



April 29, 2009
Volume 7, Number 8

Welcome!

We've all heard companies give lip service to the idea that failures — course corrections — must be tolerated in order for innovation to happen. Our feature story this issue highlights the work of Rita Gunther McGrath, co-author of the newly released *Discovery-Driven Growth*, who asserts that failure must be more than tolerated — it must be welcomed and planned for. McGrath cites Procter & Gamble's A.G. Lafley, who famously has said that unless P&G experiences a certain failure rate from innovation efforts, not enough of innovation is happening, as an example of a good approach to failure. McGrath talks more about how to plan for and manage course corrections in this issue's feature story.

Comments and suggestions are welcome – send them to editor@strategyandinnovation.com.

—Renee Hopkins Callahan, Editor

Innosight News and Events

I will be live-blogging and posting Twitter updates from the World Innovation Forum, May 5-6 in New York. Come say hello if you are planning to attend!

<http://us.hsmglobal.com/contenidos/wifhome.html>

Innosight President Scott Anthony will be featured along with Vivian Schiller, President and CEO of National Public Radio in the webinar "Innovating through the Storm: Insights on the Disruption in the Media Industry," which will be held from 11 to 12 EST on May 14.

<https://www1.gotomeeting.com/register/307534729>

Feature: Learning From Failure

If all of your innovation efforts succeed, you're not doing enough — here's how to fail smarter

By Renee Hopkins Callahan

Rita Gunther McGrath, author of Discovery-Driven Growth (Harvard Business Press, 2009) and an Associate Professor at Columbia Business School, spoke with Strategy & Innovation editor Renee Hopkins Callahan about discovery-driven growth and specifically about disengaging from

innovation efforts. Prior to her life in academia, McGrath managed major information technology projects, worked in the political arena, and founded two start-ups. Well-known for her expertise in the areas of strategy, innovation, and growth, she works with global organizations such as Nokia, Microsoft, Swiss Re, and General Electric as well as with smaller growth companies. Her previous books include The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty (2000) and MarketBusters: 40 Strategic Moves that Drive Exceptional Business Growth (2005), both published by the Harvard Business Press.

Q. My understanding from having read the book is that we seem to be synched up in this area of what we're calling "emergent strategy." We've covered this in Chapter 6 of The Innovator's Guide to Growth, among other places, yet we don't often go into as much detail about how this works as you do. You've taken that one concept and detailed it.

A. Yes, I call that "strategy dynamics" — this idea that when the data don't exist, you need to be taking action before you can begin to understand what's going on. The whole strategic planning idea, where you're going to sit there and project out five years — in a lot of today's markets, it's not practical and it's not really going to get you anywhere. So it's the whole concept of you just realizing the right strategy as you go.

We call it "discovery-driven" mainly to get the idea across quickly that this isn't about planning, it's about discovering.

Q. Can you give me the capsule description of what discovery-driven growth is?

A. Sure. Discovery-driven growth had its genesis in the recognition that existing planning systems make a lot of assumptions that are just not borne out in highly uncertain situations. So the book is really about ways that you can take strategic action, minimize your risk, and move forward, even without all the data that conventional planning systems assume you have.

So we start off by saying, let's posit an attractive future — and you can do that at the level of a corporation — and then let's see if the current business will take you there. If it won't, then you need to be thinking about changing your portfolio of opportunities to include areas that you think are high-potential to explore, and that's where you would use these ideas, at the corporate senior executive level. At the level of specific strategic initiatives, we get very pragmatic about how to start, which is by defining what success would look like for a particular project. So we have five steps that you would go through, in terms of developing an approach to each of these strategic initiatives.

And then in the book we also talk about how you get out of a project. How do you terminate something that really isn't working, and how do you do it gracefully, and with as rich an opportunity to learn as possible. And then we talk a lot about how you implement this. This is where a lot of business books go completely dark. OK, I've got the idea, now what do I do with it?

Q. I actually had someone tell me once that in the software industry alone if that lesson could be

learned, profits would shoot through the roof, since “saving face” by keeping a failed project going constitutes a huge productivity drain.

A. Yes, and even though everyone gives lip service to, “oh we learn from failures,” there’s still not a great body of knowledge about how to disengage. In our book we don’t even call it failing, but how to disengage from something gracefully. (See related reference)

Learning from failures has actually become almost a cliché that people scoff at. At a CEO level I certainly am sympathetic — I understand that you don’t like it. And unfortunately a lot of our financial systems and a lot of our investor systems, I think push people inappropriately to try to act more certain or be more certain than the information they have merits.

