

Business Leadership



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The Innovation Czars

CIOs are in the best spot on the corporate ladder for creating and growing new business ideas--but few do. You've got the contacts and the data. It's time to become an activist for innovation.

By [Gary Hamel](#), [Pierre Loewe](#), and [Peter Skarzynski](#)

After a few too many years on Internet Time, the business world is turning its clocks back to Business Standard Time. Fears of being dot-commed are evaporating; companies floored by the recession have reined in IT spending. Today's attitude? Keep rowing and don't look up 'til the storms blow over.

But delaying investment is no way to ride out a recession. When you treat innovation as luxury cargo, you shouldn't be surprised to find it pitched overboard when the seas get rough.

Leaders of companies that want to emerge stronger from the current downturn might instead follow the example of Applied Materials, a leading manufacturer of chipmaking equipment, with fiscal 2001 revenue in excess of \$7.3 billion. Applied Materials has been among the top 10 companies ranked by 10-year shareholder returns in each of the last five years. One of its secrets: It invests in the future during downturns--and gains share in every recovery as a result.

How different is your strategy from that of your top two or three competitors? Strategies have short lives or, just as bad, they quickly converge. You probably spend proportionately the same amount on IT as your competitors do--probably even on the same things. But when everybody has the same strategy, price becomes the only way to compete. Competitors catch up, markets reach saturation, and margins come under pressure. Share erodes. Just ask shareholders at AT&T, Kmart, and Motorola. Incumbency just ain't worth what it used to be.

In this climate, the ability to innovate continuously evolves from a luxury to a necessity. We're not talking here about technical or product innovations, though companies do need to build better mousetraps. The real search is for business innovations that set your company apart from rivals--and developing them requires two things: a capability to innovate that's deeply embedded in the organization, its processes, and its people; and leaders who know how to drive these innovations.

Among all the possible activists who might generate and nurture innovative ideas within an organization, two indisputable facts confer considerable leverage on CIOs and your IT teams. First, networks and knowledge are deeply entwined in the daily operations of every business, from telecommunications to concrete. And second, information is the fastest-growing component of value to customers. CIOs should make the most of this enviable position by becoming champions of innovation. But they seldom do.

Keynoting at Comdex last fall, for example, Brian Light of Staples warned his fellow CIOs against the dangers of "innovation frenzy." Light was thinking primarily of technical innovation and argued for a strategic perspective. But most of his audience probably agreed that, in fact, there's too much innovation going on.

We respectfully disagree. We'd argue that rather than too much innovation, there's too little of the right kind.

CIOs who want to turbocharge their businesses must see themselves as business innovators as well as systems optimizers. You must be alert to the possibilities of the future as well as respectful of the limitations of the past, and find creative ways to reconcile these two opposites. Start by thinking of your function as a platform for innovation, perhaps the best platform the company offers. Splice innovation genes into your group and the company as a whole.

Consider the model of IBM's John Patrick. He retired a few months ago as VP of Internet technology, a position to which he rose by being the most nonstop, in-your-face booster of the Internet in all of IBM. Even as a midlevel strategist and marketer, Patrick drove the creation of IBM's 1996 Olympics Web site--a complex technical experiment that became the basis for a whole suite of E-commerce services at IBM. Be like him: Stump for two or three innovations that get your juices flowing; wear your geekdom on your sleeve; dive into arguments; defend the competitive need for nonlinear innovation. Become the executive who can explain the differences between the company's continuous improvements and its business innovations.

In stable times, companies create wealth by applying knowledge and diligence to the assets they have. But those times are gone. In this age, wealth is a function of creativity, courage, and connections. And CIOs should contribute to all three. The systems and information management under your control make you particularly well positioned to bring together individuals with the right kind of passion, exciting business ideas, and sympathetic sponsors.

Whirlpool, an old-line appliance manufacturer, estimates that 80% of the new value it creates is neither mechanical nor electrical. It comes from software enhancements, such as sensing devices in dryers that keep fabrics from shrinking and electronic monitoring systems that keep appliances chugging along. Whirlpool's electronic strategy group takes the lead in developing these advances, but there's no reason IT couldn't drive similar innovation at your company.

As CIO, you're in a position to grab opportunities in many parts of the organization. Volunteer resources for a supply-chain initiative. Lend support to a globalization team. Pioneer your favorite business methods into new territories. Homestead exciting information technologies wherever you find open space in the organization.

What kind of innovation?

Let's back up a moment and repeat an essential point: We're not advocating technical breakthroughs, but business innovations that propel your company ahead of its competitors. IBM is the classic example of a company that mistook technical innovation for business-model innovation. In the late 1980s, it churned out thousands of patents a year--far more than anyone else--on everything from artificial intelligence to micro-level electroplating. But it stopped innovating at a business level. Management initially failed to see how corporate customers might prefer an army of desktop PCs to a few mainframes. And, unlike Microsoft, IBM didn't recognize that selling software apart from hardware could be immensely profitable.

