



A Crisis in Innovation

Innovation has become our modern day holy grail: if only firms can capture innovation in the same manner as Google or Steve Jobs, then they can compete in the 21st century.

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Scott Hirsch

Innovation often originates outside organizations, in part because successful organizations acquire a commitment to the status quo and a resistance to ideas that might change it. *Nathan Rosenberg*

In the business press today, innovation is the new currency of corporate success. *BusinessWeek*, *Fortune*, *Fast Company*, and even *Harvard Business Review* point to innovation (and often to its step-sister, design) as the solution to all that's wrong in our on-again, off-again economic recovery. Innovation, it seems, is the savior of U.S. domestic brain trust as services move off-shore, the source of profit margin in an increasingly price-competitive world and the path to becoming the next celebrity CEO. Innovation has become our modern-day holy grail: if only firms can capture innovation in the same manner as Google or Steve Jobs, they will have secured a plush competitive position in the 21st century.

At the same time, yesterday's innovations are suddenly passé. Despite its status as an early pioneer, Amazon.com is now viewed as old-fashioned—a bygone of the innocence of the dot.com era. Far from stodgy, Amazon in fact continues to lead the market by rolling out numerous smaller, but incredibly strategic, innovations. Their “search inside the book” feature and the Amazon Web Service open API developer platform have both been copied by a certain darling of the business press—Google.

Clearly, the perceived leaders don't have a corner on the market for innovative ideas. There must be something else at play. When examined more closely, leadership in innovation is not so much about the quality of the product or getting to market first, but rather it's the process and culture of fostering innovation within the company that determines success.

So, what's behind this obsession with innovation? To paraphrase Gertrude Stein—an innovator in her own right—is there any *there* there?

The short answer is yes.

As always, there is a great deal of innovation at start-ups in garages around the world. However, since reliable information about the details of these small breakthroughs is hard to find and the market value of unrealized innovation is hypothetical, it is more interesting to discuss the value of innovation at established firms. After all, those are the companies that have the most to lose by missing out on innovation. Let's leave those bleeding-edge bets to the venture capitalists, who claim to have the knowledge and insight to manage the risk.

At the enterprise level, there is already a useful body of knowledge about the value of innovation. As Clayton Christianson describes in *The Innovator's Dilemma*, the longer large firms enjoy market dominance, the more difficult it becomes for them to recognize and productize new and disruptive technologies. Very simply, the accountability structures and profit incentives at big companies don't foster the type of risk-taking that

encourages bringing new products to market. As a result, large enterprises tend to invest in innovation by pursuing incremental improvements to existing products— hopefully in response to customers’ demands—or by developing product platforms that incorporate the latest incremental advances in technology. As is often the case, financial measures play an important role here. Incremental investments offering improvement against a known baseline are easier to financially value. Return on investment rates can be determined fairly predictably, meaning risks can be more reliably managed.

Another prominent strategy pursued by large firms is to buy smaller companies that have already developed innovative technologies and integrate them into their existing businesses. Yahoo! is an obvious example of cafeteria-style innovation. As an example, their purchase of Overture was the fundamental building block that has kept Yahoo! a viable competitor against Google as online ad sales have risen dramatically over the last two years.

But despite their popularity, incremental improvements and acquired innovations aren’t the ground-breaking business strategies that are so ballyhooed in the business press. Those strategies are the safe bets that executives—and their analysts—are well-equipped to understand. In contrast, internal (organic) innovation requires embracing the unknown. Because it’s hard to determine the value of the unknown, established firms that have not adopted a culture of innovation have different incentives to recognize new business and product ideas.

There is one primary driver of innovation that remains firmly entrenched at the enterprise level—the crisis. Scanning the business section of any major newspaper provides numerous examples of crises in innovation. In the past few months, Blockbuster unveiled “no more late fees” campaign in response to a crisis presented by competition from Netflix. For Blockbuster, this innovation may have come too late. With the threat of a hostile takeover on the inside and a price war on the outside, the prospects for Blockbuster are grim.

Success in a crisis-driven environment is dependent on how a firm responds to it. An innovative firm will recognize threats and opportunities in the market before reaching a crisis. My question is: what are the qualities of organic innovation that give firms the ability to avert crisis?

The large firm is not helpless against a scrappy upstart with new technologies. As Microsoft has shown repeatedly—albeit somewhat unscrupulously—a fast-follower can reap huge market share by entering with a comparable product at the right place and the right time. However, it is important to recognize that the second-mover strategy requires a different type of innovation competency—one of execution. Company leaders must not only see the threat, they must also zero in on it and take action.

Intel did just that.

Five years ago, it occurred to no one that Intel might choose to build a slower chip—the concept was too contrary to the speed-at-any-cost drive of Moore’s Law. Laptop computing changed that perception since battery power cannot be easily reconciled with power-hungry chips. Intel couldn’t ignore growing demand for wireless enabled laptops ready to take advantage of increasingly ubiquitous access spots.

Instead of pursuing these two needs on separate tracks—as was typical at a siloed and engineering-driven company like Intel—company executives decided to join forces across internal functional units to build what the market needed. The result was the Centrino chip, thus far the only successful response stemming the growth of rival Apple’s market share in the laptop business.

On its surface, the Intel example is merely a case study in product development—there is nothing revolutionary about the Centrino chip; it simply recombines existing technologies in response to market conditions. However, the real lesson here is crisis prevention, prediction, and containment. Intel’s innovation was not the chip; rather, it was how management recognized flaws in a decades-old cultural perspective and quickly prototyped a new product development process in order to avert a crisis. This cultural shift has lived beyond the Centrino—recently, Paul Otellini was appointed the first non-engineer CEO of Intel.

Innovation is indeed an important competency to build, but not necessarily for the reasons that the business press would have you believe. Innovative thinking may get you to the next great product—an iPod or other category killer—but it is not as vital a tool if it is recognized only at the product level. Rather, it must be enmeshed in the entire processes and culture of the organization to be become a real asset to the firm. Otherwise, a company risks succumbing to crisis after crisis.

When recently asked about his leadership style during nearly a decade of complex mergers, the CEO of JPMorganChase responded simply: “Leadership in a crisis is easy, because a crisis requires action.” The challenge for large firms today is to take action and to tap their innovation lifeblood before they get to a crisis.

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