So we get into this vicious cycle where to gain support for a project somebody goes and puts forth a plan and the plan is full of confident projections. And there you are several weeks into the plan and you suddenly realize that those projections weren’t quite right, that maybe you don’t want to be going north, you want to be going east, and actually instead of shooting for this market, there’s really a much more attractive market over there. Well, now you’ve got this plan that is in front of you and people are now saying, are you on plan, are you on track? And it almost becomes a self-fulfilling prophecy of failure because you didn’t do what people expected you to do.

And I think one of the things people find hardest to let go of is this idea that a good manager is right. So I say “I’m going to ship at the end of March” and I ship at the end of March and that’s goodness, and I don’t ship by the end of March and that’s bad. Well, you may discover by the end of February that March is just a really terrible time to ship.

And so we have this real pressure on organizations to try to do what we said we would do without necessarily having that make any sense at all.

Q. It almost sounds like this is actually part of what went wrong with our economy, at least with the financial companies.

A. Oh yeah, for sure. What you had was the classic syndrome I’ve already discussed, plus a couple of things that made it even worse. You had a series of assumptions that people made about the way things work, so “housing prices always go up” was an example; and then never really validated that assumption against any other kind of data. And then exacerbating that effect you had these lethal incentive systems, which encouraged people to get in deeper and deeper and deeper. And there was no kind of natural stopgap to the crisis. I think you can explain a huge amount about this crisis by looking at the flawed way decisions got made.

What’s fascinating to me, I believe it was in 2003, that Warren Buffett said you know some of these instruments are financial weapons of mass destruction. He’s not a stupid guy. So it wasn’t that the data weren’t there if somebody wanted to look; I think what you had was a situation in which the incentives were such that nobody was motivated to look. That people had such a vested interest in the party going on the way it was, there was no moment to pause and say that “this is crazy.”

Q. I've heard you say the current recession can be a positive for innovation. In what way?

A. Almost every company is going through a near-death experience now due to the economy, and a near-death experience makes it easier for a company to transform. Here's one example: Sealed Air managed to transform by manufacturing a near-death experience. In the late 80s, they engineered a variant of a leveraged buyout, gave a mass dividend to shareholders, and put the company into a precarious situation. This had the effect of pulling everyone together into a galvanizing effort.

GE transformed with regular hard work on the part of management. Sometimes leaders can make the case that early warnings presage problems. When Jack Welch took over, he called early warnings, saying "we're not set up to compete." Fortunately, GE did one thing at a time, first working on product, then moving through globalization and Six Sigma. Trying to undertake 15 initiatives, all at once, is no way to transform a company.

Q. What else can companies do to get through the recession intact?

A. Research suggests that companies that hunker down, focus on their core, and stop growing during uncertain times such as we're in now will find themselves disadvantaged when we get to the other side of this. Yet growth requires different disciplines than the core business. Habit and fear of risk can be issues, so companies should start small with something that is not mission-critical, and get people comfortable with that. The good news is that most of the things that get in the way of growth are internal and self-inflicted. And if they're internally generated issues and factors, they're within your power to change. It's a fact that in the current economy, weaker companies will disappear. But you don't have to be perfect — you just need to be better than the others.

Related references

Book excerpt: http://www.innosight.com/innovation_resources/article.html?id=783

Disrupt-O-Meter: OnLive

By Andrew Liang

The brand-new gaming service OnLive, has been surprising and delighting consumers and pundits (myself included – see related reference) since it was announced about a month ago. The service proposes a very different and novel way of delivering games — users stream the games over the Internet instead of running them on physically local hardware. In so doing, OnLive challenges the conventional wisdom that the Internet just isn't good enough to stream content like graphically intensive games at high resolutions without perceptible lag. If OnLive can deliver against this ambitious goal it may have substantial disruptive potential.

Disruptive analysis

Customer

OnLive may attract people who currently play games on their computers and consoles, but also has the potential to bring in new gamers by removing barriers like cost and complexity; additionally, OnLive could target nonconsuming circumstances (like travel) in which potential consumers are away from their consoles, but have Internet access. OnLive could allow customers to completely avoid expensive, complex decisions (Xbox 360 or PS3? Alienware or Voodoo? Should I upgrade my graphics card? Do I need more RAM or a faster processor?) by making games available on virtually any computer, or through an inexpensive console.

