Strategy & Corporate Finance

Committing to Innovation: A discussion with Beth Comstock

How tolerance for risk, patience, and thinking small (where funding is concerned) can lead to breakthrough innovation.

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In this episode of the *Inside the Strategy Room* podcast, senior partner Erik Roth talks with Beth Comstock, former vice chair of GE, about the challenges corporations face in developing breakthrough innovations. Beth is an innovation leader who spent almost three decades at GE, where for a time she headed GE Business Innovations, which develops new businesses, markets, and service models. She recently published *Imagine It Forward: Courage, Creativity, and the Power of Change* (Currency, 2018). This is an edited transcript. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play.

Erik Roth: Beth, thank you so much for joining us. Tell us first, what motivated you to write this book now and what do you hope executives take away from it?

Beth Comstock: I was coming to the end of my run at GE and wanted to capture what had happened, especially for the people in the middle of organizations who need a little encouragement and some tricks of the trade. Innovation is really hard. I wanted to capture the grittiness, the messiness, and the hard work that go into innovation and change.

Erik Roth: If innovation requires messiness, how do you do that at a large organization?

Beth Comstock: Just having the mindset that "this is going to be messy" helps. I came to appreciate the value of having at least two lanes or speeds in the organization. You have your now lane and your next and new lanes, and you allocate capital to them differently. You have to think about measurement differently and the kind of people and ideas you're working with. Yet most people just lump them together into a big jumble. You don't have a profit in the next lane—sometimes you don't even have a customer—and yet you are trying to get your P&L in shape. There is a series of things companies can start doing differently just by clearly delineating a now lane and a next lane.

Erik Roth: Let's unpack that a bit. We often find ourselves in conversations with CEOs where they say something to the effect of, "I really want my organization to grow more predictably, more consistently through innovation. I tell my leaders where we need to go, but nothing happens." What are they doing wrong?

Beth Comstock: I believe most CEOs want to make that change but their people have not learned how to swim in a new way in the new lane. I came to appreciate the value of having coaches. It's almost like a little voice on the team leaders' shoulders that helps them navigate that. Not only do they need the right kind of money and budget setup to fund these efforts, they need different types of people. The team leaders need room to go out and discover. They have to want to see new ideas.

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Erik Roth: Leaders may hear what you just said and reply, “Ah, great. We’ve set up an incubator. We have our little accelerator over here. That’s going to be the answer.” But when they visit those side organizations 12 to 18 months later, things don’t look so pretty. There are some prototypes sitting around and some really frustrated talent. You look at the value that has been created and it’s negligible. Why is that not the right way to approach your next lane?

Beth Comstock: Sometimes all that is part of the answer. I do believe in having groups set up to test and learn and push ideas forward. But you have to assume that you have a good innovation strategy. Sometimes, people are just testing ideas because that’s what the competitors are doing but they don’t fundamentally believe in them or that they have the capability to execute them.

Erik Roth: So what does a good innovation strategy look like?

Beth Comstock: To me, innovation strategy answers the question, where are you going next? What is your unique value proposition in the world? Why do you exist? That’s important for both the now and next lanes. And then, what problems are you trying to solve for your customers?

I think you ask different questions in the next lane that help you form that strategy. Sometimes it’s about having a hypothesis: if you’re a dairy farmer and have a hunch that plant-based foods will be big in the future, well, why do you have that hunch? What are you going to do about it? Will you wait until the day everybody is drinking peashoot milk, or will you get out there and see what’s happening?

Erik Roth: So how do you get an organization, particularly a large one, to chase hunches? Often, there is a need for proof before you even go explore, otherwise you can’t get the permission to test the hypothesis.

Beth Comstock: I used to get that a lot from people at GE, who would say, “You’re a dabbler. That’s never going to amount to much.” And yet, when you trace anything successful, usually it started as a hunch that you had to dabble with. We always had an experimental budget. It should be 15 percent of your budget, your time, your people. You have to make room for that dabbling, provide resources, make it part of your operating system and know what you are trying to accomplish.

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To me, it's about speed to learning. You are trying to de-risk your way forward, so you want to find out what doesn't work as much as what will work. That's where people get confused. They say, "Oh, but that failed." Yeah, but now you know not to spend any more time and money on that. What big companies do—I saw this time and again, and was guilty of it myself—is throw money at problems because we think that will provide the answer. They believe that if you have enough money, you can get there faster and bigger; you will get to scale. Sometimes, you have to verify early on whom you are serving and validate that you have the right offer. Do you even know how to make money? Large funding alone will not answer that question.

