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The Life Cycle of Great Business Ideas

by Bridget Finn

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The Life Cycle of Great Business Ideas

With the right support and judgment, the corporate "heretics" of today could become tomorrow's most effective leaders.

by Bridget Finn

Thomas Huxley wrote that new ideas begin as heresies and end as superstition. He was referring to Charles Darwin's *The Origin of Species*. The same might be said of management concepts today. In August, at the annual meeting of the Academy of Management in Anaheim, Calif., Art Kleiner brought together a group of distinguished management thinkers and practitioners to explore the evolution of management ideas. Kleiner is the editor-in-chief of *strategy+business* and author of *The Age of Heretics: A History of the Radical Thinkers Who Reinvented Corporate Management*, 2nd ed. (Jossey-Bass, 2008), which traces some of the leading management practices of our time to people who challenged the conventional wisdom of their companies in years past.

This edited version of the panel discussion shows how, in a variety of ways, the quality of management thinking has made a difference — and how the most compelling business practices often have countercultural roots. The panelists are known for their leadership in the domain of management ideas.

Panelists included former National Training Laboratory (NTL) President Edith Seashore, an eminent organization development figure whose work there as one of the "four horsepersons" championing diversity was chronicled in *The Age of Heretics*, and who later cofounded American University's AU/NTL graduate program. Edith's husband, Charles Seashore, is the faculty chair of the doctoral program in human and organizational development at the Fielding Graduate University and a mentor and guide to many people throughout this field. Phil Rosenzweig, a professor at the International Institute for Management Development in Lausanne, Switzerland, is the author of *The Halo Effect...and the Eight Other Business Delusions That Deceive Managers* (Free Press, 2007), an exploration of the (often unreliable) substantiation underlying business ideas. P.V. Kannan is the CEO and a cofounder of 24/7 Customer, an international outsourcing service company that has actively applied ideas such as self-managing work teams and customer-oriented data streams. Steven Wheeler is a former partner with Booz & Company and currently performs research, with the University of Southern California's Center for Effective Organizations, on organization and leadership drivers of agility and sustained company performance.

During the roundtable session, the panelists focused on three primary questions: Is there a life cycle to valuable management ideas? How do we learn to tell a good idea from an idea that's not worth much? And what one idea most intrigues you as a harbinger of the next wave of management thinking and practice?

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Anatomy of a Great Idea

S+B: Is there a life cycle to valuable management ideas?
ROSENZWEIG: I don't think it's that simple. Not all good ideas begin as heresies, and not all heresies turn out to be good ideas. We have to be a little cautious before we overlay this sort of pattern.

We also need to be careful about what we mean by "valuable." In management, ideas are of value to the extent that they can prompt people or organizations to do things differently to achieve more effectiveness and performance. And if we're looking at the firm as the unit of analysis, performance is often more relative than absolute. A company adopts a new idea, it does things differently, and it gains some advantage. Once its competitors begin to do things in the same way, then that relative advantage dissipates, and the idea goes from being wise to being obsolete.

E. SEASHORE: My experience has been that the heretics — the people who really get excited about new ideas — have special leadership qualities and a different concept of authority. They want to make the organization very different from what it was when they entered the system. I recently worked with the commander of the Walter Reed Army Medical Center, Colonel Patty Horoho. She was brought in after two generals, both men and both surgeons, were dismissed from the position. For the first time in the hospital's 98-year history, they chose a woman and a nurse to head it. That in itself was heretical. But more important, Horoho had to turn a climate of chaos into a working unit in just 18 months, and she did it by doing things differently. She understood that the way people communicated had to change; they had to build more solid relationships and exchange information more openly.

KANNAN: My first company developed software to manage e-mail and chat. I remember evangelizing the idea of online marketing to companies just starting to use the Internet. And I ran into a lot of resistance. For example, I told the head of customer care at a major bank how our technology could help make it easy for consumers to ask questions. He said, "We don't want it to be easy for them to reach us. That's a cost."

I sold that company in 1999 and came up with the idea of handling customer care calls from offshore locations. I pitched it to the former real estate and travel company Cendant, which owned Avis and Ramada. The man said, "We'd like to start with 200 or 300 agents at an offshore location." I said we could do that, and he asked, "How big is your company?" I told him I hadn't started it yet — it was just an idea. So he asked, "Where do you plan to start it?" And I told him Bangalore. Naturally he asked if I had lived or worked there, and I told him I'd visited about 15 years ago. He asked me how many employees I'd ever managed, and I told him: 60.

"Let me understand," he said. "You're proposing to start a call center in India, where you've never lived or worked. And you want to start with 300 people, and you've never managed more than 60? If this darn thing doesn't work, nothing will." Today, we have about 7,000 people worldwide, thanks to one individual who believed in an idea.

