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The Role of the Chief Innovation Officer

Innovation isn't new, but appointing a C-suite member to oversee it is. Mark Johnson looks at how the CIO's role should be executed

By Mark W. Johnson

Ten years ago, you'd have been hard-pressed to find a chief innovation officer on any company's leadership team. Today such leading companies as AMD (AMD), Citigroup (C), Coca Cola (KO), DuPont (DD), Humana (HUM), and Owens Corning (OC) each have one. Many others, including Johnson & Johnson (JNJ), have senior leaders who are tasked with heading innovation in effect, if not in name.

Not that innovation is new: Organizations have been innovating as long as companies have existed. Why the new role now? There are many reasons. Three stand out.

• First, the across-the-board digital revolution that began in the early 1980s intensified greatly in the dot-com era of the 1990s, during which the rate and scale of disruption brought about by innovation was massively accelerated. In 1958, the average length of time a company remained on the Standard & Poor's 500-stock index was 57 years. By 1983 it had dropped to 30 years. In 2008, it was just 18.

• Second, companies have increasingly come to understand the commercial potential of sustainability innovations to reinvigorate mature industries and create entirely new ones. GE's (GE) commitment to "Ecomagination" only begins to suggest how thoroughly sustainability has entered the commercial mainstream and raised innovation to a strategic imperative.

• Third, we now have a much better understanding of the dynamics of innovation, as well as the scale of the threats and opportunities it presents, thanks to investigators and practitioners such as Clayton Christensen of Harvard Business School (a co-founder and board member of Innosight), whose seminal work on disruptive innovation has not only gained wide currency, but also been tested in numerous ventures. As a result, companies understand better how to manage innovation—and why they must do so at the highest levels of leadership.

Because the CIO position is relatively new, its precise contours are still emerging. While each company is different and the role of innovation will necessarily vary from company to company and industry to industry, there are three critical areas of innovation for which all top innovation executives should take responsibility: language, learning, and long-term structure.

DEVISING A LANGUAGE OF INNOVATION

A common language that is used across the entire organization helps frame a company's principles of innovation. The starting point for that shared language is a practical definition of innovation. The definition I favor depicts innovation as something new: a product, service, process, business model, or combination thereof that can be commercialized because it solves the problem of a "job to be done" for the customer. Whatever language is used, it should distinguish between innovation in the core business and innovation that creates platforms for new-business creation. That distinction is critically important because the chief innovation officer's raison d'etre is to lead new-business innovation that will ensure the company's continued survival and growth.

To be effective, this common language can't be handed down. It must be hammered out with executives, managers, and subject-matter experts at all levels in workshops and strategy discussions, so there can be no mistaking what is meant when the subject of innovation is on the table. A primary task then, of the chief innovation officer, is to oversee someone who is responsible for executive training and can make sure that the company's language of innovation and the principles it embodies are widely disseminated and practiced.

A shared language can help sort out the seemingly conflicting imperatives of operating (and innovating) in the core while also planting seeds for future growth. Innovation in the core business is often largely a matter of executing processes in a traditional team structure through the company's traditional channels and partners. People working on that side of the house can expect their performance to be judged in traditional ways. New-business innovation, however, needs to be managed and measured in an entirely different way because it involves testing assumptions, adjusting when assumptions prove unwarranted, and changing course quickly and creatively as new knowledge is gained. That is uncomfortable territory for many people, unless they know that these distinctions—and dual management systems—are understood and underwritten at the highest levels of the company.

TESTING ASSUMPTIONS WITH PROTOTYPES

Managing the learning process when innovating for new-business growth is the second critical area of responsibility for the chief innovation officer. Core-business innovation proceeds largely on established knowledge about markets, customers, competition, and capabilities, which can be extended to bring something new to market at scale. New-business innovation proceeds in small-scale, controlled experiments conducted in a foothold market—a small geographic region or customer group that will serve as a low-cost laboratory. Top innovation officers need to keep such incubation efforts free of interference from the core business and allow the innovation team the autonomy to determine quickly if the idea is viable, needs to be modified, or should be abandoned.

These demonstration projects, overseen by the chief innovation officer, are designed to convert assumptions into knowledge of what works and what doesn't. For example, a prototype might help determine customers' willingness to pay for a product or service, along with how they use it, their frequency of purchase, and their willingness to make certain trade-offs among features, price, and convenience. Such experiments might be supplemented with focus groups, secondary research, and the involvement of potential customers in the design of a product or a business. The knowledge that emerges can then be transferred across the company, which requires the chief innovation officer to work closely with the organization's chief knowledge officer or the equivalent.

Because the goal is learning, progress should be measured accordingly. Just as the chief financial officer uses financial metrics, the chief innovation officer uses learning metrics: What did the organization learn, how did it learn, how much, and how fast? When is the ratio of knowledge to assumptions high enough that we know we have a viable new business? It is in devising these measures that the top innovation executive makes explicit the connections between learning and the shared language of innovation. Each reinforces the other.

USING STRUCTURE TO UNLOCK CREATIVITY

The failure rate, a critical learning metric, is likely to be high. Generally, in the absence of a structured approach to new-business innovation, about 1 in 10 new ideas works out. By taking the test-and-learn approach, the chief innovation officer can increase the hit rate to as much as 3 out of 10—a batting average that might be unacceptable in core-business innovation but can get you into the Hall of Fame in new-business innovation.

Long-term structure, the third critical area of a top innovation officer's responsibility, translates the language of innovation and its focus on learning into a repeatable process, using structure to unlock creativity. With a budget, a clear charter, and distinct governance measures and milestones, new-business innovation moves from the ad hoc to the institutional.

That structure depends not just on processes, but also on people. The top innovation officer has to cultivate the right talent—identifying people who can deal with ambiguity, learn from failure, and are comfortable working in an area where expectations and measures of success may differ sharply from those of the core business. That executive must make sure that the careers of these uniquely talented people won't be tainted by the frequent failure associated with new-business innovation.

A chief innovation officer who assembles and presides over innovators of all stripes with a common language and approach to learning—succeeding together in a structured environment of highly productive and appropriate rules and norms—will create a culture in which both the ongoing business and new growth can flourish.

Mark W. Johnson is Chairman and Co-Founder of innovation consulting and research firm, Innosight. He is the author of Seizing the White Space: Business Model Innovation for Transformative Growth and Renewal, (Harvard Business Press, February 2010) and a co-author of The Innovator's Guide to Growth (Harvard Business Press, July 2008).