

Why ideas matter

By Nan Stone and Joan Magretta

Executives will always need new ideas, not because they are addicted to fads, but because the business environment is dynamic and continually throws new challenges their way.

What is the current state of business thinking? Have we generally benefited from the flood of ideas developed over the past dozen or so years, or is contemporary management theory simply so much hype and hot air? That's the question *Outlook's* editors asked us to address. It's a provocative question, especially for people like us who've made their living in the idea business during that period.

At first we were sure our answer would be, at best, some version of "both-and"—management theories have been *both* enormously helpful *and* full of hype. But the more we looked at the evidence, the more we were persuaded that the progress has been truly remarkable. For all the froth of the business press, and all the promotional efforts of those with a vested interest in unveiling new managerial paradigms on a regular basis, there has been a great deal of real and important innovation in business thinking.

Consider just a few of the concepts that became fundamental principles in most executives' thinking during this period: quality, time to market, lean production, benchmarking, supply chain management, customer satisfaction and loyalty, core competence, shareholder value. As recently as the mid-1980s, none of these ideas were much talked about or known. Now they have become so much a part of management's mind-set that it takes real effort to remember how we used to think.

One excellent example: A decade ago, purchasing was a low-profile function whose goal was to get the best terms for a predetermined set of items. Today it has evolved into supply chain management, and this evolution is not just an instance of title inflation. Supply chain management requires a far more systematic

Stone (right), Magretta: The boom in management ideas has produced its own backlash.



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way of thinking about how a company delivers value to customers—through what it buys and not just the price it pays, through gains in speed and flexibility as well as cost, through access to a supplier’s know-how and innovative capability as well as its goods.

A few of the new business concepts have been real breakthroughs. Until the mid-1980s, for example, quality was something most manufacturers worried about only after the fact, when a product had been made and was ready to be inspected. The idea that quality could be designed into the product—and the manufacturing process—was truly revolutionary. The related idea—that the trade-off between cost and quality was not, in fact, a given—was the business-thinking equivalent of discovering that the world is not flat. Beyond its immediate impact on operations, this idea fueled a furious ongoing debate about strategy. It put into play such notions as the sustainability of competitive advantage and the relative importance of positioning versus core competencies.

Missing links

What makes an idea a breakthrough is both its broad applicability and its capacity to transform the way we see the world. Almost immediately, the ideas that drove the quality revolution in manufacturing began to spill over into the service sector. Consider the concept of the service profit chain. Using the systems-thinking of the quality movement, it uncovers the links between service quality and profitability, and it focuses managers on loyalty and retention of both customers and employees. Bringing these innovations to service businesses and to service functions within manufacturing companies has contributed to the current robustness of the US economy.

Other breakthroughs in recent years have served managers’ ongoing need for better information to support decision making. Thanks to an idea known as activity-based costing, we have a sharper understanding of costs and true profitability. The concepts underlying the pricing of financial options have not only transformed the financial markets but are now giving rise to a new way of thinking about strategic choices as real options. Real options are giving sophisticated executives a better handle on valuation—that is, on what a given strategy is likely to be worth.

Given our infatuation with networked computing, real-time data and the like, we may be tempted to give technology most of the credit for these advances. But it would be a mistake to shortchange the innovations in business thinking that make technology so useful. Yes, computers transmit and process information in great volume, with great speed. But it takes a better idea to make information managerially relevant.

In our view, managerial relevance is the most meaningful yardstick by which to measure innovation in business thinking. Managers are a pragmatic lot, notoriously suspicious of “theory.” But they want, need and pay attention to ideas that will help them do a better job. From this perspective, the important question is not whether a new idea is an intellectual breakthrough or an incremental advance, but whether it can help executives solve some important problem.

Why has this been such a fertile period in business thinking? Remember the context. Throughout the 1980s, one seemingly invulnerable incumbent after another found itself too slow and bloated to compete effectively with the new manufacturing powerhouses

from Asia or the nimble upstarts in its own backyard. In industry after industry, deregulation, globalization and information technology were rewriting the rules. In this environment, with so much at stake, executives were willing to spend freely for solutions, fueling unprecedented growth in consulting, management education and business publishing.

Pressure from the capital markets and highly visible battles for corporate control also stimulated innovation—they made it more critical than ever for executives to understand the drivers of superior performance and to focus resources and attention on them. A dozen years ago, market share was “close enough” as a proxy for profitability. Today we have a finer-grained understanding of what drives profitability, and so we focus on other factors as well—for example, on customer selection and retention.

