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Q3

THE INVISIBLE GORILLA

Introduction

Attention is a cognitive function present since the first days of our lives. At the very beginning, it directs our senses to the stimuli of the environment. Subsequently, as the brain develops, attention has the task of selectively managing the resources that process information. In other words, it helps to focus on one stimulus and suppress the others.

The theme of selective attention became well known in a study conducted in 1992 by Arien Mack and Irvin Rock, published by MIT Press in 1998, under the title "Inattentional Blindness". According to the authors, the greater the focus on a selected stimulus, the greater the possibility of perceiving and remembering it consciously. At the same time, the lower the possibility of considering the other stimuli.

ted to count the number of passes made by one of the teams and to ignore those of the other one. In the middle of the video, a gorilla strolls into the scene for nine seconds and, looking at the camera, thumps its chest. At first, the experiment does not seem relevant. However, the truth is that, oddly enough, half of the viewers did not even notice the presence of the primate.

The process of counting gets the attention in such a way that half of the viewers ignore the random event. As it has been proven, the brain builds a narrative of situations within a certain pre-conceived script, and anything that is different and not part of a more logical construction is, in a way, ignored. It is not thus recorded as something that has happened, let alone considered as a possibility.

"What we see depends not only on what we look at, but also on where we look from."

Daniel J. Simons and Christopher F. Chabris, in The Invisible Gorilla

Looking is not the same as seeing. This is the conclusion of a study developed by psychologists Daniel J. Simons and Christopher F. Chabris, both from Harvard, that demonstrates that people who hold a lot of information end up letting obvious things pass.

The experiment, titled The Invisible Gorilla[1] - which later became a great book with the same name - is fascinating and disturbing at the same time. In the experiment, a one-minute video is presented, in which two teams pass basketballs around. One of the teams is wearing white T-shirts and the other is wearing black T-shirts. Viewers were then instruc-

At this point, our readers should be wondering why to approach this topic of inattentional blindness. We believe that, in a way, when it comes to technology, some corporations are facing the invisible gorilla dilemma. That being so, although several companies do a great job, many are looking, but not seeing. And since Fuse was born with the purpose of bringing the technology market closer to large corporations, we will address this topic of Corporate Venture Capital in our third letter.

1. The book written by Daniel Simons and Christopher Chabris seeks to unravel six everyday illusions that influence people's lives. The work was a continuation of the eponymous experiment of the two Harvard professors.

Incremental innovation x Disruptive innovation

Before we get into the topic of Corporate Venture Capital itself, it is worth reflecting on some conceptual theories that will help us to better understand the dilemma of innovation.

The first great thinker to popularize this theme was Joseph Schumpeter, an Austrian economist, who in his book from 1942 Capitalism, Socialism and Democracy[2] coined the expression "creative destruction". According to him, the innovation process is intrinsic to the market economy, in which new products destroy not only archaic enterprises, but also old business models. This virtuous circle of innovation would then be the driving force for long-term sustainable economic growth.

Schumpeter is considered one of the most important economists of the first half of the twentieth century, and was one of the first to place technological innovation as an essential pillar of capitalist development. Over time, many theorists began to add or enhance his ideas, and even became known as the neo-Schumpeterianists.

Another thinker, a most recent one, who brilliantly focused on the theme of innovation was Clayton Christensen. If you have heard the expressions "disruption" and "disruptive innovation" is thanks to Christensen, who, for many, is one of the greatest influencers of recent decades. A former Harvard professor, he was the author of several books, among which, the best-selling The Innovator's Dilemma[3], which, in 2011, was elected by The Economist as one of the six most important business books of all time.

One of Clay's big breakthroughs was to dismember innovation into two forms: incremental innovation and disruptive innovation. For the author, incremental innovation doesn´t have the habit of breaking paradigms. It is usually the inclusion of something new or improved, without, however, changing the basic characteristics of the existing product. A good example that Clay provides in his book is the advent of electric windows in the automotive industry. For him, this is a clear incremental innovation, quite common in large corporations.

On the other hand, disruptive innovation aims to create new markets and break paradigms. In general, it is something simple and cheap, but that no one had thought about before. Therefore, the impact of this innovation turns out to be so great that it completely changes the consumption habit of customers. The frequent result is that the previous solution becomes obsolete. For Clay, the disruptive innovator's dilemma is quite counterintuitive, since, in his view, continuing to do the right thing as a manager, is, in reality, doing the wrong thing and, on the other hand, doing the wrong thing is the right thing. A good example of disruptive innovation was in the mobile and smartphone industry, in which Blackberry disrupted Nokia and then it was disrupted by Apple.

