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Innovate yourself out of this recession : Rowan Gibson

Rowan Gibson, a bestselling author and a global guru on innovation, in am expansive interview says the path to corporate redemption out of this recession lies with how systematically and how early executives drive innovation into the DNA of their companies. Mr. Gibson will soon be expanding his message to a Sri Lankan audience via satellite at the National HR Conference in June 2009.

By Dinesh Weerakkody

Q: In your book published by Harvard Business School Press “Innovation to the Core”, what are some of the tips you give CEOs to instill innovation into the very core of their organizations?

My primary message to CEOs is that it is entirely possible to turn innovation from a buzzword into an enterprise capability involving everyone across the organization, all the time. After all, we spent the last few decades doing exactly that with Total Quality Management (TQM), lean manufacturing, Enterprise Resource Planning (ERP), supply chain management, customer service, Six Sigma etc. So why shouldn’t we be able to make innovation every bit as systemic and as intrinsic to the organization as these other capabilities?

What we have learned from business history is that the only way to build an enterprise capability for anything is by making deep, fundamental changes to an organization’s management processes and patterns of behaviour. You can’t do it with a quick-fix or a silver bullet. This is not about setting up an innovation reward program here, a corporate venture fund there or a few days of brainstorming somewhere else. It’s about driving innovation into the DNA of the company so that it becomes permanently embedded in the very fabric of the organization.

Anyone who seriously wants to influence the values and dynamics of a large-scale organization is going to have to roll up their sleeves and get ready for some really hard work.

However, the good news is that every enterprise capability has some common components to it—leadership commitment, organizational infrastructures, enabling processes, tools, metrics, skills, and corporate values. So, if you are going to make innovation an intrinsic and systemic competence, the challenge is to alter these organizational elements accordingly so that they come together to institutionalize and mutually reinforce innovation.

Q: How have companies like Apple and 3M overcome the barriers to successful profitable innovation?

Certainly not just by talking about it : any company can do that. Where these organizations have succeeded is in moving innovation from rhetoric to reality.

To do that, a company needs to objectively identify the barriers or impediments to innovation that exist within most organizations, and then work hard to uproot and remove them.

The truth is, most of the typical roadblocks to innovation are things that today’s organizations have inherited from the industrial age and are embedded in industrial management principles and processes.

In the industrial era, success was based on a particular set of virtues that revolved around the goal of optimization. Companies won through things like scale, efficiency, diligence, focus, and replication. These virtues became the ideological foundation on which the large-scale industrial enterprise was built. They determined its values, its management processes, its organization structures, its metrics, its training programs – they were reinforced every day in countless ways. But think about it: the goal of optimization is to do more of the same, only better, faster and cheaper.

The problem comes when customers no longer want more of the same ! They want something fresh, different and new. That’s the problem General Motors has come up against : GM has simply become incredibly efficient at producing the kind of cars that American consumers don’t want. The five best-selling automobiles in North America are (in this order): the Toyota Camry, the Honda Accord, the Toyota Corolla, the Honda Civic, and the Nissan Altima. So GM is not even on the list, in its own home market. And, bailout or no bailout, the prognosis for the company is not looking good.

By definition, the goal of optimization will only give you more of the same; it won't give you lots of strategic variety; it won't give you wide-scale experimentation or rapid resource redeployment; it won't give you radical new thinking. Yet these are the virtues that need mastering if you want to be successful today; ones that will be at least as important as those that defined the industrial age; virtues that revolve around the ideology of innovation.

The large-scale industrial organization was built for efficiency, not innovation. That's why we find fundamental inhibitors to innovation within today's key management processes such as strategic planning, capital budgeting, resource planning and new product development. These processes tend to hinder new thinking and innovation, they frustrate experimentation, they stop talent and capital from flowing to the best ideas.

Those companies that have succeeded in making innovation happen – eg Apple and 3M – are those that have understood that the forces which frustrate and inhibit innovation are deep and systemic. They have worked hard to remove these political and ideological barriers to innovation, and have invented new, innovation-friendly management processes founded on new management principles—processes that enable and sustain new kinds of behaviour.

Q: Why did banks in general become so overexposed in the run-up to the credit crunch?

Because it looked like the good times would go on forever. In casino-speak, they were "on a roll". Things had been too good for too long. Money seemed to be growing on trees, and they were living in economic La-La land.

But that's human nature, I'm afraid. Most of us still behave as if the future is a linear extrapolation of the present, like a long straight road that stretches to the horizon.

Everyone knows that economies go through upswings and downswings, through cycles of boom and bust. The problem is that we behave as if it were not so. Let's face it, nobody wants to hear about the potential downside when all the arrows are pointing upward. That's unfortunately how the banks acted during the period between 2003 and 2007. There were very few voices calling for restraint. Instead, there was a euphoric feeling that the growth, and credit booms, and housing booms, would go on and on; that it was safe to buy and sell billions of dollars worth of derivatives because the subprime mortgage concept would never go bust; that it was okay for the banks to be overleveraged because the system was crash-proof. That's very dangerous thinking.

In my earlier book, "Rethinking The Future", I wrote that "linear thinking is useless in a non-linear world". I have argued repeatedly that linearity is an artificial way of viewing the world. In fact, I have spent nearly fifteen years warning companies that the future will not be a continuation of the past; that it will be a series of discontinuities. And sometimes those discontinuities can be devastating.

Q: Why did the corporate risk managers fail so miserably?

Well, here's my counter-question: if the risk managers had recommended putting the financial brakes on – which I'm sure some of them did – would anyone else in the bank have actually listened?

Like I said, we have to remember that the focus then was on the upside, not the potential downside. There were just too many greedy traders trying to earn big bonuses and they weren't about to let those meddling risk managers get in the way of their transactions. And even if the risk department had tried to intervene, I'm not even sure the risk managers could muster enough arguments to support the case for caution.

The world simply looked much too rosy back then. Was there really any reason to believe that liquidity would suddenly dry up? Or that the value of AAA-rated assets could drop by 20% overnight? Or that the entire system could come crumbling down? After all, we were no longer living in 1929, right? So the prevailing attitude at the banks was, "Why succumb to negativity when there is so much profit to be made?"

Now, I'm not saying that risk managers were innocent in all of this. Their job was to see that the banks were not overexposed and in this they failed miserably. But my guess is that, in general, the risk guys got run over by the traders, and ultimately by the banks' senior people in the stampede to make piles of money.

Again, it's human nature. At the end of the day, it comes down to greed. Is there a simpler explanation for the whole financial crisis? I don't think so.

(To be Continued tomorrow)