Interview Rowan Gibson for Capital - Turkey

1) Can you describe what you mean by the term "corporate-wide innovation"?

Basically, what I'm talking about here is a completely new organizational model for innovation. For decades, companies have viewed innovation as the exclusive province of a few specific departments – R&D, new product development, industrial design, a corporate ventures group or an isolated skunk works. In other words, they have tended to make innovation the responsibility of only very few people in the organization – people who are apparently more creative, or more visionary, or more technically advanced than the rest of us. In the vast majority of companies, this is still the dominant model.

However, what we're finding out is that creativity is inherent in every human being. While most ordinary employees are not considered by their companies to be potential innovators, think for a moment about what many of those employees do when they go home. When we look around today, we see a world in which consumers have become digital content producers – they making their own home pages, movies, music, computer game modifications, ringtones, podcasts, blogs, and the list goes on. Indeed, ordinary people are proving that – in their spare time – they are capable of the most amazing creativity. The problem is that, until now, most of these people have never been given the chance to deploy their creativity at the workplace.

The challenge, therefore, – and the opportunity! – is to "bring out" all of that latent creativity that currently lies untapped within a company's own organization – and indeed, across its extended network of customers, suppliers and partners – and channel it into innovation. That's why I believe we need a new organizational model.

As an analogy, think back to the quality movement of the 1970s. Before the Japanese introduced us to the processes and methods for making quality everyone's job, it was actually the responsibility of a very small group of people in most organizations. We called those people "inspectors", and quality was *their* job. Indeed, back then, the notion that "ordinary" employees could and should be responsible for quality would have struck most corporate executives as absurd.

Then, in a radical departure from that paradigm, Deming and others came along and said that management should teach first-level employees about statistical process control; that they should actually *unleash* people's discretionary decision-making power; that doing so would deliver a positive

return on investment. Thus, the quality movement was born, which completely revolutionized our expectations about products and services.

Here's the point: If the answer to quality was tapping into the problem-solving skills of rank-and-file employees everywhere in the organization, why has it taken us so long to figure out that innovation should be approached the same way? Why, in other words, do so few companies make any serious attempt to deploy their employees' capacity for *innovation*? Instead of consigning innovation to a small cadre of "experts" in specialized departments, why don't companies give literally everybody in the organization the opportunity to innovate?

In essence, "corporate-wide innovation" is about spreading the responsibility for innovation throughout a company's businesses and functions, right down to the front line, so that it eventually involves everyone, everywhere. People throughout the organization, and at every level, need to understand that "*Innovation* starts with me".

This is exactly what happened to quality in the 1970s and 1980s when it ceased to be the exclusive responsibility of a specific department and instead became distributed to every corner of the company. Just like quality, I'm arguing that innovation must become an intrinsic and ubiquitous capability rather than a specialized function.

This is not just management theory. Currently, some of the world's leading companies – GE, Procter & Gamble, IBM, Royal Dutch/Shell – are working methodically on this new organizational model for innovation. What they are discovering – sometimes to their astonishment! – is that ordinary employees can contribute just as much to innovation as they have contributed to quality and efficiency.

2) Can you give us a resume of your upcoming book "Innovation to the Core"? How did you prepare your book, did you do some research about the corporate-wide innovation? Can you share your study with us?

"Innovation to the Core" does what I believe no other book on this subject has ever done: it gives readers a practical and structured guide to making innovation a corporate-wide core competence. The book describes exactly how a company can turn innovation from a fringe activity into an all-the-time, everywhere capability – with a view to mobilizing and monetizing the imagination of every single employee, in every single location, every single day.

"Innovation to the Core" tells companies how to create the essential preconditions for corporate-wide innovation; how to involve people from right across the organization – and beyond its borders – in the process of

generating new strategic insights and growth opportunities; how to effectively enlarge and enhance the company‘s innovation pipeline; how to measure innovation performance; how to innovate across the entire business model; how to evaluate new ideas and align them within a focused corporate strategy; how to manage and maximize innovation resources; how to de-risk innovation investments; and how to drive innovation into the company‘s core DNA by making it a systemic and sustainable capability.

