



Leading an Innovation Review

by A. G. Lafley and Ram Charan

Innovation is fraught with uncertainty. Is the timing right? Will the consumer buy the product, and then buy it again? Will the technology work at the right price? Will the business model fly? The sad fact is that one can do everything right and still get it wrong—and this reality must be reflected in the review process.

Most companies have either monthly or weekly operating reviews to check performance against well-defined metrics—sales and revenue targets, margin, market share, and cash flow, to name a few—and decide what action needs to be taken to keep moving forward. In many cases, the tone is one of control, often with an undercurrent of threat. The orientation is rearview mirror, narrow, inward—often without reference to the happenings of the external landscape. Such performance reviews can be “terror sessions,” complete with four-letter words and generous doses of humiliation.

Nurturing innovation so that it creates consistent organic growth requires a different spirit. At Procter & Gamble, innovation reviews are a search for options, a dig into assumptions, a hunt for clarity. And yet there is also discipline, consistent and repeated, in coming to a

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decision—how many resources to dedicate to a project, when to cut a project down, when to do nothing at all.

THE LEADER AS INNOVATION COACH

Innovation reviews involve a higher degree of uncertainty than reviews of operating plans or budget forecasts, and require a very different mind-set. The leader’s role is to open the minds of the team members through artful questions, suggest avenues to explore and people to talk to, set milestones, and ensure they are met. In a sense, the leader becomes a coach in the review, encouraging certain behaviors, broadening

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team members' perspectives, and boosting morale.

In a nutshell, the leader should do three things:

1. Be honest.

The leader needs to provide the product team with a candid assessment of its work. Are some of their projections overly optimistic? Is the team crystal clear about the consumer or customer target? Has the team underestimated the competition in some way? Does the team have the resources it needs—both human and financial? Should work on the project be stopped—or accelerated?

A performance review looks backward; an innovation review looks in both directions.

The leader and team shouldn't try to solve the problems during the innovation review itself, but rather come to agreement on required action steps.

2. Be helpful.

The leader should seek to make big ideas bigger. Asking questions like "Have you considered this approach?" or making comments such as "This reminds me of a similar experience in business X or industry Y" opens up team members' minds to consider new possibilities for the innovation.

The leader should also help the team identify and address killer issues. This may involve directing the

team to connect with another group who overcame similar challenges. Or it may require helping the team get access to needed resources.

3. Foster a free-flowing conversation.

The innovation review is not a grilling but a dialogue; the idea is not to catch people out but to explore, to explain, and to move ideas forward. It should inspire the team and increase their appetite for taking risks. If the review feels more like a win-or-lose discussion, the team will begin to approach innovation more conservatively.

Ask, "What are the hurdles?" "What could you do if you had more resources?" "What other alternatives did you consider?" "What help do you need—either outside or inside of the business?"

At General Electric, for example, Jeff Immelt makes it clear to the presenters that he doesn't want a pitch, but good visuals that show how the team is molding the idea. He wants an actual prototype, if not physically during the review, then virtually on the computer screen. He then probes and pushes the boundaries using the broad perspective he has developed from GE's operations around the world and from meeting with customers in diverse industries.

More from A. G. LAFLEY on LEADING INNOVATION

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REVIEWING AN INNOVATION PORTFOLIO

Before a business-unit or product-line innovation review, the business team must have already completed the hard thinking in two areas: clearly defined business growth goals for a minimum of three to five years out; and clearly defined “where to play” choices or business strategies. Only after these areas have been fleshed out will an innovation review be effective. That’s because the business goals and strategies ground the innovation program and integrate it into the business.

P&G has learned that without this context, innovation reviews easily lose focus and become technology-driven, rather than consumer-centric and business-connected.

After the essential business goals and strategies have been clarified, an innovation portfolio review addresses three primary questions:

1. How robust is the innovation portfolio? Will it deliver the three- to five-year business growth goals?

The leader needs to determine if the plan sufficiently provides key innovation building blocks that will deliver the required business growth. Judgments need to be made as to whether there is the right balance of risk in the innovation portfolio. This can be assessed first by understanding if you have a big idea. Analyze the data showing how customers respond to the idea. Is the proof data-rich or based on people’s opinions and experiences?

Understand the degree to which the team knows how to make the product at a given stage in the project. Inventions that are already in hand, of course, have a higher degree of certainty.