Erik Roth: We talk a lot about that with client companies. We like to frame it as their confusion between assertions and assumptions. And what always surprises me is how much business plans are laden with assertions—whether based on past history or confidence in the future—that are lists of "Here is what we believe." Then decisions are made based on them, as if they were proof. What we encourage instead is: What are the assumptions underlying a given opportunity? And how do you then set up your plan to test and learn about those assumptions to figure out, hopefully quickly, whether you are on the right track or not? But, that gets confused with the storytelling—bravado about assertions versus humility of having an honest conversation around assumptions.

Beth Comstock: Many start-ups would benefit from working with big companies that understand scale. But at the early stage, that little toddler needs a different kind of nurturing. It needs an entrepreneurial leader who is willing to try five different business models at once. The entrepreneurial leader could say, "Give me just $25 million. I don't want $100 million. I will build a really small factory and go after this and that segment to prove this can succeed. Don't box me in." But in large companies you get caught up in the proof, the bravado.

Erik Roth: We all know the one certainty in big companies is that if we give someone a budget, it will get spent.

Beth Comstock: Exactly. A better capital allocation model is to say to your innovation leaders, "Your job is to test the most ideas with the least money so you are measuring the idea throughput." Most companies continue to fund too many ideas rather than quickly killing those that don't work.

Erik Roth: What other things have to be true for your operating model to work?

Beth Comstock: Well, truth. There is a lot of theater that goes with innovation. You're all dressed up in our innovation clothes, have your nice space, but you actually have to deliver something now.

Erik Roth: We have a little tracking statistic that correlates the number of foosball tables to innovation success. It's a negative correlation.

Beth Comstock: That's a good one! Truth-telling aims to get rid of the theater. You always want to tell the boss that things are going great as opposed to admitting, "We're not ready yet."

Erik Roth: How do you enable someone to have the courage to be truthful like that?

Beth Comstock: First of all, innovation team leaders are masochists. That was a part of the reason I wrote my book: why do I keep coming back for this? We are searching for something better. We believe in better. We have seen the opportunity. That helps you build some of that courage. There are many such people in your organization just waiting to be liberated. Leaders need to change the questions they ask. We need to ask: What is not going to work? What did the customer not like? Why do you feel so confident about this? As opposed to: how quickly will we get to profitability? That's always the question, and it's the wrong question.

Erik Roth: These questions center around providing evidence. Many executives want to commit to innovation but they look over the horizon and worry about potential downturns, mixed results. How should those leaders think about investments in innovation?

Beth Comstock: The answer is, tomorrow always comes. Yes, some years are leaner than others but you have to fund a path for tomorrow. I had a project that caused the company to crater the quarterly results. When that happens, people don't want to look at you. I call it "the stink of fail." It's like you are sitting in the dunce's corner. But you have to be willing to do those things. So you need contingency plans. You are constantly gathering evidence: are we still on the right path? If I run a dairy farm, will plant-based milk really happen? How do I know? If the evidence isn't coming in strongly, don't do it.

Erik Roth: We call it "net new growth": getting evidence that you are on the right trajectory for net new growth.

Beth Comstock: People always want more data but sometimes what you need is a gut check. And it's in the speed of the feedback loops where I see many companies stumble. We close some of our feedback loops because we don't want to hear what they say. Or we only ask certain customers—not customers we lost, for example. Are you learning fast enough? Give your teams freedom to innovate and make things happen, but hold them accountable to a speed of learning. Not a speed of scale—speed of learning. That's a competitive advantage that cannot be stressed enough.

Erik Roth: Did you ask whether big companies should innovate at all? Maybe they should just buy things and scale them since, to your point, big companies know scale.

Beth Comstock: That was my conclusion. It's often easier to acquire a business than to grow it on your own. It's hard to grow things. At GE we went back at one point and checked how our acquisitions performed against plan. They all had

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been hockey sticks into the sky but very few of them actually worked out that way.

Erik Roth: Did the organic ventures you created perform better than the acquisitions?

Beth Comstock: Yes, in the situations where we had patience. But that's the other thing in short supply. We hired great people into our venture team but often they had to say, "Remember, we told you to give us five years." Meanwhile, the finance team would come to them in three years.

Erik Roth: Do you think executives have unrealistic expectations when it comes to innovation?

Beth Comstock: Yes. We've all read the books about others who have done it and we think, well, I'm smart, too. And there is the Wall Street factor. It's a really strong leader who can say to investors, "I can deliver for today based on what is known. I'm also planting for tomorrow but that is a different set of metrics, and you have to let me do that."

Erik Roth: What is the board's role in innovation?

Beth Comstock: Good board members don't try to run the company but they know how to ask good questions. The board can be made out to be the boogeyman, or the alibi, just like investors: "Oh, our board won't let us do that." But most investors and boards actually expect to see innovation. So if you are a director, you need to go in with questions about things other than profitability. Every good board has at least an annual process for peering out into the future. One of the best questions a director can ask is, "Tell me what didn't work. Tell me about the failure and what you will do differently because of it." Directors should be able to ask customers directly and have time with employees so they can form their own opinions.

