

## Interview Rowan Gibson for Versus – Lithuania

### **1. How could you shortly define *rethinking*? Is it a methodology, a part of organizational culture or a certain period of time in business?**

Basically, *rethinking* is about continually challenging the status quo – even when things appear to be going well. Let's face it: we're living through what is probably the most dramatic period of change in human history, not just business history. Everything around us is in a state of flux – like a kaleidoscope run wild! That means that products, services, strategies and business models have a much shorter shelf-life than ever before. In a world where the pace of change has become hypercritical, these economic engines can very quickly become obsolete.

Look at mobile telephony. Ten years ago a mobile phone was just a phone. Today, it's a palmtop computer, a digital camera, an MP3 player, a gaming console, a TV screen, and so on – these are now just basic features for most kids on the street. And all of this has happened in one decade. In the mobile phone business, new models are launched almost every week. In fact, the minute you buy a new phone it's already out of date, because the next generation is in the pipeline. The point here is that you can't stand still in a world that is moving at light speed, otherwise you're dead. If the pace of change and innovation inside your organization is not equal to this incredible pace of change and innovation in the external environment, sooner or later your organization will be in deep trouble.

Thus, continual *rethinking* is a must. My definition of rethinking means constantly reconsidering products, services, strategies and business models from fresh perspectives, and where necessary radically reinventing them – in order to keep up and preferably get ahead of the competition. In fact, I would argue that the only way to sustain success – literally the *only* way – is to continually reinvent it.

Now, can *rethinking* be a part of an organization's cultural DNA? I believe it absolutely can. Google is evidence of that. Virgin Group is evidence of that. Apple is evidence of that. The trouble is that most companies have an organizational culture that is nothing like Google's or Virgin's or Apple's. They have a culture where new ideas are not really welcome (unless they come from the very top of the organization chart), and where it's almost considered heresy for ordinary workers to challenge the success recipes from the past. Most companies, if we're honest, have a culture that supports continuity and resists change.

To be fair, though, firms like Google, Virgin and Apple never had to wrestle to change their cultures from innovation-averse to innovation-friendly. They seem to have been born innovative. Their leaders – Larry Page and Sergey Brin at Google, Richard Branson at Virgin, Steve Jobs at Apple – are all restless rethinkers. They’re always challenging everything. It’s in their nature. And they’ve injected this characteristic into the organizations they built. Most organizations were not founded by people like that, and they are not run by people like that today. So the issue becomes: how do we change corporate cultures from the way they are to the way they should be? How do get people all over the organization rethinking and reinventing and innovating – every day?

The good news is that we now have a proven methodology for doing just that – it’s the subject of my next book *Innovation to the Core* (to be published by Harvard Business School Press in March 2008). The starting point for the book is that innovation is way too important to be left to chance. What it describes is a systematic process that any company can implement to ensure that its culture becomes conducive to continual rethinking and break-the-rules innovation.

## **2. You are speaking about broader meaning of innovations (not only in terms of products in services). How would you describe innovation then?**

Clearly, innovation has to do with introducing something *new* – something that creates meaningful value for customers (or producers) in some novel way. Sometimes an innovation can be completely new in the sense that we are creating something that has never been seen before; sometimes it can be new in the sense that it already existed in some form but has now been introduced in a new context where it can have substantial impact – for example, in a new market or a new field, or powered by a disruptive new technology that devalues existing business models. Sometimes the newness is just in the mix – an innovation can bring together existing ideas or assets which were previously unconnected.

Generally, people put innovation into two categories – incremental and radical. Incremental innovation definitively has value. Take the BMW 3 Series, for example, which has been continually improved over the last few decades with a string of incremental innovations. Incremental innovation helps a company like BMW to maintain its existing business over time – it provides continuity by constantly updating and improving a product or service with a series of changes. However, I would argue that it’s only *radical* innovation that drives a huge spike in corporate earnings. It was Apple’s radical innovation with iTunes and iPod that pushed the

company's earnings out of orbit; it wasn't by making incremental improvements to the Macintosh.

Where a lot of companies unfortunately limit themselves is by defining innovation too narrowly. Not only do they focus more on incremental innovation than on radical innovation, but they tend to constrain their innovation efforts to the search for new products, new services or new technologies. The fact is, these are not the only types of innovation that can drive growth and strategic renewal. For example, a company should also consider things like operational innovations, cost innovations, customer experience innovations, management innovations, business model innovations, and even industry architecture innovations. Simply put, by broadening its search for innovation opportunities, an organization will have much more chance of discovering potential avenues for inventing new value.

