

# PRODUCT INNOVATION: MOVING FROM IDEAS TO EXECUTION



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## Q&A WITH PROFESSOR STEFAN H. THOMKE

Many companies view product innovation as one of the few sustainable ways to grow. A vexing problem for company leaders today is how to instill a culture of innovation that creates business success. In a recent interview, Stefan H. Thomke, the William Barclay Harding Professor of Business Administration and chair of the MBA required curriculum at Harvard Business School, shares his thoughts on why companies need to innovate, how they can model innovative behaviors, and why leadership is critical to instilling a culture of innovation.

### **Q: How can anyone really teach innovation? Doesn't it depend on "out of the box" thinking?**

From a practical business perspective, there are two ways to look at product innovation: it must create novelty, and it must have value. Innovation must be produced at a cost that the buyer is willing to pay, and it must allow the producer to cover the cost and generate a sufficient profit.

I would agree to a point that one cannot "teach" innovation. However, company leaders can learn certain skills that contribute to being innovative. Good leadership fosters the capacity for action, stimulates creativity, and motivates new ideas. More important, leadership is critical to moving from innovation to product development to execution. It draws from personal insights and capabilities, as well as actionable research. Companies can become great innovators provided they have properly equipped leadership.

### **Q: Why do companies need to focus on innovation?**

Innovation is a major driver of sustainable growth. There are four ways for companies to grow: (1) selling more of the products they already have; (2) improving their current products incrementally with the goal of selling at higher margins or volumes; (3) creating new products and services; or (4) expanding through a merger or an acquisition. As we've relearned over the past decade, however, the fourth way isn't sustainable. The focus of my research, and the emphasis in my HBS Executive Education program, [Leading Product Innovation \(LPI\)](#), is on the third path, especially product development.

### **Q: What can companies do to facilitate product innovation?**

Just as companies innovate in many ways—by making incremental changes to their products, achieving new product breakthroughs, or causing market disruptions—they can innovate in many areas. Businesses can design new products and services, expand into unfamiliar markets and channels, or develop different manufacturing or marketing processes. In each case, specific processes and industry practices can be implemented that drive efficient and effective execution. The important thing is to maintain a balance between strategy and implementation. In fact, more than half of the LPI curriculum focuses on process and execution.

### **Q: Your Executive Education program incorporates Jason Randal, a renowned magician and mentalist, into the curriculum. Isn't that unusual for a business school course?**

I think Harvard may be unique among business schools for incorporating magic into the curriculum of the Leading Product Innovation class. What Jason Randal does relies almost purely on innovation and must be done predictably while under pressure. In the class, he walks us through his learnable process of generating new ideas, which is completely relevant to our participants. He also demonstrates what lies below the surface of his innovations—how and why he tests, improves, and monetizes his ideas while hiding all but the most relevant aspects of his methods from the audience. What he does lies at the core of business innovation, so we do apply his insights to specific cases during the course.

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**Q: Historically, companies have had limited success in managing marketplace risk and uncertainty. How can organizations structure themselves to mitigate some of this risk?**

At the core, innovation is about managing uncertainty. With any new project, companies must address four risks: (1) technical risk—*Will it work?* (2) production risk—*Can we make it at low cost and high quality?* (3) customer uncertainty—*Will it meet a need?* and (4) market uncertainty—*Will we deliver into a fundamentally altered or disrupted technology universe?*

We've structured the LPI course to help companies better align strategy with execution so they can better manage known and unknown risks. We begin with concrete, practical concepts and methodologies that underlie effective product development leadership. For example, participants create a development strategy and a well-balanced aggregate project plan. This leads directly to the selection of a portfolio of development projects that can be resourced effectively and that will match the company's business objectives.

Our participants learn ways to manage the threat of disruptive technologies and how to design a product development organization that leverages open and distributed innovation models. By using existing and new technologies, business leaders can revolutionize the organization through new experimentation strategies, simulation, prototyping, and technology development.

**Q: There are so many apocryphal stories about the mistakes in the lab that lead to breakthrough products. Shouldn't companies have a process for managing their mistakes?**

We need to be careful with semantics. I think "experimentation" is a more fruitful term than "mistake." Companies absolutely need to encourage experimentation, but they also need to limit the things that go wrong. Effective prototyping is critical. Experience, as in most things, makes a world of difference in product development.



**Stefan H. Thomke** is the William Barclay Harding Professor of Business Administration and chair of the MBA required curriculum at Harvard Business School. A member of the Technology and Operations Management Unit, Professor Thomke is faculty chair of "Leading Product Innovation."

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