The DNA of Innovative Companies: Visionary CEO or Coherent System?

By Joe Lee and Nate Hutchins

There is no question that Apple has benefited from the visionary leadership of Steve Jobs. Since his return in 1996, Apple has risen from a struggling company with survival in doubt to the "New King of Technology."[1] However, as Jobs recently went on his second medical leave in two years, the prominent question for shareholders, employees, and loyal customers is: Can Apple continue to innovate without Jobs?

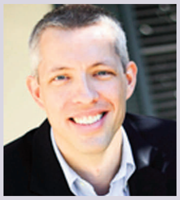
Examples abound of wildly creative and ambitious executives boldly leading their companies into uncharted territory and emerging as vibrant, growing organizations. But as with Jobs, each time an innovative leader leaves a company, the organization's ability to lead progressively in the future comes into question. Similarly, a broader question emerges regarding the extent to which visionary leadership is essential to realizing growth and innovation at any company, let alone those experiencing a change in leadership.

Can companies achieve breakthrough innovation in the absence of a visionary CEO? Can innovation be embedded into the DNA of an organization, such that it repeatedly brings to market game-changing products and services? Our review of today's most innovative companies reveals that a systematic approach to innovation can be as effective for driving growth as a visionary CEO, and perhaps even more sustainable over the long run.

The Visionary CEO

The actions of highly innovative CEOs are often instinctive and reflexive. As such, they are nearly impossible to replicate or imitate systematically. However, if we step back and look at the rationale and effects of their actions, we can design well-aligned processes, incentives, and systems to deliver similar outcomes. Visionary leaders often create disruptive innovation by re-directing the benefits delivered by their company's offerings to address consumer needs previously undetected by industry incumbents. Our analysis reveals three behaviors commonly exhibited by leaders in the course of such a transformation.

First, visionary CEOs *empathize with customers*, enabling them to sense unarticulated needs and create products and services to address them. Consider Jobs' tenure at Apple. Each introduction of the iPod, iPhone, and iPad effectively addressed previously unmet consumer needs. Starting with iTunes and the iPod, Apple recognized consumers' desire to both personalize their entertainment experience, and to be able to take it with them wherever they go. MP3 players had been on the market for some time, but the iPod was the first to service



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these needs with a stylish, easy-to-use, compact player that allowed for seamless digital media management. Apple's solution was elegant, holistic, and highly responsive to customers' needs. Similarly, the iPhone provided users the first smartphone with touch screen and app capability, and the iPad introduced the concept of a visually stunning e-reader and mobile computer without a cumbersome fold-out keyboard.

Second, visionary CEOs *challenge industry orthodoxies* in the course of re-directing benefits toward unmet needs. Take Reed Hastings for example, who when charged an exorbitant fee for returning an "Apollo 13" DVD late, came up with the concept for Netflix – an unconventional alternative to the video rental store. With Netflix, users

[1] Crowned by the New York Times, as Apple overtook Microsoft in market capitalization, May 26, 2010

are able to rent DVDs by mail for a flat fee, with the additional benefit of keeping the movie for as long as they like. This approach challenged the assumption that consumers would only rent movies through brick and mortar stores, and that set rental periods with associated late fees were essential to maintaining profitability. The convenience and flexibility offered by the Netflix business model has helped push the conventional video rental industry towards obsolescence within a decade.

Third, visionary CEOs employ *conviction and persistence* to overcome resistance to disruptive innovation. The dynamic of introducing innovative products is often met with an enormous backlash from internal and external stakeholders who benefit from preserving the status quo. Visionary CEOs enlist their charismatic personalities and contagious passion to drive their companies to realize truly disruptive innovations. For example, it reportedly took James Dyson 5 years and 5,127 prototypes before creating a workable bag-less vacuum cleaner. Even then, manufacturers in the UK would not market the product due to its disruptive nature. Dyson eventually had to sell the initial model through catalogues in Japan. Gradually, by setting up his own manufacturing company, Dyson finally began to sell the product in the UK, eventually outselling several major manufacturers. Since then, Dyson vacuums have received worldwide recognition for their design and effectiveness, and Dyson has further leveraged this capability into bladeless hand dryers and fans.

Embedding Innovation

Understanding the defining attributes of visionary CEOs, how does a company then apply their traits n a manner that is scalable across the organization? We will explore several examples of companies that have systematically captured the essence of the prolific innovator's approach, and woven it into the fabric of their organization.

