

Avoiding Innovation's Terrible Toll

By **SPENCER E. ANTE**

The corporation isn't a sturdy species.

In fact, only a tiny fraction reach the age of 40, according to a study of more than six million firms by management professors Charles I. Stubbart and Michael B. Knight.

"Despite their size, their vast financial and human resources, average large firms do not 'live' as long as ordinary Americans," the authors concluded.

The History of Kodak



Eastman Kodak is preparing for a Chapter 11 bankruptcy-protection filing in the coming weeks should efforts to sell a trove of digital patents fall through. Dana Mattioli has details on The News Hub. Photo: AP

Given today's increased pace of technological change, even 40 years is going to start to seem like a really long time.

The wave of creative destruction looming over companies like Eastman Kodak Co., Blockbuster Inc., Barnes & Noble Inc. and the record labels has been focusing the minds of American executives on two questions: Are large companies able to innovate quickly enough in an age of rapid disruption? And if they can, how do they do it?

Business leaders, academics and venture capitalists say the large companies that do manage to survive are ruthless about change. The most successful ones aren't afraid to cannibalize their big revenue generators to build new businesses.



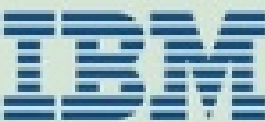



They often make frequent—but, crucially, small—acquisitions that bring in new technologies and open new markets. And there's always the unpredictable role of luck in business—both good and bad.

Johnson & Johnson, founded in 1886, and International Business Machines Corp., which just celebrated its 100th birthday, have defied the 40-year corporate life span.

More recently, 35-year-old Apple Inc. has transformed itself from a small PC maker into a kingpin of mobile devices. Google Corp., founded in 1998, is finding new ways to grow beyond its core search engine advertising business.

Innovator's Dilemma

Companies struggling to keep up with technological change have to navigate a range of obstacles: act quickly, but not precipitously; do acquisitions, but not big, risky ones. Here's where some big companies went right and wrong.

 RIGHT TURNS	 WRONG TURNS
 Bailed out of PCs early, focused on small acquisitions	 Waited too long to rethink PCs, build a software business
 Readily risked sales of existing lines to roll out new products	 Missed opportunities to capitalize on innovations, including the social-networking potential of online photos

Companies felled by creative destruction, on the other hand, tend to be bureaucratic, play too much defense, and try to catch up too late by lurching into huge acquisitions.

Top executives at successful big companies are a lot like those at small companies, said James W. Breyer, a partner at Facebook Inc. investor Accel Partners and a director at Wal-Mart Stores Inc. and Dell Inc.

Mr. Breyer described these executives as very smart, and able to diversify into new businesses while staying focused on a company's core.

He said people ask him how Wal-Mart's board meetings differ from Facebook's.

"I see far more similarities than differences between the top visionary executives," he said.



Chips are getting smaller and faster but engineers are still tinkering with new ways to find a better, faster chip. Don Clark reports on three proposals out of IBM.

A comparison of Hewlett-Packard Co. and IBM illustrates the challenge. When Louis V. Gerstner took over IBM, he wanted to know why the company consistently missed the emergence of new industries. IBM developed the first commercial router, for instance, but Cisco Systems Inc. ended up dominating that market.

An internal study found that IBM's success in mature markets made it difficult to explore new ones, and that it lacked the proper organizational structure to identify and build new ventures.

So in 2000, Mr. Gerstner launched a program called the emerging business organization to find and nurture growth opportunities under the direction of top executives. Over the next five years, EBO businesses such as life sciences, Linux software and pervasive computing added more than \$15 billion to IBM's revenue, according to a 2010 study published in the Harvard Business Review.

Under Chief Executive Samuel J. Palmisano, who stepped down at the end of 2011, IBM supplemented its internal efforts with an aggressive acquisition strategy, picking up dozens of small companies that expanded IBM's high-margin software and consulting businesses.

At the same time, Mr. Palmisano wasn't afraid to make hard choices, selling off the company's vaunted personal computer business in 2004 before PCs had been largely commoditized.

"We've lasted 100 years, because we never limited ourselves to a view of a particular product," Mr. Palmisano said in an interview last year.