Solution

OnLive's streaming game service and "micro-console" allow games to be played on any computer with a web browser and reasonably speedy Internet connection, or on OnLive's own inexpensive console. OnLive does require an Internet connection of at least 1.5 Mbps (or 5 Mbps for HD resolutions), which could be a barrier for some users, but most people in the United States now have broadband connections and penetration is only going to increase (see related reference).

Business model

OnLive's pricing scheme is not yet set in stone (the service is not scheduled to launch officially until the end of this year), but there will probably be a charge per game, and subscription models are also a possibility. OnLive has promised to include robust multiplayer functionality "beyond normal online multiplayer action"; this could include extensive social networking features.

Competitive landscape

By providing a new channel through which game developers can deliver their content to consumers, OnLive competes head-to-head with console manufacturers like Nintendo, Microsoft, and Sony. By eliminating high-end system requirements for PC games, OnLive also threatens the

manufacturers of powerful desktop and laptop computers, including HP's Voodoo and Dell's Alienware.

Likely outcome

Extremely disruptive: undercuts hardware manufacturers while removing cost and complexity barriers standing in the way of nonconsumers.

Given what we know so far (and with the caveat that the service has just barely entered beta and won't be widely available for months), OnLive is definitely pushing our disruptive buttons. It utilizes a technology that's finally gotten good enough to replace existing solutions that overshoot many consumers and are expensive enough that they create barriers to entry for consumers who just don't think it's worth it to spend hundreds or thousands of additional dollars on computing hardware just so Crysis can render textures just right.

Although the OnLive service seems to have tremendous potential, two areas will be important to keep an eye on as it moves closer to launch.

Stakeholders' response

In addition to dramatically changing the way consumers play games, OnLive could be a game-changer (pun definitely intended) for two groups of stakeholders. First, game publishers and developers stand to gain a great deal from OnLive for two key reasons. One is that because OnLive makes gaming more accessible to more people, it expands the market for games and delivers millions of potential new consumers to EA, Ubisoft, and others. The second reason is that if OnLive becomes popular enough, it could reduce (or eventually eliminate) the high costs of porting games to other systems. Currently, developers spend a good deal of time and money making separate versions of games for different platforms, and there are entire companies that specialize in taking games written for one platform and porting them to another (see related reference). Since OnLive would allow games to be run on a single platform — OnLive's servers — developers would only need to make a single version to reach gamers on computers (PCs and Macs alike) and TVs (through OnLive's console).

The second group of stakeholders — hardware manufacturers — could be facing an enormous threat. The value proposition of companies that promise to deliver "the fastest, most intense graphics" for almost \$4,000 flies out the window when OnLive becomes available (see related reference).

Meanwhile, OnLive seems to be fairly well-protected from competitors, at least for the time being. Its service relies on a novel compression technology that presumably took time, effort, and intelligent people to bring to fruition. Given that game developers will need to invest their own time and effort to begin releasing games for this new platform, OnLive will probably enjoy a first-mover advantage as its system becomes better-understood by developers and adopted by consumers.

Is it really good enough?

The one lingering doubt I have about OnLive has to do with the fundamental problem it claims to have overcome: Internet connections' speed and reliability. Despite the rapid increases in global broadband penetration, many consumers' Internet connections remain somewhat spotty and unreliable, and speeds often vary widely depending on how many other people are online at a given time. OnLive's controlled demonstrations have been very impressive so far, but when the service ventures out into the real world I worry that it may not deliver a "good enough" substitute for local hardware for as many people as its founders hope.

Another, related concern has to do with the emerging possibility of Internet usage caps. Comcast, AT&T, and Time Warner have all begun experimenting with limiting the amount of data users can download every month. If these caps and "metered" Internet usage become more widespread, the costs of using a service like OnLive might markedly increase, making it less attractive. Whether this will be a substantial obstacle depends on ISPs and the amount of data OnLive streams.

The bottom line

OnLive's offering and business model seem to fit our disruptive frameworks extremely well, and its value proposition could transform an industry. That said, it relies on a technology that is by no means a sure thing, and consumers' actual experiences may differ from the polished demonstrations we've seen so far. (I've already experienced one ironic hiccup: The introductory video on OnLive's website loads like molasses.) We'll be watching OnLive closely as we learn more and its launch gets closer.

