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Discussion

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Discussion After the Speeches of Ronald Mitsch and Brian Hewat

QUESTION, *Mr. Harvey*: I have one question to start this off. As we have heard from government officials in Canada and the United States, and we heard from individuals about the questions relating to how to measure innovation on a company level, on an industry level, and on a national level; what is the proper measure? What should a government measure?

We have heard one example today of measuring innovation through comparing how many patents we have versus how many someone else has; another company, another industry, or perhaps, another country. I wonder if you both could respond to that.

ANSWER, *Mr. Hewat*: Well, we do it two ways. We do everything with two-by-two matrices. And if you thought about it, the final analysis we are looking for out of that matrix — and a matrix is really a plot of all of the products we have and all the portfolios — is to try to determine whether or not we have a sufficient population of new products for new markets.

I will be extreme with you; a sufficient amount of money goes into that area so that we are comfortable that we protect the future. Government is going to look at the same thing. No magic here. Three years is the usual. That is one way. The other is to look at some indices in the legislature today. They are called legislature indices. In the final analysis, they look at the proportionality of the R&D or the proportionality of revenue, most likely the latter, that the firm is deriving from the new products. So there are standards. It is company-wide.

COMMENT, *Mr. Mitsch*: I would just add that we use it basically in terms of the sustainable growth position of the business units, the robustness of the technology, and the product portfolio that you have. You can see it. You can quantify it. But usually you know when you have a rich, robust set of technology platforms, and new products and new processes, that you can draw from in your business. We do not spend a lot of time in doing special indices as to how the business unit is performing.

QUESTION, *Professor King*: How do you develop a sense of focus on these products so you are not all over the lot? What do you do with employee innovations that are outside your target areas of innovation?

ANSWER, *Mr. Mitsch*: Well, basically you do have target areas that you want to go after. But that does not use most of your resources. Let us say you have a third of your resources and energy going into some things. You take a slice in time, and you say, these are the best

opportunities we have. This is what we are trying to do, from bringing forward the products and/or changing the industry, and what do you have there? And then you allow the skunk works to continue to operate. Because it is often what comes out of that skunk works, which is the top point that you mentioned; that is the real invention, the big leap, the big technological advance where it comes forward. And then you recognize that and pick up on it at a later date as it is fleshed out.

QUESTION, *Mr. Barrett*: How do you screen your various innovations? Do you rely on just one person's ability to say, this is good or bad, or do you have twenty people or committees to make sure that you are picking the good ones out to go forward?

ANSWER, *Mr. Hewat*: Well, there are a couple methods. First, we do not have the technology groups who are responsible, for innovation separated from the product development units. They are integrated. And there is a reason for this. It is not only for technology transfer, but it is also for discipline of the pieces of work that are coming out of what I am going to characterize as the next steps. That is one process. We used the BNR Cabinet, which is another process. All of the officers look at innovations. I have been hauled off into quiet rooms by small groups of people and been told to look at that process.

It is not a singular process, and I like the champions, the little gorilla groups. They really do spin the webs a little more deeply. And I will take my chances with them as often as I will take my chances with the more sophisticated processes. We have both. We have a process. If you follow it, you will get there. I guarantee it. We have gorilla groups, and I like both and need both.

COMMENT, *Mr. Mitsch*: Just to add a couple of comments. We do a technical audit. That is just one more piece of information. We have a couple of guys in our sector, the R&D vice president for the sector and our planning guy, go around on a regular basis, sit down at the twenty-five business units, and basically work with them to help in a prioritization to get a cut on what are the most important things that are going on. It is to not do it for them, but it is to just work with them. And through that process, you reach a consensus on what are the most important things that you have going on.

Yet at the same time, we have something called unfunded or underfunded opportunities. Any business unit, or any person, can bring forward an idea or a recommendation, and we have a little process that allows them to do this. Each year we pick eight or ten of them from the sector and throw a million-and-a-half dollars at them, or something like that, divide it up just \$100,000.00 or \$200,000.00 to each one, and let them go to the next step. Because, as Brian said, what is inside of an individual largely determines the success of a lot of programs. Post-It notes would have never, never come to the fore unless a couple of people, and one in particular, Art Frye, believed in that. And there are

other stories that are legends of that kind. They have to be responsive. That is what sponsoring is all about.

QUESTION, *Professor King*: Are you reporting people on a continuing basis for what products or services they develop? What is the individual benefit out of this?

ANSWER, *Mr. Hewat*: We are catching up to 3M. We have had Chairman's Awards, Northern Telecom, and BNR Chairman's awards. But if you look at them carefully, you will find those awards are associated primarily apart from individual achievements for Manager of the Year. Those awards by and large have been built on the basis of product, which has seen the light of day, is in the marketplace, and which has been successful in some sense. Where we probably have missed it is in celebrating the innovation that has not made its product yet.