Assess proprietary protection by looking at which patents have been filed. Determine how well the plans leverage your core strengths and technologies to improve chances of success, and identify what types of help may be needed from outside the business unit. Ensure the innovation plans are concrete—not just for the next couple of years, but also three to five years out.

2. How strong is the innovation plan compared to key competition?

Answering this question requires benchmarking. Assess key competitors’ where-to-play and how-to-win choices. Understand in what areas they are filing patents that might impact the team’s freedom to innovate.

3. How attractive is the innovation program from a financial and return standpoint?

Innovation that creates value for the customer produces differentiation against the competition and drives value for the business and the company. It should never result in margin dilution.

Of course, within an innovation portfolio there’s always a range of profit margins. Can an innovation be commercialized so that it provides an attractive margin while also offering the customer a good value? Does the innovation portfolio as a whole provide a good return on investment?

It is the job of the leader to say yes, no, or keep exploring. Perhaps the most important thing the leader does is remind team members that “the consumer is the boss” and ensure that customers stay at the center of decision making.

P&G’S LOW-TECH, HIGH-IMPACT APPROACH

At Procter & Gamble, innovation reviews take place at several levels: for the entire business unit (for example, the fabric care category), for a brand or product line (Tide laundry detergent), or for a specific innovation project (developing and introducing compact sizes of Tide). Attendance at an innovation review is broad enough to include key team members, yet limited enough to enable a productive and candid conversation. Who attends also depends on the scope of the review. At P&G’s business-unit innovation reviews, the CEO, chief technology officer, chief financial officer, and chief supply-chain officer attend. In addition, key leaders from the business unit and multifunctional members of the innovation team are present.

P&G uses posters—yes, posters—as a way to conduct innovation reviews. Each team creates a single poster that simply lays out the key idea and technology for the innovation, relevant consumer research data, the business potential, key timing and milestones, and the major issues the team is facing.

Why posters? Because these reviews are often full of scientists, and the posters force the scientists to speak in terms that senior management can understand. If executives can understand it, so can the business units

Innovation Review *continued*

and, eventually, consumers. Posters also drive focus and simplicity—they distill the innovation to a simple set of ideas.

The posters are placed on stands around the room. The group gathers around a poster to have a thoughtful conversation. One or two people from the team go through the data and add their own remarks. Often, the discussion also involves show-and-tell—where people get to touch and use a product or key technology element.

The leader of the review then begins a dialogue with the team to help assess the sufficiency of the innovation plans and identify where the most value can be added. Over a period of a few hours, the group can go through a dozen or so innovation projects. The poster conversations are used as coaching moments, to let people know what the priorities are and how senior management thinks. And just by walking around the room and taking it all in, the senior management team can make connections that go beyond the specific projects, seeing something in technology A that might be applicable to business B or seeing a process that is working in one place that really should be replicated globally.

It is an open-ended process, but one with a sense of direction. ♦

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Creating the Conversations That Create Innovation

Great ideas don't develop in isolation. They grow out of a rich web of connections and conversations.

by Peter Skarzynski and Rowan Gibson

One of the great myths of innovation—and one that still defines the way many organizations and managers operate—is that breakthrough ideas are produced solely by intuitive individuals or by small creative teams working in isolation. This misperception stops innovation before it even gets started.

The reality is that whether we think of Thomas Edison, Ted Turner, Jeff Bezos, or Steve Jobs, most well-known innovators developed their breakthrough ideas as a result of interacting with a rich and diverse community of people. Their innovations were not exclusively the products of their own intellectual brilliance.

As David Hill, at San Francisco-based Power Decisions Group, says, “Great ideas rarely have single parents. They tend to take shape through a series of genuinely spontaneous free associations among groups of uninhibited people.”

The small size and free-wheeling, all-hands-on-deck culture of startups provides fertile ground for innovation, but leaders of larger companies



have to make deliberate choices to establish the right conditions for innovation. They need to ask themselves:

- How do we create free association and conversation on a corporate-wide scale?
- How do we increase the level of connection and conversation going on between business units, divisions, product groups, departments, research labs, geographies, and so forth?
- Are we connecting not only people of various genders, races, cultures, and ethnicities, but also people with different skill sets, capabilities, and perspectives? (See sidebar.)

Here are four ways to make the connections and spark the conversations that make innovation happen:

1. RETHINK THE ORGANIZATION CHART

For decades, organization charts have reflected the outdated notion that it is impossible or even dangerous to innovate in a company's core business.