### **3. Where should *rethinking* start in terms of organization? From management or from lower links of organization structure? Should it go horizontally or vertically inside a company?**

The objective is to have a systematic process of rethinking and innovation going on all-the-time, everywhere – at every level and in every corner of the organization. This is not something that should be left to the executive committee.

For a start, the people at the top are the least likely in the organization to come up with radical innovations. Most corporate leaders have a lot invested in the past and have been promoted numerous times for having done incredibly well at yesterday's activities. Failure often results from being overly committed to outdated strategies and ideas.

New voices are essential for new thinking. When managers sit down to think about strategy and innovation, too often the people who get involved in the process are the old guard, not the vanguard. What companies need is more vanguard in the mix. Of course, corporate leaders still have a great deal to contribute. But what I am arguing is that in today's complex and rapidly-changing business environment, senior executives need to recognize how much they can learn from all the other people around them. In particular, they need to start giving a disproportionate share of voice to three constituencies that are typically underrepresented:

**Young people:** or at least people with a youthful perspective. These are the folks who are living closest to the future

**Newcomers to the company:** preferably those who have worked in other industries, because more often than not, industries get reinvented by outsiders, not by veterans

**People from the geographic periphery of the organization:** it's just a fact that creativity and entrepreneurial thinking increase proportionately the further you move away from corporate headquarters

So far, these three constituencies have mostly been disenfranchised from the strategy-making and innovation process. I believe that, henceforth, they should be overrepresented. In my experience, the most effective way to start doing this is by engaging a core group of people that represents a diagonal slice of the company. The group should actively involve people from right across the organization in the rethinking and innovation effort.

This is no doubt going to require a degree of humility on the part of top management, because it essentially means that senior executives will have to give up the old, elitist view about who is responsible for the destiny and direction of the organization, and start involving many new and different voices in the process of charting the company's future.

#### **4. What is the role of lower links of organizational structure in the process of rethinking and implementing innovations? How can they influence that?**

You know, one of the reasons why senior executives seem to routinely miss opportunities for innovation is that their company's complex hierarchy tends to disconnect them from the front line. All too often, the innovation opportunities are discovered by front-line staff who *personally* experience the customer's frustrations, or who spot some new trend that's already underway in the market, or who uncover an unmet customer need. Unfortunately, what usually happens is that they come back and explain their insights or ideas to the boss – and that's as far as they go. Because the boss starts to tell him or her what's wrong with the idea – why it won't work, why it could cause a lot of trouble, why it would upset existing customers, why it would damage the company's existing business – basically, why he or she should just shut up and get back to work. This bias against new ideas typically kills off any effort to rethink status quo strategies or to innovate in radical ways.

This is not something that can be changed or influenced by the lower levels of an organization. Ordinary workers simply don't have enough lobbying power. If they started an innovation initiative at the company picnic, it would probably get strangled at the earliest opportunity by middle managers. The reason is that these managers usually believe, deep down, their real responsibility is not to innovate but simply to make the numbers.

I believe that the demand for innovation has to be driven from the top. Organizations should be helping their senior and mid-level managers to deconstruct the deep-seated orthodoxies that make them skeptical of new ideas. They should be ridding them of the prejudice that new ideas have to come from R&D, or new product development, or new business incubators, and convincing them instead that innovation can actually come from anyone, anywhere. Further, they should be holding those managers *responsible* for innovation, and for finding new growth opportunities. When this happens, managers begin to demand innovation from the people in their business units, and ultimately from the people at the front line.

This is the approach that companies like GE and Procter & Gamble have taken. They give their business leaders ambitious “stretch targets” that force new thinking and stimulate a lot of creativity throughout a business division as necessity becomes the mother of invention. They put leaders in a mode where they are desperately looking for a bridge to get from where they are to where they need to be, and this makes new ideas suddenly very welcome as opposed to unwelcome. Giving management these bold “stretch targets” is an important component in getting new ideas more positively accepted.

## **5. What should be the stages of implementing innovations inside a company?**

All too often, great ideas get prematurely squashed. The typical innovation killer is a question like: “What’s the expected ROI?” or “How profitable is this opportunity?” Of course, asking detailed questions about profitability is not necessarily wrong, but many companies tend to ask these questions way too early – at a stage where they are probably impossible to answer.

In my experience, the first thing a company should ask when evaluating a new opportunity is: How *radical* is the idea? How big – or how important – could it be? What kind of impact could it have on customers, on the competition, on the whole industry? How big is the potential market? Would customers actually want it? How much would

they care about it? In other words, the evaluation criteria should initially be focused on assessing the upside – how interested the company should be in an idea, how hard it should work to push the idea forward, how committed it should be.

