for saying 'yes' to investment opportunities. This model reduces unfamiliarity and perceived uncertainty, thus improving the inclination to invest

Apple[3] in 2019 and later revealed his departure was driven by fatigue from having to justify and find support for new product ideas under current CEO Tim Cook. While Cook has led exponential growth at Apple based on service revenues, the tech giant's new product introductions have been underwhelming.

Ironically, it was Steve Jobs who famously opined[4] about the declines at IBM and Xerox: "When the sales guys run the company, the product guys don't matter so much, and a lot of them just turn off ... John Akers (former CEO) at IBM was a smart, eloquent, fantastic salesperson, but he didn't know anything about the product. The same thing happened at Xerox."

When Tony Fadell tried to get electronics giant Philips to market his idea for a portable music player, they "never fully committed". He ultimately took his concept to Apple, where it saw life as the iPod under Jobs. When Eric Yuan, a senior product engineer at Cisco, failed to sell his idea[5] for revamping the videoconferencing platform at Webex, he felt compelled to leave Cisco and ended up founding Zoom. These ventures had something in common — they were all new, multi-billion dollar ideas that disrupted the industry status quo, and senior management failed to understand their potential.

So, how can established companies avoid missing such investment opportunities? The next time a bright spark at your organization pitches a disruptive new idea, how do you ensure it gets a fighting chance?

Two lenses to view the unfamiliar

The research by Mount and team found that investors looked at radically new ideas through two mental models: high-level or low-level. When executives think about the long-term impact of a new technology, or a fit with the organization's overall mission, they are using the 'high-level' mindset to evaluate the opportunity. In contrast, a 'low-level' approach focuses on concrete and specific details of the idea/solution related to its feasibility.

So, which model should a company use for saying 'yes' to investment opportunities? It turns out to be the low-level mental model, which reduces unfamiliarity and perceived uncertainty, thus improving the inclination to invest. The research also found that it was possible to influence investors to adopt one model over the other simply by asking a few preliminary questions. Before the actual investment decision, if managers are asked to think about 'how' they would go about doing any unrelated task — say, commuting to work or improving their physical health — they are automatically predisposed to using a low-level mental model for subsequent decisions. This improves their ability to find the usefulness in new ideas, and hence making them better able to appreciate a worthwhile investment opportunity.

In contrast, if asked to think about 'why' for the same, unrelated tasks, managers tend to use a high-level model. This model reduces their ability to think of the feasibility of a new idea and their willingness to invest.

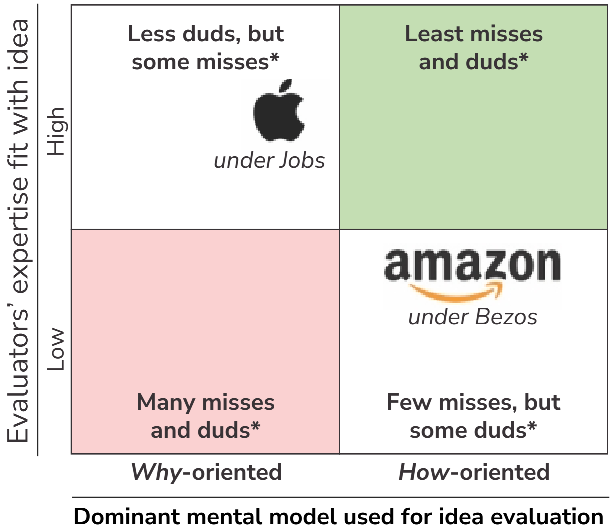
Is that all there is to developing disruptive ideas? Of course not. The new research insights presented here are a critical starting point but sufficient for getting the idea to market. For instance, companies need the appropriate organizational structure, the right skillsets (e.g., design thinking), an entrepreneurial mindset (e.g., learning from failure), and relevant financial strategy (e.g., maintaining a portfolio of new-venture options).

Another caution relates to the 'why' question. We recommend asking why in other contexts, such as during an ideation phase when thinking more broadly about ideas helps. Use the how mindset when focusing on high-risk-reward ideas that are ready for an investment decision.

A better go/no-go

If you believe that your organization is selecting — more often than not — incremental innovation, and you need to shift to investing in the 'next big thing,' then using these insights can make a difference. In a nutshell, there are two prerequisites when evaluating new ideas (see the exhibit "Two Paths to Better New Venture Evaluation").

Two Paths to Better New Venture Evaluation



* Misses implies missed opportunities to invest in worthy, but unfamiliar ideas, while the term 'duds' implies poor investment ideas

Conceptual representation of research findings; examples are only illustrative, based on subjective accounts in news media and are not intended to represent effective or ineffective management.

First, match the decision-makers with the domain related to the investment opportunity. For instance, a fin-tech idea has a better shot at getting investment if the decision makers are from a related, techno-financial background, all else being equal.

So, imagine that you have been asked to judge an internal business plan competition at your organization. Winners might receive funding for growth, with the hope that some might grow to be large profit centers. A quick scan of the first-round draft submissions reveals that about a third of the ideas are radical and so different from your area of expertise that you are hard put to compare them with the more familiar ideas. At this point, a smart thing to do would be to request evaluators who have the expertise and can do justice to the unfamiliar ideas.

The second piece of advice is to prime your investors to think of the investment opportunity in terms of the new idea's tangible functionality and usefulness to end users. So, what should you do? Set up the actual evaluation in a fixed-time, closed-room setting, with a series of warm-up tasks that orient the judges to think of 'how.' For instance, each idea evaluator would be required to list all the ways they use their smartphone and how it has made their lives easier. These how-based warm-ups induce a mindset more attuned to identifying ways the new product or service could work, thus reducing a key barrier to investment.

Insight illustrated

So, is there any company known for innovation which follows this advice? Apple, under Steve Jobs, did institutionalize the first piece: Jobs insisted that all managers must have deep expertise[6], enabling them to make better decisions in their domain, where rates of change and disruption are high. Apple had to make big bets in high-stakes markets; and believed that such bets were best made by functional experts.

At Amazon, employees are encouraged to articulate new ideas using the 'PRFAQ[7]' format. The PR here stands for a hypothetical, futuristic press release, along with a list of Frequently Asked Questions, which forces inventors to express the new product benefits from the customer's point of view. It's not too hard to see that a well-written PRFAQ also enables the idea evaluators to visualize how a breakthrough product might work.

Google founder Larry Page, suggested that comfort with being 'a bit uncomfortable[8]' is important for investing in "revolutionary ideas". In sports or at the gym, the 'getting comfortable' process involves a warm-up, in order to avoid injury. The analogy for big-bet investments is that when you warm up from a 'why' lens to a 'how' perspective — even before you begin evaluating and investing — it helps you avoid missing a great new opportunity.

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If you would like to share any insight based on your experiences of investing in high risk-reward ideas, you can also reach out to us at ***mpi@spjimr.org***

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