Don’t Kid Yourself, Acquisition ≠ Innovation

by Jamie Lahiere and Sean Klein

You’re the CEO of a Fortune 500 company and you’ve made promises to your shareholders to demonstrate growth from innovation. In an effort to develop breakthrough innovations, you’ve invested countless dollars in promising new initiatives only to discover your investments continually spit out incremental innovations and line extensions that fail to move the needle on growth. What you need are breakthrough business models and radical innovations. What you have are organizational antibodies that continually reject breakthrough initiatives in favor of low-risk, existing offerings that compete in ever-shrinking and over-crowded market spaces.

Sitting in your office, frustrated by the underwhelming results of your investment efforts, you open your newsfeed to see the face of the latest multi-millionaire, start-up founder on the cover of Forbes. Then a light bulb turns on — if you can’t create valuable growth through innovation, you’ll buy it.

The path of despondency leading to this decision is traveled too often. The inability of large companies to innovate consistently has led many organizations to adopt “innovation” growth strategies centered on acquisition. In fact, research conducted by the National Science Foundation and the U.S. Department of Commerce found that since World War II, small entrepreneurial firms have been responsible for 50 percent of all innovation in the U.S. and 95 percent of all radical innovation. Additional studies reveal that small firms generated twice as many innovations per R&D dollar spent as those with more than 10,000 employees; twice as many innovations per R&D scientist; and 24 times as many innovations per R&D dollar (Timmons, 1999). With figures like these, it’s no surprise large corporations are looking to start-ups for growth.

While a healthy level of acquisition can comprise a sound growth strategy, this approach is not synonymous with innovation. When compared to successful homegrown innovations, acquiring breakthrough ideas is expensive and removes the opportunity for employees to feel a sense of ownership in the development process which negatively impacts motivation and performance (Pink, Amiable). Additionally, companies relying on inorganic growth strategies to drive “innovation” sacrifice long-term capabilities, organizational learning and talent, for a quick fix.

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