IBM has recovered splendidly. Once it went back to innovating at a business-model level, by moving into technical services and repackaging its mainframes as client servers, it caught the new wave and resumed growth.

IT has played an indisputable role in melding IBM's back-office operations and front-line offerings. Two cases in point: IBM's embrace of Linux programs, and its role in starting an online exchange for the PC industry. Significantly, CIO Philip Thompson also heads IBM's business transformation.

You don't have to be IBM to achieve spectacular results through foresight. We've seen plenty of companies visualize where the world was headed, imagine their new role in it, and design a path built on their core competencies.

You'll also need to be able to adapt to massively disruptive changes. Plenty of folks knew the stock market bubble would burst, but few anticipated the perversity with which just-in-time fulfillment systems would detect softening demand and immediately shut off new orders, wiping out new sales for high-growth businesses such as Cisco Systems and stalling out the economy. Experts knew that terrorism could explode anytime, but few contemplated the scale and the secondary effects. Heighten your company's resilience by regularly exercising

its innovation muscles. Innovating stretches minds and corporate connective tissue, keeping processes supple and people alert.

Don't let the fear of innovation hold you back. There are four prominent myths that often keep people from moving ahead when they ought to. These are:

Innovation is risky. Like any prototype, the risks of innovations can be minimized before scaling up. Get into the market early, try limited experiments, count the daily take, fine-tune as you go, shift risk to outside partners, don't hesitate to kill experiments that aren't going to work. Vary your portfolio to spread the risk. And don't forget that it can be far riskier not to innovate. Look at U.S. Steel and Xerox, incumbents that fell because they believed their way of doing business would keep them on top forever.

Innovation requires amputating the past. Innovation is almost always evolutionary; it grows out of existing core competencies and strategic assets. When Canon Camera entered the copier business and became Canon Inc. in the 1960s, it applied its core competence in integrating imaging, mechanical, and microelectronic technologies to produce quality copiers at a fraction of the cost of Xerox's mammoth machines.

Innovation is the job of R&D and a few corporate crazies. Innovation is everyone's job. Thousands of employees at Roche Diagnostics came up with 5,000 ideas for innovative products and services, from which 11 venture plans were developed and five funded.

Innovations result from brainstorming. Gathering the team in a hot tub may be fun, but it's not likely to yield great insights. Successful innovation requires a systematic process, using several lenses to look at the world and imagine what might happen if you challenged the established ways of doing business in your industry.

Do you have the courage to trample these myths? Begin by offering your people formal training in how to generate new ideas and develop business opportunities. This is best done by helping budding entrepreneurs develop good business cases for ideas they're passionate about.

Then consider your business processes: Are they innovation-friendly? When a would-be entrepreneur prepares financial projections for a new venture, do they get hammered with questions about ROI, NPV, DCF, EVA? Or does your CFO understand that new ventures need different evaluation criteria than existing businesses? That the size of the opportunity, the strength of the management team, and the opportunity to seize a dominant position in a new space matter more than financials?

Finally, provide IT tools that let entrepreneurs collaborate, organize the data they generate, and support processes from idea generation to business-plan development.

Innovation is a cause, and it often comes with heretical believers. Heretics remain within the faith, but replace traditional tenets with a radically different light. Their intent isn't to overthrow the mainstream religion, but to scrub grime from the stained glass, rewrite dogma, reach out to the old gods in new ways. To avoid failing in their cause (to say nothing of being burned at the stake), they rely on methods that confront the problems rather than the hierarchy.

In the late 1990s, at one of the world's largest communications firms, a network of 450 closet allies--malcontents in R&D, technology freaks in marketing, executives concerned about the future--leaked their thinking into the corporate well, seizing any opportunity to probe for "strategic infection points." They shared covert intelligence and analytical support; organized workshops and brought in outside experts; publicized their successes and translated the benefits into terms the company could accept. The activists weren't shot. And, bit by bit, the ocean liner began changing course.

Make IT an innovator in your own company. Don't hem and haw, find fault, claim "we already tried that." Direct more of your IT budget toward innovation. If you aren't spending anything, even 2% will be a jump. Worry less about benchmarks than about conveying the message and getting the organization moving. Innovation experiments likely will be small, brief, and make only minor demands on system capacity. By the time they put

a dent in the IT budget, they've either merged with mainstream business activities or ceased operating altogether.

By rights and by experience, IT can be the innovation expert. Open your ears to the process aspects of innovation and make a difference in your company's speed to market. Returns will start earlier, and maximum margins will be defensible longer.

The best CIOs will make the most of their formal authority by committing slightly fewer of their resources to systems optimization and a little more to innovating business ideas. They'll use their informal authority--as technology experts and as corporate activists--to break out of the old mold. ♦

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