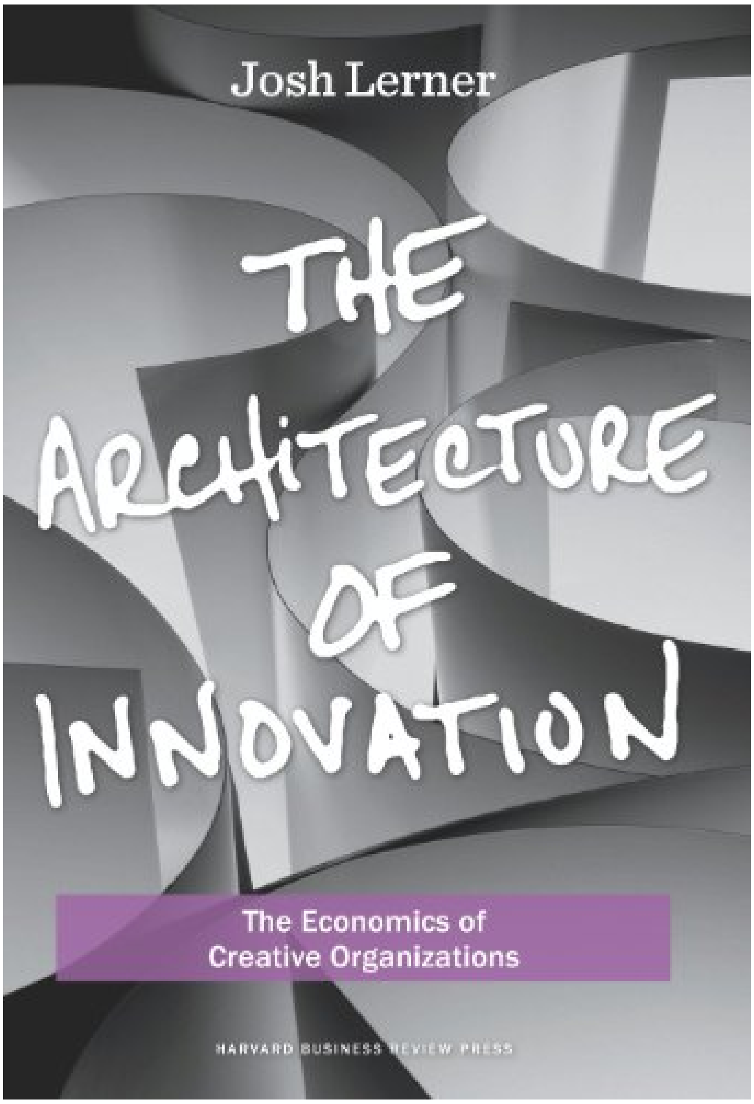
The Architecture of Innovation: The Economics of Creative Organizations

Joshua Lerner



#941777 in eBooks 2012-08-28 2012-08-28File Name: B008SBXBK4 | File size: 19.Mb

Joshua Lerner : The Architecture of Innovation: The Economics of Creative Organizations before purchasing it in order to gage whether or not it would be worth my time, and all praised The Architecture of Innovation: The Economics of Creative Organizations:

1 of 1 people found the following review helpful. InsightfulBy TulipaniaInnovation has become very popular, but sometimes if it is not well addressed it will become an empty word. Professor Lerner shows us how to have the best of the worlds between traditional RD and Venture Capital in some sort of Corporate Venture.What I liked the most about this book is the strong evidence accompanying the postulates. Every single idea is supported in a real life example,

