

## **Fostering Innovation In Small and Mid-Size Companies ©2005**

**By**

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### **Making the case for innovation**

They say that, “Necessity is the mother of invention.” Have you ever thought deeply about that old saw and its implications? To me it means that people need provocation to break the bounds of their usual mindsets. We generally don’t do it until it becomes clear that what we are doing won’t generate the outcome we are trying to achieve. In the time that it takes to register the need to change and then mobilize to execute differently, other advantages dissipate, image is damaged, value lost.

This saying also recognizes that we like the comfort and the stability of the status quo. Whatever is predictable allows a certain amount of efficiency in our ability to process information, in doing our routine tasks, and in our ability to focus our attention. These advantages are often helpful in conducting business under stable circumstances. On a deeper level, it acknowledges that human beings are usually creatures of habits and patterns. We formalize our assumptions into our mental models of reality and until some outside influence provokes us, once we accept our assumptions as valid we seldom reassess them.

On the other hand, in a rapidly changing competitive environment our unquestioned mental models keep us stuck in the commonplace. What we accept as known can quickly become an outdated restraint on our ability to adjust to changes. In a world of emerging technologies, evolving trends and ever more demanding customer expectations there are some obvious down sides to business routines and inflexible processes. What we gain in efficiencies we pay for in restrictions on creativity and innovation. It’s in this way that Blockbuster found the game reinvented by an upstart rival such as Netflix. Dell’s ability to introduce and capitalize upon disruptive processes has reshaped the industry even though it was much smaller than the giants that had dominated the field. Innovations in companies like these created the necessity for others to evolve; they turned former business leaders into followers. Those who once had the winning formula in their business found themselves suddenly scrambling to catch up.

In almost every company there are maverick thinkers, people who are always looking for ways to improve things, solve problems and generally make things better, more efficient, more convenient... just because they like to do it. Their necessity comes from their restless natures. These people often represent undervalued intellectual capital in a company. In the context of business as usual, these people are often treated as irritants and disruptors. Their potential contribution is often squandered in smaller companies simply because there is no process in place to channel the potential of their thinking into the general consciousness of the organization. Others, capable of innovative thinking never bother to develop their ideas or bring them forth because there is no vehicle to elicit that behavior. Yet in a company framed to encourage innovative thought this potential is actively employed in the process of producing value.

The bottom line is that companies that don't embrace innovation; to evolve their business idea; to periodically revalidate fundamental assumptions; or to outthink their competition often work under a needless handicap. Those that do can leverage their assets far beyond what their size would suggest.

### **First comes the intention to innovate**

In a business setting, innovation is closely attached to the purpose of the enterprise. We look to be innovative in order to do something different and better than we are doing it today. When our purpose is to continue to do what we do without disrupting the status quo, innovation doesn't occur. Therefore, in order to produce innovative thinking there has to be the intention to innovate. It is an active process. In many companies one or a few individuals may have the intention to innovate, but they are usually blocked by the mundane agenda of the organization as a whole. You may be able to think of an occasional exception, but to create a culture of innovative thinking there has to be the corporate will to do so.

Innovative cultures require permeability of processes and procedures. They are messier than traditional organizations and unlikely to function well in a regimented environment. Cultures supportive of innovation can appear to be and often are more chaotic than more traditional organizations. While there is a loose order to innovation, it cannot thrive in an environment of strict controls. Strict control seeks to keep things within boundaries. Innovation, by its definition, tests those boundaries. Creating a culture of innovation requires a continuous balancing act between focused attention and a questioning mind. Few leaders feel confident about their ability to juggle that complexity and tend to naturally gravitate toward tighter control and order unless there is a culture designed to foster innovative thought.

Traditional organizations embrace their past. They work to produce more efficient ways of doing what we've always done. They stick to the winning formula that has taken them from where they were to where they are today. Flawless repetition of the status quo is the goal. More of the same is what they are seeking, faster, cheaper. Focused attention is more important than curiosity. Risks are something to be minimized. Traditional organizations embrace a culture of low risk incremental improvement. While there are times when this strategy is productive it is not the only way to become successful. It may not even be the preferred way.

Innovation is the art of doing something different, of creating something new. It requires the freedom to imagine, to play with ideas, to take reasonable risks and the freedom to question the fundamental assumptions of the status quo. These traits can seem like needless distractions under the pressure of day-to-day business and quarter-to-quarter financial results. Yet innovation is often the sling that smaller companies can use to defeat their Goliath like competitors. Innovation allows the smaller businesses to work their will in their fast paced environments.

## **Second the muscles for innovative thinking have to be developed**

I've written elsewhere (Elash, D. 2004) of bosses who train their employees not to think. In many organizations the real thinking is seen as the purview of a privileged few. Others are discouraged, either actively by being criticized, or passively, by having their ideas discounted or by not being invited into the conversation in the first place.