Again, what the book presents is management *science* rather than management theory. It’s not based on an educated guess, but rather on a market-proven model for embedding innovation inside large organizations – one that we have been perfecting for well over a decade while working first-hand with major companies. By “we”, I am referring to my colleagues at Strategos, a leading innovation consulting firm headquartered in Chicago. As a matter of fact, my co-author on “Innovation to the core” is Peter Skarzynski, CEO of Strategos, and we wrote the book in very close collaboration with the company’s co-founder: the well-known strategy guru Gary Hamel. To my knowledge, no book on innovation has ever been written by a group of people that has spent so long actually trying to understand how to make this kind of innovation happen inside large companies. The book also presents key findings from several important management studies carried out by Strategos, involving hundreds of companies.

3) In your speech, you said "Most organizations understand the importance of innovation but they still can't make innovation happen". Why they can't succeed? What are the difficulties to achieve it?

Understanding the imperative for innovation is not the same thing as making it happen. Most companies have a very difficult struggle turning the rhetoric into reality. The reason this is so is that making innovation work inside a large organization is a much more complex and multifaceted challenge than most people imagine.

We might compare it to a Russian *matryoshka* doll. From the outside, the doll appears simple and straightforward. But, as we all know, there’s much more to it than first meets the eye. When we open it up, we discover that it’s actually made up of many nested layers, one inside the other, and that it takes every one of those layers to make the doll complete. So, too, when we move beyond a superficial understanding of innovation – when we begin to dig down – we find that it is a deep, systemic challenge that involves considerable effort across a whole range of interdependent

dimensions. As with quality, innovation requires new training, new tools, new IT systems, new metrics, new values, new management processes, and so on, and all of these mechanisms must be tightly integrated – or "nested" together – for the system to function effectively.

Unfortunately, most companies have not yet developed a clear organizational model – reflected in management practice – of what innovation actually looks like as a highly distributed, "all-the-time, everywhere" capability. Instead, the tendency has been to launch piecemeal activities – an innovation reward program here, a corporate venture fund there, or a few days of brainstorming somewhere else. This is just isn't enough. You simply cannot solve the innovation challenge with some band-aid or silver bullet. That's where most innovation initiatives have gone wrong over the last few decades. In fact, many companies have simply concluded, "We tried innovation. It didn't work." They never really made a serious attempt to deeply transform their organizations in order to make them more conducive to innovation.

The message of my speeches, and this forthcoming book, is that innovation – when systemically applied – really *does* work. I argue that it is entirely possible to boost your company's innovation performance in a dramatic and enduring way, but it can only be done if you are prepared to make innovation a systemic capability. Nobody can hope to achieve anything by throwing a light switch and saying, 'OK, from Monday morning we're all going to be a lot more innovative'. Anyone who seriously wants to influence the values and dynamics of a large-scale company is going to have to roll up their sleeves and get ready for some really hard work.

4) Could you please explain us the innovation methods of the most successful companies? Can you list the most successful companies on corporate- wide innovation? How they can be successful?

Earlier, I mentioned major companies like GE and Procter & Gamble. These leading players are demonstrating that large industrial organizations really can tackle the challenge of innovation successfully in a broad-based and highly systemic way.

GE, for example, has launched nothing less than a culture revolution at the company; away from continuous improvement and fanatical cost-cutting, and toward the creation of new strategies that "grow the boundaries" of the company, taking GE into new lines of business, new geographic areas and new customer segments.

GE currently has hundreds of innovation projects underway and has set aside billions of dollars to fund them. Right across the company, they are working hard to set up an infrastructure that encourages and supports innovation. It includes new research centers all over the world, a "global

brain trust" to generate blockbuster ideas, and a "virtual idea box" on the web for GE's 307,000 workers, all of whom are being urged to "reconceptualize" themselves as innovators. To help stoke the fires of innovation throughout the ranks, GE has introduced ideation courses, "dreaming sessions", "idea jams", and "Excellerator awards" for the best new ideas. It's all part of an ambitious initiative to turn innovation into a deep, systemic capability – an "engine" that will drive and sustain new revenue growth.

Procter & Gamble is moving in a similar direction. The company has broken down the walls that used to separate product categories, business units, sectors and brands, in order to allow innovation to flow freely across the entire organization. Their corporate-wide program, called "Connect and Develop", encourages previously unconnected groups – both commercial and technical – to trade ideas, competencies and technologies. This serves as a breeding ground for innovative new solutions. They have also opened the doors to external innovators, aiming to source at least 50% of their innovations from outside the company. The company's business units now have "technology entrepreneurs" who actively seek new ideas from all around the world. And researchers anywhere at P&G can use a web portal called "InnovationNet" to connect with a global network of scientists, inventors, and suppliers who can potentially help them create exciting new solutions.