Similar refinements have been made in other areas of business thinking. Consider the changes in inventory management and in new product development. The realization that superior performance depends not just on how much inventory a company carries, or on how many new products it brings to market, but also on speed and cycle times, is widespread. The long-accepted understanding of strategy as positioning (“Where do we play?”) has broadened to include the dimensions of core competence and competitive resources (“Do we have what it takes to play there?”). And executives have better tools—from game theory and options, for example—for decision making under uncertainty.

Overpromising

With so many good ideas afloat, why is there such a widespread perception of faddishness and foolishness? One reason is that management theory

has been a victim of its own success. Over the last 15 years, the “management idea” business has gone through a classic boom. High growth and high margins have attracted a lot of new entrants—many with promising ideas, but some simply promising too much.

Many of the so-called new ideas are the intellectual equivalents of the brand proliferation that fills supermarket and drugstore shelves. The creators of these ideas, aided and abetted by the business press, were naturally more interested in differentiating their theories than they were in emphasizing underlying similarities. One result was a profusion of names for the same fundamental insight—and a lot of confusion among users. Another result was that many of the ideas were oversold as “total solutions” to a company’s problems. But since a single idea can at best solve a single problem, executives ended up jumping serially from one solution to the next—creating the “flavor of the month” phenomenon that has bred so much cynicism and scorn.

There is no better example of this phenomenon than reengineering. At the time that Mike Hammer’s original article appeared in the *Harvard Business Review* in 1990, many other management thinkers (by which we mean thoughtful executives as well as academics and consultants) were talking and writing about business process redesign. What differentiated Hammer’s prescription was astute branding.

Reengineering was (and is) a seductively simple and memorable term. It appeals to the rational, hard side of management. It also compresses a lot of complicated ideas and issues into a single concept in a way that the competing alternatives could not. But



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reengineering is a tool, not a panacea. Some companies and consultants used it properly, and to good effect. Others mistakenly embraced it as strategy. And still others simply appropriated the name, but not the idea, to legitimize massive downsizing.

Reengineering's legacy is problematic. For one thing, the phenomenon demonstrated that the payoff from branding can be as great as, if not greater than, the payoff from idea development. This lesson was not lost on either consultants or academics. Witness the enormous amount of time now being spent on the marketing and promotion of ideas. But new insights don't come from word-smithing or publicity. They come from deep study and hard thought. The renewed vitality of US competitiveness over the past decade is a tribute to the power of innovative thinking at work, and companies of all kinds need more of this activity, not less. Yet, amid all the buzz about buzz, we may be in danger of underinvesting in the real work of idea development.

Reengineering has also heightened the corrosive suspicion—so evident in the comic strip *Dilbert*—that all ideas, even fundamentally smart ones, are tainted. Executives need a steady diet of new ideas, however, not because they are addicted to fads, but because the business environment is dynamic and continually throws new challenges their way. No sooner are viable solutions to one set of issues developed than a new set of issues moves to center stage.

Today every company is struggling to a greater or lesser degree with the challenges of managing innovation, knowledge work and knowledge workers. These are the new “problems” for which we don't yet have good solutions. Where will the solutions come from? Looking back at

the past 15 years, and generalizing broadly, many of the most powerful insights came from the systems-thinking of engineering and economics. In the management of manufacturing and service operations, for example, we learned to focus on optimizing the whole system rather than tackling each part in isolation. In strategy, we became adept at conceptualizing value chains and business models.

Now, however, we are reaching the limits of the engineering/economic mind-set that proved so useful in the 1980s and 1990s. The challenges of innovation and knowledge are profoundly human, social challenges. And people are much more resistant to being systematized than capital or equipment. So far, much of the progress in addressing these challenges has come from extending the “old brand” onto this new territory. (Most of what is written about managing knowledge, for instance, is really about managing data.) But the more that the real sources of value are locked in people's heads—and hearts—the less adequate such line extensions will be. Although management has always been at least as much an art as a science, time was when this reality could be ignored. That time is no more.

The idea-led growth that now drives the global economy is not just about high-tech companies creating value through intellectual property. It is about managerial intelligence—and that applies to every industry and matters to every company. ■

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After 15 years at the *Harvard Business Review*, Nan Stone recently stepped down from her post as editor-in-chief to become a senior research fellow at the Harvard Business School. During her years with *HBR*, she acquired, developed and edited articles that dealt with every aspect of management. She is the editor of *Drucker on the Profession of Management* (Harvard Business School Press, 1998) and author of several *HBR* interviews and book reviews. Stone earned her Ph.D. in the history of American civilization from Harvard University.

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