



28 JUNE 2008

## The innovation imperative - Time to embed innovation in our companies and systems

by Peter van der Merwe, specialist writer

**Innovation has been having a crisis of credibility over the past couple of decades as people battle to define it and implement it in their companies. The secret, says business strategist Rowan Gibson, is to create systems that encourage, teach and reward innovation.**

How do you turn innovation from the trendy buzzword it has become to a core competence that drives your organisation to the next level? For a start, don't leave it to your middle management - and be prepared to step out of your comfort zone and start looking at your world very differently.

Just ask global business strategist Rowan Gibson, who is becoming a familiar face in South Africa with his excellent innovation master classes. Gibson is like a breath of fresh air on a conference circuit that is top-heavy with hype: he may not pull the crowds like a Tom Peters or a Rudy Giuliani, but when it comes to turning rhetoric into reality, he delivers real insights and value.

Gibson is fast making a name for himself as an expert on radical innovation. His latest book, *Innovation to the Core*, is hitting the shelves as you read this.

Co-authored with Peter Skarzynski, CEO of Strategos (the consulting firm founded by renowned strategy guru Gary Hamel), the book explains how to build and sustain a company-wide innovation capability.

"We've talked about innovation for decades and decades, but people are still battling to give it a face," says Gibson. "But we're getting there. Let's remember that quality used to be something ethereal and nebulous too. If you had gone back to 1969 and asked General Motors if they wanted to improve their quality, they would have said absolutely - but not known how to do it. It's the same with innovation today: the world has woken up to the need to turn innovation into a core competence, but they don't know how to implement it."

Indeed, ask any normal employee of any normal company about innovation, and you're likely to get a blank expression. Innovation is not, as Peters once suggested, wearing one red sock and one green sock.

It's this hard-to-define quality that has led innovation to have a bit of a crisis of credibility over the past 20 years. In the early days of quality initiatives, people thought quality circles were the answer: if you sit around on a Friday afternoon and talk about it, it will happen. With innovation, people think they can set up a suggestion box and have one or two company 'off sites' and suddenly innovation will pulse through the very veins of the business.

Make no mistake, there has been massive progress in the past couple of years, with global giants of the likes of GE, Shell and Proctor & Gamble making innovation a firm number one on their corporate agendas. The challenge now is to turn innovation into a widely distributed systemic capability, much like quality in the '70s and Six Sigma in the '80s.

Here's the bottom line: Innovation is a skill that can, and has to be, taught. To go back to the quality analogy, quality is something that has to happen on the front line - but it only started happening when the workers were trained accordingly.

"We have to do the same with innovation - and it can be done," says Gibson, who points out that global appliance company Whirlpool has already trained 30 000 of its people in innovation. "We thrive on innovation - but there's not enough sign of it."

Part of the problem is that a lot of companies and governments define innovation too narrowly. They tend to think that innovation is limited to the realm of the high-tech, or product development. Fact is, there is far more to innovation. It's about literally changing the eco-system at every layer, from customer service and operations to the very business model. Look at the airline business, which was fine for decades - until someone came along and launched a low-cost airline, turning all the old models on their head in the process.

If nothing else, Gibson wants to dispel the myth that innovation comes from having a 'Eureka!' moment while gazing out of the window. Rather, it's all about looking at the world differently, and driving it systematically throughout an organisation. Ideas are

not necessarily new - they may just be new combinations. Garage sales, flea-markets and classified ads have been around for a long time, but eBay saw the opportunity to reinvigorate these models by using the power of the Internet to create a compelling peer-to-peer online hub.

"It's all about creating connections and conversations. If you look at how the great innovators of our time - like media magnate Ted Turner and Apple founder Steve Jobs, for example - come to their insights, they were simply very connected," says Gibson. "If you look inside the mind of an innovator, you will see that they come to their insights by looking at the world differently."

Gibson talks about the four lenses of innovation, through which creative thinkers see the world.

**1. Challenging orthodoxy.** Innovators tend to be contrarian by nature. Rather than accepting the status quo, they tend to look at things and ask: why? Richard Branson, the head of the Virgin empire, is an excellent example. As is Vernon Hill, who founded Commerce Bank in response to a blinding flash of the obvious: why are banks in the UK and Europe closed at lunchtime, which is precisely the time that most working people have to go to the bank? So he created a bank that behaved like a retailer, being open 24 hours a day, seven days a week.

**2. Harnessing trends and discontinuities already in the world, and recognising the portent.** Trends are like waves: you either catch them, or miss them. Good innovators tend to be wave riders. The key, says Gibson, is to understand that discontinuity creates opportunity. Instead of seeing the future as a linear continuation of the past, we have to learn to accept it as a series of discontinuities which can render useless the most sophisticated strategic plans and scenario forecasts. Jack Welch, for example, trashed GE's planning system because he realised it was doing his company more harm than good.

The companies that will be successful in the 21st century will be the ones that grasp those opportunities first and overcome the usual organisational barriers to take advantage of them. Take CNN, for example. While the BBC was busy trying to predict and plan the future, Ted Turner went out and created it. His inspiration for a 24-hour global TV news network came from looking at discontinuous changes: people's increasingly irregular working hours, the miniaturisation of video and satellite technology, and the deregulation of TV broadcasting. By putting these discontinuities together, he was able to synthesise a vision for redefining television news.

**3. Leveraging resources.** This entails going inside your company and understanding what your core competencies and assets are, and finding new ways of using them. Disney realised through their hugely successful theme parks that one of their core competencies is three-dimensional entertainment - so they took this 3D competency out of the theme park, and put it to good use in the theatre, with productions like *The Lion King* and *Aida* creating immense new value out of existing intellectual property.