Sequentially, the next questions to consider are: How feasible is this? How mature is the technology? Do we have the resources, the competencies, the capabilities to do it, or can we get them somewhere else – i.e. through partnerships? Do we have the distribution channels, and so forth?

As these questions of feasibility get resolved, the final questions to start asking are those that concern business model economics: Can we actually make it profitable? What sort of revenue might this idea generate? What are the costs involved? What sort of margin can we put on this?

Before you can start thinking about implementing an innovation, you have to test the validity of the idea. Companies shouldn't waste their resources on things that wouldn't pass a sanity test. To de-risk innovation, a company needs to do everything it can to reduce uncertainty. It needs to be excruciatingly clear about the assumptions or hypotheses that are critical for an opportunity's market success, and then focus on testing the validity of these assumptions to see whether they can be confirmed.

Rather than making a quick decision about an idea at a very early stage, the goal should be to create an extremely fast iterative cycle – one that allows prospective innovators to get started, quickly test whether their hypotheses are valid or invalid, see what they learn from their experimentation, and rapidly iterate that learning.

It's also crucial to test ideas as early as possible in a *real-world environment* – or as close as possible to market-like conditions – and get feedback based on actual experience, not just lab results. This might mean conducting a market experiment where an inexpensive prototype is put into the hands of a small number of customers. Or the “market” could initially consist of employees in your company. One of Procter & Gamble's innovation mottos is “Make a little, sell a little, learn a lot”. The company often manufactures a small quantity of an experimental new product and launches it in a test market, watching closely to see how consumers react to it. This enables them to make any necessary adjustments early on, before the product launch has gone full-scale.

The point is, whether you are trying to innovate in consumer packaged goods, pharmaceuticals, financial services or industrial equipment, you are going to be faced with an inescapable arithmetic: it takes 1000 ideas to find 100 with enough commercial promise to merit a small-scale experiment. From those 100 experiments, only 10 projects will be judged

worthy of pursuing seriously with a substantial financial commitment, and of those, only one or two will turn out to be unqualified successes. In other words, to find those few ideas that have the transformational power to change the fortune of your company, you must first dream up thousands. You have to ensure that your innovation pipeline has a large number of ideas coming in at the front end in order to yield an adequate number of successes at the back end.

Once your company has a portfolio of experiments underway, you need to continually ask, “Are these innovation projects getting enough resources? Have we put the right talent behind them?” What is required is a set of metrics dedicated to innovation. Just as companies are familiar with the idea of the balanced scorecard, I believe they should rapidly develop an “Innovation Scorecard” to track the number of new ideas being submitted, the number of ongoing experiments and ventures, and the pace at which projects are advancing through the innovation pipeline. At Whirlpool, for example, the global leader in domestic appliances, executives can go online 24/7 and get a comprehensive, real-time window on the company’s global innovation activities. Using a dashboard view of the innovation pipeline, they can see how many concepts are being produced, which parts of the world they are coming from, how many innovation experiments are currently underway, how many ventures are receiving more serious funding and attention, what the project details are for each of these ventures, how many new businesses are heading for commercialization, and when these businesses will be leaving the pipeline.

## **6. What innovations are more important: in product or service level, structure of a company, management strategy, etc?**

It’s difficult to say which types of innovation are more “important”. For example, *technology* innovations can be important – think of things like the Internet, the PC, the digital camera, E-mail, Voice mail, or Flash memory. These were all important innovations. But *product* innovations can be important, too. A blockbuster drug like Viagra can certainly change a lot of people’s lives. *Service* innovations can be equally important – consider something like PayPal, which has changed the way millions of people buy and sell things online.

My argument is that all kinds of innovation can be important. Think about operational innovations – things that refine or reconfigure a company’s *operational* processes to give it a competitive edge. Outstanding examples would be Toyota’s lean manufacturing process or Wal-Mart’s supply chain management. Then we could look at Chinese

companies like Haier and Lenovo who are now successfully competing at the “high end” of major industries by focusing on *cost* innovations.

My colleague Gary Hamel has spent a lot of time recently looking at *management* innovations – these are about innovating around a company’s core management processes in the hope of creating an enduring source of competitive advantage. Examples of management innovations from the past would include strategic planning, scenario planning, brand management, Total Quality Management, ERP/CRM and Six Sigma – all of these were very important innovations that had a major impact on the way companies work.

Then we have *business model* innovations. IKEA, EBay, Apple, Dell Computer, and Spanish clothing retailer Zara are all companies that have successfully innovated at the level of the business model. And at the highest level, in some sense, is *industry* innovation, which has to do with building new industry architectures. For example, Apple had to bring together a collection of players from several different industries to build and continually enhance the iTunes/iPod platform.

