# Is Innovation on the Agenda?

**COLUMBIA BUSINESS SCHOOL PROFESSOR RITA MCGRATH ON METRICS, INNOVATION MATURITY, AND ‘ORGANIZATIONAL DEBT’**

INTERVIEW BY KELSEY ALPAIO

**How often is innovation the highest-priority issue at your company? ¶ In many organizations, it happens once a quarter when the innovation council convenes, or once a year when the employee idea competition rolls around. ¶ Rita McGrath says it ought to happen at every meeting. ¶ “If you believe innovation is important, it should be in position one, two, or three on the agenda of every meeting that you have,” she says. ¶ McGrath is a professor at Columbia Business School and author of the book *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business.* In an interview with Innovation Leader, McGrath talks about measuring inputs and outcomes, “organizational debt,” and innovation maturity.**

### 'THE END OF COMPETITIVE ADVANTAGE'

[There was] a very core idea in strategy that what you wanted as a strategist was to find a competitive advantage that would last a long, long time. That's called a sustainable competitive advantage.

That's great if you can find one. But what we're seeing is—as entry barriers come down, and it's harder and harder to insulate and protect a business—that you're dealing instead with temporary advantages. The advantage is created, you have a time to exploit it for a while, and then it goes on the decline.

There are six elements of what I call a "New Playbook for Strategy":

1 Instead of change being the weird thing and stability the normal thing, you want to flip that around so that change becomes more than just an interruption. It becomes the way that we do things, so that we're constantly moving forward in a more agile way.

2 We need to get much better at disengaging. By the time an advantage has lost its power, you want to be able to pull the resources out of it so that you can reintroduce them into something else.

3 You need to be able to move resources around the organization in a pretty rapid way. The dilemma is [that] means that somebody's got to give up resources for somebody else to get them. There's always this political tussling that happens. The research suggests that if you don't have that process in place,

> **"Very often, what will happen is that the investment intended to drive growth just gets sucked back into the core business..."**

[your] resources will go into defending an existing advantage rather than inventing something that's new.

4 Innovation really has to be a proficiency. More than just getting ideas, more than episodically. What you see a lot is you'll have an important person say, "Well, you, you, and you go do a skunkworks ..." But it's not a consistent organizational process. It's dependent on one person or a single champion, and often it comes and goes. That's no way to build a reliable, repeatable process.

5 Leaders need to be taking in different kinds of information. One of the big leadership challenges is, how do you make sure that data from the outside get incorporated in your decision-making? Don't be afraid to shift direction if you need to.

6 A lot of this has huge implications for careers, and how people find their way and find their jobs. The argument I make is we're all entrepreneurial now, and we're all needing to prepare ourselves for the next investment, for the next gig...That's new. For a lot of us, we used to think that the company is taking care of us or planning our careers. It was all about the hierarchy, and we're moving to a world where that's just not the model any longer.

### PAY ATTENTION TO MORE THAN IDEATION

It starts with your agenda, and I mean that incredibly literally. If you believe innovation is important, it should be in position one, two, or three on the agenda of every meeting that you have...Even if you just start the meeting by touching base quickly on something having to do with innovation.

I think the second big thing you want to look at are your metrics. Are you measuring the inputs of getting the ideas? Are you measuring the process—how the ideas go through your pipeline—and are you measuring the outputs?

One of the biggest dilemmas is that companies tend to focus on just getting the ideas, having that ideation stuff going on, whereas there are actually three processes. There's getting ideas, then there's bringing them to life, and then there's accelerating them so that they actually join your parent company in a meaningful way. We tend to focus too much on the ideation part.

The third [thing] is just making it really clear that you expect people to be delivering innovation as much as you expect them to be delivering anything else.

It's also super important to separate out the investment that's destined for growth and innovation from the investment that's just everyday business as usual. Very often what will happen is the investment intended to drive growth just gets sucked back into the core business.

### MEASURING INPUTS, THROUGHPUTS, AND OUTCOMES

You want to measure supply as well as demand of innovations. You need metrics that measure the inputs—where are the ideas?—

you need metrics that measure the throughputs, and then you need metrics that measure the outcomes.

On the input side, it would be things like how many people were trained, how many ideas went through the funnel, how many things got vetted, how long did all this take?

On the throughput side, you want to look at how many innovations made it to what stage. You might want to look at the total sum of learning that you had, [and] where did that get distributed?

On the outcomes, typical measures would be things like, how many of the offerings we have on the market are new within the last two or three years? How fresh is our book of business? How old is our oldest item in the product line?

You want to measure what comes in, how it gets managed, and then what goes out. What a lot of firms do is they'll just measure the outputs—they'll have a number. 3M famously [wanted to] have 20 percent of all products be new within the last few years.

Or they'll just measure the inputs: "We had 75 million great ideas, we trained 27 people," that kind of thing. You really want the complete gestalt of measuring the whole system all the way through.

Organizations also respond to stories. At 3M, for instance, they'll tell great stories about innovations that didn't succeed in the marketplace—but nonetheless they really honor the people who introduced them, innovated them, who were championing them. I think organizational stories are really critical.

The same applies in reverse. If you have a lot of stories about how so-and-so took a risk on innovation, it didn't work out, and it killed his career, those stories also get around.