There are also other companies who have been working hard to transform themselves from innovation laggards into innovation leaders. One is Whirlpool, the global leader in domestic appliances – washing machines, tumble dryers, refridgerators, and so forth. They have made a massive, broad-based effort over several years to instill innovation as a core competence. This has involved major changes to leader accountability and development, cultural values, resource allocation, knowledge-management, rewards and recognition systems, traditional hierarchies, measurement and reporting systems and a whole host of other management practices and policies.

The outcome has been a stream of breakthrough ideas for products and businesses which have come from all over the Whirlpool organization – ideas that deliver value to consumers in ways never before seen either at the company or in the industry. This has produced a steep upturn in the company's annual revenues from innovative new products – rising from $78 million in 2003, to $1.6 billion in 2006.

Another good example is a Mexican firm called Cemex, one of the world's leading cement producers. Over the last years, the company has set up a dedicated management infrastructure for innovation, and has set aside millions of dollars in annual budget to support new growth projects. They have also trained hundreds of "Innovation Champions" in every part of the

organization, who are there to guide and mentor any employee who comes up with an idea.

By tapping into as many minds and as many different talents as possible, and by getting people to swap ideas, innovate together and feel jointly responsible for success, Cemex has been able to invent a variety of novel approaches to its business that nobody in the industry had ever thought of before. The innovation process has also produced hundreds of opportunities for improvements in the manufacture and distribution of cement, as well as multiple ideas for radically improving the company's operations, such as streamlining logistics. Some of these ideas have delivered hundreds of millions of dollars in operations savings, sometimes in just a few months.

Cemex's corporate-wide innovation capability has helped the company achieve sales and profit growth over the last decade of over 20% on average, and raise its operating margins by the same percentage. It has also helped Cemex become one of the most highly regarded employers in Mexico.

What all these examples illustrate – and there are more, of course, if we include companies like IBM and Shell – is that it's entirely possible to turn "old-line" industrial organizations into catalysts for continuous, break-the-rules innovation. They teach us that, with a serious, broad-based effort and with the right set of design rules, innovation can become a systemic capability inside any organization – as ubiquitous as Six Sigma, cycle time, rapid customer service or any of the other complex processes that companies have been honing over the last thirty years. These companies are proving that you can indeed turn innovation from an ethereal, hit-and-miss thing into a deep core competence, something that becomes part of an organization's bloodstream..

5)What the company should do for understand the innovation at the level of the entire business system?

When you mention the word "innovation", most people immediately assume you are talking about new product development, or cutting-edge technologies that emerge from traditional R&D departments. Yet many of the most successful innovations are *business model innovations* – ways of doing business that break from company or industry norms in meaningful and perhaps even radical ways.

At its essence, business model innovation is about creating fundamentally new kinds of businesses, or about bringing more strategic variety into the business you are already in – the kind of variety that is highly valued by customers.

Take eBay's peer-to-peer, web-based marketplace, Apple's iPod/iTunes platform, IKEA's assemble-it-yourself furniture model,

Dell's made-to-order computers, BMW's customize-your-own Mini Cooper, or Zara's continuous product-line updates. These are all examples of dramatically different business models (or *existing* business models which have been dramatically reengineered) that create substantial new value for customers and shareholders. What's clear from these examples is that they go beyond pure product innovation. Rather, they create wealth by pushing the boundaries of one or more dimensions of the company/industry business model. Many organizations never even think about innovation in this context.

There are two objectives to innovating at the level of the business model.

One objective is to find breakthrough growth opportunities by inventing entirely new business models, never before seen in a particular industry. The other objective is to drive growth by evolving the business model you already have.

One of the best ways to systematically do that is to break down your company's – or your industry's – business model into five basic components: Who you serve, What you provide, How you provide it, How you make money, and How you differentiate and sustain an advantage. Then consider each of these business model components as an opportunity for game-changing innovation.

