

Rowan Gibson Interview – Seminarium NewsLetter

How can companies become successful at radical innovation?

First, they need to understand why radical innovation is so important. Senior executives are increasingly recognizing that continuous improvement – or “incremental innovation” – is not enough. Companies can no longer hope to significantly grow their revenues by coming up with a slightly improved version of the same old thing and then selling it to the same old customers through the same old channels in the same old way. If you’re in a mature industry, the only way to meet today’s formidable growth challenges is not through incrementalism but through radical, game-changing innovation.

By my definition, an idea is truly radical if it has the power to dramatically change customer expectations and behaviors, change the basis for competitive advantage, or change industry economics in some fundamental way. So we think about great innovations from Apple like iMac, iPod, iTunes, iPhone, the App Store, and the Apple retail outlets. Or we think about other radical innovations like the Nintendo Wii, or a blockbuster drug like Viagra. These breakthroughs have clearly changed customer expectations and behaviors, altered the basic conception of certain product categories, and even changed the future of particular industries.

The question, though, is how we actually discover those radical innovation opportunities. And, thankfully, we now know the answer. Basically, when you look at hundreds of examples of radical business innovation, you find that, time and again, the innovators came to their breakthrough insights by seeing the world from a particular perspective. It was as if they used a different set of “lenses”, which enabled them to look through the familiar and spot the unseen. There are actually four of these lenses, or perspectives, and I call them the “Four Lenses of Innovation”. The first lens is “Challenging Orthodoxies” – questioning conventional wisdom inside companies and inside industries about what drives success. The second is “Harnessing Trends – spotting unnoticed patterns of trends that could substantially change the rules of the game. The third is “Leveraging Resources” – looking for alternative ways to use a company’s core competencies and strategic assets in order to create new value for customers. And the fourth lens is “Understanding Customer Needs” – learning to live inside the customer’s skin, empathizing with unarticulated feelings and identifying unmet needs.

The “Four Lenses” represent a powerful tool for generating radical innovation opportunities. Over the last few years, I have introduced this systematic methodology to some of the world’s biggest and most successful companies (I could go all the way through the alphabet from Accenture to Volkswagen) and I’ve always been astounded by how well it works. At last, we can say we have a market-proven process for coming up with game-changing innovations.

Do you think innovation is something CEOs are willing to focus on?

I would argue that they don't have much of a choice. Most CEOs are under intense pressure to meet relentless growth targets, and the challenge is getting harder each year due to deteriorating industry growth rates, decelerating efficiency gains, the pressure of declining real prices and the bargaining power of today's customers. That's why many big companies find that they have hit a wall. Yet, once again, if we consider a company like Apple, we find that it has been able to dramatically grow its revenues, and it has done that through radical innovation. So the conclusion more and more CEOs are coming to is that there is only one real way to drive growth and wealth-creation today – and that is to innovate.

The other issue is competitive advantage. Sooner or later, those CEOs that are holding back on innovation will be forced to focus on it because otherwise they will be overtaken by their rivals. The same thing happened thirty years ago with the Quality movement. If you went back to, say, 1969, you would find that most CEOs were not focused on quality. But as soon as the Japanese started raising the bar to unprecedented new levels, every other company had to follow suit. Essentially, by the 1970s and 1980s, if you didn't have world class quality you could no longer compete. And I believe the same thing will happen with innovation. As the rate of innovation in the external environment continues to increase, companies will need to accelerate their own capacity to innovate, or they will quickly find themselves at a competitive disadvantage.

Can you give some examples of companies that are now innovating?

You know, a lot of companies are now innovating. That's not really the big issue because coming up with a single, great idea isn't necessarily that difficult. Again, if you go back through business history, you will find many examples of successful innovation, where a company has been able to take the lead in an industry—or invent an entirely new one—by leveraging a disruptive technology, a radical new product idea, a truly novel service concept, or a game-changing business model. But in case after case, those original innovators eventually ceded their leadership position to a competitor – often a newcomer – that later came up with an even better idea. The real issue, therefore, is whether an organization can build *a deep, enduring capability* for innovation – one that consistently drives profitable revenue growth and that enables the company to maintain a competitive advantage over the longer term. And not many organizations have so far managed to do that. But there are some encouraging examples of major companies that are working methodically on this challenge. They include GE, IBM, Procter & Gamble, Shell, Cemex, Whirlpool, and Best Buy. These players are demonstrating that large organizations really can tackle the challenge of innovation successfully in a broad-based and highly systemic way.

When do you see that an organization is falling behind in the innovation process?

If we look around the world today, it's not difficult to see companies that have fallen behind the innovation curve. Take Sony. Twenty years ago, it was one of the most innovative companies in the world. But today, Sony has lost its dominant position in many areas, from mobile media players to game consoles to cell phones. Ask yourself, for

example: Why wasn't it Sony that invented the iPod? If any company could have done that, it was Sony. After all, they already ruled the world of portable consumer electronics with the Walkman. And why didn't Sony come up with iTunes? Let's remember that, at the time, they owned the second-largest global record company, as well as Sony Pictures for producing and distributing video content. And why didn't Sony pioneer the field of motion-sensor-controlled games? How embarrassing that Nintendo beat them to the punch with the Wii. And why didn't Sony Ericsson come up with the iPhone? While Apple's cell phone sales have been going through the roof this year, Sony Ericsson lost \$409 million in the first quarter of 2009 alone. Yet Sony could have come up with all of these radical innovations. They were actually in a better position to do so than companies like Apple or Nintendo. For a start, Apple wasn't even in the consumer electronics industry, or the music industry, or the cell phone industry. And Nintendo is just a tiny little company with 3,700 employees. By comparison, Sony is a giant with 180,000 employees. So the company has totally failed to seize some of the biggest innovation opportunities of the last decade.

