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# The Fundamentals of Innovation

How IBM, Hallmark, and Apple get innovation right—but not for the reasons you might think

By [Dev Patnaik](#)

As the [economic environment](#) stabilizes, there's a temptation to return to business as usual. And although much about the future of the economy is uncertain, I can say with some confidence that a return to the recent status quo would be a colossal mistake.

[GE](#) ([GE](#)) Chairman [Jeffrey Immelt](#) said it best in a speech he gave to the Business for Social Responsibility conference in November 2008. "This economic crisis doesn't represent a cycle. It represents a reset. It's an emotional, social, economic reset. People who understand that will prosper. Those who don't will be left behind." Immelt's remarks constitute nothing less than a challenge to his peers: Reinvent your business, or go home. Organizations that wait for solutions to fall from the sky fully formed will be the next to fall. Even a casual observer can see that the challenges facing GE are an object lesson for the rest of us.

How do you navigate an enterprise through uncertain times? By getting back to fundamentals. That goes for [innovation](#), too, which doesn't mean novelty for novelty's sake. Innovation is about growth, and growth takes empathy, creativity, and execution. Empathy, on an organizational scale, is a shared intuition for what people outside the company really need and value. Creativity is the ability to come up with new ideas for products, services, and businesses that are different and distinct. And execution is the art of getting things done. These aren't feel-good ideas for easy times. They're the secret to surviving a storm.

## Get In Touch With the World

For individuals, empathy affords the ability to step outside their own perspective to see the world as other people do. For organizations, empathy is a shared intuition for the people who buy your products and services. That goes far beyond market research. Companies that create a widespread sense of empathy for the people they serve see new opportunities faster, have the courage to take a risk on new ideas, and make better decisions on all levels.

In the early 1990s, IBM ([IBM](#)) was in crisis. The organization had laid off thousands of employees as its profit and revenue fell for the first time ever. By the time Lou Gerstner was installed as CEO, just about everyone believed his job would be to divide Big Blue into a dozen Baby Blues. Everyone except Gerstner, who believed his customers needed IBM to be one company. Gerstner launched Operation Bear Hug, sending his top 250 managers to visit at least five customers each. Through those meetings, the leadership of IBM began to see how important their work was—and to understand the changes they could make to add value for their customers. Over time, Bear Hug helped IBM redefine itself as a solutions provider. In less than two years, Gerstner brought IBM back into the black, and the company went on to chart seven years of double-digit revenue growth and profitability. Today, Big Blue's growth engine runs on empathy.

## Hungering For Wild Ideas

All companies run on creativity—it's how they add value. Car companies transform rubber and steel into transportation and badges of identity. Telecom companies turn silicon into human contact. In an uncertain market, it's tempting to cut creativity and get lean. That's unfortunate, because creativity is essential to getting through tough times. And when conditions improve, a company's creativity can accelerate its upward climb.

As the world's preeminent maker of greeting cards, Hallmark faces a huge creativity challenge. Each year, the company's 800-person creative staff generates 19,000 new cards and products. To generate this incredible volume of ideas, the organization has built a world-class creative center at its Kansas City (Mo.) headquarters. Imagine an art studio the size of a Super Wal-Mart. But, like everyone else, Hallmark has had to face financial realities. Not long ago, consultants recommended that the company cut costs by outsourcing creative work. Hallmark execs rejected the idea, recognizing that creativity is the heart of their business. They're able to take a 5¢ piece of cardstock and turn it into a sentiment that people will buy for five bucks. That focus has helped Hallmark ride out the [Great Recession](#) with minimal declines.

### **Punish Inaction**

Great execution is every bit as important to innovation as empathy and creativity are. Now is the time to bring ideas to life faster. To make changes that let great things happen. To develop a bias for action. As Stanford University engineering professor Jim Adams once noted, "Good companies reward success, punish failure, and ignore inaction. Great companies reward success and failure and punish inaction."

Since [Steve Jobs](#) returned as Apple's CEO in 1997, the company has been celebrated for its design-driven approach to innovation. What's rarely discussed is the well-oiled execution machine that gets Apple's products out the door. Soon after his arrival, Jobs unleashed operations whiz Tim Cook on Apple's troubled supply chain. For years, Apple struggled to clear out older models. Cook reduced Apple's inventory from 54 days to less than a day, going from near-worst in the industry to leaner than cost-leader Dell. Fixing the supply chain and slashing nonessential businesses freed up resources for new ideas, such as the iPhone and the iPad. Steve Jobs is renowned for saying that "real artists ship." And he has made shipping new products an art form.

### **Focus on the Fundamentals**

Companies that innovate sustainably over time don't choose to focus on empathy to the exclusion of creativity or execution. They're great at all three. After all, you can't be a great runner with just a good right leg or left leg. Execution isn't a trade-off for creativity, and neither is it a trade-off for empathy. Two out of three won't cut it. Great companies focus on all three.

The past few decades have seen too much moving the money around and not enough basic value creation. To get out of the Great Recession that continues to dog our economy, companies need to get back to the fundamentals of innovation.

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