Perspective from Practice

Innovating management innovation

Martin Reeves
Chairman, BCG Henderson Institute
reeves.martin@bcg.com

Kevin Whitaker
Head of Strategic Analytics, BCG Henderson Institute
whitaker.kevin@bcg.com

Abstract

Prompted by contextual shifts that are reshaping the business environment, managers are increasingly seeking new ways of thinking about strategy. However, a significant gap has arisen between theory and practice in the realm of management innovation, according to our recent survey of experts in the field as well as observations from practice. As a result, several frictions have developed in the "learning cycle" by which new needs are surfaced, solutions are developed and tested in practice, and ideas are refined and amplified. The gap between theory and practice is not inevitable, but closing it will require overcoming misperceptions and changing the contexts in which innovators operate. We suggest several actions that individuals and institutions can take to break apparent trade-offs and improve the practice of management innovation.

Keywords

Acknowledgement

<u>Innovating management innovation</u>

The demand for innovation in strategic management is higher than ever. Research in this area mostly aims to understand the canonical issues in strategic management, such as the four fundamental questions posed by Rumelt, Schendel and Teece: how firms behave, why firms are different, what role does headquarters play in a multi-business firm, and what determines success in international competition.[1] But the answers to such questions are now being reshaped by fundamental new challenges in strategy: evolving technology is shifting organizational and industry boundaries and architectures;[2] competitive advantage is less sustainable, requiring the continual renewal of strategy;[3] the political and economic context is more dynamic and unpredictable;[4] and social and environmental externalities are starting to affect business in the present.[5] Furthermore, the recent shock of COVID-19 has accelerated the adoption of digital business models and new ways of working, and highlighted the importance of resilience. These forces collectively are leading managers to actively seek new ways of thinking about strategy—in my 30-year career as managerial innovator, there has probably never been a better time for new ideas.

To effectively meet this demand for new ideas, managerial innovators, be they academics, consultants or practitioners, will need to overcome the significant gap which has unfortunately arisen between theory and practice. In other words, the practice of management innovation itself needs innovation. In this article, we offer a perspective on where management ideas come from and how they create value; provide data and a practitioner perspective on frictions in the innovation process today; and give some practical recommendations for how to break the seeming trade-offs between the rigor, relevance, and accessibility of new ideas.

How new ideas create value

Management innovation is inherently an *applied* discipline—its primary aim should be to create ideas whose application improve the practice of management in an ever-shifting context. There is a role for detached contemplation, but only if it is eventually linked to improving practice.

Historically, the field was relatively integrated, with impactful ideas coming from academics (for example, Michael Porter's Five Forces or Clayton Christensen's Innovator's Dilemma), consultants (for example, the Net Promoter Score of Bain's Frederick Reichheld or Time-Based Competition of BCG's George Stalk and Tom Haut), and businesses themselves (for example, Toyota's Lean Manufacturing or Lockheed's Skunkworks, a precursor of ambidexterity). According to a poll we conducted at a recent strategic
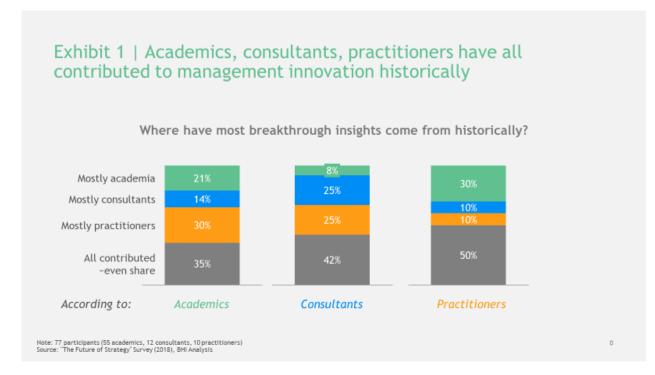
---

[1] Rumelt, Schendel and Teece, *Fundamental issues in strategy: a research agenda* (Harvard Business School Press, 1994).