This has forced innovation to live in a disconnected silo (e.g., R&D, new product development, Skunk Works, incubators) where it neither involves nor infects the rest of the organization. Making innovation a pervasive and corporate-wide capability calls for new structures that actively foster cross-boundary interaction and that distribute the responsibility and expertise for innovation throughout the company.

Questions for leaders to ask:

- Do we have a management infrastructure for innovation that spreads the responsibility through every level of the organization and involves everyone in the company? Or does our organization structure continue to make innovation the exclusive responsibility of specific departments or groups?
- What steps has my company taken in the last year to maximize cross-boundary interaction and encourage previously unconnected groups to trade ideas and competencies?
- What are we doing to facilitate direct, person-to-person communication across the organization rather than up and down traditional chains of command?

2. CREATE AN OPEN MARKET FOR IDEAS

In many companies, new ideas are in short supply—stifled by a corporate climate that discourages change and demands conformity. The “immune system” in such organizations tends to attack new ideas like foreign organisms that are threatening the host.

Companies that want to get serious about innovation have to open up the executive suite to new ideas percolating in other corners of the company. To encourage innovation, they need to create a culture where anyone—from anywhere in the organization—can voice an idea and, if it's an interesting one, obtain fast, easy access to capital and talent for pushing that idea forward.

Questions for leaders to ask:

- Does our management truly believe, deep down, that “ordinary” employees can be a source of extraordinary innovation?
- Is my company building an “innovation democracy” where ideas really can come from anyone and anywhere, both inside and outside the company?

ALL KINDS OF DIVERSITY

When we work with companies to assemble teams for building innovation insights and new opportunities, we have a selection mechanism that ensures we get a group of individuals whose *thinking* is as diverse as possible. We specifically look for the following:

- People who are close to the head office, and people who work farther away.
- People from inside the firm, and people from outside the firm.
- People who are younger, and people who are older.
- People who are *divergent* thinkers, and people who are *convergent* thinkers.
- People who are more analytical, and people who are more creative.
- People with a lot of experience, and people with a lot of imagination.
- People who understand technology, and people who understand people.

- What have we done to communicate—both in word and in deed—that everyone at our company is expected to innovate?
- If a person or a group comes up with an idea, how easy or difficult is it for them to get access to funding and top management support?
- What have we done in the last 12 months to engage the imagination, know-how, and resources of people outside our organization?

3. USE THE WEB TO HARNESS IMAGINATION

Usually, corporate IT infrastructures end up being rather sterile tools that do nothing more than propagate simple, explicit knowledge. They often don't play a useful role in facilitating the kind of cross-boundary interaction that creates new knowledge.

Companies must learn to use IT as a global operating system for innovation, engaging tens of thousands of people throughout the organization—and millions of people beyond it—in a global, 24-hour, innovation-focused dialogue. They must learn to utilize the Web not just to tap the insights, expertise, creativity, and passion of countless minds, but also to harness the combinational possibilities of all those minds networked together and interacting with one another.

Questions for leaders to ask:

- Has my company created any new forums for cross-corporate, innovation-focused dialogue/conversation in the past 24 months?
- Are we using our IT infrastructures to distribute the responsibility for generating new ideas throughout the organization and beyond its walls?
- Does our corporate intranet promote innovation by inspiring people with new insights and perspectives? Does it teach people how to stretch their thinking and show them how to initiate an innovation project?
- Could we describe our intranet as an electronic marketplace that brings ideas, capital, and talent together?
- Are the people in our company connected with a rich community of internal/external experts who can

quickly help them solve innovation challenges?

- Are we making proper use of Web-based opportunities for testing new ideas in the market and gauging direct customer feedback?
- Are we using our IT infrastructure to help “unstuck” opportunities and rekindle projects that seem to be going nowhere?

4. MAKE MORE TIME FOR FACE TIME

Companies that want to foster innovation should create opportunities for employees to interact deeply with people who work outside their own business unit, product category, geography, and—ideally—their industry. Look for ways to bring diverse groups of people together face-to-face to share insights and generate ideas together in an experiential setting. Quarterly “Ideation Days” and similar events not only help to harness the imagination of many constituencies that are usually disenfranchised from the innovation process, but also create an appetite and an enthusiasm for innovation that can be highly infectious.

