

# The Why, What and How of Management Innovation

**by Gary Hamel**  
**Harvard Business Review**  
**February 2006**



# Why Management Innovation Matters

General Electric, DuPont, Procter & Gamble,  
Visa, Linux



What makes them stand out?  
Great Products? Great people? Great leaders?



More fundamental reason for their success....Management Innovation

# Why Management Innovation Matters

## General Electric

- brought management discipline to the chaos of scientific discovery

## DuPont

- developed standards of comparing performance of its product departments

## Procter & Gamble

- creates value out of intangible assets

## Visa

- formed a consortium in the US in the early 1970's that created one of the world's best known brands

## Linux

- open source development is highly effective in coordinating the efforts of geographically dispersed individuals



# Why Management Innovation Matters

Management Innovation creates lasting advantage when it is:

- a novel principle that challenges management orthodoxy
- systemic
- part of on-going invention



# Why Management Innovation Matters

## Harnessing employee intellect at Toyota

- Employees are more than cogs
  - They are problem solvers, innovators and change agents
- Gave every employee the skills, tools and the permission to solve problems
- Real advantage was ability to harness intellect of “ordinary” employees
- More unconventional the principle, the longer it takes for competitors to respond



# Why Management Innovation Matters

## Building community at Whole Foods

- Create an organization based on love rather than fear
- Community working together to create value for other people
- Managers consult teams on all store level decisions
- Bonuses are paid to teams not individuals
- Members have access to comprehensive financial data, including the details of every co-workers compensation
- 94% of all stock options have been granted to non-executives
- Distinctive management not a single management process



# Why Management Innovation Matters



## Growing great leaders at GE

- Persistent
- Dedicated training facility in Crotonville, NY
- 360-degree feedback
- Power law: Innovation numbers game
  - the more you do, the better your chances of reaping greater payback



# Management Innovation is...

A marked departure from traditional management principles, processes, and practices or a departure from the customary organizational forms that significantly alters the way the work of management is performed.







# Operational versus Management Innovation


Operations innovation focuses on business processes while management innovation targets the company's management processes





# Whirlpool

Whitwam 's challenge to leadership team:  
Turn Whirlpool into a font of rule-breaking,  
customer-pleasing innovation



“innovation from everyone, everywhere”



# Whirlpool's First Innovation Czar

Nancy Snyder created a


five year quest to reinvent company's management processes included:

- Innovation central topic in Leadership development
- Requiring sizable new-to-market product development plan
- Setting aside substantial share of capital for projects that meet tougher innovation standards
- Training more than 600 innovation mentors
- Enrolling every salaried employee in an online course on business innovation
- Tying innovation to top management's bonus plans
- Setting aside time in quarterly business meeting to focus on innovation performance
- Building an innovation portal
- Developing a set of metrics to track innovation inputs, throughputs and outputs

Estimated that by 2007, innovation will add more than \$500 million a year to Whirlpool's top line




# Increasing the odds of “Eureka”

- Bewitching problem that demands new thinking
  - Novel principles or paradigms that have power to illuminate new approaches
  - Careful deconstruction of conventions and dogma that constrain creative thinking
  - Examples and analogies that help redefine possibilities
- 




# Elements of Management Innovation

- Commit to a big problem
  - Search for new approaches
  - Deconstruct your management orthodoxies
  - Exploit the power of analogy
- 



# Elements of Management Innovation

## Commit to a big problem



- What are the tough tradeoffs that your company never seems to get right
  - What are big companies bad at?
  - What are the emerging challenges the future has in store for your company?
- 



# Elements of Management Innovation

## Search for new approaches



- Uncover unconventional principles that open up new seams of management innovation
    - What things exhibit the attributes or capabilities that you'd like to build into your organization?
    - What is it that imbues those things with their enviable qualities?
  - Find ways to drive passion, ingenuity, and self-direction in your organization
- 
- 



# Elements of Management Innovation

## Deconstruct your management orthodoxies


- Able to distinguish between what is apparently true and what is eternally true
  - Is belief toxic to ultimate goal?
  - Can you imagine an alternative to the reality the belief reflects?






# Elements of Management Innovation

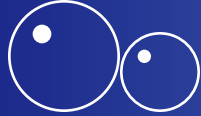
## Exploit the power of analogy

- Hunt down unlikely analogies that suggest new ways of tackling problems
  - Study the unconventional
  - Push autonomy and self-direction
- 



# Three dimensions for whittling down the list of management innovations

- Was it a marked departure from previous management practices?
- Did it confer a competitive advantage on pioneering company?
- Could it be found in some form in organizations today?



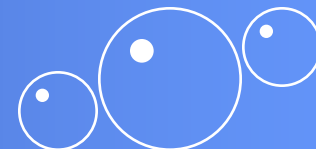
# 12 innovations that shaped modern management

- **Scientific management** (time & motion studies)
- **Cost accounting and variance analysis**
- **Commercial research laboratory** (industrialization of science)
- **Divisionalization**
- **Leadership development**
- **Industry consortia** (multi-company collaborative structures)
- **ROI analysis and capital budgeting**
- **Brand management**
- **Large scale project management**
- **Radical decentralization** (self-organization)
- **Formalized strategic analysis**
- **Employee-driven problem solving**




**Just missed the list:** skunk works, account management, business process reengineering and employee stock ownership plans.

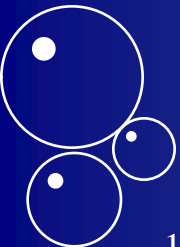
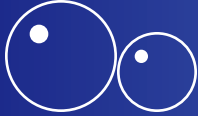
**Quite promising recent innovations:** knowledge management, open source development, and internal markets.



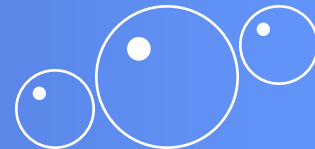


# Getting Started

- Who owns the process?
  - Who has power to change it?
  - What are the objectives
  - What are the success metrics?
  - Who are the customers of the process?
  - Who gets to participate?
  - What are the data or information inputs for this process?
  - What analytical tools are used?
  - What events and milestones drive this process?
  - What kind of decisions does this process generate?
  - What are the decision-making criteria?
  - How are decisions communicated and to whom?
  - How does this process link to other management systems?
- 



12/1/2010



21