WHEELER: It's unclear to me that there are that many truly new business ideas out there. Instead, I see a lot of rehashing and reconfiguration of existing ideas. One thing that brought that home to me recently was Peter Drucker's book *The Effective Executive: The Definitive Guide to Getting the Right Things Done*. In 1967, Drucker wrote that the most enlightened executives complement themselves with people whose skills work alongside their own. In other words, the notion of team-based leadership, especially to make change happen, as opposed to the typical sort of single-person-in-charge leadership approach, is not a new idea. But people lost track of it in the heyday of godlike leader figures like Jack Welch. These ideas come and go, and after a while, you start to see patterns. With experience, you can pick out the ideas that will endure versus those that will be fads.

C. SEASHORE: There are cycles within cycles. There will often be a very broad, historical wave of progress in advancing an idea, but within that we'll see the sine wave pattern coming and going.

I have seen the concept of interdisciplinary teams come into and fall out of fashion four different times. Each time, the power of the group has been undone by leaders who get nervous about distributed authority. At this moment, teams are a well-accepted part of any management process. But right around the corner, the issue of authority and control could change that. We've seen that kind of shift back and forth in our U.S. national policy, in politics, and in our organizations.

Learning to Discern

S+B: How do we learn to tell a good idea from an idea that's not worth much?

ROSENZWEIG: We need to have some notion of the performance impact we're looking for and how to measure it. Over the years, I have found that most executives are smart and hardworking, and want to do the right thing. But they are terrible at critical thinking and analytical rigor — usually because they confuse the factors that lead to high performance with attributions based on that performance. They confuse drivers and results. We see this in everything from corporate culture to leadership to employee satisfaction to customer orientation.

The key idea in my book *The Halo Effect* is the importance of ensuring the independence of data. If you're testing a hypothesis and your dependent variable is some notion of performance, you've got to make sure that your independent variables are truly independent of that. If you violate that principle, you may have a wonderfully compelling story, but you really won't know what's driving those results.

KANNAN: We learn by observation. Recently, one of our large clients had a consultant come to us and say, "At the end of each call, we should ask customers, 'Is there anything else I can do to help you?' and then end the call with 'Have a nice day.'" So we put these rules in place, along with an elaborate measurement mechanism, and agents were dinged if they didn't comply. Then, at our management meeting where we start off by listening to calls, we quickly realized that this policy wasn't working. Most customers today want to end the call quickly. The agents, on the other hand, were taking their sweet time, because they knew they were being measured on this. They would say, "Is there anything else I can do to help you?" and before they could say, "Have a nice day," the customers had hung up.

WHEELER: Sometimes it's only the long-term comparison in performance that shows you what works. Jim Collins, a high school classmate of mine, wrote the best-selling book *Built to Last: Successful Habits of Visionary Companies*. If you had taken the 18 companies that were profiled in that book and invested in each of them over the next 10 years, you would have gotten about a 150 percent return. That's not too bad — until you compare it with an S&P 500 index fund, which would have given you a 250 percent return. And if you'd had the foresight to pick up a copy of *Fortune*'s 100 Best Companies to Work For each year over that same period and just invested in the public companies, you would have gotten a 600 percent return. So one way to build a successful business is to create an environment where people enjoy their jobs and are eager to work — in other words, a "best company to work for."

E. SEASHORE: These days, we often face the challenge of seeing great ideas start at the top but move down too slowly — and then the person who came up with the ideas leaves the company. The next person comes in with a different set of ideas, and the people in the organization get whipped about, wondering what's going on.

I have some wonderful ideas for organizations and can easily get the top leadership team excited about them. The real challenge is implementing these ideas before the heretical leader who liked them in the first place leaves the firm. I've just begun a set of management courses called Triple Impact Leadership. They're designed to help leadership teams ingrain key management concepts throughout their organizations. Executives pass on their knowledge by teaching their managers these concepts, and the managers then teach their staff, and so on. But many groups haven't yet figured out how to garner company-wide acceptance for intelligent new ideas. Take performance appraisals, for example. Most companies use them, and it's assumed that they are useful tools for measuring employee performance. But they're time-consuming, cumbersome, and expensive, and feedback comes only once a year. What if, instead, people in the organization could ask for, and receive, candid feedback on their behavior and performance from anyone, whenever they asked for it? That would be truly heretical.

C. SEASHORE: To develop really good ideas, you need to have lots of ideas and throw out the bad ones. And for that you need a culture that is respectful of diversity. When everyone in the room comes from a similar background, it's very likely they'll have similar ideas. It may be more difficult to build consensus in a diverse group, but that's how long-term positive results are achieved. Conformity will lead to success only in the short term. In this results-driven culture, we're finding out how difficult it can be to respect differences and build consensus simultaneously. But they're parallel processes — if they get out of sync, you're in trouble. That is, if you build conformity and then throw it out and honor diversity for a while, you're going to end up with a truly uneven product.

