



How Good Management Stifles Breakthrough Innovation

By Markus Lorenz

We hear a lot these days about how big companies fail to innovate, but the truth is more complicated. A lot of companies excel at developing better products, yet these improvements are incremental. They're not the breakthrough offerings that can jump-start growth and profitability. And companies' success at cranking out these enhancements hampers them from getting better at the radical projects.

If you closely analyze unsuccessful attempts at developing breakthrough products, perhaps the most common trouble you find is not one of the usual suspects, such as lack of top-management commitment. Instead, you'll see

that efficiency-minded project managers are inadvertently discouraging the explorations – and therefore the learning – that make radical ideas practical.

There's a history behind this problem. Frustrated by inefficient R&D, companies in the 1980s started applying standard project-management techniques such as phase-gates and key performance indicators.

Textbooks on innovation advised them to allow some flexibility in the phase-gates. Yet control-minded project managers have tended to chart strongly linear paths that discourage distractions – depriving their teams of the

agility and openness needed for new thinking. As development teams became more productive and their initiatives more predictable, incremental improvements soared, project managers got promoted – and radical innovation declined.

Companies soon began spending less and less time on breakthrough ideas. At BCG we've found that radical projects nowadays account for roughly 10% of an average company's innovation portfolio, down from twice that in the early 1990s. (Josh Lerner cites the narrow focus of corporate R&D in his October HBR piece on [corporate venturing](#).)

The lesson is clear. It's not enough for executives to proclaim their commitment to innovation, develop an innovation mind-set, or even put more money into breakthroughs. Companies also need to make changes at the ground level.

They can start by treating radical projects differently, but it isn't enough to just let these teams loose. Without some discipline, initiatives will become money pits, or nervous project managers will fall back on their conventional habits of control.

The solution is for project managers to devote less effort to predicting and directing innovation, and more effort to managing the inevitable uncertainties. They should worry less about the schedule and more about ways to reduce risk – by partnering with outside companies, say, or getting advance commitments from customers. Or they can invest in multiple options for the marketplace, rather than rushing through a single big bet.

They should certainly expand the key performance indicators to include vital insights on technology or customers, so that a worthwhile project can keep going even if it is far from a serviceable prototype.

But like venture firms, they need to terminate projects that exceed a predetermined “affordable loss.” (For more on the framework BCG has developed, see [this paper](#).)

Take, for example, a photo-technology company my colleagues and I worked with. Digital printing promised to greatly expand the designs of ceramics, furniture, and other nonpaper products, and the company hoped to pioneer the sale of industrial printers in these sectors. Its first printer was a dud, so the company rethought its efforts, creating a new development team that included marketing people as well as engineers. With this broadened perspective – and the time to explore how customers would actually use this new technology – the team realized that usage would vary greatly across industries. The project manager recognized the insight and secured funding to develop multiple kinds of printheads and other functionality. Those steps improved the likelihood of marketplace acceptance, and the resulting printer quickly won over buyers.

The combination of flexible techniques and a manager who tolerates uncertainty created something that's increasingly rare and valuable these days: a radically new product that creates a whole new market space.

About the Author

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“ **Challenges** are what make life interesting and overcoming them is what makes life meaningful. ”

- Joshua J. Marine