[2] Fuller, Jacobides and Reeves, "The Myths and Realities of Business Ecosystems," *MIT Sloan Management Review* (2019). https://sloanreview.mit.edu/article/the-myths-and-realities-of-business-ecosystems/

[3] Reeves, Whitaker and Deegan, "Fighting the Gravity of Average Performance," *MIT Sloan Management Review* (2020). https://sloanreview.mit.edu/article/fighting-the-gravity-of-average-performance

[4] Reeves and Harnoss, "The Business of Business is No Longer Just Business," BCG.com (2017). https://www.bcg.com/publications/2017/corporate-strategy-business-no-longer

[5] Young, Woods, and Reeves, "Optimizing for Business and Social Value," BCG.com (2019). https://www.bcg.com/en-us/publications/2019/optimize-social-business-value

management conference, a plurality of experts opined that academics, consultants, and practitioners each contributed relatively even shares of breakthrough insights in the past.[6] [Exhibit 1]

Exhibit 1 | Academics, consultants, practitioners have all contributed to management innovation historically

Where have most breakthrough insights come from historically?

Regardless of their origin, management innovations are tested, refined and create value through being applied in practice. Management innovations can create value in different ways, such as by focusing practitioners' attention on emerging or overlooked challenges and opportunities; by codifying essential elements of what leading-edge companies are doing so they can be adopted by others; by reducing complex issues to pragmatic frameworks that clarify the issues and responses; or by relating an idea to the context, so it can be adopted at the right time in the right circumstances. Regardless of how they create value, new ideas must therefore be fully accessible to practitioners; they must be tested in practice and demonstrated to be worthwhile; and they must be amplified and adopted.

Therefore, the process of management innovation must embody a *learning cycle*, in which new needs are surfaced based on practitioners' challenges; innovators develop new ideas to address those challenges; the ideas are communicated back to practitioners; they are tested out in practice; and finally they are refined and amplified based on real-world feedback. [Exhibit 2]

---

[6] Future of Strategy survey conducted at Strategic Management Society conference in Hyderabad (Dec. 2018) comprising 77 participants (55 academics, 12 consultants, 10 practitioners); similar patterns found by Stalk and Hout analysis of HBR's "75 Years of Management Ideas and Practices" (unpublished analysis, 2005)

Exhibit 2 | The innovation learning cycle

Surfacing needs

Developing ideas

Refinement, amplification

Testing ideas, feedback

Communicating ideas

For example, consider the impact of the portfolio matrix, an innovation developed by Bruce Henderson in the late 1960s. A need emerged from practice: as large companies increasingly operated as conglomerates with a diverse portfolio of business units, they needed a way to internally allocate cash between them to overcome the limitations of capital markets at the time. Henderson developed four rules that explained the cash need and cash generation of each business within a company, as a function of its market share and growth.[7] To make the idea more accessible to practitioners, he and his colleagues then evolved the idea into a matrix with four discrete quadrants and instructions for managing and allocating capital to or from each. This idea was amplified and adopted (about half of Fortune 500 companies used it at one point).[8] Finally, it was refined over time—as management challenges evolved (conglomerates fell out of fashion, the pace of change increased, and predictability fell), later innovators adapted the matrix accordingly.[9]

Other applied disciplines, such as medicine and engineering, embody such a learning cycle. For example, medical innovation often occurs at academic medical centers that integrate research, education, and patient care.[10] These institutions are likely to serve patients with poorly understood conditions that require new treatments, which research faculty develop with the aim of eventual wider application. The integration of research and patient care activities within the same institution facilitates the transfer of treatments to practitioners, and treatments are rigorously assessed in clinical trials. Based on the evidence, new treatments that are demonstrated to be effective are adopted more widely by the

---

[7] Henderson, "The Product Portfolio," *BCG Perspectives* (1970).

[8] Haspeslagh, "Portfolio Planning: Uses and Limits," *Harvard Business Review* (1982).

[9] For example, Lochridge, "Strategy in the 1980s," *BCG Perspectives* (1981); Reeves, Moose, and Venema, "BCG Classics Revisited: The Growth Share Matrix," *BCG Perspectives* (2014).