Now that we have approached the basics of innovation, we can devote ourselves to the proposed focus in our quarterly letter: Corporate Venture Capital.

"If I had asked people what they wanted, they would have said faster horses."

(Henry Ford)

The literature on Corporate Venture and Open Innovation is quite extensive and we focus on some examples here at Fuse Capital. However, regarding everything we research, the best synthesis is in the great book entitled Corporate Innovation in the Fifth Era[4], by Matthew Le Merle and Alison Davis. We also believe that the experience of the authors as Management Partners of Keiretsu Forum, added to decades of work in the most innovative companies in Silicon Valley, gives the book a very interesting mix between academic and practical content. We used this literature and research that gave rise to the work to explain the concepts that, in our view, lead some companies to be more innovative than others.

2. Schumpeter's most famous book, which eventually transformed his unclassifiable thinking into hegemonic economic currents.

3. Best seller written by Clayton Christensen and elected, in 2011, by The Economist with one of the six most important books on business ever written. In it, the author presents a set of rules for corporations to capitalize on the phenomenon of disruptive and incremental innovations.

4. In this book, the authors share lessons they have learned in two decades of interaction with Silicon Valley's most innovative companies. They aim to convey this new approach in order to help companies enter the fifth era.

Top-Down Innovation

Over the past decade, the world's most innovative companies have put innovation as an annual target for the remuneration of their executives and board members. This started from a shared view that working on a top-down model proved to be much more efficient than any other.

By using Facebook as our first example, we can see how Mark Zuckerberg and his team have defined a strategy focused on three pillars of innovation[5], which they believe are key to fulfilling the mission of "giving people the power to share and make the world more open and connected." From this strategy, an innovation guide was developed to be followed, and its compliance became relevant in the compensation package of employees.

> *"Those who do not know what they are searching for, do not identify what they find."*
>
> Immanuel Kant

The innovation mantras developed on Facebook are highly known and exploited by the entire management team and the board of directors. And, contrary to what one would expect, they are far from being kept under lock and key in senior management. Mark Zuckerberg himself is constantly seen externalizing these views to both his associates and the general public in interviews and conferences. Rumor has it that these topics are an integral part of the little red book that each employee receives when entering the company.

Another example of this top-down innovation speech comes from Tim Cook, Apple's CEO since 2011, who recently revisited the company's vision and mission. In his latest statement on the subject, Cook made a point of emphasizing the central role of the customer and of innovation in the company. For him, "we must own and control the primary technologies behind the products we make and be only in markets where we can make a significant contribution."

We present these two examples just to illustrate how innovation has been implemented in large technology disruptors. But wherever we look, we see the leaders of the world's most revolutionary corporations constantly talking about innovations allied to their strategies in each area. And the example from above turns out to obviously align and motivate the rest of the company.

Unfortunately, the opposite examples are also quite numerous, and if you want to know which side your company is on, just ask the following question to top executives and board members:

What is your corporate innovation strategy?

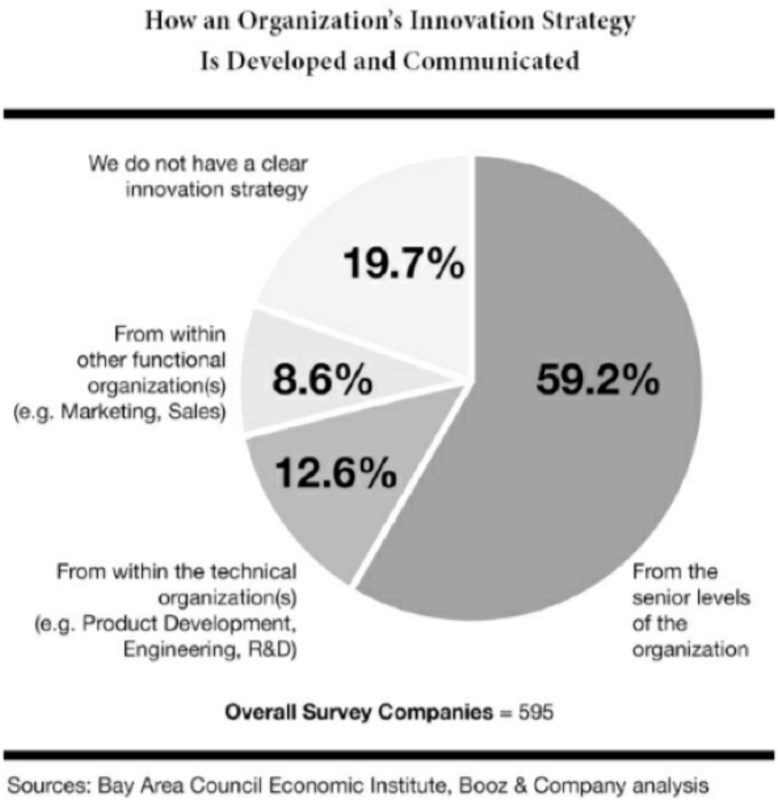
If the answer given by all is not similar, it is unlikely that there will be an alignment of interests on this topic. It is therefore even more difficult to assume that there is a unified and shared innovation strategy in the company.

