CIO – Corporate innovation online
Innovation management best practices

Choosing companies to research

Big studies have their place but often make implementation difficult for individual companies.
CIO's research methodology can help!

CMC CERTIFIED MANAGEMENT CONSULTANT

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Sources of information which CIO uses to contribute to its portrayal of best management practices are set out below.

- Arthur D. Little, from the mid 1980s.
- Jim Collin's study published in 2001 in the book Good to Great.
- The online survey, available from 2008 to 2021, provided for over a decade by CIO in order to capture individual opinions.
- Over thirty companies researched by CIO including notably and for in depth reports: 3M, Deere, GE, Starbucks, and P&G

These sources, conducted at close to two -decade intervals, provide insights into the rather vague topic of innovation management best practices. These have not been the only sources accessed but are significant sources of information.

Highlights

Three major studies address innovation management.

- Arthur D. Little – an international study.
- Jim Collins: Good to Great – a study focussed on U.S. based companies.
- CIO – in-depth studies of five U.S. companies augmented by additional research.
- Conclusion – customization is key to making improvements to innovation management.

Arthur D. Little (ADL)

An international study

During the 1980s ADL was, a hot bed for researching and understanding innovation management practices. Not only were extensive study of innovation and innovation practices conducted but also the organization had authors who published information such as 'Breakthroughs[1]' by P. Ranganath Nayak and John Ketteringham. All contributed to a frenzy around the topic. It was new at the time.

Of particular note is the extensive study (and associated significant investment for a consulting company) in an international study completed in the mid 1980s[2]. Executives from companies located in the U.S., Canada, Japan, and Europe were interviewed personally or by questionnaire. The report was 'an

1 Published by Rawson Associates, 1986.
[2] Opportunities for Innovation. Number 9. Management Perspectives on Innovation.

outgrowth of Arthur D. Little's three-year, worldwide research project on innovation management.

By choosing companies from international locations, differences in the attitudes to innovation management were discerned. Indeed, there were notable differences observed among senior executives in the U.S. and Canada compared to those in Europe and Japan. County cultures impacted management practices.

Twenty-eight companies were highlighted and are currently identified in a link on the CIO web site[3].

A major conclusion of the study was that 'it is up to top management to develop the principles, the tools, and the techniques that will enable managers in their companies to profit from innovation in the years ahead'. In other words, leadership is essential.

As almost an aside recommendation, ADL advised that 'the creative use of compensation systems and other rewards can reinforce innovation'. Japanese and European firms, for example, tended to reward with nonmonetary and personal recognition as opposed to the extensive use of financial rewards in use by North America based companies. Base pay and annual pay raises don't work in the North America as 'they are part of business-as-usual in most companies. Stock options were seen as a major part of the answer. How prescient was this observation?

Two important findings emerged from the global study. Innovation can be managed – innovation is not just happenstance. Top management, appreciating the need for innovation, seem to be taking the subject more seriously than historically. Innovation management itself may well be the main managerial innovation for the late 1980s[4].

For American companies, the challenge (of innovation) was real. The decline and fall of several basic industries such as consumer electronics, steel, and automobiles, has been attributed to "unfair" international competition. However, insufficient management emphasis on innovation may also be an important contributing factor – so concludes the ADL report[5].

'Good to Great' by Jim Collins and his team of researchers

A study focussed on U.S.- based companies.

Published in 2001, Collins's book (and his and his teams' ideas) had widespread success and followers among top management in major companies particularly in the U.S. The broad and deep study included only U.S. headquartered companies.