What are they lacking?

What laggards like Sony are lacking is an enterprise-wide system for innovation that involves all of the employees, all the time. A system that is continually producing radical, rule-breaking concepts for new products, services, strategies, and businesses. And a system that provides innovators with a management infrastructure where they can quickly find the cash, the talent, and the support they need to turn their ideas into market success stories. It's precisely this kind of corporate innovation system that is the focus of my work.

Where do you think companies can or need to innovate in?

When you mention the word "innovation", most people immediately assume you are talking about new product development, or cutting-edge technologies that emerge from traditional R&D departments. But it's important to understand that there are many other types of innovation that can help a company drive revenue growth and improve business performance. For example, organizations should also be thinking about service innovations, process innovations, cost innovations, customer experience innovations, business model innovations, industry architecture innovations, management innovations, and so on. Otherwise they will severely limit their efforts by defining innovation too narrowly. Simply put, the broader and less constrained you make your search for innovation opportunities, the more chance you will have of discovering potential avenues for inventing new value.

Who must be in charge of innovation?

Ultimately, it's the CEO's job. Building a self-sustaining, "all the time, everywhere" capability for innovation is fundamentally a leadership challenge. Without the full engagement and commitment of the company's CEO and executive committee, the idea of making innovation a core competence doesn't stand a chance.

Look at the companies that are making real progress with this new innovation management challenge. At Procter and Gamble, the mandate for innovation is coming from the man at the top, A. G. Lafley. At GE, it's coming directly from CEO Jeff Immelt. The push to turn CEMEX into an innovation powerhouse is coming from CEO Lorenzo Zambrano. The

directive to embed innovation as a core competence at Whirlpool is coming from CEO Jeff Fettig. At IBM, it's coming from CEO Sam Palmisano. And at Best Buy, it's coming from CEO Brad Anderson.

Beyond the CEO and the executive committee, a company needs to build a tangible organizational infrastructure for fostering and supporting innovation. So I'm talking here about Vice Presidents of Innovation, Business Unit Innovation Officers, Innovation Mentors and Innovation Consultants. That's what you will find, for example, if you look inside Whirlpool. The company currently has about 1200 part-time Innovation Mentors and 50 full-time Innovation Consultants spread throughout the organization, so if somebody at Whirlpool comes up with an interesting idea they know exactly where to go with it.

How can a CEO maintain growing innovation?

I just made the point that a company's CEO should be the driving force for corporate-wide innovation. But for innovation to truly become a self-sustaining capability, it has to be something that can eventually run on its own inertia, without the CEO acting as a babysitter. What, for example, if the CEO joins another firm, or retires, or suddenly dies, or is diagnosed with an incurable disease? Should people inside that organization start to worry that the company will lose its capacity for innovation?

Ask yourself, Would Toyota suddenly lose its world-class ability to manage quality if it got a new CEO? Would the Four Seasons forget how to take superb care of its guests if somebody else was at the helm of the hotel chain? Core competencies do not come and go with the changing of the guard. They become part of a company's bloodstream. Thus, the cultural transition must be permanent. It cannot rely on a charismatic leader or the willpower of a particular team of people to keep the spirit and the capability alive.

Innovation needs to become a systemic capability that is not dependent on a single brilliant mind or a small cadre of experts. It must become a robust and pervasive system that is resilient enough to accommodate internal or external disruptions (i.e., leadership loss or succession, changes in economic cycles) and to keep rolling on as a reliable, well-oiled engine of growth. It is precisely this kind of long-term transformation that is the ultimate goal of innovation embedment. And the only way to achieve that goal is by institutionalizing the right tools, processes and mechanisms in a systemic and mutually reinforcing way.

How can culture and values inside an organization contribute to innovation?

Many companies preach about innovation. They say it's one of their values. They talk about creating an innovation culture. But the sad truth is that most corporate cultures don't foster innovation; they get in the way of it. If you talk to successful innovators in large companies, you usually hear a familiar story: "I succeeded despite the system." If would-be innovators can only succeed in an organization despite the system—if they have to fight their way heroically through a minefield to push their ideas forward—then by definition,

innovation is not a systemic capability in that organization, nor is it a core value that is deeply ingrained in the corporate culture.

Talking about innovation—using it as a slogan in an advertisement or on a corporate letterhead—does not make it a value. Values are less about what you say and more about who you are. So, for innovation to become a genuine value, it has to be deeply internalized and clearly tangible to an organization’s employees. It must be something that helps to change the daily rituals of the company, and that introduces new heroes and a new language throughout the organization.

Innovation can only become a true value in a company through collective learning across all its levels, functions, and businesses—usually over considerable time. People need to not just hear that ideas are welcome “from everyone and everywhere,” or that rule breaking and risk taking are encouraged, or that ideas are allowed to fail without incurring punishment; they need to *experience* these things every day. That is when a corporate value becomes tangible enough to guide patterns of behavior across the entire organizational culture.

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