



HOW THINGS CHANGE

Five top gurus' views on innovation principles and practices

BY SANDY KENDALL

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Have a question about Innovation?
Tom Kuczmariski, co-author of *Innovating the Corporation* (McGraw Hill, 2000)

THE 2001 CIO-100 HONOREES represent all kinds of innovation, from new and effective developments in products and business processes to new relationships within and among enterprises. For insights into how companies can weave innovation throughout their businesses, we asked several thought leaders to address issues in their particular area of expertise. We check in with consultant **Thomas Kuczmariski** on product development teams. Author **Gary Hamel** comments on strategic approaches to success in a postindustrial era. Boston University professor **Anita McGahan** speaks on the importance of relationships, and metrics expert **Howard A. Rubin** addresses the necessity of measuring innovation. Finally, author **Michael Schrage** shares his thoughts on the effect of the Internet on innovation.

From their different perspectives, these thinkers agree that innovation must be an integral part of every enterprise, undertaken consciously and deliberately, for business success and longevity.

THOMAS KUCZMARSKI

Avoid the five deadly sins of new product teams



THOMAS KUCZMARSKI

Senior partner and president of [Kuczmariski & Associates](#), Chicago; adjunct professor of

Innovative corporations today are often defined as having the ability to develop breakthrough, new-to-the-world products that expand market opportunity and accelerate revenue growth. Unfortunately, 70 percent to 80 percent of new product introductions crash and burn in their first year. How can corporate America avoid a new products future consisting of boring line extensions and "me too" competitor knockoffs?

One of the first steps should be taking a different approach to assembling and managing the teams tasked with developing new products and services. In

and senior partner of Chicago based Kuczumski & Associates will be available to offer his insight and advice. [Post your questions now until August 31, 2001.](#)

marketing, Chicago Graduate School of Business

"With so much riding on new product development, it is critical that project teams are properly supported and structured to improve project and organizational success."

many cases the failure of new products can be directly attributed to the ineffectiveness of the teams assigned to create them. Based on our experience and those of various cross-functional team experts, we've identified five deadly sins of new product teams.

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1. The Visionless Team: It is amazing just how many new product projects are launched with no game plan. Without a clearly defined and agreed on set of goals and success criteria linked to the company's overall strategy, a new product team cannot determine what success looks like.

2. The Wrong Team Leader: Many companies still fall into the trap of choosing a project leader based on seniority instead of ability. New product leadership requires a unique skill set, different from that required to run an existing business.

3. The "Are You Serious?" Syndrome: This is exactly what team members say when they're tasked with developing breakthrough innovation that will change the future of the company in only two months' time-with no relief from their day-to-day responsibilities. Companies that take new product development seriously allow at least four months for a new products project and relieve team members of at least half of their daily job functions.

4. The Revolving Door: It's a month into the project when a "business emergency" develops that requires the immediate attention of two team members for the next three weeks. But don't worry, replacement members have been assigned! This is a momentum killer. In successful projects, once the team is selected, it stays intact until the end.

5. A Motivationless Environment: Developing a rewards and compensation structure to motivate team members is critical to the success of current and future innovation efforts. Sometimes the best motivators are the nonmonetary ones, such as face time with senior management. But that requires senior management involvement. New product success is not solely the task of the project team.

GARY HAMEL

Companies need to synthesize industrial and postindustrial virtues

Companies inherited an important set of virtues from the industrial era: diligence, efficiency, replication, control and

operational excellence in general. If you go back before the industrial era, industries were characterized by few economies of scale and mostly small and inefficient enterprises. The great contribution of the industrial era was the invention of the large-scale industrial company. Virtues that characterized those companies will always be important but are becoming proportionately less so. In an age where business models decay with surprising speed, a new set of virtues will be required. These include creativity, imagination, diversity, speed, openness and the capacity for continual right-angle turns.

In recent years some individuals have attempted to characterize these two contrasting sets of virtues as old economy and new economy, but I've argued that those are misleading characterizations. Every so-called new economy company is right now trying to master the virtues of the industrial era, and every industrial age company is trying to master the new virtues of creativity, imagination and so on. It seems to me that the real challenge is to build organizations that represent a perfect synthesis of industrial and postindustrial virtues.

While important, most of the virtues that we have inherited from the industrial age bring with them many side effects. For example, in the industrial era, variety was often seen as the enemy—a variant from a quality standard or a production schedule was seen as a bad thing. All too often this kind of thinking led to a completely unhealthy devotion to conformance and alignment.