[10] Anderson, Steinberg, and Heyssel, "The Pivotal Role of the Academic Health Center," *Health Affairs* (1994). https://www.healthaffairs.org/doi/full/10.1377/hlthaff.13.3.146

profession, amplified by the "continuing medical education" activities of doctors .[11] This cycle is not perfect—for example, communication of best practices does not always penetrate to smaller local health systems promptly—but in aggregate it has helped achieve significant gains in health outcomes.[12]

Frictions in the management innovation cycle

Management innovation, however, is much less integrated today that it has been historically. In the same survey of innovators that indicated that academics, consultants, and practitioners had contributed ideas equally to the field *in the past*, a strong plurality said that *today* breakthrough insights mostly come from practitioners themselves, with academics and consultants playing only a secondary role.[13] Survey responses point to several areas of dysfunction. [Exhibit 3]

Exhibit 3 | Dissatisfactions in management innovation today

		Participants disagreeing¹ (%)
Strategy Field	Performs well vis-a-vis mission	38%
	Addresses today's challenges effectively	47%
Academia	Focuses on practitioner-relevant topics	63%
	Sufficiently grounded in real-word phenomena and problems	56%
	Communicates effectively to practitioners	81%
	Useful to practitioners in addressing their key challenges	49%
	Educates effectively to tackle today's challenges	66%
Collabo-ration	Good level of interchange between practitioners and academics	76%
	Good perception of academics by practitioners	56%
	Good perception of practitioners by academics	48%

1. "Disagreeing" includes "somewhat disagreeing" and "strongly disagreeing". Note: 77 participants (55 academics, 12 consultants, 10 practitioners)
Source: "The Future of Strategy" Survey (2018), BHI Analysis

These identified issues represent blockages and contextual inhibitors in the learning cycle, constraining the relevance and impact of managerial innovation. [Exhibit 4]

---

[11] Ellis et al., "Inpatient general medicine is evidence based," *The Lancet* (1995). https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(95)92781-6.pdf
[12] Lenfant, "Clinical Research to Clinical Practice — Lost in Translation?" *New England Journal of Medicine* (2003). https://www.nejm.org/doi/full/10.1056/NEJMsa035507#article_references
[13] Future of Strategy survey conducted at Strategic Management Society conference in Hyderabad (Dec. 2018) comprising 77 participants (55 academics, 12 consultants, 10 practitioners)
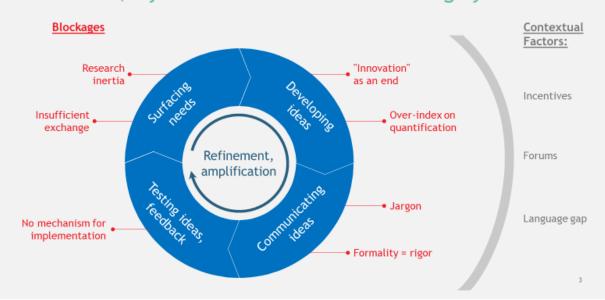
Exhibit 4 | Dysfunctions across the learning cycle

- *Blockages in surfacing needs:* Interchange between practitioners and innovators is required to surface needs from practice. However, 76% of innovators said the level of interchange is inadequate today—perhaps because practitioners and innovators are accustomed to and often measured on effectiveness in addressing peers rather than communicating across groups. Additionally, research agendas often have a high degree of inertia (caused by, among other factors, the same lack of connection), thus failing to keep up with shifting needs. As a result, the practice of management is racing ahead of theory in some areas, as the same survey suggests.
- *Blockages in developing ideas:* Innovation creates value by serving needs of practitioners, but it can often be treated as an end in itself, resulting in a lack of relevance. 84% of innovators said that a majority of academic strategy papers do not address issues that are relevant to practitioners. Another issue is that researchers often focus on what can be easily measured and quantified through statistical analysis of available. As a result, current research questions are often shaped strongly by data availability, which is also constrained by the widening gap between theory and practice. Additionally, strategic problems are not always amenable to statistical analysis—there is also a place for developing disciplined qualitative narratives to understand what's going on and what can be done about it, especially in situations of high complexity or uncertainty. Such narratives are often looked down upon as being non-rigorous, but they can be rigorous if they are judged on their consistency and coherence and refined through challenge and application.[14]
- *Blockages in communicating ideas:* 81% of academic innovators said that researchers do not generally communicate ideas effectively to practitioners—instead they often perform for each other. One challenge is the frequent use of niche jargon and abstruse analytical methods. A related challenge is the confusion of formality with rigor, which prevents innovators from adopting more accessible formats and language. Ideas are only effective if communicated and acted upon—great explainers

---

[14] Kay and King, *Radical Uncertainty* (W.W. Norton & Co., 2020).

like the physicist Richard Feynman demonstrate that an inability to explain ideas in plain language is mostly a limitation of the explainer.