Empathize with customers

A key component in the process of introducing innovative new products is the ability to seek out and identify unmet or unarticulated customer needs. For example, by adopting a process of open innovation and instilling a consumer insight point of view at its hospitals, Kaiser has been able to introduce a number of change management initiatives that have been lauded by healthcare organizations. Kaiser found it to be so valuable, that it established an internal Innovation Consultancy, with a key mandate to understand its customers. How does it do this? By having people dedicated to observing and recording people as they go about their business at the hospital. It's an almost ethnographic process whereby the group can collect detailed information – where people stand, how they communicate, are things convenient, how are tools used, etc. They capture emotion, environment and the context of events, using seemingly unimportant details to uncover important insights. Processes like these led to the creation of KP MedRite, to mitigate the occurrence of medication errors at hospitals. By identifying instances of high medication error and the circumstances in which those occurred, the group was able to innovate a new process to reduce those errors. The result has been almost $1 million in cost avoidance within a few years of the program rollout.

Challenge industry orthodoxies

Taking an unconventional approach to a mature industry is often a way to seek breakthrough innovation. For example, before Nintendo's Wii hit the market, conventional wisdom in the video game industry suggested that the way to win was to make the gaming experience more "lifelike". Industry leaders Microsoft and Sony continually out-did each other, employing increasingly advanced graphics and resolution to create highly complex, visually stunning, and socially interactive games. Recognizing that "lifelike" could also mean "participative", Nintendo stormed back into the industry by becoming the first major console to use a wireless controller that detects movement in three dimensions. Early games for the Wii stressed simplicity and fun for the whole family, using lower resolution graphics, but getting new gamers out of their seats to join in a more physically active video game. It worked – in 2007, one year after release, the Wii surpassed Microsoft Xbox sales, and in 2008 was the highest selling console in Japan. On top of this, it was optimized to make a profit on every console sale, unlike Sony and Microsoft which took a loss on the console hoping to make it up on games. The makers of the Wii focused on an unconventional target segment by using an unconventional product and produced a major hit.

Install conviction and persistence

While it is essential for the CEO to be passionate about the company, having a company culture of passion and innovation can translate into incredible and sustainable results. 3M's success with innovation is clearly not dependent on any one prolific leader. The company has sustained and grown its pipeline of breakthrough products over its 108 year history, in spite of an average CEO tenure of about 5 years. Its deeply embedded innovative processes and culture are the driving force behind 3M's innovative success. 3M's innovation program began as a heavy independent R&D

approach. It then adopted a Lead User approach, in which small interdisciplinary teams went through phased cycles to gather information and prototype solutions.[2] While the approach provides structure, stories abound of rogue scientists that persist to create the next big breakthrough against management's "cease and desist" orders. The idealization of these developers encourages a passion within the company to innovate against the odds. In addition, programs such as the "New Product Vitality Index" track the share of sales attributable to new products introduced within the last 5 years. By tying its employee long-term incentive plan to this index, 3M actively incentivizes the entire organization to innovate. Combined with a culture that values individuality and innovation, these incentives help create a company that views innovation as a core component of the organization.

Leadership Is Critical But Can Take Multiple Forms

Leadership is critical in the innovation performance of a company. Some leaders, like Steve Jobs, intuitively and reflexivity lead the organization and impose their will, sense of aesthetics, and values on the organization. These organizations are aligned to deliver "what Steve wants" and "What Steve Likes"[3]. Other leaders cultivate a culture of innovation through a coherent system of processes, incentives, skill/leadership development program, and supporting infrastructure, and they lead by guide and empowering their employees to observe, reflect and make decisions. Companies like Kaiser, Nintendo, and 3M have each developed a sustainable pipeline of innovative new products and services – through this systematic approach.

Every company's path to innovation is a unique journey of learning and discovery. The goal is not to mimic every action of the visionary CEO, but rather to embrace key principles of innovation, put them to work in your organization, and learn and adapt accordingly. The insights you glean along the way will be unique to your industry, your company, and your individual style. Some leaders may command and drive the herd through personal wisdom, while others may foster and guide the collective genius of the organization. The common denominator is that deep leadership commitment is critical for realizing a step change in an organization's innovation performance.

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[2] http://www.manufacturingnews.com/news/editorials/shor.html

[3] "When you speak to Apple employees, there is always a lot of talk about Steve and what Steve wants.", *Job-Less: Steve Job's Succession Plan Should Be a Top Priority for Apple*, Knowledge at Wharton, Jan 9, 2009