**4. Understanding unarticulated customer needs.** That could mean feeling the frustrations of customers, or seeing some unmet need. Gibson describes it as thinking from the customer backwards. No-one was specifically asking for 1 000 songs in their pocket, for instance - but Apple created a new trend with their iPod which has spawned an entire industry, and is transforming the music industry by changing the way people buy, access and share their music.

Or there's the mobile phone company that created a cellphone for the Muslim world, which manages to compress the entire Koran into the phone in a choice of different languages. It also features an alarm that goes off several times a day at prayer time, and even includes a built-in compass to tell the user in which direction they should be facing for their prayers.

So how do you change people's minds about innovation? In an organisation, it has to be driven from the top. "At some point, the leadership team has to catalyse the whole thing and make it the number one priority, which takes anything from three to five years," says Gibson. "Middle management is the death zone for innovation - they are paid to keep to deadlines and not screw up. They are not paid to innovate."

Perhaps this should change if we are to create more innovative cultures. We should be paying people to innovate. We should be factoring innovation into people's key performance areas, and measuring - and rewarding - their success in this regard. Linking innovation to your remuneration package? Now that's an idea.

GE demands that each business unit leader comes up with three 'imagination breakthroughs' a year, each of which has to be worth US\$100 million in revenue over three years. No pressure. What it does, says Gibson, is makes them go back and drive innovation through their teams, and strongly reassess priorities. You have to understand how your own job links to the innovation strategy, or it won't happen.

Another thing companies can do on their journey to innovation is to give their people more time to innovate. It's very difficult to think, let alone innovate, when you have 100 items on your to-do list. Some companies, like 3M and Google, give their people between 10 and 15% discretionary time to work on their own projects.

And while it's vital that an innovative culture is driven from the top, it's just as important that a company goes looking for new ideas where there's the most diversity - and that's generally at the bottom of the organisation, says Gibson. It's all about creating

a diversity of thinking, and getting together as many people as possible who are basically contrarian. This means drawing in more young people, often from the periphery of the organisation; people who are new to the company and the industry, and not yet blinded by conventional thinking.

Gibson talks about the "innovation generation", who are much better placed to not only come up with innovation, but to make it happen. This "MySpace generation", which is the subject of much debate within organisations, has grown up in a culture where they do not wait for things to happen - they use technology to produce their own content and do their own things.

This generation has little respect for huge companies, given that they can be global players in a matter of weeks in the modern world. Keen Footwear started their own shoe company, recruited designers, tapped into factories in China - and within months were taking sales from Nike.

Problem is, many of these people don't even go into corporations, where they get the innovation knocked out of them. So what do you do? Gibson likes to create teams inside companies - one for each of his four lenses - to generate new strategic insights. These teams are made up of diverse people who have never worked together, and the results often produce hundreds, or even thousands, of new ideas. It doesn't have to be a drawn-out process, either: it can be done in as little as a day.

Innovation is also not something that is limited to the business arena. In developing countries like South Africa, India and Brazil, there's a need for innovation at an unprecedented scale. Not just innovation in the traditional business sense, but 'social innovation' that addresses the needs of society.

Indeed, South Africa has much to learn from a country like India, which has recognised the need to turn its social problems into opportunities for innovation, and is rising to the challenge in a grand way.

"Look anywhere in India today and we see exciting examples of social innovation combined with profitable business innovation. And behind each of these examples we usually find some wonderfully heroic entrepreneur who has battled with heart and soul to give ordinary people a better life," says Gibson.

One needs to look no further than Dr Pratap Reddy, founder of Apollo Hospitals Group, who is using state-of-the-art technologies, breakthrough business models, and revenues from medical outsourcing and medical tourism to put world-class healthcare within the reach of almost everyone. Or economist Muhammed Yunus, founder of Grameen Bank, who pioneered the concept of micro-credit, and in the process became the world's first 'banker to the poor'. Or Ratan Tata, India's answer to Henry Ford, whose tiny US\$2,500 Nano automobile (the same price as a Louis Vuitton handbag!) is set to do for mass mobility in this century what Ford's Model-T did in the last. Or Narayana Murthy, the co-founder of Infosys, who has repeatedly demonstrated his belief in 'compassionate capitalism' - an altogether different paradigm that focuses not just on wealth creation, but on making a significant contribution to society.

Gibson has a few pointers for South Africa to drive greater innovation. One of them is the need to invest in education to develop skills for the medium term - but to bring in talent from abroad to meet the immediate need. This includes reversing the brain drain: there's no point in educating people if they go away.

Another tip is to look beyond technology and high-tech innovation clusters, and do more to encourage grassroots innovation. Take your average 19-year-old who has a great idea, but no-one to go to. We should be providing a network of innovation consultants who can help people like these develop their ideas, and bring them to market. Often the amount of money needed is negligible, but the returns can be huge.

"Quite simply, innovation is the fuel for growth," says Gibson. "Without it, there is no growth. Companies look for short-term substitutes for innovation - they cut costs, do a merger, look for synergies, do financial engineering, buy back shares. But in the long term, if we are not innovating, we are not going to have any growth."



**Source:** The Journal for Convergence is South Africa's only boardroom journal that goes directly to the top business administration and technology decision-makers in the country and is published in the first, second, third and fourth quarters of each year. Visit our web-site at: <http://www.axius.co.za/>.