Related references

<http://www.innosight.com/blog/334-disrupting-gaming-onlive-makes-good-enough-look-great.html>

<http://www.gartner.com/it/page.jsp?id=729907>

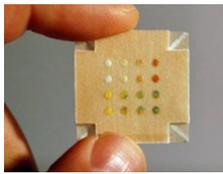
http://en.wikipedia.org/wiki/Aspyr_Media

<http://www.alienware.com/products/alx-x58-desktop.aspx?SysCode=PC-ALX-X58&SubCode=SKU-DEFAULT>

Emerging Technology Watch: Advances in Diagnostics

By Renee Hopkins Callahan

A new wireless microsensors that measures oxygen levels in brain could become the basis for tiny devices to help test drugs and other treatments for patients with traumatic brain injury, Alzheimer's and Parkinson's diseases, and other conditions, report scientists from Italy and Ireland who have been working on the technology (see related references). In addition to being much smaller than current brain monitoring technologies, the new microsensors gives second-by-second, real-time readings of brain oxygen levels that help provide a better understanding of the brain in health and disease, the researchers say.



Other research by Harvard University Professor George Whitesides has resulted in diagnostics devices made of paper (see related references). The result is a disposable, quick, inexpensive test that can check a tiny amount of urine or blood for evidence of infectious diseases or chronic conditions. The finished devices are squares of paper roughly the size of postage stamps. The edge of a square is dipped into a urine sample or pressed against a drop of blood, and the liquid moves through channels into testing wells. Depending on the chemicals present, different reactions occur in the wells, turning the paper blue, red, yellow, or green. A reference key is used to interpret the results. The test could make diagnosis much more effective in undeveloped areas. For example (see related reference), in order to use the devices in remote locations without medical facilities, the researchers have also begun work on coupling the paper tests with cell phones, so that the results can be photographed, sent to a center, and read by a technician who can send recommendations back via phone.

Related references

<http://www.sciencedaily.com/releases/2009/04/090420084748.htm>

http://www.technologyreview.com/read_article.aspx?ch=specialsections&sc=tr10&id=22113

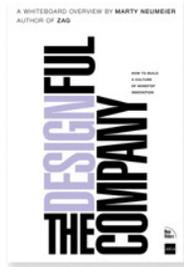
<http://blogs.discovermagazine.com/80beats/2008/12/10/diagnostic-lab-made-of-paper-and-tape-could-lead-to-a-2-cent-hiv-test/>

Image courtesy of Discover magazine.

From the InnoBlog

The Designful Company: Post2Post Virtual Book Tour Interview

By Renee Hopkins Callahan



This post is the last stop on the Post2Post Virtual Book Tour for the book *The Designful Company* by Martin Neumier, who is also author of *The Brand Gap* and *Zag: The Number One Strategy of High-Performance Brands* (see related references). I'm glad I had the opportunity to read this book and talk with the author, because I have to admit to some skepticism about the entire design-thinking movement and the effort to make all innovation be about design.

However, after reading this book and engaging in the following email dialogue with Marty Neumier, I now understand more about the entire point of design thinking than I did before. It all hinges on how you are defining *design* and how much latitude can be given to using that broader description to drive corporate innovation.

Here's the interview:

R: Clearly when you talk about “design” as a way of apprehending and seeing the world, you are not talking about the design of room décor. For those not already on the “design thinking” bandwagon (and not already designers), what is the working definition of “design” that makes it appropriate as a system and not an action?

M: In my view, design can be a system, an action, or the outcome of an action. For example, I work in design (the system of thought), I design things (the action), and the results are various designs (the deliverables). I especially like Herbert Simon's definition of a designer. Simon was a Nobel-winning social scientist who helped pioneer artificial intelligence. He said: "Everyone designs who devises courses of action aimed at changing existing situations into preferred ones."

My purpose in writing *The Designful Company* was to show that the discipline and the activity of design can be applied to more than "posters and toasters," or communications and products. It can also be applied to higher order challenges such as brand-building, decision-making, organizational structure, and management models.

R: You say that you can apply the principles of aesthetics to strategy and organizational change. How can aesthetics work for these things in a prescriptive way, rather than a descriptive — i.e., how can aesthetics be used to drive and guide strategy and organizational change, as opposed to being used to looking backward at those things and assign aesthetic principles to the results after the fact?