A second belief we inherited from the industrial era was that a company could be defined by its business model. Xerox sold copiers, Ford made cars, and Coca-Cola sold soft drinks. Yet if a company hopes to capture a disproportionate share of tomorrow's opportunities, it must learn to continually reinvent its most basic definition of what it is. For example, Coca-Cola has been late to adopt most of the major beverage trends in the last decade—fruit-flavored teas, designer waters, sports drinks and new-age beverages. It seems that Coca-Cola defines itself more as a cola company than a beverage company; it has become imprisoned inside a restrictive definition of its scope and charter.

What distinguishes a postindustrial enterprise from its



GARY HAMEL

Author of *Leading the Revolution*; chairman of [Strategos](#), a strategic innovation consultancy, San Francisco; visiting professor of strategic and international management at the London Business School

"The challenge of innovation is part of the broader task of creating a postindustrial enterprise."

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industrial era predecessors is its ability to build and exploit three new sources of capital. Traditionally we have thought of companies as being composed of structural capital (facilities, networks, factories), intellectual capital (competencies, patents and intangibles) and financial capital. Yet structural, intellectual and financial capital do not create new wealth; they are themselves inert. To create new wealth one must continually reconfigure, redirect and redeploy these resources. For that to happen a company must build three new types of capital: imagination capital (the ability to imagine entirely new uses for the company's structural, intellectual and financial capital), entrepreneurial capital (the incentives and skills that engender the courage and capability to innovate) and relationship capital (the complex network of social interaction, both within the company and between it and other companies). These catalysts for wealth creation are the only insurance a company can buy against the risk of irrelevancy in a discontinuous world.

ANITA MCGAHAN

When adopting new technologies, be careful not to move too slow or too fast

What we have learned in our research is that-in many industries-the challenge is not in seeing how trends and dynamics will affect long-term industry structure. Twenty years ago, it was clear that deregulation of financial services, transportation and utilities would radically alter the structures of those sectors. Today, it's clear that digitalization will eventually lead to the widespread commercialization of radical new products and services across the economy. Many industry leaders will have to invest in a broad range of new capabilities to succeed.

So the difficulty is not in seeing the trends; it's in getting the timing right. Many chief executives think constantly about the risks of missing a new technology. But it can be equally risky to move too early-you might commit to technology that becomes obsolete, for example. Other early mover risks include overspending on experiments and diluting the organization's brand image through false starts on new product introductions.



ANITA MCGAHAN

Professor of strategy and policy, Boston University School of Management; associate professor of business administration, Harvard Business School

"Truly innovative leaders understand that their competitive advantage may lie in their relationships and management experience, not in their products and process."

One common approach to dealing with these challenges involves experimenting by setting up separate divisions to take advantage of new technologies. Many retailers have dealt with e-commerce opportunities on the Internet by establishing Web organizations separate from their mainline businesses. The intention is to integrate the Web organization once the return on investment is clear.


A second common approach involves undertaking major initiatives within specific parts of a company. For example, several major automobile companies have created separate intranets to streamline inventory management across dealerships, to improve customer financing operations and to procure auto parts at the lowest possible costs.

Both approaches-separate organization and functional integration-can be either enormously successful or abysmally unsuccessful. The separate organization can be less disruptive to the core business in the short run and can also provide a company with the chance to experiment. As a result, the returns on innovation are typically deferred. Functional integration can lead to shorter-term rewards to innovation, but it can also be enormously disruptive to the core business and can raise the stakes if the technology fails. The most innovative companies cope with these trade-offs by defining objectives and then measuring progress rigorously. For companies experimenting in separate divisions, this requires devising performance criteria that allow for experimental failures that deliver critical information about the viability of new technologies. A failed experiment is a success when it reveals underlying market demand for a new product or when it shows the true costs of a new process. An experiment is a true failure when nothing is learned.

HOWARD A. RUBIN

Companies can measure innovation for competitive benchmarking

There is likely no greater challenge for businesses and their technology organizations today than to balance the strains of the uncertain economy with the demands for sustainable innovation. Clearly, measures are needed to manage the whole portfolio of enterprise investments of which the innovation portfolio is a key-but not necessarily heavily funded-component.