Erik Roth: Some wiring needs to be in place to allow for portfolios of these test-and-learn opportunities. When you think about capital allocation for innovation, what are some critical components?

Beth Comstock: First, you don't need as much money as you think you do, at least in the early stages, because you are building confidence into the system so you know when to invest more. Secondly, people will try to claw back the money. They have a tough quarter and say, "Oh, we can't innovate this year." Are you crazy? You need to innovate now more than ever! But that's usually where the tension starts and where the innovation leaders and teams either get fired or leave in disgust.

Erik Roth: On your first point, I find it's often hard for a team within a large organization to do anything on a small budget. They are so used to having resources that when you run it through the corporate system, everything adds up to $1 million or $2 million. How do you break out of that?

Beth Comstock: Well, it's a mindset shift. In every big company I have ever worked for, people are like squirrels hoarding nuts—afraid that if they give back money, they will get less the following year. If you develop this throughput of ideas and see how little money is required and know the money will not go away, the dynamic changes.

Erik Roth: I was with a CTO of a large company the other day who is having a debate with his CFO around how much they should invest next year in their portfolio of new technologies that may or may not lead to future breakthroughs versus things that support the core business. You can imagine the discussion. "Well, just focus on those things for the now. As for the next stuff, we are under a bit of pressure for earnings so let's just claw that back." How should the innovation leader conduct that conversation?

Beth Comstock: You need to put your ideas and efforts into some sort of portfolio matrix and not be greedy. I think you have an obligation to prove to the CFO how scrappy you can be. Yes, there are the high-level cybersecurity things that cost this much but here is the scrappiness that shows we will spend that money wisely.

Erik Roth: Let me flip the conversation around. We had the opposite conversation at a different

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company a couple of weeks ago, where they have a very scrappy team with a very cool proposition. After the pitch, all the executives were excited and wanted to pour money into it. We were saying, "Time out. Don't do that." How do you prevent that from happening?

Beth Comstock: You say, "Don't give me that money. You are creating risk by expecting things with a return on that money that I cannot deliver now." Don't look at the money as a reward. It puts a lot of pressure on your career and your team if you take on more than you can do. I think you are constantly modulating risk. It's no different in the venture capital world. I have seen investors throw money at many start-up companies where the founder says, "Yeah, bring it on." It's a strong leader who can say, "No, I can't use that money now."

I was talking to a start-up founder recently. What a difference six months made in terms of her ability to go back to investors with an incredible pipeline! Her credibility was much higher because she was able to build this pipeline, and she ended up getting more than she had asked for. It's a mindset, but it's hard. You believe so passionately in these ideas, and sometimes you are too close. At GE, we used growth boards as a disciplined way to vet ideas—an internal investment board where folks from the different functions have to agree to fund the idea to the next stage.

Erik Roth: Do you think companies are good at developing creative problem solvers?

Beth Comstock: They are better than they think they are. But some companies put those people into boxes where, unless they aspire to operate a $10-billion business, they can't make it there. Meanwhile, these individuals are great at seeding things and getting them to the first customer and once they got it validated, they are happy to give them to somebody else. Companies often ignore those people.

Erik Roth: How do you find those people and move them into the right place?

Beth Comstock: They already exist in your organization. I love corporate hackathons and idea-generation contests. Often, the ideas will not change the future of the company. That's not why you do it; you are testing people. I remember once working with somebody whose project got killed, but he was determined and came back with such an intensity. The project ended up getting funded, so that served as a test—and he passed it.

Erik Roth: So people may be listening to this and saying, "Oh, wait. I'm one of those people." How can we help them have the courage to find a path?

Beth Comstock: Well, it's a journey into your own personal development. You have to spend time in discovery. You can't wait for somebody to give you the beautiful answer. If you go out in the world, listen to customers, you know where the world is going. That gives you confidence, so you come back. But you need a good champion. Not everybody can find that, so sometimes you need to leave for another team.

Erik Roth: And as a leader, if you see one of these people starting to emerge, what should you do to encourage them?

Beth Comstock: Champion them like crazy. Find a way to give them projects. I love having figure-it-out jobs in every team. You don't know what the answer is, so go figure it out. You've got a year. You need that truth serum in the organization so people feel confident coming up with ideas and failing in small ways.

Beth Comstock is the former vice chair of GE and the author of *Imagine it Forward: Courage, Creativity, and the Power of Change* (Currency, 2018). She is a director at Nike, trustee of The National Geographic Society, and former board president of the Cooper Hewitt Smithsonian National Design Museum. **Erik Roth** is the Global leader of McKinsey's Innovation practice and a senior partner in McKinsey's Stamford office.