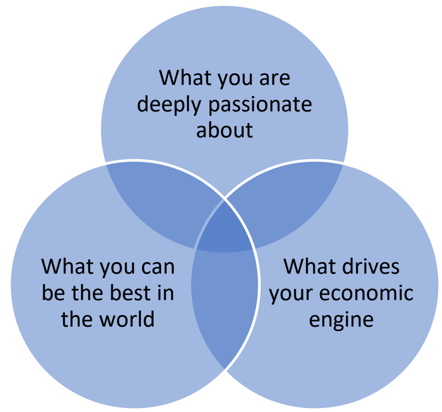
The study must be one of the most intensive studies ever done to try to capture what makes 'great' companies in the U.S. The transparency of the methodology set out in the book is

[3] www.corporationonline.com
[4] Innovation as a way of life. Charles Parry, ADL London.
[5] Opportunities for innovation. Management perspectives on innovation. Survey results.

outstanding and demonstrates the thoroughness and discipline used by an extensive team of researchers leading to the credibility to the study results.

Collins and team get to their conclusions by winnowing down 1435 companies to 11 companies that make the several cuts (4 in number). The major criterion for success is stock performance and financial results. There were no companies outside the U.S. included but many had operations in other geographic areas.

A major conclusion is that companies which demonstrate the Hedgehog Concept, illustrated by three circles, is the reason that the selected companies were able to achieve their greatness.



This illustration is relevant. The Hedgehog is the chosen animal since it is a ‘dowdy creature that knows “one big thing” and sticks to it.

In essence one needs to believe that the company they lead can be the best in the world. This is an understanding not a goal, strategy nor intention. It is important to focus on only these priorities and dismiss those interesting areas which could distract.

While the book is a superb example of making research transparent, it does leave some questions about the selection process and why some excellent companies such as GE (at the time a revered organization) were left out of the mix. Some of the answers are touched on in the latter pages as the team openly addresses omissions. Questions are asked of the team and the responses are an aid to interpreting the findings.

Question. Why don’t any high-technology companies appear in the study set? Page 213 in book.

- Not old enough to fit the good-to-great analysis criteria.
- If the study were to be repeated in ten or twenty years (from the publication date of the book of 2001), Collins states that ‘I would fully expect that high-technology companies would make the list’.
- *CIO comment: ok for the time of the study but obviously a major detriment to using the analysis in the current period so dominated by tech-based companies.*

Question. How does Good to Great apply to companies that are already great? Page 213 in book.

- “The single biggest danger in business and life, other than outright failure, is to be successful without being resolutely clear about why you are successful in the first place”. Attributed to Robert Burgelman of Stanford University.
- *CIO comment; so true.*

Question. Why did you limit your research to U.S. companies? Page 213 in book.

- Rigor in selection outweighed the benefits of an international study set.

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- Inconsistency in data from sources would compromise the study.
- Level 5 leadership findings will be harder to swallow for Americans than for people of other nations.
- *CIO comment: While focussing on U.S. companies does focus the recommendations, omission of Europe and Japan may have contributed to other critical observations comparing geographical practices but the point on data comparisons is real.*

Question. Can a company have a Hedgehog Concept and have a highly diverse business portfolio? Page 215 in book.

- Our study strongly suggests that highly diversified firms and conglomerates will rarely produce sustained great results.
- GE, a highly diversified company, does have a Hedgehog concept based on its success in hiring and training first rate managers.
- GE's Hedgehog Concept, properly conceived, enables the company to operate in a diverse set of businesses yet remain squarely focussed on the intersection of the three circles.
- *CIO comment: Seems to be rationalization to at least get GE – so well regarded at the time – into the study mix. A force fit?*

Other comments leading to the reasons for the inclusion or deletion of 'favorite companies' at the time of the study are noted. There are cross overs with the selections made by CIO for its research.

- GE is cut because of criteria #5 (The company demonstrates a transition, but after 1985) and #11 (The company demonstrates a mild transition but falls short of three times the market).

- Nucor accepted into Cut #4 analysis and seen to be the best at harnessing culture and technology to produce low-cost steel. Nucor, in CIO's view, was mainly a technology company since it was the move to mini mills which drove the initial success.

- Proctor and Gamble eliminated due to criteria #2 and #5. #2 – There is no obvious shift to breakthrough performance.

- 3M versus Norton as a comparison as they demonstrated essential distinctions as between good and great companies as they endure over decades, even centuries.