Rarely do managers look at the logic or architecture of each component as something that represents a designed *choice* that could have been done differently. After a while, it's just "the way we do things around here". And, all too often, "the way we do things" becomes a set of rigid orthodoxies which are rarely revisited or challenged. Companies tend to stop asking themselves how they could innovate along these long unexamined dimensions.

Thinking holistically about every component of the business model – and systematically challenging orthodoxies within these components – will significantly extend your scope for innovation, and improve your chances of building a sustainable competitive advantage.

6)You noted in your speech, "The only way to close the rhetoric-reality gap is by turning innovation into a deep, systemic capability that reaches right to the core of the organization." How one organisation can do it? How the company can build an enterprise-wide innovation system?

Building a systemic innovation capability is exactly analogous to the efforts companies have taken to build other enterprise capabilities – such as Toyota's lean manufacturing, or GE's Six Sigma. In each case, as is

true with innovation, it was a difficult challenge requiring sustained commitment over time.

Any enterprise capability has some common components to it. In "Innovation to The Core", I outline four interdependent and mutually reinforcing components that need to come together to institutionalize innovation. Making innovation an intrinsic and systemic competence demands that you assemble all of these components.

The first is ***Leadership and Organization.*** Building a self-sustaining, "all-the-time, everywhere" capability for innovation is fundamentally a leadership challenge. Without the full engagement and commitment of the company's leadership team, the idea of making innovation a core competence doesn't stand a chance. One of the fundamental tasks for leaders is to set up a tangible organizational infrastructure for orchestrating and supporting innovation throughout the company.

The second component is ***People and Skills.*** To foster corporate-wide innovation, leaders need to truly believe, deep down, that ordinary employees can become extraordinary innovators. Once companies accept that innovation is a skill that can be *taught*, they can begin to take a disciplined approach to building innovation capabilities across the organization. Whirlpool, for example, launched a company-wide training program aimed at developing and distributing the mindset and skills of innovation to ordinary employees everywhere.

The third component of a corporate-wide innovation capability is ***Processes and Tools.*** It's not enough to train people throughout the organization to think more creatively and to understand the value of innovation. Those people also need practical tools, processes and mechanisms they can use day by day to turn innovation into a sustainable corporate reality. These mechanisms might include discretionary time allowance, an open market for ideas, easy access to incremental seed funding, and structures for mentoring and support.

In this respect, most companies still woefully underutilize information technology for driving and enabling "all the time, everywhere" innovation. We know that IT can vastly extend human capabilities. So why is it that very few organizations seem to have thought about IT in the context of a widely-distributed capacity for innovation? Why are they not using IT to bring the skills and the tools of innovation to every workstation?

This is what Whirlpool has done, for example, with a companywide IT infrastructure called "Innovation E-Space", which integrates all of Whirlpool's people into the innovation effort and allows them to track progress on innovation activities across the corporation. Open to anyone in the company who has intranet access, "Innovation E-Space" is designed to make innovation a daily reality at Whirlpool, offering

colleagues all over the world a common forum where they can swap ideas and discoveries, link up and learn from one another, keep abreast of current innovation articles, track the progress on innovation activities, and even volunteer to work on each other's projects.

The fourth and final component is ***Culture and Values.*** Talking about innovation – using it as a slogan in an advertisement or on a corporate letterhead – does not make it a value. Values are less about what a company says, and more about the beliefs an organization holds deep down about what is important and right – beliefs that drive the way its people behave on a consistent basis. It is absolutely crucial to make this distinction.

Innovation can only become a true value in a company through collective learning across all its levels, functions and businesses, usually over considerable time. People need to not just *hear* that ideas are welcome "from everyone and everywhere"; or that rule-breaking and risk-taking are encouraged, or that ideas are allowed to fail without incurring punishment, they need to *experience* these things every day. That is when a corporate value becomes tangible enough to guide patterns of behavior across the entire organizational culture.

Again, this calls for a series of *mechanisms* through which innovation can become a tangible core value. They usually include things like consistent messaging from leaders (both words and actions that support innovation), a pro-innovation recruitment strategy (i.e. hiring people who can think creatively and differently), and reward structures that encourage risk-taking and entrepreneurship.

These four components appear to be almost generic for making innovation a deep capability inside any organization. Unless a company is willing to systematically and methodically work on all of these issues, it may as well forget about making innovation a deep corporate capability.