In an interesting study done in 2012, by Jaruelski, Le Merle and Randolph, under the title The Culture of Innovation: What Makes San Francisco. Bay Area Companies Different?, we can clearly perceive the above-mentioned thesis.

5. The three pillars are connectivity, artificial intelligence and VR/AR.

In this study, the authors analyzed the most innovative companies in Silicon Valley and those that spend the most on Research and Development (R&D) in the world. In the graph below, extracted from the research, we can see that among the companies that spend the most on R&D, the innovation communication strategy seems to have a much more frequent and much more developed agenda than in other companies. That is, 59.2% of employees reported that they know the company's innovation strategy through executives.

All this shows that leaders must make innovation their big goal. After all, as shown, in the most innovative companies, commanders already have this embedded in their daily life. So, they constantly want to know what innovations are emerging, what competitors are doing, what another industry is developing and how all of this together can be beneficial for their company and for their customers.



Incorporate innovation into your strategies and plans

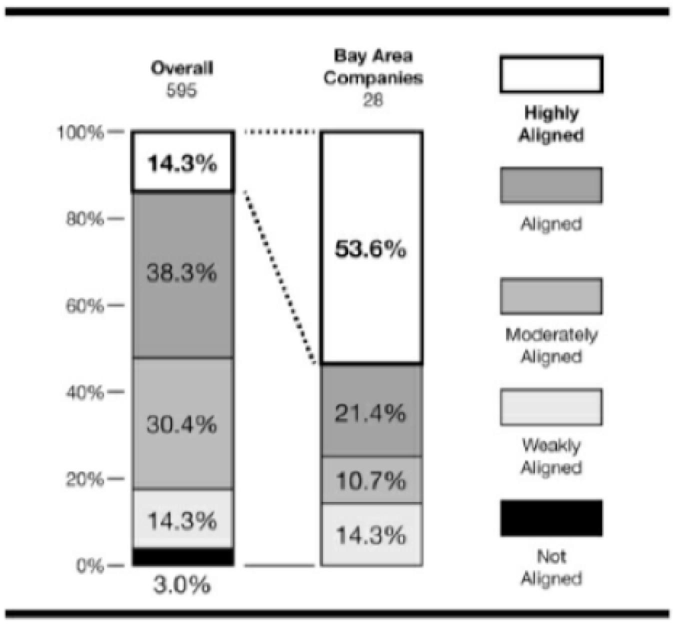
With top-down leadership already widely adopted in the implementation of innovation, we need to turn to the main processes that lead to decision-making in relation to it. After all, it takes much more than luck to turn good ideas into success.

Typically, large corporations meet the board and its executive officers once a year to initiate a strategic review of the plans. On the occasion, budgets are approved, goals are stipulated for the following year and a five-year strategic planning is structured. An important special characteristic of innovative companies is that they incorporate the innovation component already within their strategic planning, which becomes a metric of bonuses for executives.

"If you don't have a strategy, you're part of someone else's strategy."

Alvin Toffler

Innovation Strategy Alignment with Business Strategy



Sources: Bay Area Council Economic Institute, Booz & Company analysis

Based on the study also quoted in the previous chapter, we can see how Silicon Valley companies and those that spend the most on R&D manage to align the innovation strategy with the company's overall strategies. As we can notice below, the Valley corporations reported a much higher degree of alignment, 75% (highly aligned + aligned), compared with 52.6% in the other companies. In the same study, those who spend little on R&D had more modest levels of alignment, and some even have no innovation strategy.