Questions for leaders to ask:

- Within the past 12 months, has every employee in my division had the opportunity to participate in some organized innovation process?
- How often does my company/division/business unit organize face-to-face events for knowledge sharing and collaborative ideation?
- When was the last time we invited hundreds or even thousands of our people to participate in a “live” conversation on innovation and future strategy, either online or in a town hall setting? ♦

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Managing False Negatives

by Henry Chesbrough

In the late 1980s, scientists for New York City–based drug-maker Pfizer began testing what was then known as compound UK-92,480 for the treatment of angina. Although UK-92,480 seemed promising in the lab and in animal tests, the compound showed little benefit in clinical trials in humans.

Looking at these negative results, some firms might have thrown in the towel and moved on to other projects. But Pfizer's scientists picked up on—and decided to pursue—what they thought might be an interesting side effect. That side effect led the process of innovation in an entirely new direction—one that eventually resulted in a historic windfall for the drug maker soon after it began marketing UK-92,480 under the brand name Viagra.

Pfizer was able to develop and launch a wildly successful and profitable new drug because it effectively managed the *false negatives*—ultimately incorrect indications of failure—of the innovation process. Firm scientists were able to see beyond the drug's initial lack of success in treating hypertension, and, in doing so, they rescued UK-92,480 from the scrap heap of failed innovation and put it on the road to becoming one of the biggest drug introductions in history.

Although smart organizations have traditionally taken care to minimize the *false positives* of innovation, they have much more rarely considered the false negatives. This is because the damage created by false positives is much easier to recognize and quantify. False negatives are not only difficult to recognize, but there is also no single, surefire way to deal with them. Nevertheless, companies can implement the following practices to spot them and manage them.

REVIEW ALL CANCELED PROJECTS

An effective starting point is to review all canceled projects a second time six to 12 months after they have been terminated. Has anything changed, either within the project itself or within the larger environment, that might warrant reconsideration of the earlier decision?

EXPOSE PROJECTS TO OUTSIDERS

If a project isn't moving ahead inside the company,

THIS ARTICLE DISCUSSES:

- ***False negatives*: projects deemed failures that actually hold substantial promise**
- **How to unlock their value internally**
- **How to look outside the organization to derive benefits from them**

maybe someone outside the company can think of something to do with it.

IBM took an approach along these lines with a particular software project that had been kicking around in its labs for some time but did not seem to have any potential. Once the project was sidelined, IBM decided to publish it on its AlphaWorks Web site, where outsiders could examine and download various IBM software. Soon thereafter, IBM managers noticed that this particular piece of software code was being downloaded at a rate 10 times that of other code posted at the site. To IBM's credit, this surprising level of external interest triggered an internal reconsideration of the software code. We know it today as the XML (Extensible Markup Language) parser.

SEEK EXTERNAL LICENSES

Through external licensing, projects that aren't being used internally might unlock additional revenues on the outside. Procter & Gamble follows this path as part of its "Connect and Develop" strategy. According to P&G policy, any technology that is not being used by one of its businesses within three years of its patent date is automatically made available for license to others—including competitors.

This may have an additional side benefit: P&G businesses now know that if they don't use a technology, they might lose it to a competitor instead. This likely forces a more careful consideration of new P&G technologies when they become available.

SPIN TECHNOLOGIES OFF

Lucent Technologies—now Alcatel-Lucent—created its New Ventures Group (NVG) to launch new ventures that would commercialize technologies judged not to be valuable internally within Bell Labs. The NVG team looked for promising technologies that weren't getting to market through Lucent's own businesses. When they identified one, they first offered it back to Lucent's businesses. Only those projects turned down by the businesses were then pursued as new ventures.

Lucent's businesses had to make their decisions carefully, because if they didn't choose to use a technology, they might lose it to a new venture. NVG initiated 35 ventures out of Bell Labs from 1996 through 2001. Many of these went out of business, a few became valuable, and three of them were later reacquired by Lucent, just two or three years after the Lucent business had chosen not to pursue the technology internally.

How did Lucent businesses miss the value of these technologies? It was not an error in judgment by the businesses, in my view. Instead, it was a measurement error, resulting from the inevitable uncertainties of assessing early-stage technologies.

Nevertheless, having three out of 35 projects turn out to be "positives" is not a bad track record for Lucent's businesses. If Lucent had not had NVG as part of its process, though, the information created by

these ventures once they got started would never have emerged. These projects might have remained buried within Bell Labs indefinitely.

SEEK EXTERNAL VC PARTNERS

Venture capitalists offer another interesting option for ideas that have been rejected internally. VCs are adept at crafting business models for emerging technologies, and they can experiment with nascent technologies in emerging markets far more effectively than can most large organizations.

