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
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 if performed.
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
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?
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
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?
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?