An important example of how innovation-focused strategic planning is essential comes from Barclays Global Investors (currently part of the BlackRock Group). The bank has implemented, as a key indicator to assess the performance of its employees, the percentage of new products sold over total billing as a target. This has created a disciplined focus on new products and services in the company. It was during this period that Barclays launched iShares, which today is the world leader in ETF, with more than a trillion dollars in custody.

Build a culture of innovation

So far, we have covered two aspects that we consider relevant to enhance the culture of innovation within a large corporation. The first is that innovation must be driven from top to bottom by a committed team, passionate about the topic. The second is that the advent of innovation needs to be embedded in the strategic processes of the company, otherwise it ends up getting lost in the frenzy of the daily routine.

Now, we turn to the third element of corporate innovation: The building of innovative culture and values. Creating a culture that supports innovation, in which every employee - from the top ones to operational ones - becomes passionate about finding the best and most innovative ways to serve their customers, is a very powerful force within a corporation. This attitude ensures that there is a degree of alignment between organizational culture and disruptive strategy.

“Culture is what your team does when you’re not looking.”

Ben Horowitz

An easy way to assess the level of this alignment in your company is to ask people at different levels if they can describe the innovation strategy implemented. In highly innovative companies, it is natural that individuals at different levels, even below the management level, can describe the group’s strategy quite clearly.

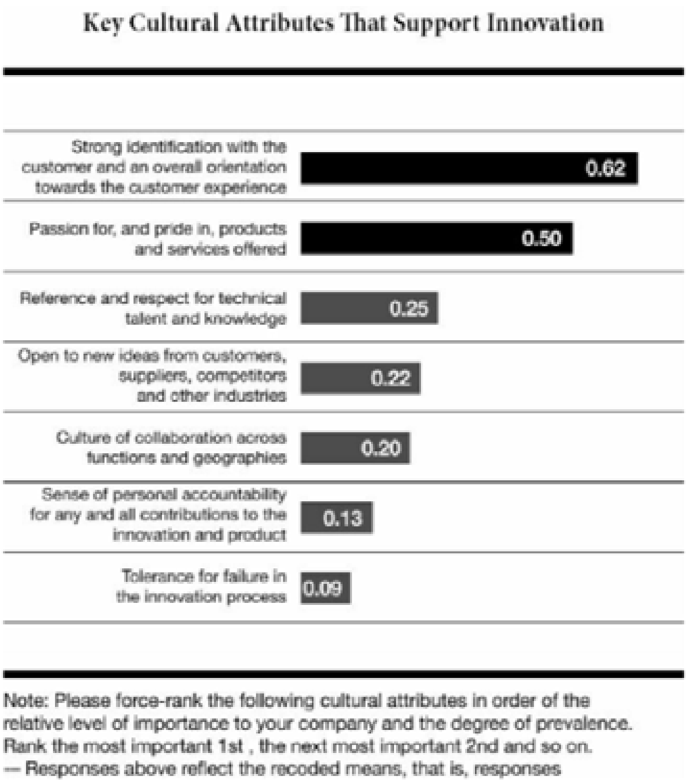
For information purposes only, at Google most employees can describe the mission of “organizing the world’s information and making it universally accessible and usable” with accuracy.

Tesla is also a great example of a fairly established culture. Elon Musk was able to position the company around the clear mission of accelerating the transition of the world to the use of renewable energy. Just go into one of his stores and ask one of the sellers the reason why they are passionate about the company. The answer may be different in a few words, but the message will always be that Tesla is making the world cleaner and that they love that their cars outperform combustion-powered ones.

Therefore, it is of utmost importance that the president of the company and the team of executives develop a corporate spirit with innovation in a leading role. Only in this way will each employee end up being forced to implement it.

To elucidate this reasoning a little, we can look at the questionnaire below that Matthew Le Merle and Alison Davis did with several innovative companies in Silicon Valley and in the world. In it, companies had to list the main cultural attributes that support innovation.

When analyzing the above attributes, it becomes clear that the first two are more relevant than the others. Therefore, the key attributes that leverage innovation in a corporation are: (i) Strong identification with the customer and their experience; and (ii) Passion and pride for the products and services offered by the company. We can conclude that the key to embed a culture of innovation in a company is to start with the customer. In this sense, the most innovative ones manage to create a culture in which everyone has the duty to understand the customer and the obligation to always deliver the best product and service. And this leads them to a constant search for more innovation.



