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by Michael Beer, Russell Eisenstat, and Derek Schrader

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Why are so many businesses unable to get new products through their organizations and into the marketplace? Edward J. Ludwig faced such circumstances in 1988 when he took charge as president of New Jersey-based BD's (Becton, Dickinson & Company's) former Diagnostic Instrument Systems (DIS) division. Continued success in diagnostic systems relies heavily on product innovation and software engineering. But Ludwig, who is now chairman, president, and CEO of the global medical technology company, found that the DIS division had lost its edge: a key competitor had improved its own products so that they outperformed DIS's instruments along several important dimensions.

Technology wasn't the issue—the division still had the superior technology overall. Nor was talent a problem—BD continued to retain the skilled engineers that had made it the leader in its field. The organization's design didn't seem to be the problem, either—the division had implemented a project organization strategy to enable the different functions to work together to bring products to market more quickly.

As Ludwig grappled with a way to jump-start change at DIS, he began to wonder if the problem was in the organization's effectiveness. As DIS's new general manager, he did not have a way to quickly assess the sources of ineffectiveness that he knew typically blocked innovation—a siloed organization with poor coordination, inadequate down-the-line leadership of project teams, conflicting priorities, and yes, an ineffective senior team. He suspected that people throughout the division knew a lot about these problems, were sharing them with one another behind closed doors, but were afraid to share them with him. So any information that might point to the truth about the gaps between DIS's business strategy, its capabilities, and the market realities it faced weren't accessible to him or, ultimately, to the organization at large.

The problem that Ludwig faced—leading an organization that didn't have the ability to conduct candid conversations about internal problems—is common. It's a major reason that many technically excellent innovations get stuck inside an organization and never make it to market. According to our studies, the most effective way for a leader to realign his company, certainly when the

strategy is innovation, is to facilitate open and honest conversation about any barriers the organization is facing. In an environment where such frankness has never existed, making a shift toward candor and truthfulness can be arduous and agonizing. We suggest the following actions to make the transformation easier.

ADVOCATE, INQUIRE, REPEAT

A conversation that surfaces the unvarnished truth about an organization's innovation strategy needs to move back and forth between advocacy and inquiry. CEOs and senior leaders need to go beyond advocating and communicating their innovation initiatives. They have to find out what others think by asking: "What are the strengths we should build on? What barriers need to come down for us to implement our innovation strategy?"

Effecting innovation requires that advocacy and inquiry be closely linked. Leaders must advocate, then inquire, and repeat as necessary.

Innovation initiatives tend to fall apart right from the start when top management advocates for a specific project and then begins to implement it without discussing it with key team members and partners in other parts of the organization. This inevitably leads to discovering later that employees had legitimate concerns they never felt free to voice about the project and the capacity of the various parts of the organization to work together effectively and efficiently.

Some managers err in the opposite direction. They don't advocate at all, opting instead to simply inquire. So they assemble a large team of trusted employees and ask for a consensus on direction. This just leads to frustration and, often, stagnation. It's the leader's job to point managers and team members in a specific direction but to make sure it's a direction they can respond to. Effecting innovation requires that advocacy and inquiry be closely linked. Leaders must advocate, then inquire, and repeat as necessary.

FOCUS ON WHAT MATTERS MOST

Energizing an initiative requires that the conversations

about it focus on only the most significant factors facing the organization: the company's ability to carry out the initiative. All too often, leaders become mired in operational details and lose sight of the issues that will guarantee overall success. Leaders must ask themselves the following questions: Do we have a coherent and distinctive innovation strategy that key managers believe in? Do we have the capabilities to execute? What barriers stand in our way? Is our leadership effective?

When Ludwig implemented a strategic fitness process developed by us to enable organization-wide honest conversations that matter, he focused on the most important issues: the division's overall strategy and the barriers to innovation. Through honest conversations, he quickly learned about the real cause of DIS's inability to get its new products to market. The division had a hierarchical culture that dated back to the original owners of the business, which had been acquired by BD several years earlier. The various departments, accustomed to being directed from the top, were unable to cooperate effectively, and its leaders had not learned to initiate fact-based conversations with one another that would get to the heart of the problem. That is why the project organization intended to speed innovation had failed.

DIS's open conversation about the issues that really mattered clarified the division's strategy and energized the organization.

Reflecting on the honest conversation he fostered, Ludwig says, "Getting feedback from the employees was indispensable, and putting it into a strategic context is important. We discussed strategic issues, such as delivering the goods and services to our customers more effectively than our competitors. Once we decided it was strategic, we had to fix it or suffer the consequences; and no one was willing to suffer the consequences of gradual loss of competitive position."