M: Nice observation. We normally "ascribe" aesthetic qualities to things we already believe are beautiful, don't we? But that's because most of us don't think like designers. We think like

audiences who have little control over our experiences, except the control that comes from choosing. We've become a culture of shoppers. We expect to choose our solutions off the "solutions rack," instead of creating new solutions that weren't there before. When you start "designing" solutions, you bring along the need for aesthetics — concepts like contrast, rhythm, pattern, scale, simplicity, and efficiency — to inform your solutions, instead of noticing them after the fact. You become a maker instead of an audience member.

R: I'm particularly interested in the concepts of simplicity and efficiency. How can these be used to drive innovation at the organizational level?

M: It's easy to be innovative once. Most great businesses are founded on one great innovation. It's much harder to be innovative time and time again. To do that, you need a culture of innovation.

But what happens is that companies start building on their first successful innovation by adding more complexity — extra processes, controls, brand extensions, and so on — to bolster and commercialize what's working. This added complexity makes it more difficult to recreate the conditions that gave rise to the original innovation.

So what they need to do is to break down the silos, the complexity, and the rigid thinking so that they reclaim the simplicity that first allowed them to innovate. They need to become "designful" again.

*R: There's an ongoing debate as to whether a company culture must be innovative in order for the company to be innovative, or whether putting one innovation foot ahead of the other and pushing forward anyway can lead a company to develop an innovation culture. You seem to be in the first group here. Please talk about why you feel it's important for a company to develop an innovation culture *before* trying to innovate, and talk about how they might go about doing that.*

M: I'm actually in the second group. Realistically, a company can't wait until its culture has been fully transformed before starting to innovate. In my book I outline 16 "levers of change" that can be used separately or in concert to move the organization from a spreadsheet-driven company to a design-driven company. Of course, the further along the transformation curve, the easier it is to innovate.

R: I sense a tension in your book between asserting that everyone can be trained in design thinking and that you need real designers to be able to innovate. Are you saying that there's a class of people who are designers and therefore able to do this, and another set of people who don't have this talent and therefore are doomed to always need a designer to turn to for creative thinking?

M: No. I've found that most people are already design thinkers — they're just unaware of it. If designing is about changing an existing situation into a preferred one, then we're all designers. The only question is whether we can marshal the principles and processes of design to apply them deliberately and effectively.

People don't easily acquire new skills, much less a new way of thinking. So the best way for a company to jumpstart a culture of innovation — at least in my experience — is to build a strong internal brand department that can work across silos to influence the rest of the company. The process starts with hiring the right people.

R: How would you go about training non-designers to think more like designers?

M: I'd use a "branded training program." I'd start a company-wide educational program that teaches rarefied skills in the areas of innovation, collaboration, communication, brand strategy, and brand behavior. I say "branded training" because the skills shouldn't be generic — they should be aligned with the unique purpose and strategy of the business. The fact is, a company can't out-innovate the competition unless it can first out-learn it.

My view is that anyone can think more like a designer by simply making it a priority. Like the zen master says, when the student is ready, the teacher appears

Here are links to the previous reviews, interviews, and podcasts on the tour:

Monday, April 20: Brand Autopsy
<http://brandautopsy.typepad.com/>

Tuesday, April 21: The Marketing Fresh Peel
<http://freshpeel.com/>

Wednesday, April 22: Idea Sandbox
<http://www.idea-sandbox.com/blog/>

Thursday, April 23: Principled Innovation
<http://www.principledinnovation.com/blog/>

Related references

<http://www.idea-sandbox.com/post2post-background/>

<http://www.peachpit.com/store/product.aspx?isbn=0321580060>

<http://www.amazon.com/gp/product/0321348109/?SubscriptionId=1JCQD9WSP6113SZ5DG2>

<http://www.amazon.com/gp/product/0321426770/?SubscriptionId=1JCQD9WSP6113SZ5DG2>

Innovation Links Posts

We've started posting once or twice a week annotated links to various news and blog items of interest in the innovation world. Since the last *Strategy & Innovation* was published, this link has been posted:

April 23: <http://www.innosight.com/blog/346-innovation-links-for-april-23.html>

Strategy & Innovation is published by Innosight, whose consulting and training services help companies create new growth through innovation. Building on the disruptive innovation frameworks developed by our founder, Harvard Business School professor Clayton Christensen, Innosight's approach and proprietary tools facilitate the discovery of new, high-growth markets and the rapid creation of breakthrough products and services. This new digital issue of Strategy & Innovation incorporates Innovators' Insights. If you have an issue that you would like analyzed or if you have a comment, please email editor@strategyandinnovation.com.