KLEINER: I want to throw in a contradictory perspective, which starts with a quote from the management theorist Elliot Jaques: "Management is in the same state today that the natural sciences were in during the 17th century" — before the discovery of the circulation of the blood.

In other words, there are barber surgeons everywhere, applying leeches and creating theories out of their limited experience and saying, "Well, you know, the leech worked; the company improved. This must be the right way." And then the next time, the company fails, but the barber surgeon argues that this was an idiosyncratic case; the leech still works.

One could believe that this kind of multiplicity of thinking is the way that human nature, human sciences, and social sciences have to operate. Or one could believe we just haven't gotten to the circulation of the blood yet. We don't yet have the unified field theory of knowing how organizations work. And maybe it's around the corner, or maybe we just don't have the microscope that can allow us to see it.

ROSENZWEIG: Or maybe it's the wrong question. I think the analogy of the circulation of the blood is fundamentally misleading — and I'll tell you why. There's been a lot of thinking the last couple of years about evidence-based management. Management professors Jeffrey Pfeffer and Robert Sutton have written about this in their excellent book, *Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management.* However, evidence-based management comes from evidence-based medicine, and there's a big difference between medicine and management. If you have a ward of patients who are ill with the same disease, and you find a new molecule or treatment that heals one of them, it might heal the whole ward. Or if it's ineffective, maybe none of the patients will get better. The recovery of each patient is independent. That's fundamentally different from the performance of a company in a competitive marketplace, where performance of the organization is relative and not absolute.

When we ask, "What works in all companies?" we're looking for an absolute formula in a field — competition in a marketplace setting — that is inherently relative. The answer is, "There isn't one formula." If everybody in the industry follows the same prescription, they won't all be successful. Once we accept this, we're in the realm of making judgments under uncertainty that are different from the judgments our rivals make. If everybody knew how to be different from their rivals in the best way and everybody did it, they would no longer be different from their rivals. That's why P.V.'s comments are so instructive. He told a great story about having very little experience yet achieving great success. Some people may look at that and say, "Wow, I guess the way to be successful is to hire a novice. It seemed to work here." I would guess the reason why his company has been successful is not because of those things. He has probably made some very shrewd decisions and executed them very well. And that gets a little lost in this nice story.

That's why this whole notion of heresy is important, because it's a leap into the dark. We don't know what the result of heretical actions will be. There are ways to make strategic choices under conditions of uncertainty, by recognizing customers, economics, and rivals that have the chance to improve our probability of success. And that's what we ought to be teaching.

KANNAN: I'd like to add that I read Phil's book twice, and I agree that people tend to keep turning to different theories, rather than looking at the data. Today we can often make informed predictions based on data. For example, there are predictive models that show who will make online purchases with about 85 to 95 percent accuracy. But when we go to a new company and try to look at their data, they'll say, "No, no, our big priority this year is to optimize Google." Or something like that. The point is that people get attracted and fascinated by these one or two solutions that sound sexy. But they don't want to take the time to actually collect the data, manage the data, build models, and use them.

The Next "New Truth"

S+B: What one idea most intrigues you as a harbinger of the next wave of management thinking and practice?

KLEINER: I think there's a link between successful organizational change and obsessive-compulsive disorder [OCD] — I think that true intervention requires the same kind of meticulous attention to day-to-day events that people with OCD have, if they can keep it under control.

E. SEASHORE: I think that it would make an enormous difference if our culture could change from a blame culture to an accountable one.

C. SEASHORE: When we look worldwide, a few people are getting rewarded for diversity, but more people are getting punished for the implementation of that idea. So if you want a heretical idea, promote diversity.

ROSENZWEIG: I thought *The Red Queen among Organizations: How Competitiveness Evolves*, by William Barnett, was the best strategy book of the year. It argues that you've got to run as fast as you can even to stand in the same place, which, of course, is the nature of relative performance in a competitive marketplace. Perhaps we can replace some of these simplistic notions about predictable accomplishments with a more relative notion of success.

KANNAN: For me, it's about finding ways to make better predictions. Web 2.0 technologies have allowed us to marry the data inside companies to what's available outside. The traditional model of forming a hypothesis and testing it is pretty much dead in our world, because things change so fast. Instead, our focus is on using data to improve predictability.

WHEELER: I think the most interesting changes will come when people start being strategic about building the capabilities they need for long-term success and avoiding the boom–bust cycles that most companies go through. +

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