This approach also offers several options for the company that originated the idea: it can participate as an investor, as a customer, as a supplier, or simply as an interested bystander. If and when some real value is created, the company can step in by licensing the technology or acquiring the new venture company.

IF YOU CAN'T PREDICT, LEARN HOW TO REACT

When commercializing a new technology requires the resolution of both technical and market uncertainty, one cannot expect to be able to anticipate the best path forward from the very beginning. You simply don't know all the possibilities in advance. Not only are they unknown, they are *unknowable*.

No amount of planning and research can reveal the facts because they simply don't exist yet. And measurement errors are inescapable in such situations. Rather than ignoring them, companies should initiate processes to cope with these errors. This increases their chances of finding a highly valued use for the technology.

The history of innovation is full of examples where the eventual best use of a new product or technology was far different from its initial intended purpose. Companies need to manage false negatives in their innovation processes and respond accordingly. ♦

THE HIDDEN VALUE OF FALSE NEGATIVES

By their very nature, false negatives are tricky to spot in advance. Xerox created a number of false negatives out of its Palo Alto Research Center lab. When it didn't see the results it sought, Xerox terminated further funding for projects that we know today as Ethernet (by 3Com) and PostScript (by Adobe).

These projects were evaluated within Xerox and judged not to warrant further internal spending because the company didn't see a market for the technology. It also lacked the necessary practices for recognizing and coping with false negatives. Of the rejected projects that started inside Xerox's labs from 1979 through 1998, 11 of 35 were spun out to the external environment with no Xerox involvement and eventually became very valuable.

Henry Chesbrough is the executive director of the Center for Open Innovation at the Haas School of Business at the University of California at Berkeley and is the author of *Open Innovation: The New Imperative for Creating and Profiting from Technology* (Harvard Business School Press, 2003). He can be reached at MUOpinion@hbsp.harvard.edu.

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Four Common Innovation Mistakes

by Morgan W. McCall Jr.

Those who lead innovation face formidable challenges. Often there are multiple and sometimes contradictory goals to pursue, many available levers to shape the innovation context, and just as many hands tugging on them. There is no standard formula for success.

The good news, though, is that we know what leaders *shouldn't* do. In organizations that depend on innovation, whether technical or otherwise, for their competitive edge, certain leadership mistakes are relatively common. Here are four I see often:

1. CONFUSION ABOUT THE LEADER'S ROLE

The most significant error—and one that can drive a host of others—is for technically trained leaders to believe that their role is to innovate rather than to create the context in which others innovate.

Organizations foster this error when they isolate innovation in specific groups, promote only outstanding technical people, expect managers to split their efforts between technical work and leading others, and reward individual contributions at the expense of leadership-level accomplishments.

2. A TOO-NARROW FOCUS

Even when leaders of innovation recognize that their job is no longer to be individual contributors, they still make mistakes as they confront the basic demands of their new roles. In setting direction, for example, some focus exclusively on technical innovation and ignore customer needs and expectations as to functionality, delivery, reliability, and cost. Others set direction only in terms of objectives and timetables, without also creating a sense of purpose to excite and inspire those they lead.

Leaders who earlier in their careers were technical project managers sometimes focus on leading downward and managing technical issues, while forgetting (or never realizing) that their leadership position requires them to operate in a broader, more complex environment that encompasses sales, marketing, and finance.

There is no more poignant example of the

importance of leading upward than what happened in the 1970s at Xerox's Palo Alto Research Center (PARC), where an unprecedented number of innovations that later became the heart of personal computing were produced. It was PARC's scientists who developed object-oriented programming, networked computers, pop-up menus, user-friendly word processing, the graphical user interface, the mouse, and icons, among other things.

However, these same scientists at PARC could never convince the executives at headquarters that what they had done would be a commercial success. Instead, they reluctantly showed their accomplishments to someone more appreciative of their technical ingenuity, fellow computer genius Steve Jobs of Apple. Ultimately, PARC provided Jobs with the inspiration that led to the development of the Macintosh computer. According to Michael A. Hiltzik in his book *Dealers of Lightning: Xerox PARC and the Dawn of the Computer Age* (HarperBusiness, 2000), Jobs would later say, "Xerox could have owned the entire computer industry today...[it] could have been the Microsoft of the nineties." Instead, Xerox floundered and only recently has been on a path to recovery.