Fundamental business innovations almost always require changing the world view and the behaviors of a whole set of interdependent players—the CEO, the senior leadership team, and managers down the line.

Soon after these candid conversations took root, DIS regained leadership in its market. "The process got things on the table quickly," Ludwig says.

MAKE THE CONVERSATION COLLECTIVE AND PUBLIC

Fundamental business innovations almost always require changing the world view and the behaviors of a whole set of interdependent players—the CEO, the senior leadership team, and managers down the line. This won't happen without a collective, public conversation. By "collective," we mean that several levels of management across important functions and value-chain activities need to be part of the conversation. By "public," we mean that leaders need to keep everyone three to four levels below them informed about what they've learned about the organizational and leadership barriers and what changes they're planning.

This collective, public conversation was critical when sales managers at Mattel Canada were trying to initiate a different kind of innovation: introducing a new sales channel.

To enable safe and constructive honest conversations that matter requires a structured process.

Due to the cyclical, hit-driven nature of the toy industry, excess inventory was a perennial problem for the company. The inventory could be sold off only via heavy discounting, which tended to depress margins for all sales.

Since the warehouse that held the inventory was close to a major Canadian city, a group of employees proposed adding an outlet store to the warehouse. Several managers praised this as an excellent idea, but it was never implemented. It was apparent that conflicts between the sales department and the distribution department were to blame—but no one was willing to confront the conflicts openly.

Mattel Canada finally and successfully implemented its toy outlet innovation only after sales, distribution, and the other departments had an open, fact-based discussion of their issues. At that point, they realized that the outlet store would benefit them all. Sales could maintain better margins by avoiding discounting, distribution could save time by not having to shift around old inventory, and finance would be able to free up capital that had been tied up in inventory.

Mattel Canada used collective conversations so effectively that it transformed its division from Mattel's least profitable international subsidiary to its most profitable.

MAKE IT SAFE TO SPEAK FREELY

In most of the companies we've studied, employees and managers discuss their views about barriers to innovation with a few people they trust but pull their punches in more public venues. Their reluctance to speak publicly is understandable; most fear that being honest would hurt their careers or even endanger their jobs. What's more, many employees and managers worry that candor would only make senior leaders so defensive that the conversation would not lead to change. Many believe that speaking honestly will not make a difference having tried it with little result. So why take a potentially career-limiting risk?

By making it safe to speak honestly, senior leaders are able to unearth the real issues facing innovation and then address them.

To enable safe and constructive honest conversations that matter requires a structured process, our research shows. How can this be done? Appoint a task force to solicit input from across the organization. Choose up to eight of your best managers, and have them interview all the pivotal people responsible for working together to implement the innovation strategy. Task-force members should assure the people they speak to that their comments will be anonymous and that they will report back only general themes they hear from multiple sources, not specific comments that could be traced back to a single source.

It helps, too, to have task-force members interview people outside their functional area so that the person being interviewed doesn't feel inhibited in talking about issues relevant to the task member's field of control. We find that those interviewed open up quickly to task-force members. Why? They are told in advance by a top leader that they will have a direct conversation with the task force and publicize the outcome, something that Ed Ludwig and his senior team had the courage to commit to. Candor also comes when interviewees are assured confidentiality and see the seriousness with which task-force members approach their task, seeing this as their opportunity to make the organization better.

By making it safe to speak honestly, senior leaders are able to unearth the real issues facing innovation and then address them. And they'll see a side benefit as well:

employee commitment will increase. Why? For the first time employees know their senior team is willing to listen and take responsibility for their past actions and decisions.

Ludwig quickly learned that, by opening up the conversation and allowing a critique of organization and leadership effectiveness, he could make rapid change in performance and commitment. Indeed, 12 years later when he became CEO, he successfully employed honest conversations to confront several problems the company faced at the time and build an agenda for change. BD's performance and employee commitment improved dramatically in the years that followed: the company's revenue from continuing operations grew more than \$2 billion from \$3.668 billion in FY 2001 to \$5.738 billion in FY 2006, driven primarily by organic growth.

In 2006, Ludwig again employed honest conversations to drive further improvements. He appointed an Associate Task Force to get confidential and candid feedback from employees from all business segments, functions, and regions. This task force sought to elicit employee perceptions of the organization's strengths and issues to be addressed. The task force reported its findings to the Leadership Team, providing valuable feedback about the company's new product development processes, growth initiatives, efforts to improve operational effectiveness and talent management practices.

It's surprising how few corporate leaders make a genuine effort to foster candor within their companies. Sadly, they lose any chance at building organizations in which speed and transparency contribute to the vitality of their enterprise. Adopting the structured process we have outlined here is a critical first step in creating an agile enterprise that can drive rapid innovation and compete on a global scale. ♦

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