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## Interview: Rowan Gibson

### Creating an innovation culture

Companies need to open the doors of R&D and get people throughout the organisation working on innovative ideas, argues Rowan Gibson

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by Nick Martindale



Innovation is a hot topic in boardrooms these days. The success of companies like Apple, Google and Nokia has demonstrated the advantages of creating a culture in which ideas can flourish, while internet leaders such as Facebook and Skype have highlighted the gains that can be made when a new offering is introduced at the optimum moment.

According to Rowan Gibson, a global business strategist and co-author of the Harvard Business Press book *Innovation to the Core* (pictured), organisations are finally waking up to the need for a constant stream of innovation, if for no other reason than to hit the aggressive growth targets that shareholders demand.

The problem is that they don't know how to go about making this a core part of their business and, unless they are able to transform their management structures and company culture, innovation will remain no more than a buzzword.

*CPO Agenda* got together with Gibson recently to find out what he thinks firms need to do to instil an innovation culture.

#### ***Innovation to the Core* argues that companies need a sea-change in the way they view innovation. Where do most large organisations go wrong?**

One of the places that most large organisations go wrong is that innovation remains in the realm of rhetoric rather than reality. They might set up an online suggestion box or a corporate venture fund, talk to a sexy design company or pump more money into R&D. But all these are piecemeal; they never really add up to much in terms of a systemic capability.

Companies also failed to make quality work in the early days until they managed to turn it into a systemic capability. In the old days quality was a department – a guy in a clipboard who said “check” – and it was [W. Edwards] Deming and others who taught us that we could actually involve everyone across the firm and that it could become an enterprise capability. That's where we are today with innovation.

#### **Do you distinguish between innovation for products and services and other kinds of innovation?**

Absolutely. The definition of innovation as product innovation is way too narrow. We have a whole spectrum: product and service innovation, process innovation, cost innovation, experience innovation, business model innovation, management innovation and industry architecture innovation, where you take an industry to pieces and rebuild it in a totally different way like iTunes is now doing with the music industry.

Companies could spend \$1 billion on technology and even then it might not give them the competitive advantage they think it will, because their competitors can replicate what they've done within months or weeks. So they've got to start moving up the ladder to things like business model innovation because it's much more difficult to replicate a business model than it is a product. The imperative today is to move towards those kinds of innovation that differentiate in a meaningful and sustainable way.

#### **Why have companies failed to grasp the significance of innovation?**

When leaders talk about innovation I believe they are sincere. They understand it's the only real chance of delivering on aggressive growth targets, but they don't know how to do it. If you went back to 1969 and asked General Motors (GM) or Ford if they would like to improve their quality they would undoubtedly have said “yes”. But they knew nothing about PDCA disciplines, Six Sigma, Total Quality Management and all the things we have today. That's the problem today with innovation.

#### **What is your message to those companies who want to take it to the next level?**

You can't bolt on innovation. You have to embed it into everything you do: all of your infrastructures, processes, training and people. If you want to build any kind of enterprise capability you need to look at four basic components. The first is leadership commitment and infrastructure, the second is processes and tools, the third is people and skills, and the fourth is culture and values.

At the moment companies have an R&D or new product department. They don't have an innovation infrastructure with an innovation director, business unit innovation officers, innovation mentors and consultants, innovation boards, or budgets set aside for radical innovation projects. They've got to build that infrastructure and change existing process to make them more conducive to innovation.

#### **How would you encourage that mindset?**

It has to be recognised at the top, just as Six Sigma was. When Bill Gates recognised that the power was shifting off the desktop and on to the internet, he said: "I don't want any conversation at Microsoft starting without the word 'internet'." It has to be driven through every layer of the company. The reason that companies like General Electric (GE), IBM and Procter & Gamble have made great strides towards becoming innovation leaders is that their CEO is banging the table every day, not only talking about innovation but putting mechanisms and processes in place to ensure that it becomes embedded as a sustainable capability.

#### **Are there organisations that are just so cumbersome such an approach is likely to fail?**

There are companies that are big and unwieldy and I don't hold out too much hope for them. Unwieldiness is suicide. As Jack Welch at GE said: "If the rate of change inside the organisation is slower than the rate of change outside, then that organisation will be in big trouble sooner or later."

What's driving this significance of innovation is that companies are realising they have no other choice if they're going to realise ambitious growth demands like growing the business by 8 per cent in a year. If GE has to come up with that kind of revenue and it's a \$170 billion company, that's \$15 billion from one year to the next. That's a company the size of Nike. They're not going to do that by cutting costs or downsizing or trying to merge with someone else. The only way they can do it is by creating products and services that generate huge amounts of new wealth.

#### **What are the biggest challenges when trying to create more of an entrepreneurial culture?**

Current management processes are not conducive to ideas. If I have an idea and I need seed funding there's only one place I can go and that's up the chain of command. So I go to the boss and if history is anything to go by that's where the idea dies. But if I manage to get through that layer, I go to the next layer of hierarchical hell. Anyone who survives the two-year gauntlet and gets the money that they need probably hasn't got the motivation any more. That's because the budgeting system in companies only allows you to go to one place to get money.

We need to take this apart and make it more conducive to innovation. Shell has produced an approach called GameChanger that allows anyone, anywhere in the company, who comes up with an idea to get very rapid access to seed funding. They can give people \$25,000 in less than a week and 30 days off from their day job to experiment with that idea. If they go back after 30 days and say that it's working they give them \$50,000 and 90 days to take it to the next level. And if they come back and say that it's not going anywhere they say: "Don't worry about it, it's only \$25,000."