3. MIXED MESSAGES

Leaders who underestimate the symbolic importance of the leadership role are prone to making value proclamations that they aren't serious about enforcing or that transmit contradictory messages. When those values are tested by subordinates—as they inevitably will be—and a leader's actions do not support them, the result is cynicism on the subordinates' part. For instance, if the leader says she values experimentation, risk taking, and intelligent failure but then rewards only those who achieve successful results, the message is clear to everyone that only results really matter.

Many new leaders, especially those with technical backgrounds, seriously underestimate the impact their attitudes and actions have in establishing the organizational values of the people around them. Yet those very values, whether transmitted consciously or

Making Operational Innovation Work

by Michael Hammer

Innovation Mistakes *continued*

not, affect the culture for innovation, influencing such things as the division's (or company's) willingness to take risks, the perceived importance of customer service, respect and cooperation across organizational boundaries, attitudes toward personal development ... the list goes on.

4. LAISSEZ-FAIRE TALENT DEVELOPMENT

Some leaders labor under the mistaken belief that talented people will always develop themselves and consequently invest little time or energy in helping their subordinates stretch and learn. Research shows beyond question that the immediate boss plays a central role in subordinates' development.

This often happens through coaching. Beyond one-to-one coaching, though, the leader needs to establish a culture conducive to learning. This means setting talent-development priorities that help determine who gets which assignments, giving people the latitude to make their own decisions, providing air cover for risk taking, setting challenging goals, and facilitating access to necessary resources. ♦

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Operational innovation is notoriously difficult. The power of creating and deploying new ways of performing fundamental business processes is indisputable; it has been the springboard to success for leading companies in virtually every industry. But many firms have failed at their efforts to make operational innovation work. What is the secret to success? The experiences of Schneider National, a transportation and logistics firm based in Green Bay, Wisconsin, provide an object lesson in how to get operational innovation right.

Founded in 1935, this privately held company has a long history of growth; by the late 1990s, it had become the largest full-load trucking firm in the country, serving customers such as Lowe's, Wal-Mart, and Georgia-Pacific. The company had nearly \$3 billion in annual revenue and more than 20,000 employees, and its orange tractors and trailers were fixtures on U.S. interstates.

But in 2000, Schneider's growth slowed to a snail's pace, productivity dipped, and return on capital dropped. The company's managers had the insight to realize that more of the same would not get them out of the hole they were in—indeed, more of the same is what had gotten them into it. They determined that in a highly competitive industry such as theirs, which was suffering from enormous overcapacity, serving customers better than the competition was the key to success. Stretch goals were set for customer satisfaction, and a project was begun to tackle and improve one aspect of the company's interactions with customers, namely how it prepared and delivered responses to customer requests for proposals (RFPs). A team of highly capable individuals was convened to create a new way of developing these proposals. They came up with a lot of very good ideas, and there was considerable excitement about the opportunity. Yet the net result of this effort was absolutely zero: no changes were made, and life continued as before.

That's the bad news. The good news is that Schneider's leaders did not give up, but restarted the effort in a different way. This time around the company was astoundingly successful. The time to respond to a customer's RFP, which had been in the range of 30–45 days, plummeted

THIS ARTICLE OUTLINES:

- The challenges of operational innovation
- The benefits of taking a large-scale, holistic approach to tackling them
- The key factors that made a major company's overhaul of its fundamental business processes a huge success and led to significant revenue gain

to 1–2 days. These results started to appear within nine months of the project getting underway and were fully realized in less than two years. By getting back to customers so much faster than its competitors, Schneider was able to shape the terms of competition. The result was a rise of some 70% in the percentage of bids that Schneider won, which translated into sales increases of hundreds of millions of dollars annually. Ironically, many of the ideas that had been developed in the original project resurfaced in the new system for responding to RFPs.

Response time to customer RFPs plummeted from 30–45 days to 1–2 days.

So what changed between the first and second efforts that made the difference between failure and success? There were six key factors:

1. PROCESS FOCUS

When the effort restarted, it began with the creation of an *enterprise process model*, which describes a business's operations in terms of a small number of value-creating end-to-end processes. Schneider's model included Develop Transportation Solutions, Acquire New Business (ANB), Acquire Transportation Order, Move Freight, and Provide Ability to Move Freight. These few processes encompassed virtually all work performed by Schneider's thousands of employees. By defining the ANB process, setting its boundaries, determining its metrics, and targeting it for improvement, Schneider appropriately defined the problem to be solved.