The reason very few organizations have so far succeeded at building a deep, ongoing capacity for innovation is that most of them merely dipped their toes into the water, initiating piecemeal activities here and there, and hoping that by throwing some money at these initiatives they would somehow bear fruit. They never dived into innovation in a serious and systemic way, working hard to embed it as a core competence that permeates the entire organization and that eventually becomes part of their company's DNA.

The organizations that do succeed are those that have managed to create an integrated system of mechanisms for institutionalizing innovation. Over time, they patiently assemble all the components that are critical for making innovation a ubiquitous capability, and they put the necessary drivers in place to sustain that capability.

8)Workers and their proposals are very important to create a innovative company? What about customers, suppliers, network of dealers? What do you think about their participation? Is it enough?

In addition to asking for and expecting innovation from all of its people, a company must also recognize the enormous potential for innovation that exists outside the organization – across its extended network of customers, suppliers and partners. Boeing, for example, invited suppliers to contribute innovative new ideas for the development of its highly successful new airplane, the 787 Dreamliner.

Tapping into this collective brainpower is often referred to as "open innovation". The Internet can be very useful in this regard, because it gives companies the ability to engage the imagination and know-how of literally *millions of brains outside the organization*.

IBM, for example, often uses the Internet for online idea "jamming", inviting not just IBMers around the world but also their family members and friends, as well as clients and consultants to take part in a global, open source ideation exercise. In one of these "InnovationJam" exercises, somewhere in excess of 53,000 people participated in the process, contributing many valuable ideas for breakthrough innovations.

9)What do you advice to directors of important departments such as IT, management, marketing, production and HR?

My advice would be to ask yourself a simple question: What are the things in my department that are limiting our capacity for innovation? Try to identify the things that are hindering new thinking and innovation; the things that are frustrating experimentation; the things that are stopping talent and capital from flowing to the best ideas. Try to understand exactly which things would need to be changed in your department in order to make innovation a sustainable, corporate-wide capability.

Your goal should be to recognize the practices, policies and processes inside your organization that are toxic to innovation – like traditional management processes that systematically favor perpetuation and incrementalism over new thinking and innovation. You need to realize that building a truly innovative company is not a matter of simply asking people to be more innovative; it's a matter of positively changing those things which today diminish or stunt the organization's innovation potential.

Once these impediments to innovation have been identified, you should work hard not just to remove them, but also to replace them with

new, innovation-friendly management processes that enable and sustain new kinds of behaviors.

10)Did you work with a Turkish company? What do you think about the innovation level of Turkish companies?

I wouldn't claim to be an expert on the innovation level of Turkish companies. But I would say that Turkey has a rich history of innovation and entrepreneurship that reaches back through many centuries. To some extent, I would argue that these qualities are "in your blood" – they are part of your national DNA. They just need to be pushed to the fore and encouraged inside Turkish companies today.

As I just mentioned, you can't foster innovation in either a company or a country unless you are willing to uproot and remove the things that currently inhibit it. And I would argue that one of the biggest obstacles to innovation inside Turkey – in both the private and public sector – is still bureaucracy. This is a very deep-seated problem and it's a real innovation killer.

My advice to both corporate leaders and government leaders would be to develop a plan for radically reducing bureaucracy inside their organizations. Their challenge is to make deep, fundamental changes to management processes and patterns of behavior in order to make them more innovation-friendly. The goal, of course, is to create a culture where people can think new thoughts, launch lots of experiments, and obtain seed funding for pursuing and eventually commercializing their ideas.

The Turkish economy is currently growing very fast and we see plenty of new companies being founded, which is always a very positive sign. The next step for Turkey would be to play more a visible role in the global economy. I look at countries like India, or the former Soviet satellites Estonia, Latvia and Lithuania, and I think if countries like these can do what they have done in little more than a decade, then the next ten to fifteen years can also be potentially very exciting for Turkey.

Simply put, the faster Turkish companies get to work on building a corporate-wide innovation capability the better. One thing we know for sure about the future is that it's going to be filled with both opportunity *and* danger. But how these forces balance out for any particular company will be mostly dependent on its capacity to innovate. My message is that a high-performance, corporate-wide innovation capability will prove to be the ultimate and most decisive competitive advantage in the new Innovation Economy.