

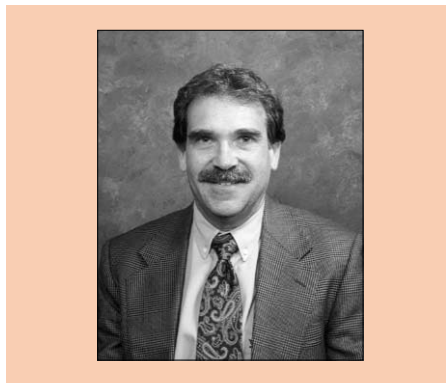
## Focus on innovation

**S**tep aside, Six Sigma; welcome, innovation. Consultants intent on increasing the bottom line for clients are urging firms to view innovation as the key element to longevity and profits. Accepting the fact that innovation is critical to business success (and to productivity increases), how do we become good innovators?

A good place to begin a study of innovation is through the writings of the highly respected management consultant and University of Michigan Professor C.K. Prahalad. In his book *The Future of Competition*, he warned that successful innovation begins with listening to the customer, not guessing customer preferences through internal channels of communication. His more recent *The Fortune at the Bottom of the Pyramid* predicts that innovative, forward-looking companies will devise ways to meet the entrepreneurial needs of the world's five billion poor people.

**“...innovative, forward-looking companies will devise ways to meet the entrepreneurial needs of the world's five billion poor people.”**

The company Microcredit is implementing Mr. Prahalad's vision by offering credit to poor, aspiring entrepreneurs through Kiva.org. Following the example of the long-established microlender and Nobel Peace Prize winner the Grameen Foundation, Kiva.org posts the names of entrepreneurs in Africa and the Americas who require small amounts of money to start a business and matches them with lenders, not with banks but with other individual citizens worldwide who wish to help. Two Stanford University students started Kiva.org after a trip to East Africa. They based their enterprise on existing Web sites in America and Europe that allow people to extend each other personal loans. By avoiding banks as intermediaries, interest rates are kept low.



A loan can be in increments as small as US\$25. Since its inception in early 2006, Kiva has processed US\$200,000 to 450 entrepreneurs, with few defaults.

Innovation also demands openness. InnoCentive.com has harnessed over 100,000 scientists from all over the world to find answers to questions that challenge the expertise of in-house staff. In 30% of the cases, this “world bank” of intelligence solved problems that had stumped in-house experts. It can be ego-shattering for outsiders to solve a company's problems, but innovation will not take root in a defensive, job-threatening atmosphere. In the book *Failure Happens* by Paul Ormerod, we are told that some degree of business failure is inevitable because today's world is so complex and dynamic. The risk of failure is no excuse, according to Ormerod, to forego the benefits derived from taking chances with new ideas and products.

Innovators are cautioned, however, that bright, profitable ideas are the result of a methodical, disciplined approach, not serendipity. That is the message in *Innovation: The Five Disciplines for Creating What Customers Want* by Curtis R. Carlson and William W. Wilmot. The book concurs with Prahalad's thesis in *The Future of Competition* that success depends on innovation based on a company's ability to sense and meet customer and societal needs. Creating customer value through innovative thinking is critical to a firm's success.

At Vshake.com, which stands for “virtual handshake,” you can seek advice from other members for a fee set by the individual expert contacted. A

listed expert might instruct Vshake that she would be willing to exchange e-mail messages with someone needing her advice for US\$25. That is not a lot of money, but it might be enough to signal that the person needing advice is serious and sincere in her request. In other words, “Pay me and I will listen to you and reply even if the amount of money is nominal.” Of course, you might have to pay a substantial amount to exchange e-mail messages with a well-known business guru, but even the rich and famous enjoy mentoring young, promising entrepreneurs.

Budding rock stars no longer have to kowtow to the major record labels for their talents to be appreciated. The music hierarchy is being circumvented by technology and new business models. An audio podcast factory that allows your music to be produced, edited, and distributed costs US\$150. You can burn your own CD, set up an account on CDbaby.com for US\$35, and wait for the public to make you a music legend. The artist receives 91% of the CD sale price and CDbaby.com receives 9% of the proceeds. Cdbaby.com is just one of several successful ventures that allow clients to bypass old-economy transaction costs.

**“The risk of failure is no excuse... to forego the benefits derived from taking chances with new ideas and products.”**

Innovation has proved to be the toughest in the field of education. Because education is the basis of all innovation, this is no small obstacle. Should we be surprised that respected innovators like Bill Gates, Michael Dell, and Steve Jobs failed to earn a college degree or that home schooling is increasingly popular in the USA because of parental concerns over the quality of education in public schools? Harvard University's interim President Derek Bok views colleges as escapees from the usual rigor practiced by most organizations. In an interview

with *U.S. News and World Report*, Bok reported that: “They [colleges] don’t engage in what well-run organizations in every other part of society do, that is, a continual process of self-improvement—identifying problems and experimenting with ways to solve those problems....” In other words, schools do not innovate well. Ask Bill Gates. The Bill and Melinda Gates Foundation has invested US\$1 billion in pilot projects to improve education in the USA. The 22 target schools have responded to this infusion of cash with mixed results, but have fallen short of creating a paradigm that would have national impact. The main obstacles have been entrenched interests and a lack of cooperation by the educational establishment that wishes to avoid the pain and disruption of innovative programs and possibly the failure that accompanies ill-conceived initiatives. Children are a precious resource, and innovation for innovation’s sake is a very risky endeavor. Education might be innovation’s toughest sell.

Despite the enthusiasm and predicted payoffs of innovation, the results of a recent survey of some 4,000 corporate managers showed that their companies ranked creativity and innovation behind interpersonal skills and meeting profit expectations. Innovation, however, is tomorrow’s profit. Perhaps firms should take their cue from Google, one of today’s most innovative companies. To spur innovation, employees at Google receive a “day off” a week to come up with the next blockbuster idea. Those days off generate one-half of Google’s new products.

There is, I believe, an underground, iconoclastic element to innovation that especially encourages the younger generation to embrace new ways of doing things. The business success of young Americans and young global entrepreneurs is a warning shot across the bow of the establishment ship, underscoring the costs of failing to understand the importance and purpose of innovation. Perhaps that is why we should not have been so shocked by the critical role that youth played in the Internet revolution or the growth of a youth Internet subculture, from Napster to MySpace.com. Perhaps young business managers would not find it at all implausible that, according to one high-tech executive, more transistors were produced last year than grains of rice. ☺

*Michael Manson had a long and close association with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator.*