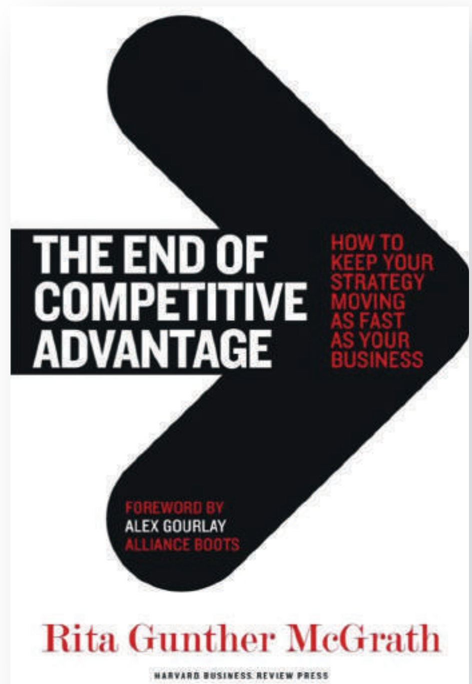
[At the manufacturing firm] Emerson Electric, you have full stories about how the CEO went into a towering rage because these two projects didn't get the support they needed, so they stalled. Or we missed a market opportunity because somebody wasn't thinking [far] ahead enough about the customer. Those kinds of stories, they motivate people.

## TECHNICAL AND ORGANIZATIONAL DEBT

New ventures go through phases. At the ideation stage, what you need are people who are very good at listening to customer pain points; who are good at marrying the art of the possible with what that customer's pain is; who understand technology; who understand where things are going.

All the way through that incubation process, those people make a lot of sense. When you get to acceleration, which is the entry into the marke ...that's where you need a different skill set.

You have a couple of different things that happen at that stage. The first thing is that you have to deal with technical debt. Technical debt's very well understood by technology people. What it means is that in the early stages, you don't build incredibly rich, complex software; you build kludgy little prototypes and things that kind of work, and maybe they don't.




Eventually, what you have to do is... they call it refactoring. You have to now build robust systems. It has to have all the cybercrime protection. That's expensive. It takes time.

You also have what you might think of as organizational debt. In the early stages, we're all one big happy family. Who cares about titles [and reporting] lines? But when you have to scale, you need a Vice President of Operations. You need a person who's going to direct sales. You need to change the team.

You can almost think of it like refactoring the team. The bright, blank sheet of paper, the "this would be so cool" kind of guys, are probably not the guys you want running your supply chain.

One organization I work with a lot is out in Silicon Valley. They're called Mach49, and they have a very interesting system, where they'll take your venture into their incubator for 12 weeks. They spend the first four weeks talking to customers, really understanding customer pain points. They spend the middle period doing prototyping...Then the last four weeks you're building the business plan.

When the company that sponsors these teams and the executives come back to the incubator, they can say, "Yes, we want to invest. We want to take it to the next level. We want to continue to develop it." Or, "At this point we're not interested. We don't think you've come up with anything we can really get behind." It's kind of a forcing function.

The other thing that happens in big companies is [that] everybody's busy. Unless you have time to pull people out of their jobs and focus on this [new thing], the day job always gets the attention. You need some kind of forcing function to bring these things up to scale. [For example], time until a pitch day. A time-limited period in the incubator is another one. Commitments to have something to show by a certain date. They're all examples of things that focus people's attention.

The other thing that is really important is you can't overload people too much, because when everything's a priority, nothing's a priority. It's very easy to get lost in the swamp at that point.

## BUILDING YOUR TOOLBOX

What I do think we're seeing is the emergence of a set of best practices and best tools that people can put in their tool box and utilize. Corporations are inching more towards real proficiency in innovation.

I'm working on a program I'm calling an Innovation Maturity Index, which is basically one to eight. If you're at a one, you're not even aware that you need innovation. There's no process in place. Then as you move through the various stages, eventually you get to a place where it's robust, there are processes, there's technologies around it, people are trained, people understand what they're trying to do, and it happens without the senior person pushing all the time.

Companies that are very high level would be Amazon, of course, companies like Royal DSM, which is a Dutch-based materials maker. Aetna, which has really transformed its business. There are some good examples of companies that have become much more mature in terms of their innovation procedures. ●

## RITA MCGRATH: INNOVATION MATURITY SCALE

**01 BIAS TOWARD EXPLOITATION**

Status quo is taken for granted as the right way to do things. Emphasis on sustainable advantage. Often, a long history of success.

**02 INNOVATION THEATER**

Desire to improve and innovate exists in islands, but there is little support across the organization. There may be workshops, bootcamps and visits to Silicon Valley, but no sustained effort.

**03 LOCALIZED INNOVATION**

More innovative activity, but no official recognition of innovation as a discipline. One or two groups within the company initiate local efforts to innovate. Typically dependent on key sponsor, and often episodic.

**04 OPPORTUNISTIC INNOVATION**

Innovation is recognized by senior execs as being an important proficiency. When opportunities are perceived, there is more attention paid and resources allocated. The organization still prioritizes the 'day job.'

**05 EMERGENT PROFICIENCY**

Executive sponsorship includes dedicated resources of both time and money. First signs of innovation metrics. Early stage governance, funding, and processes.

**06 MATURING PROFICIENCY**

Strong executive commitment and resourcing. Teams have a set of repeatable, scaled best practices to guide their innovation. Upper management monitors these quality indicators.

**07 STRATEGIC INNOVATION**

CEO recognizes and articulates publicly that innovation is integrated into the company's central defining mission. Each step in the product development lifecycle benefits from the innovation practices.

**08 INNOVATION MASTERY**

Corporate commitment to innovation at all levels creates a portfolio of wins, and cadres of highly-skilled practitioners, enabling the mastery of innovation to contribute to the global community.