- *Blockages in testing and feedback:* The management innovation field lacks agreed protocols to implement and measure the impact of ideas—there is no equivalent of a "clinical trial", nor a systematic tracking of what ideas have been implemented or what the impact has been. Indeed this would be hardly possible with the current paucity of communication between practice and theory. As a result, it is difficult for practitioners to know which ideas should be adopted or where to find them, and difficult for innovators to learn from feedback and refine ideas or the process of generating ideas.
- *Contextual impediments:* Some deeper structural factors contribute to these various blockages in the learning cycle. Firstly, innovators' incentives are generally not aligned with creating maximal impact. For example, career progress in academia is increasingly dependent on measurable outcomes, such as publications, citations, and speaking engagements, which are generally achieved by impressing other innovators instead of being practitioner relevant. In consulting, economic pressures can shape evaluation and career progression, which can lead to a focus on commercial exploitation over innovation. And in management practice, commercial pressures and increasing specialization can obstruct managerial innovation. Additionally, there are few convening forums that create an equal playing field for innovators and practitioners, leading to insufficient collaboration and communication. Today's academic conferences are just not designed to be attractive to busy, pragmatic practitioners. And there is often a gap between the language used by innovators and practitioners, stemming from different education and career paths, that inhibits the discussion of ideas in a mutually useful manner.

Fortunately, the growing gap between theory and practice is not inevitable, however—as demonstrated by both the history of the field, by some numerous exceptions to the pattern and by the current reality of other applied fields. Some attempts to bridge this divide are underway: for example, journals like Harvard Business Review and MIT Sloan Management Review aim to present emerging innovations in formats that are widely read by practitioners. And the Strategic Management Society has policy and numerous efforts to attract "ABCs" (academics, business practitioners and consultants) Still, in aggregate the field has a long way to go in this regard.

Further closing the gap will require overcoming some common misperceptions. For example, innovators may believe that practitioners just aren't interested in theory—but as Christensen said, "Managers are already voracious consumers of theory ... the problem is, most managers aren't aware of the theories they're using and they often use the wrong theories for the situation."[15] Innovators may believe that abstruseness is an inescapable consequence of rigor. On the other hand, practitioners may believe that innovators have no interest in putting their ideas into practice—whereas in reality that is merely a function of the opportunities and incentives they face.
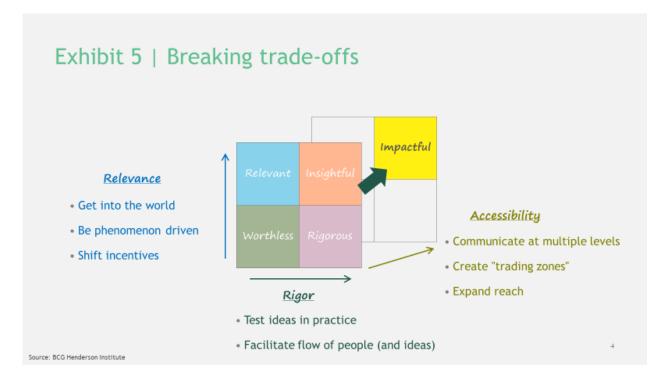
An agenda to accelerate management innovation

Innovators can consider the requirements for ideas to create impact along three dimensions. They must have *relevance*—addressing current needs of practitioners. They must have *rigor*—containing accurate, verifiable insights with a strong grounding in evidence or theory. And they must have *accessibility*—so that they can be understood and adopted by practitioners at scale. These dimensions are often treated as

---

[15] Labarre, "The Industrialized Revolution," *Fast Company* (2003).
https://www.fastcompany.com/47659/industrialized-revolution

trading-off against each other, but that is not necessarily the case. As the learning cycle illustrates, when harnessed effectively these dimensions in fact reinforce each other: innovations that are relevant and accessible are more likely to be tested in practice, generating feedback to demonstrate or increase their rigor, further driving relevance and adoption.

