BETTER REWARDS, FEWER RISKS

FORGET *JUGAAD* OR RISK-AVERSION; THE WAVE OF DISCOVERY-DRIVEN DISRUPTION WILL HELP INDIA INC. STAY RELEVANT IN UNCERTAIN TIMES.

By RITA McGRATH AND M. MUNEER
Illustration by RAJ VERMA

IT MAY SOUND oxymoronic but risk-mitigated innovation exists, and it has nothing to do with *jugaad*, the frugal innovation (in)famously popular in India.

The framework called discovery-driven disruption, or DDD, is all about driving growth in uncertain times. In this disruptive and unpredictable era, coping with uncertainty has become every business leader's imperative. When revenues plunge and performance drops precipitously, it is easy to panic, freeze in the headlights or otherwise guarantee that the effects of the downturn will be far more serious and longer lasting than they need to be.

At its core, DDD is a planning and execution methodology that helps you create a portfolio of projects that protect and enhance current profit streams while securing footholds to future growth, all at low cost and little risk. The inherent idea is that you need a different mindset today than the tranquil yesteryears.

Master Your Portfolio

In good times, companies can afford to get sloppy about new projects and the perennially moving deadlines. In more uncertain times, it will backfire but giving up on long-term projects or those promising important future payoffs is not the solution. Instead, get control of the portfolio of activities in the company, making sure that three kinds of strategic initiatives are managed well.

These three kinds are drawn from the intersection of market uncertainty on the horizontal axis and technology or capability uncertainty on the vertical axis (see *Growth Portfolio*). The low-low uncertainty intersection at the bottom of the matrix represents the first kind of projects that are driving current core business. The medium-medium intersection in the middle represents the second kind of projects that are geared to develop new growth platforms, which have the potential to become future core business. The high-high intersection forms the third kind that has the potential to become future platforms. While every company's portfolio will be different, depending on the strategy, what matters is whether you are giving enough emphasis to all three types.

Discovery-driven planning is the centrepiece of a mindset that will allow you to contain risks while pursuing opportunities. Unlike the taken-for-granted assumption in conventional management practice that good managers can predict outcomes, the discovery-driven approach begins with the recognition that with uncertain projects, you really cannot know the result a priori. Instead, the goal is to learn as much as possible for as little cost as possible, always being prepared to redirect activities as new information unfolds. With

GROWTH PORTFOLIO

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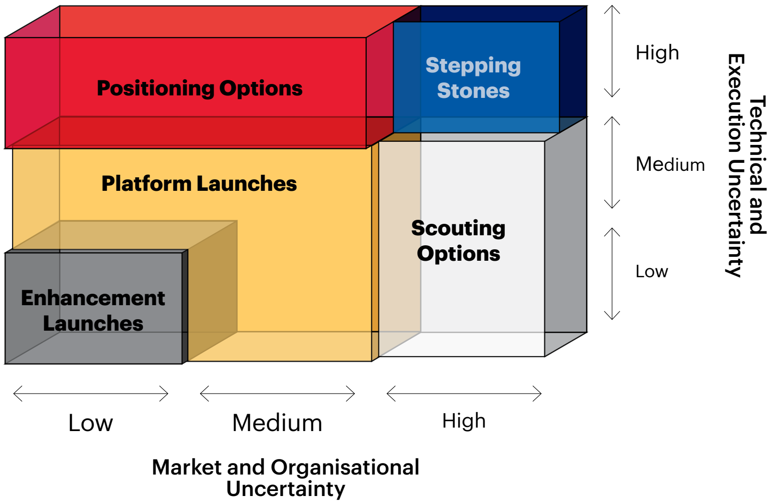

discovery-driven projects, you invest smaller resources that you can afford to lose to generate the knowledge that is needed to commit more resources. DDD begins by specifying a performance outcome that will make your growth efforts worthwhile, whether at a corporate level or a strategic project level. You define success up front, as well as the guidelines for what next after these goals. Thereafter, the rest of the discovery-driven tools are used to approach closer and closer to that goal, containing risk and downside exposure until you have reduced uncertainty to the point that you can confidently invest in to capture targeted growth, or shut down early and inexpensively if things do not work out.

As your plan unfolds, you want to reduce the assumption-to-knowledge ratio. When it is high, there is high uncertainty, and one should prioritise learning, inexpensive and fast, at the lowest possible cost. As the ratio shrinks, focus and resource commitments to increasingly hard outcomes replace learning as the objective.

Five Steps to Discovery-driven Disruption

1. Frame the challenge. One should frame a growth challenge at the CEO level and define the growth frame for the entire enterprise. The outcome is a set of guidelines for types of initiatives to be pursued. As a result, everybody will be clear about what kinds of opportunities are legit and aligned to strategy.

2. Create an opportunity portfolio. Next, analyse how resources are currently being allocated to projects and then consider how these allocations will need to change, given the growth frame. Take a portfolio-view of different types of growth opportunities. How much of profit and cash flow growth should come from the core business? How much to expand into future core business? How much will go into low-cost and high-potential opportunities for future platforms? In today's market, the typical portfolio of initiatives will contain a mix of short-term projects designed to enhance positive cash flows and low cash drain, and high-potential projects poised for rapid growth when the upturn occurs.

3. Manage strategic projects. Now start with identifying a unit of business that will create the architecture of your business model. A unit of business is quite literally the unit of what you sell – what the customer pays for. You may find, as you progress on the discovery-driven plan, that the unit of business you started off with does not deliver revenues and profits in the way you want, and therefore, needs correction. You may also find that achieving your goals the way you originally thought of is unrealistic. A rethink will be necessary now to define the metrics of success in the growth project, and to compare your metrics with those of potential competitors. This reality check is necessary for business planners, who make assumptions that may seem sensible in the rarefied atmosphere of a planning office but fail to conduct a competitive reality check.

4. Connect plans to financials. Keep the plan coherent and connected to reality. Construct a reverse income statement and a reverse balance sheet. Now tie together the decisions made in the earlier steps and simulate future business, allowing you to engage in what-if speculations. Throughout these phases, the investment in the future business remains extremely small.

5. Convert assumptions to knowledge. Identification, documentation and testing of assumptions must be done at this stage. You should develop an operational specification and an assumption checklist plus the financial logic that underlies the business model. These operational activities and assumptions are intimately linked and suggest risk-minimising steps to test assumptions. Best practices should be deployed in redirecting projects as many companies vaingloriously try to execute increasingly unrealistic original plans. What you accomplish in terms of performance will remain the same, but redirection changes how you accomplish that performance.

One should also develop a disengagement plan to take on the challenge of shutting down unsuccessful projects. You need to make sure that killing an initiative is seen as a constructive process that allows the company to benefit as much as possible from the investments it has made. Also, manage the disappointed stakeholders and the politics of the termination decision.

Unlike many management frameworks that develop a theory and try to fit in examples, DDD is a proven concept that companies, big and small, have used over the years to stay relevant. It will also enable India Inc. to shed risk-aversion and embrace innovation. BT

Rita McGrath is an authority on innovation and professor at Columbia Business School; M. Muneer is the Co-founder and Chief Evangelist at Medici Institute