Most companies set too narrow a scope for their innovation efforts and thus can make only incremental improvements. The first time around, Schneider conceptualized the effort purely in terms of proposal preparation, thereby excluding numerous groups and activities relevant to the larger goal of acquiring new business. By focusing the second time around on the entire ANB process, comprising as it did eight different departments and a host of different activities, the Schneider team could address the full range of issues responsible for slow customer response.

2. PROCESS OWNERS

Major results demand change to many parts of an organization; but since each part of the organization—and its manager—has its own agenda, goals, and metrics, efforts to make major change typically run aground on the shoals of turf, inertia, and resistance. A process owner is a senior executive empowered to make the changes needed to the process across the enterprise as a whole. Schneider appointed process owners for each of its processes; the process owner for ANB was the driving force behind the creation and successful implementation of a new way of winning sales opportunities.

3. FULL-TIME DESIGN TEAM

The first time, the people involved in developing new ways of working were themselves working on only a part-time basis, typically less than eight hours per week; the second time, this project was their sole responsibility. Part-time assignment to a process redesign team is an exercise in frustration: scheduling is a nightmare, emergencies in team members' day jobs inevitably arise, and the organization is inclined to doubt leadership's commitment if it can spare only limited resources. Schneider treated process redesign as the serious undertaking it is, investing in education for the team members, providing them with a formal methodology, and backing them up with a program office. Most team members stayed with the effort between 15 months and two years—that is, until the design was largely in place and delivering results.

4. MANAGERIAL ENGAGEMENT

The finest idea will not get implemented unless there is an organizational framework for shepherding it from concept to reality. Schneider put in place several groups to ensure that the design team's innovations did not languish in the limbo of reports and studies.

First, seniormost leadership was actively engaged in this effort, meeting monthly to review progress and solve problems that needed their involvement. Second, a process council was formed, consisting of the process owners and a handful of other operating managers. This group was responsible for boosting Schneider's operating performance by linking improvement initiatives to strategy and by leading change in the

business. Third, senior leaders from each department involved in the ANB process were brought together as a team to lead the implementation of the new process design. This was a particularly important and difficult role, requiring departmental managers to let go of their focus on narrow departmental concerns and focus instead on the larger goals of the end-to-end process.

5. BUY-IN

The rubber of operational innovation hits the road at the front lines, where people will have to change what they do on a daily basis and how they do it. For many, this is a difficult and even wrenching experience, and one that they will find all kinds of excuses to avoid. Dropping such changes on them out of the blue will guarantee failure, and preaching to them about enterprise financial goals will not help them adjust.

Schneider adopted a principle of “70% and go”: develop a solution that provides most but not all desired capabilities, get into the field quickly, and then enhance it over time.

Schneider wisely got the front lines engaged throughout the redesign effort. A thousand people were exposed to the new process as it was being developed, making them feel like participants rather than victims and helping them see both the flaws in the old ways of doing things and the power of the new. Many of these individuals were turned from resisters into advocates of change. They were also provided with training and education, reinforcement and support, and results-based incentives, all to help them adapt to the new ways of operating.

6. BIAS FOR ACTION

Voltaire’s observation that the perfect is the enemy of the good is especially germane to operational innovation.

Companies that strive to design the ultimate new way of doing things usually do nothing at all; they lose momentum while tinkering and revising, and the resulting solution is too grandiose to be implemented. Wisely avoiding this trap, Schneider adopted a principle of “70% and go”: develop a solution that provides most but not all desired capabilities, get into the field quickly, and then enhance it over time. This approach allows concepts to be tested, builds momentum and credibility, and delivers early benefits that silence critics and sway doubters.

The revised ANB process differs from the old one in numerous ways: sales reps, who had been specialized by offering, now represent all Schneider’s services, so no time is lost handing off an opportunity from rep to rep; proposals no longer bounce across multiple departments but are handled by integrated customer response and development teams; and pricing has been simplified, standardized, and supported with a new computer system.

This new process is far from the end of the story, however. Enterprises are tightly integrated systems; change one part, and many other parts must adapt. Schneider quickly discovered that its existing ways of handling orders and shipments could not accommodate the increased volume generated by the new ANB process, so it began redesign efforts for these processes, which are now delivering significant business value. Nor was the new ANB process enshrined behind glass—it’s continually being revised to support customers even more effectively. ♦

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