The measurement of innovation itself requires a balanced view. Innovation cannot be measured simply by looking at the *results* of innovation: marketplace firsts, ROI, changes to revenue and profitability. The measurement of innovation



HOWARD A. RUBIN

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"Innovation fits within a framework of indicators of a high performance organization, particularly in the realm of technology."

must cover an enterprise's full innovation network. This network includes:

- Innovation activity
- Innovation management
- Innovation performance
- Innovation results

The measurement of *innovation activity* concerns the amount of work that is going on. Its focus is the current level of activity and the rate of change in activity in all innovation areas—from internal R&D to partnership arrangements to separate entities and ventures that are totally external, through the stages of ideation, conceptualization, development, and rollout and benefits capture.

In some ways this is also like a factory model indicating work in progress, work waiting in the queue, and work that has actually rolled out. In other ways the measures are more esoteric, for example, measuring the rate of increase of a company's innovation capital—ideas, documents and exchange of information within the innovation network itself.

Analyzing *innovation management* focuses on the operation of the innovation network: How big is it; how many partners are involved; how much is happening internally and externally; how much money, resources and personnel are flowing through the network, and at what rate?

Innovation performance analyses are analogous to measures of yield of an investment portfolio. This essentially involves assessing the total value of innovation (revenue growth, income, market positioning and, most important, shareholder value) against the total cost of innovation. It also has a more ethereal component in that innovation performance also needs to be measured in the realm of impact on the workplace and mind-set of the enterprise.

Innovation results measures are those used to guide the growth and investment in innovation itself. They focus on looking at the mix of activity, management and performance. This is also where the value of innovation comes in. The enterprise must look at the business growth and shareholder value created and attributed to the innovation portfolio versus the

standard business portfolio. It is where the results of technology-driven innovation versus process or product innovation must be considered.

Perhaps the ultimate use of innovation measures is for competitive benchmarking. Companies must explicitly manage their innovation portfolio to either outpace, stay abreast of or trail their competitors. It is the ability to support agility in innovation that will likely be the determinant of business success in the early 21st century.

MICHAEL SCHRAGE

How to use the Internet to advance innovation



MICHAEL SCHRAGE

Coauthor of *Serious Play and No More Teams!*; research associate at the MIT Media Lab, Cambridge, Mass.; Merrill Lynch Forum innovation fellow and director for the Forum's Innovation Grant Competition

"What's been fabulous about the Internet is that it's been the biggest experimental economics laboratory in the history of mankind."

Decisions about approaches to the Internet were made at a time when there was a market mania. It's one thing to make understandable mistakes and another to err by the orders of magnitude we saw. "Irrational exuberance," as it was described, was an understatement. Thinking something is twice as good as it really is is irrational exuberance, but thinking it is 100 times better than it really is is insane delusion. There's something wrong with not testing innovation metrics against common sense.

The fundamental aberration is not just in valuations but in behaviors associated with how businesses want to create and manage value. Pure play? Brick-and-clicks? Spin-offs? Physical and virtual worlds should be complements, rather than one dominating the other. We'll see that tension and trade-off played out for generations.

A lot of organizations also had difficulty confronting the question of centralizing or decentralizing. In pure, raw, economic and financial theory, private B2B auctions should be the most efficient way of acquiring commodities or services. But in reality, human relationships can still trump economic efficiency. Dealing with one familiar person whom you think you can trust has some economic value. The fundamental tenet that the majority of businesses make the majority of their decisions based on rational criteria is a big, fat lie.

What I am finding now, though, is a new sophistication about the business fundamentals. As companies discover clever, innovative ideas, they ask, "How do we

integrate this?" rather than immediately saying, "Let's spin this off to make a fortune." Here's an example of how crazy that latter model can be: What happened when everybody in the office got their own phone for the first time? The nature of communications changed. But did we spin off the telephone division and run it separately?

The Internet is a medium that lets organizations better decide what kind of innovator they want to be. Will they keep up with the Joneses, redefine the marketplace or have as many channels as possible? And how are they going to invest-all by themselves? Are they going to draw in customers? Key suppliers? Channels, or not? Independent of technology, these changes are about the culture of the organization.

The more choices you have, the more your values matter. What kind of innovator do you want to be? How do you map that onto the Internet? Those are painfully simple questions that organizations weren't answering. They preferred to imitate the apparent success of someone else rather than to be introspective about what they should do: monkey-see-monkey-do innovation management.

But now people have to rethink these things or else. Until recently, everybody thought, We'll fall behind, get crushed. That's what manias do. After you've had a binge you wake up with a headache. Some swear they'll never have another drink. Others have the hair of the dog. And there will always be a few folks who start frantically searching for the next bar.... **CIO**

Send your reactions or your own spin on innovation to Departments Editor Sandy Kendall at skendall@cio.com.

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