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Innovating in the "Perfect Storm"

Winnovation: Rowan Gibson's October Column
 October 31, 2008. By Rowan Gibson

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Whoa! This is the big one! Most of us have weathered economic storms before, but nobody has ever seen anything like this. Forget the Asian financial meltdown of 1997, the dot-com implosion of 2000-2001, the blistering financial scandals of 2002 (a la Enron, WorldCom et al), and the three-year, post 9/11 global recession that finally abated in 2003.



Sure, plenty of shirts—and trillions of dollars—were lost back then. But the current financial crisis makes all these other episodes look like storms in a tea-cup. With seemingly invincible financial institutions crumbling into dust, share indexes the world over in a freefall of historic proportions, and the global economy in the emergency room, what exactly are we supposed to do?

Well, here's what human beings usually do in a situation like this: they panic. In herds. Which only exacerbates the problem. That's why the armed forces teach all their new recruits the old acronym S-T-O-P:

Stop, Think, Observe, and Plan. It's the only strategy for survival in adverse conditions—whether you find yourself unexpectedly stranded behind enemy lines, or lost up a mountain on the family hiking trip, or facing impending economic hardship as a business.

Right now, the tendency for senior management is to panic. Many executives are slashing and burning both workforce and budgets in anticipation of the worst. Last month, almost 160,000 jobs were lost in the struggling US economy alone. Online retailer eBay announced it would cut 10% of its global workforce, eliminating 1,600 jobs. And Hewlett-Packard, the world's largest computer company, said it plans to obliterate almost 8% of its workforce, which adds up to a stunning 24,600 jobs!

Similar trouble is brewing at a string of other companies, too, from GM, Ford and VW, all the way through to Wal-Mart. Serious cuts to R&D budgets are also now underway in the pharmaceutical industry (Pfizer and GSK), the computer industry (HP—again!—and Dell), the mobile phone industry (Motorola, Nokia and Sony Ericsson), and many other industries where innovation has long been the only real source of competitive advantage.

Now, I'm not saying it's wrong to trim the numbers as part of a staged, long-term strategy aimed at keeping the company fit for purpose. But I am saying that panic-induced, knee-jerk reactions are fundamentally a bad thing. It's like throwing a pot of cold water on a frying pan full of burning oil. If you've ever done this in your own kitchen, or seen it done, you'll know that it not only makes the flames a lot worse, but creates even more panic than before.

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As the Ur-guru of management, Tom Peters, puts it in his blog: the "instant, mindless cutting of R&D... in the face of a downturn is often counterproductive—or, rather, downright stupid". What message does it send to the workforce about innovation? Tom argues that such moves "demotivate and alienate the workforce at exactly the wrong moment".

So what happens if your company has lost a huge chunk of its share value almost overnight, for no reason other than market panic? My advice: sit tight. Look at Apple. The company's stock price has been pummeled over the last few months, not because Apple's sales figures have suddenly gone South, but simply because investors are getting jittery about consuming spending. But Apple is far from being a sick company.

Its innovative iPods, iPhones and iMacs are still flying off the shelves, which is why the company remains in enviable financial shape. So, for Apple, the worst tactic in the world right now would be to start axing its workforce and R&D spending. On the contrary, the smart thing for Apple to do is keep a clear head and continue to invest as much as possible in its only true competitive weapon: the company's formidable innovation prowess. Thus, when the "Perfect Storm" subsides, Apple will be in a position to gain even more ground against its lackluster rivals.

The point is, whether you are Apple, or Nintendo or Boeing, the destiny of your company depends on its ability to innovate. So, as the economic storm winds rage around us, the wise course of action is to Stop, Think, Observe, and Plan. Ask yourself: are we letting this economic downturn get in the way of our innovation progress? How can we address the burning financial issues without losing focus on future growth goals? What have other companies done to maintain the creative tension between short-term operational efficiency and long-term strategic innovation at a time like this?

Granted, temporarily scaling back somewhat on innovation may actually be unavoidable as you struggle through the current economic mess. It might be that you suddenly need to get costs out of the system like there's no tomorrow, and you need all hands on deck to do that. But even in the face of intense cost cutting, it's imperative that you keep the momentum and credibility of your company's innovation activities alive. Your people need to see that these activities have definitely not been abandoned.

For example, if you've been building an organizational infrastructure for innovation (i.e., vice presidents of innovation, discovery teams, innovation boards, innovation consultants and mentors), you need to make sure it is preserved. Keeping some of the company's best people focused on innovation embedment and future growth opportunities—in the midst of market chaos—makes a clear statement of management's commitment. As does publicly and explicitly talking about innovation's importance throughout the downturn, and continuing to both invest in innovation projects and publicly recognize innovators (i.e., through award ceremonies).

However ugly things get, your company wouldn't think seriously about throwing product quality or customer service overboard. Don't be tempted to do it with innovation simply because it's an easy target. If you Stop, Think, Observe, and Plan, you'll conclude that you've got to keep on innovating, now more than ever. And you'll make sure that your company does that.

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Rowan Gibson is a global business strategist, a bestselling author and an expert on radical innovation. His last book, [Rethinking the Future](#), has been translated into over 20 languages. Rowan's new book [Innovation to the Core](#) (co-authored with Peter Skarzynski) was published in March 2008 by Harvard Business School Press. It's available now at Amazon.com and in all good bookstores. Rowan may be contacted atrg@rowangibson.com