COMMENT, *Mr. Mitsch*: We have done that and the technology, the true technology development that may form a basis for a lot of different things is another element that can be in the circle of technical excellence, or the Carlton Society, or what have you. But it is not monetary. We do not have monetary awards.

COMMENT, *Mr. Hewat*: We do.

QUESTION *Professor King*: You do?

ANSWER, *Mr. Hewat*: Oh, yes. Not a lot. I think it runs between \$500.00 and \$1,500.00.

COMMENT, *Mr. Mitsch*: Certain countries, like Germany and France, now are requiring this kind of thing. We do not like that at all, to be really frank about it. We just do not, because there is so much networking. There is so much, "I will help you," and there is so much of a voluntary thing going on. And almost every time you try to unweave one of these stories of who really contributed to a significant invention, it gets very cumbersome and complex.

Our feeling has been that you can cause more harm with this when you are trying to promote team work, interaction, matrixing, cooperation, leveraging, and combining things than putting money into a small team or a person's hand. We tend to err on the other side in these awards, like the Golden Step Award with a lot of people on the team from all over the world, because again, we have got labs all over the world that contribute. But it is not monetary.

QUESTION, *Mr. Kasoff*: Given the greater cost of product development and the greater competition in the global marketplace, do you intentionally try to reduce the time of getting a new innovation to the market? And if so, how do you do that?

ANSWER, *Mr. Mitsch*: We decide that it is important and let people know that. That is the pacing program. And when you have a pacing program, we expect a cross-functional team to be in place: team leader, team training, project planning, and a sponsor. Let everybody know, and believe it or not, it happens. The people create the path

themselves. It is not a management exercise. The people themselves find a time to market, an acceleration, a time compression, a way to do it much, much faster. They are more critical, more aggressive, and more innovative in finding a way to do that than any management could be.

So you just say, this is really important, we believe in you, we will support you financially, and we want you to be trained. In fact, in our sector, we provide the training. It used to be you would have to go somewhere, and then there would be a re-charge to your department. Well, that was a barrier, so we eliminated that and said, we want these things to happen. And they happen. I mean, we are cutting the time to market in a third; a half.

The abrasive story, I will come back to that. They thought they could get that into the market in 1998. We said that is not good enough. Can you not go back and do it faster? This is so important. Go back. They get together; they assemble all their staff people; and they do some more re-allocating. Then, they come back and say, if you gave us a million-and-a-half more dollars, we could get there a lot faster. So, we gave them a million-and-a-half more dollars. And believe it or not, as I said, they introduced the product this week [April] in 1995 when their original timetable was a 1998 introduction. They found a way. All we did was provide the path, the vehicle, a little bit more money, and a lot of support.

COMMENT, *Mr. Hewat*: I can help a little bit. We did notice one thing. We cut about thirty-five percent of time out of the overall interval by adhering to this. We noticed the following phenomenon: of the overall interval, ten percent of it was being used up in up-front planning. Something of the order of fifty or sixty percent of it was being used in development. So to the casual observer on the street thinks this might not seem like a bad idea. It turns out it is a terrible idea. The reason that fifty to sixty percent is being chewed up in development is because people keep changing their minds about what the specs are. We found through empirical evidence, if you thought the interval was going to be thirty weeks, you really should spend about thirty percent of that thirty weeks in up-front planning, because you can significantly drop the evolvment interval, and people will stay on course. There is some technique in this, as well.

COMMENT, *Mr. Mitsch*: He is right. When I said project planning, that is what I was referring to. That is an internal word, but it is a process, and he is right. Brian Hewat is right. The biggest problem is not defining the boundaries of what your product development team is going to be working on.

QUESTION, *Professor King*: Do you stock-pile innovation? In other words, do you have innovation that is ready for future use and exploitation?

ANSWER, *Mr. Hewat*: Well, yes.

COMMENT, *Professor King*: It may not be commercially viable now.

ANSWER, *Mr. Hewat*: Yes in two senses. If you read the *Wall Street Journal* either today or a couple days ago, you would have seen an announcement in there where we introduced the Terabit switch. It is the most powerful switch we know of on the market today. It goes up to eighty gigabits. We will stockpile the gigabits, because the world is not ready for them. But we now know how to do the technology. We now know how to build the fabric. We have proven that to ourselves. And frankly, we just laid claim to it.

That is premeditated stockpiling. That is okay. That is good business. I will have to say that, in all honestly, there are a few pieces lying on the shelf that were not premeditated. Either there was no champion, no good salesman within the organization, to bring it forward or whatever. We just simply did not have the funds to go after that one. So there are both kinds.

COMMENT, *Mr. Mitsch*: There are only so many things that you can push forward in the commercialization sense at any one time. So there is always something that is back here. I have never considered it stockpiling innovation in that sense. You can only drive so many things forward at one time. Maybe the answer is yes, but I never thought of it in that context.

