News

The CIO as Chief Innovation Officer

John Hagel III and John Seely Brown JANUARY 27, 2011

When we regularly engage with chief information officers, we are struck by how many of them seem to fear risk rather than embrace it. They often act more like the corporate counsels of large companies, who view their jobs as identifying risks, and wherever possible, developing ways to reduce that risk.

At one level, this kind of behaviour is completely understandable. The risk is real. Moreover, CIOs are losing their jobs with increasing frequency. Some believe the best way to keep their jobs is to avoid adding anything new or untried to the information technology (IT) infrastructure.

As a result, leading-edge tools often come into corporations under the radar screen. Based on our personal observation, employees at all levels of the enterprise are increasingly pulling in social software or even cloud computing resources in an ad hoc way, often without the knowledge of the central IT organisation who might block their efforts.

Paradoxically, risk aversion is actually increasing risk.

The Challenge and the Opportunity

As we discussed in our inaugural column, information technology is helping to increase performance pressures on companies while at the same time providing platforms and tools to respond successfully to this performance pressure.

The conventional response to mounting pressure—aggressive and widespread cost-cutting—is a diminishing-returns game. Each increment of performance improvement becomes harder and harder to deliver. Executives are feeling increasing pressure and getting less impact from their efforts.

The time is ripe to shift focus from the denominator of business economics—the cost of operations —to the numerator of revenues, so as to deliver more value with equivalent resources. CIOs who do this can turn a diminishing-returns proposition into one of increasing returns.

The opportunity for the CIO lies in becoming a change agent for innovation and growth. CIOs can both work to transform the business and help the management team drive significant improvement to the bottom line.

Staging Targeted Deployments

From a CIO's perspective, the best news about new technologies like cloud computing and social networks is that they can be implemented in staged approaches. As a result, it is possible to target specific operating performance issues and deliver tangible improvements with both a relatively modest investment and a rapid time to impact.

Yes, deploying new technologies carries risks. But targeted approaches can help companies manage risk and capture valuable learning while reducing exposure. The key is to work with line executives to target major operating pain points and begin to demonstrate impact.

In thinking about how to achieve change through leading-edge technologies, it is usually far more promising to target the edges of companies themselves, rather than the core of the business. By edge, we mean the parts of the business that do not yet have a lot of people or profitability, but that have the potential to scale rapidly in terms of business impact.

Edges could involve new product introductions, expansion into new markets, or the launch of entirely new business propositions. They generally require active co-ordination with third parties, whether they are other companies or customers. As we discuss in our book, The Power of Pull, the edges of companies are generally more open to change and the adoption of new technologies, because they face more unmet needs and fewer established routines. The people who are attracted to edges tend to be less risk-averse, as well.

With such a targeted strategy, CIOs can quickly demonstrate impact and work with executives on the edge to scale operations rapidly. Since these technologies can be deployed in an incremental fashion, they typically require much less initial investment and can support compelling business cases for expansion. Longer term, edge initiatives have the potential to become the new core of the enterprise.

Scaling Impact

By shifting to a focus on the numerator of the value equation and driving targeted deployment of new technologies on the edge, CIOs can get more impact and manage risk in a pragmatic way. They are no longer adopting an all-or-nothing stance: Either the company deploys a potentially risky technology throughout the company without much goal clarity, or it fails to deploy the tools or even bans access, and reduces both the risk and the upside.

Ultimately, when leaders think about risk, the one risk they fail to explicitly put on the table is the risk of not adopting new technologies. Companies risk losing real competitive advantage if other firms discover business value first.

Companies need a better balance. They can rapidly adopt new technologies, but do it in a staged, focused way that manages risk while also delivering results faster and with lower investment. With measured risk comes measurable rewards.

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Their books include The Power of Pull, The Only Sustainable Edge, Out of the Box, The Social Life of Information, Net Worth, and Net Gain.