Explore open innovation

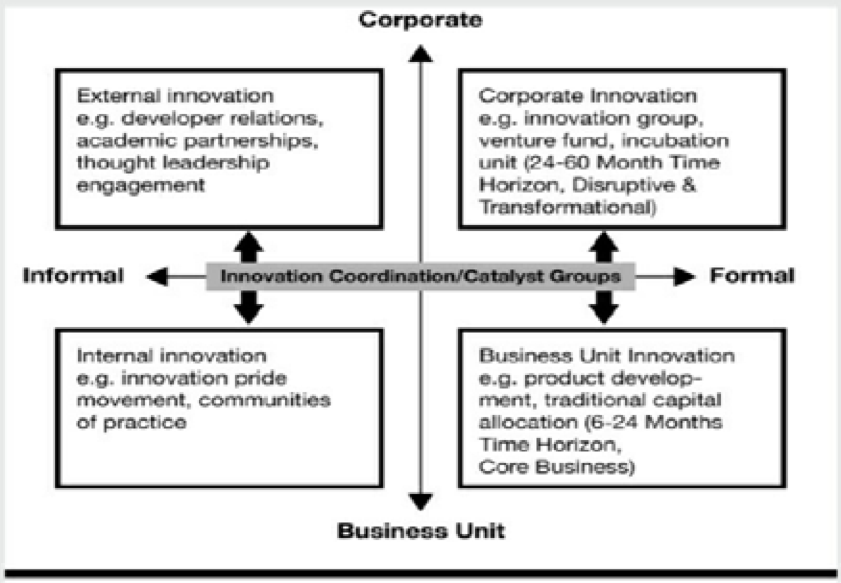
The last element that composes the new approach to innovation is a balanced mix between internal and external efforts. A common point among the most innovative companies is that they are able to quite intensively exploit the innovations generated outside their organization, rather than relying only on their own limited capacity.

Following this line, Matthew Le Merle, in his consultancies for large corporations, always begins the approach of a new client with a questionnaire that he titled "Corporate Innovation Survey". In it, a series of questions are asked to employees to position the company in the matter of innovation. When asked where innovations will come from in the next decade, no one answers that they will come from their own company; while 50% say they will come from within their industry and the other 50%, that they will come from another industry. Following this logic, every innovative company should count on an external innovation, balancing the mix.

As an example of organizational structure, let's take Alphabet/Google. Larry Page and Sergey Brin divided the company into two. Part of Google was focused on today's products and services, with a dedicated team performing constant evolutions and improvements. Alphabet was responsible for the creative disruption, in other words, for future opportunities that could disrupt the corporation. In this sense, as the founders themselves often say, at Alphabet "we are seriously committed to starting things again."

Taking Google and the world's leading innovative companies as examples, the matrix below illustrates a great segmentation of corporate innovation from the conceptual structure of the organization.

Corporate Innovation Conceptual Organizational Structure



Source: Fifth Era, LLC

As noted in the figure, in Business Unit Innovation there is an effort to maintain a formal and decentralized body of innovation activities. Often the focus is only on incremental innovations in search of better customer service. In this model, the time frame is from 6 to 24 months, and the focus is on the main business of the company. This functions very well with the internal innovation efforts that are guided in building a pro-innovation culture.

In the Corporate Innovation framework, efforts are centralized and have a maturity period of 24 to 60 months. The core here are disruptive and transformational innovations for the company. As the look in this case goes far beyond the industry itself, external partnerships are more efficient.

Finally, the person in charge of coordinating and prioritizing all innovation activities (Innovation Coordination/Catalyst Groups) ends up being, in some companies, the director of innovation, while in others, the company's own president.

Conclusion

As we have observed in the various examples quoted, innovative companies guide us to always look for a balanced mix between internal and external innovation. On the one hand, it becomes clear that every corporation that sees itself as innovative must initially look inward and create the solid foundations of a culture that fosters innovation. They are much more efficient in generating incremental innovations, innovations that do not break with paradigms.

On the other hand, when we talk about disruptive innovation, the gorilla dilemma is quite evident. Large companies have no habit of looking at other industries as sources of learning. And in this increasingly connected world, this proves to be a serious problem. Day-to-day problems and maintaining core business profitability causes a lot of disruptive technology to be neglected. In this regard, we clearly see the innovator's dilemma of Clay Christesen, given that continuing to do the right thing as a manager is the wrong thing, and doing the wrong thing is the right thing. It can never be said enough, looking is not the same as seeing.

"Sometimes we need to stop and look away, so that we can see what is close to us."

John F. Kennedy

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“From entrepreneurs, to entrepreneurs”