which is very enriching. It is a good starting point if you are trying to figure out how to develop an internal innovation policy. Intrapreneurship can add real value only if it has the right incentives.I hope to read a second part very soon to get in depth. It is practical!!7 of 8 people found the following review helpful. A solid, evidence-based treatmentBy Joshua GansJosh Lerner's The Architecture of Innovation is an up-to-date recount of what we know about how innovation is encouraged. It is heavily research-based but extremely accessible and is a must read for anyone interested in the economics of innovation.The basic thesis of the book is: monetary incentives matter -- they matter especially for people putting up capital -- venture capital has done great things but only in a few targeted industries but we don't really understand why -- corporate venturing has lots of promise but has been considered out of vogue -- but if we could make corporate venturing work alongside venture capital perhaps with more sub-industry specific funds things would be better.That is pretty much it. A sound, well-argued treatment; a solid, theoretically grounded, empirically backed up story. It is not one of those management books designed to point you to a `new way.' It doesn't make up or even utilise new catchwords -- a simple searched indicated that the words "disrupted" or "disruption" turned up only 5 times in the entire book which must be some sort of record for a post-1996 book on innovation! It is just authoritative and informative while still being an interesting read with experience and historical stories where relevant. Refreshing.4 of 5 people found the following review helpful. Actively Embrace Experimentation to Further Improve InnovationBy Serge J. Van SteenkisteJosh Lerner clearly weighs the pros and cons of the corporate RD and venture capital models to come up with a hybrid model of innovation that overcomes the serious limitations of the corporate venturing model while leveraging the powerful motivations and focused goals of this model.For this purpose, Mr. Lerner first reviews the corporate RD model and its impact on innovation. Corporate RD laboratories account for about two-thirds of all U.S. research. The author concludes from his investigation that firms have de-emphasized centralized research facilities in favor of strategic alliances, contests, and divisional laboratories due to the increasing competition and the perceived lackluster commercial returns of centralized research facilities. Furthermore, Mr. Lerner reminds his audience that traditionally, researchers in corporate RD laboratories have received modest pay for performance. (Larger) firms have been reluctant to pay these researchers contingent compensation and have been concerned with the potential negative impact of `multitasking' (innovation crowding-out) on the collaborations of researchers with their colleagues. Despite these concerns, more and more firms are open to increasing incentives given to their researchers. The author observes that creative exploration and incentive compensation are compatible with one another as long as explicit, if deferred, financial rewards are on offer.Mr. Lerner then explores the venture capital model and its impact on innovation. Venture capital accounts for only a low single-digit percentage of corporate RD in the U.S. Despite its smaller size than the RD and capital expenditure budgets of large individual companies such as IBM, General Motors, or Merck, venture funding has a positive impact on innovation. On average, a dollar of venture capital appears to be three to four times more efficient in simulating patenting than a dollar of traditional corporate RD. However, the author draws the attention of his readers to the significant shortcomings of the venture capital model in spurring innovation. Venture funding is concentrated in computers and electronic products, media and communications, and computer system designs, where the innovation cycle is shorter. Furthermore, venture capital is notorious for its boom-bust cycles, where funds from investors are either in oversupply or very scarce. In addition, public markets cannot be trusted to appropriately reward the pursuit of innovation and other long-term objectives. On top of that, despite the many tools that venture investors have at their disposal to steer the companies that they fund, entrepreneurs may choose actions that do not create value for their firms as a whole. Finally, venture capital has failed to take root in many markets due to the unwillingness of local institutions and individuals to consider venture capital investing, the absence of a favorable regulatory environment, and the non-existence of an active market for public offerings to allow investors to successfully getting out of their investments.Subsequently, Mr. Lerner reviews the corporate venturing model. Corporate venturing invests about 10 to 15% of every venture dollar in the U.S. Compared to internal research laboratories, corporate venturing is able to respond quickly to changing circumstances, to leverage outside funds, and to quickly change course. Despite these inherent advantages, corporate venturing has a mixed record due to the failures to think clearly about goals and to design appropriate compensation schemes. Furthermore, corporate venture investments tend to be concentrated in the same areas as traditional venture funds. The author concludes from his research that the most promising corporate venture funds have clear marching orders about the program's mission and a strong link between performance and incentives.Mr. Lerner briefly explores how government policies can promote innovation successfully. The author shows with much conviction that the most successful public policies in the area of innovation have five common characteristics. First, these innovation programs link funding to the ability to provide or raise matching funds so that the risk that public funds go to appealing but impractical projects is minimized. Secondly, these programs are governed by clear and transparent rules so that they do not appear as more trouble than that they are worth. Thirdly, these efforts have to be appropriately sized so that they do not lead to either unhappiness due to few prospects or public funds crowding out private investments. Fourthly, public investments in innovation have to be for the long-term because the diffusion of new innovations is frequently a prolonged process. Lastly, innovation programs have to be reviewed seriously in a periodical manner, and to be cut off if they are underperforming.Finally, Mr. Lerner makes several suggestions to experiment with a new hybrid model of innovation.The author has three lessons for venture capitalists:1) Better link venture fund life to the nature of the investments being pursued,2) Better link performance to the compensation of venture capital groups,3) Simultaneously operate multiple funds on an annual basis to reduce the distortions of the fund-raising process.Mr. Lerner has five lessons for corporate RD laboratories:1) Stress the importance of commitment, compensation, and the tolerance of failure,2) Borrow ideas from the world of venture funds and prize competitions for the design of compensation schemes,3) Celebrate the right kind of failures as it is done in Silicon Valley instead of bankrolling the `living dead,'4) Invest in knowledge transfer so that operating units can learn from the individuals running a corporate venturing unit or a business development unit in a timely or usable manner,5) Document the lessons from past experimentation to avoid repeating past mistakes in pursuing innovation.In summary, the author invites venture capitalists and corporate RD laboratories to embrace a spirit of rigorous trial and error concerning the ways in which innovation is pursued.

Find the right innovation modelInnovation is a much-used buzzword these days, but when it comes to creating and implementing a new idea, many companies miss the markmdash;plans backfire, consumer preferences shift, or tried-and-true practices fail to work in a new context. So is innovation just a low-odds crapshoot?In The Architecture of Innovation, Harvard Business School professor Josh Lernermdash;one of the foremost experts on how innovation worksmdash;says innovation can be understood and managed. The key to success? Incentives.Fortunately, new research has shed light on the role incentives can play in promoting new ideas, but these findings have been absent from innovation literaturemdash;until now. By using the principles of organizational economics, Lerner explains how companies can set the right incentives and time horizons for investments and create a robust innovation infrastructure in the process.Drawing from years of experience studying and advising companies, venture capital firms, and an assortment of governments around the globe, Lerner looks to corporate labs and start-ups, and argues that the best elements of both can be found in hybrid models for innovation. While doing so, he uses a wide range of industry-rich examples to show how these models work and how you can put them into practice in your own organization.Practical and thought-provoking, The Architecture of Innovation is the missing blueprint for any company looking to strengthen its innovation competence.