What I would say about importance is that there is much more complexity as you go from, say, product innovation to business model innovation to industry innovation. And the potential for building competitive advantage and generating new wealth increases as you move up the scale. Products, services, even operational processes may be quite easy to copy, but disruptive business models and industry architectures are typically the most difficult kinds of innovation for rivals to replicate. This tends to make them the most valuable kinds of innovation on the longer term.

## **7. It’s widely believed that technological companies are more innovative than others. Is that true in your opinion?**

No. I believe that innovation has very little to do with technology per se. As an example, Virgin Group is highly innovative but is not at all a “technological company”. Richard Branson is particularly skilled at launching disruptive business models, as opposed to disruptive technologies.

I also mentioned Whirlpool earlier, which is an appliance manufacturer – washers, dryers, fridges, and so forth. It’s not exactly a technology giant, but I’d say the company is one of the most innovative organizations in the world today. Another example I use in the new book is a Mexican firm called Cemex, one of the world’s leading cement producers. Let’s be honest: cement is not an industry that inspires revolutionary thinking or that attracts creative talent. Yet Cemex’s ability to continually reinvent both its industry

and itself serves as an example to any company aspiring to make innovation work – an example that is just as compelling as high-tech Silicon Valley firms like Google or Apple.

My message is that any organization can be an innovation leader – if you define innovation as broadly as I do. You don't need billion-dollar R&D budgets and research facilities all over the world. But what you do need is a systematic, company-wide approach to innovation that involves everyone inside the firm – and even customers and partners outside it – all the time.

### **8. Do you think that all fields of business are a part of global economy?**

It certainly looks like it. Even fields which we wouldn't immediately think of as globally competitive are rapidly becoming so. Take healthcare. One of the biggest trends in recent years is "Medical-tourism", which brings hundreds of thousands of Western patients to Asia each year for big-ticket surgical operations like liver transplants. They pay perhaps a quarter of the price they would pay back home, and there is no waiting list. The idea of having "a face-lift plus a holiday" is clearly working. I love the Apollo hospital group, for example, a private chain of 38 hospitals which started in India and is now not just the largest healthcare provider in Asia but the third largest in the world. This company is living proof that rethinking, innovation, and global competition can be very much at home in the healthcare business, driven not by a desire for profit but by a genuine desire to care.

### **9. How should innovations be implemented in companies whose business is based on traditions and continuity? (e.g. food producers, traditional restaurants, etc)**

Innovation and tradition can indeed go hand in hand. In a world where everything seems to be changing, we definitely want to be reassured that there are some things that remain unchanged – some things that we can hang on to. If you make Jim Beam whisky, for example, you would certainly want to communicate that you've been distilling bourbon the same basic way since 1795. That whole "family tradition" story is part of the brand's mystique. A few decades back, the American Congress declared bourbon to be the "official native spirit" of the United States. So you wouldn't want to tamper with that. But behind the scenes, you will find that Jim Beam has innovating feverishly in every other aspect of its

business model – whether that’s in marketing, or distribution, or supply chain management, or whatever. The very fact that there is a Jim Beam website illustrates that the company is very much up with the times.

Harley-Davidson is another company that lives off a legend, and they do everything they can to keep the legend alive. But Harley also innovates *around* the legend – for example, in their showroom concept, in their accessories and apparel, and in their Harley Owners Group events. And those bikes might look like they just came out of movies like “Easy Rider”, but the technology inside them is absolutely state-of-the-art, and in many cases highly innovative.

### **10. Speaking about leadership: except business, administration, finance, what other knowledge is necessary for a future business leader?**

I’m not sure knowledge is the important factor anymore. For a start, leaders simply can’t keep up with the amount of new information they constantly need to process. It’s estimated that 1.5 exabytes of unique new information will be generated worldwide this year. That’s more than in the previous 5,000 years. The irony is that most of it will be outdated as soon as we have absorbed it.

I would argue that most of what leaders have learned about business over the past decades will not be very relevant for the decades ahead. What worked in the period between, say, 1985 and 2005 may very well be a recipe for a disaster in the period between, say, 2008 and 2020. Never has knowledge from the past been worth less to future business leaders.

My belief is that imagination is now more important than knowledge. Again, think about breakthrough innovators like Steve Jobs and Richard Branson. Their strength – and their fantastic ability to create new wealth – is not based on their management knowledge, it’s based on their power to imagine new growth opportunities and new markets. I like to think of them as Chief Imagination Officers rather than Chief Executive Officers.

Unfortunately, imagination doesn’t feature too highly on the curriculum of any business school I know. Hopefully, that will change in the future.

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