The three dimensions point to several actions that both individuals and institutions can take to break trade-offs and improve the practice of management innovation: [Exhibit 5]

Exhibit 5 | Breaking trade-offs

Relevance
- Get into the world
- Be phenomenon driven
- Shift incentives

Rigor
- Test ideas in practice
- Facilitate flow of people (and ideas)

Accessibility
- Communicate at multiple levels
- Create "trading zones"
- Expand reach

Source: BCG Henderson Institute

For individuals:
- **Get into the world.** To ensure that their ideas have relevance, innovators need to identify what needs are emerging from practitioners—which involves getting out into the world and engaging with managers and leaders. For instance, the top issues identified as blind spots today (in our survey as well as our conversations with practitioners) include digitization, ecosystem models, dynamic approaches to strategy, shifts in globalization, and dealing with uncertainty and volatility. By maintaining frequent contact with practitioners, innovators can stay on top of new issues and tailor research agendas accordingly.
- **Be phenomenon driven.** Another way to ensure relevance is to ground research in current phenomena, and by asking, "what's going on here?" Although it is usually clear *which* companies are on the leading edge of management, it is often less clear what exactly they are doing or how others could adopt it. Innovators can add significant value by codifying the essential elements of success. For example, Ming Zeng played multiple roles in management innovation, first as a professor at INSEAD and later as the head of strategy at Alibaba. He leveraged those backgrounds to write a book codifying the company's unique approach to strategy, partnering with other researchers to get a

better perspective on certain elements, and distilling lessons that other companies could learn from.[16]

- **Test ideas in practice.** To ensure that innovations are rigorous, it is necessary to see how they work in the real world and refine them based on feedback. Innovators must therefore do research not for its own sake, but with the aim of having ideas adopted and used in practice. One way to ensure this is to work in the "laboratory of the company" by co-publishing or co-creating ideas with practitioners, ensuring that there is a mechanism for adoption and testing.
- **Communicate at multiple levels.** To give ideas the best chance of being adopted and amplified, innovators need to bring their insights in a digestible manner. One strategy to do so is to communicate "fractally"—publishing at all levels of detail to make ideas accessible to a wide range of audiences. This might involve communicating ideas in academic journals, management literature, company publications, traditional media, and social channels.

For institutions:
- **Shift incentives.** Innovators are generally measured on their ability to impress other innovators, but that does not have to be the case. Institutions can complement existing metrics by assessing engagement or adoption of ideas, such as the quality of one's audience or how far their ideas have progressed towards adoption. To facilitate success on these dimensions and ensure ideas are relevant, institutions can also develop mechanisms for regularly testing management theories in practice.
- **Facilitate flow of people (and ideas).** Impactful innovations often emerge when existing ideas are recombined, or when ideas are challenged from a new angle. Institutions can therefore increase the flow and rigor of ideas by frequently bringing in new perspectives, such as through rotating fellowships or short-term partnerships. Bringing practitioner perspectives into the agenda-setting and evaluation processes could also help ensure relevance and adoption.
- **Create "trading zones."** It is perhaps unavoidable that innovators and practitioners will tend to develop different jargons and mental models of their work—but that does not mean the gap cannot be bridged. Peter Galison describes interdisciplinary collaboration as occurring within "trading zones"—just as humans with different cultures, languages, and customs can come together to exchange goods if they agree on ground rules beforehand, so too can researchers or practitioners from different fields exchange ideas if they interact and develop a common language.[17] Institutions can facilitate such exchange by developing forums for convening across groups (not dominated by one perspective or the other), and by encouraging or codifying a common language to share ideas. They might also conceivably experiment with open source models which have been successful other areas like software and mathematics [18] .
- **Expand reach.** Individuals can adapt their own communication formats and styles to increase accessibility, but institutions that dream big may be able to design entirely new initiatives that boost reach even further. For example, what if there was an equivalent of TED for management science, convening the top innovators and practitioners together? Or a mini-series aimed at translating ideas through high-production-value storytelling, which practitioners could watch while traveling?

The demand for management innovation is higher than ever, and innovators can address this need and opportunity by recognizing and surmounting the challenges that exist today. By pursuing ideas that have

---

[16] Zeng, *Smart Business: What Alibaba's Success Reveals about the Future of Strategy* (HBR Press, 2018).

[17] Galison, *Image & logic: A material culture of microphysics* (The University of Chicago Press, 1997).

[18] Gowers and Nielsen, "Massively collaborative mathematics" (Nature, 2009). https://www.nature.com/articles/461879a

rigor, relevance, *and* accessibility, innovators and institutions can rejuvenate the field of management innovation.