#### **How can CEOs develop a culture in which innovation can thrive?**

Companies tend to go out and push innovation supply so they get lots of ideas from anyone and everyone. But what they often fail to do is create innovation demand from management. What Jeff Immelt has done is to change the remuneration package of GE's senior people and tell them that their business units need to come up with at least three innovation breakthroughs a year that should be worth at least \$100 million of incremental revenue growth over the next three years. Demand can only be driven from the top.

#### **You argue that having the capacity for innovation is as vital as initiatives such as Total Quality Management, lean manufacturing and Six Sigma. Why do you think it's harder for innovation to become engrained in the ethos of an organisation?**

All of those other things can be systematised, but so far people haven't recognised the opportunity to systematise innovation. Even today when they say innovation is their number one priority, most senior executives have no model in their heads about what it actually looks like as a systemic capability. So no wonder companies are failing to go out there and make innovation happen.

#### **What role can procurement play in facilitating this?**

There are opportunities in every department to innovate. If you think about some of the famous examples of supply chain management innovation you think about companies like Dell or Zara and they illustrate that there is always another way of doing things.

This comes back to the four lenses that I talk about in the book. The first is challenging orthodoxies: taking conventional wisdom

and turning it on its head. So if you're in procurement it's about challenging the way you and your industry peers have always done something. The easiest thing in the world is to benchmark someone else and do what they do. But that doesn't give you any advantage at all.

Number two is how you harness trends and discontinuities that are out there and bring them into your business model faster than the competition can. With procurement, that could be online activities or RFID. Number three is using your resources – your core competencies and strategic assets – in new ways to create value. And number four is about understanding the customer needs that have been unaddressed and looking at how you can do things differently.

### **Would you encourage procurement to work with suppliers on innovation?**

That's what Boeing is doing with the 787 Dreamliner and it's absolutely a good thing. But one of the temptations is to outsource everything to low-cost economies somewhere and the danger is that you gradually outsource your innovation capability. It's happened in the US consumer electronics and automotive industries.

If you look at the back of an iPod it says "Designed in California, made in China". The inside of the iPod isn't designed by Apple and most of the components are more or less off the shelf. What Apple did is the user interface; the things that Apple does that deliver value. Similarly, the Porsche Boxster is manufactured not in Stuttgart but in Finland. But what Porsche doesn't give away is its core engineering technology. Companies need to retain whatever it is that gives them a competitive advantage.

### **Are some companies better equipped to incorporate innovation by their very nature?**

If you look at any of the so-called darlings of innovation they tend to be technology companies and newer companies. Companies like Google and Apple were born innovative. But you can't take Whirlpool or IBM and give them an organisational structure the same as Google's, so we can only learn so much from those.

But what we have now is a new breed of innovation champions like the GEs, the IBMs, the P&Gs, the Whirlpools and so on, which are illustrating that it's entirely possible for a big, old-time manufacturing company to become a hotbed of innovation. Shell is another one as well.

### **Is there one organisation above all the others that you would see as a yardstick? And what sets it apart in your opinion?**

I would say Whirlpool. You don't automatically think of Whirlpool as a sexy company. If you go to buy a washing machine it's normally a distress purchase because the other one has broken down. But in 1999 zero per cent of their annual revenue came from innovative products; now in 2008 it's 20 per cent. So something like \$3.5 billion a year is being generated by innovative products. They've even managed to turn a washing machine or a dryer into something that's desirable.

### **How can organisations go about turning concept into reality?**

There's a kind of innovation arithmetic that says it takes 1,000 ideas to create 100 worthwhile projects, which produces 10 that you'd really like to invest in, and one or two breakthroughs.

The challenge is screening ideas. Companies should ask how many people it would affect, how much it would change their lives and what kind of impact it would have on the organisation. Then they need to align them with their strategy so they're not going full speed ahead in all directions.

### **How important is picking the right time to enter a market?**

Timing is everything. Amazon.com was the first on the web for books; Barnes & Noble is never going to catch up. Amazon then became the Wal-Mart of the web; Wal-Mart.com is never going to catch up.

Conversely, there are times when companies invest too much too quickly in an idea whose time has not yet come. That was the case with GM's EV1 which came out before Toyota was even thinking about it. Some things will take a long time; some will go pretty quickly. The pace of investment and the level of commitment need to be paced in a way that correlates with what you expect the penetration curve to be.

### **How do you see the current economic climate affecting innovation?**

Companies are going to be punished or rewarded based on what they've been doing over the past two or three years. Apple's share price lost a lot of value because of investors' jitteriness over consumer spending. But it's gradually regaining that value while others are still down, fundamentally because in terms of innovation it's a very healthy company.

Companies do need to cut costs because of the external forces that are on us, but they have to make sure they don't lose that grip on innovation. They need not only the brutal efficiency but also the capability and capacity to produce the exciting, sexy goods that customers are willing to pay more for.

### **Will there ever be a time when innovation is a central tenet of every company culture?**

Absolutely, and I don't think it will take that long. Go back 30 years and nobody had a quality system; now every organisation has

one. The corporate innovation system in a few years from now will be as commonplace as today's corporate quality systems. It's a prerequisite for survival.

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