- Kimberley Clark generated cumulative stock returns 4.1 times the general market, handily beating its direct rivals Scott Paper and Proctor & Gamble and outperforming such venerable companies as Coca-Cola, Hewlett-Packard, 3M and General Electric. Page 18.

- We (Collins) looked for companies that showed the following basic patterns: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least thee times the market over the next fifteen years. We picked three times the market because it exceeds the performance of most widely acknowledged great companies such as 3M, HP, and P&G; all on CIO's radar for their prowess in innovation at the time.

CIO's approach to research

In depth studies of five U.S. companies augmented by additional research

CIO has taken a different approach to selecting targets for better understanding how companies handle innovation. The focus of research has been on selecting five companies which have sustained their business for decades and identifying key characteristics of their approach to innovation. The information is set forth in a format which is consistent from company to company in order to enable readers and users to facilitate application to their own operations.

There are five companies which made the first cut to be examined in detail[6]. Sustained performance was a major criterion pervading the choice of all companies. Different reasons for each selection apply.

- **3M** was chosen because of its sustained growth for well over 100 years and for its general reputation – leadership position on best company lists – as an innovative company and one which 'one would like to work for'.

- **John Deere** was chosen since the founder of CIO had personal experience in the agricultural equipment industry and therefore knew the industry and that Deere has, for decades and still is the leading company in this sector globally.

- **Starbucks,** with less of a history than others in this category, is highly regarded in the consumer industry for its coffee and for its demonstrated ability for changing consumer behaviour in this sector along with its commercial success.

- **GE,** while experiencing significant problems over the past decade, has had for over 100 years, and may still hold a key to managing innovation. At the time of its selection for this research its reputation was stellar amongst international companies.

- **P&G's** reputation as an innovative company is long standing although lately there has been considerable confusion about recent attempts to improve the business.

In addition to these companies selected for their reputation, CIO has researched over thirty other companies within North America and in Europe and Japan. The list is provided on the web site under 'Companies researched'.

The selection process was also significantly influenced by the availability of information through published material, personal stories from retirees, and in some cases interviews with senior executives. Publicly available information has been more available in recent years in general but

[6] Referred to as IM (Innovation Management) reports on the web site and available for a small fee.

also because senior executives, mainly CEOs, have taken to putting their thinking in a book for posterity. This source needs to be carefully considered for obvious reasons.

An online survey, available from CIO's inception, has provided individual opinions of over 100 respondents to twenty-five Factors impacting innovation. It has been an invaluable source of personal input. Reports based on an analysis of the data are currently available on the web site, but the survey itself is no longer available online. The data can be accessed for additional reports as the need arises.

Significant reports, as opposed to papers and op-eds, also lead to observations on innovation management and contributed to the general information available on the web site. These included.

- A report on **Massey-Ferguson** based on personal interviews with three ex employees willing to share their opinion on the company at the time of their employment. The company's failure can in part, be related to their lack of innovation when compared to the competition.

- Two companies, **Apple, and RIM**, which had their start in the smart phone business are the subject of a report which compares their management styles and identifies those factors contributing to Apple's fantastic growth and RIM's demise. This report was jointly authored by P. White an P. Farwell, collaborators in CIO.

- A paper on **IBM** – Can it Survive? – was published by Peter Farwell, one of the partners of CIO and identifies some of the reasons for IBM's poor financial performance.

- Report on **Google**, how they manage innovation, Amazon and their secret sauce, and DSM on their numerous managements of transition, also contributed to a fuller understanding of approached to innovation management.

Conclusion

Customization is key to making improvements to innovation management.

All the reports and papers contribute to a better understanding of innovation management and not only point out the uniqueness of each company's approach but also that there are better and worse practices to be considered in any attempt to introduce change.

So, no matter what the approach is to studying innovation management, or related topics by taking a broad sample, there are difficulties in applying the results to an individual company. As an idea source, studies are marvelous but time and careful selection of the means of improvement are still required to derive the benefit from the work done.

Culture often trumps any attempt to make improvements. Due to the culture of an organization, customization is required to bring about real and lasting change.

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