For a company to innovate there has to be a launching pad for new ideas and different points of view. This launch pad is, in essence, a workforce that knows how to think well, practices rigorous thinking, and believes that their thoughts are valued. Without such a launch pad in place, new ideas seldom arise spontaneously and the muscles for innovative thinking are not up to the snuff when innovation is required. Bill Gates, CEO of Microsoft says, "The most important thing any company can do (to foster innovation) is hire the smartest people possible and then give them the resources to transform their ideas into reality." (Gates, 2004)

The muscles for innovative thinking have to be developed, strengthened if you will, within the day-to-day workings of the organization. Rigorous thinking must be expected. The art of productively questioning assumptions and validating hypotheses has to be practiced. Collaborative thinking has to have a valued place along side critical thinking. Curiosity and imagination have to be elicited on a regular basis. Individuals and groups of thinkers have to be comfortable in shifting perspectives and looking at familiar events from novel points of view. These skills do not spring up in a crisis. Indeed, under the pressure of a crisis, most minds revert to what has worked in the past. This can lead to valiant, but futile attempts to work obsolete processes more efficiently, or to rely on wisdom that no longer applies to their current circumstances.

## **Third a culture of reasonable risk taking needs to be established**

Innovators seldom, if ever, sit at their desks and conceive brilliant, readily applicable ideas. Innovators actively follow their ideas and learn from their mistakes. Innovators turn the impractical into the viable by envisioning ways of changing the game or adding new elements to the formula. This is not a clean or easy process. The organization that seeks to act innovatively needs to be willing to tolerate smart failures, those in which we learn or gain valuable insights. There is an element of risk in this posture. Time, effort and energy can be applied without the expected goal being achieved.

These risks, however, need to be balanced against the risk of doing nothing or of doing the same things when they are no longer potent. In a competitive business environment, competitors are looking to evolve your winning formulas. New technologies are enabling new options. Discoveries in seemingly unrelated fields can hold game-changing implications that you are not prepared to cope with. There is a limited shelf life to a winning formula and it is rapidly shrinking as the rate of change increases. Good or bad, that is the fact of life in business today.

Businesses that don't take this fact into account, that don't build it into their thinking, that fail to plan for multiple possible futures are courting failure. Businesses that abandon their strategies as soon as the unexpected occurs, focusing instead on doing whatever it takes to make the numbers work, don't really have strategies in the first place, or at least are not committed to them. Businesses that cut into their potential in order to save today's budget are also taking risks. Only, these risks often not recognized. As a result the organization lacks a realistic plan for adapting to changing conditions.

Airline giants such as Delta or United Airlines, saddled with a paradigm that was winning but now is obsolete are losing ground to upstarts like Jet Blue and Southwest Airlines. The new companies entered the market with a new model for profitability and their innovations have allowed them to be profitable when the established leaders are floundering.

Any organism needs to have its understanding of reality closely approximate what is actually happening in order to survive. Many Fortune 500 companies have gone the way of the Dodo bird and the Saber Toothed Tiger because conditions evolved faster than their ability to process the changes and realize their implications. The ability to accurately assess one's place in a changing world is essential to survival. The ability to adapt and innovate is crucial to staying in a changing game.

Innovation requires the ability to embrace reality; to see what is as it is, no matter how distasteful or disruptive. It is only by embracing reality that companies can accurately perceive their options and make necessary adaptations to their business models. Today, there is no business without risk. It is only by having the capacity to wisely assess risks that survival can be assured. This savvy risk taking supports a culture of innovation.

Innovation can also allow an organization to change its reality to something more favorable. Introduction of innovative products and processes can often place competitors on the defensive, can fundamentally alter the customers perception of value, or stimulate a demand for something which, until that point, had been unattainable. A culture of innovation encourages the taking of reasonable risks to gain competitive advantage by making risk taking something that is an integral part of what we do here.

#### **Fourth innovation requires skill at corporate imagining**

Innovation requires the ability to see the unexpected or the unpredicted. The ability to see what isn't obvious, to see unexpected connections, to envision an end state that does not yet exist is fundamental to the innovative process. The ability to see the unexpected goes against the way that the mind usually works. The human brain is set up to see what it expects to see. It is wired to ignore things that it perceives as irrelevant. Under crisis conditions attention narrows based upon old assumptions and crucial data can be overlooked or ignored. We develop tunneled vision. Blind spots emerge. These blind spots are called scatomas. They occur in organizations as surely as they occur in the individuals that comprise them.

Have you ever helped your children rehearse for what to do if there is a fire in your home? In doing so, you are helping them to envision an event that hasn't occurred, a future that might never materialize. We do it however, because we want them to see their way through to a safe resolution if such an unexpected event occurs. There is no time to learn when the house actually is on fire. We want them to learn long before such a future scenario should arise.

Businesses can apply the same thinking within their own frames of reference by anticipating possible future threats or opportunities. We can do this by posing provocative questions to our thinkers. What happens if a rival introduces a discontinuous change in our market? How would we configure our business if we were starting fresh today? Where is our market trending and how can we be prepared for where it is going before it gets there? These and similar questions are not just idle frivolity. They are building the company's imagination.

In the counsels of our business all of the participants tend to share a "corporate" point of view. They share assumptions and often accept the same set of givens. Assigning someone to assume a contrary point of view is a valuable way to provoke people out of their established mindsets. Having people speak from a functional perspective other than their own can also foster innovative thinking, at least it builds the muscles. Another tactic that some companies' use is to assign people to represent the product in question, or the brand itself, the customer's point of view or even that of a competitor. In these ways, thinking is stretched and perspectives are altered. These new perspectives are available to use in other settings, day-to-day.

Small and mid-size companies can create their own innovative think tank, comprised of the best thinkers within the company, regardless of their title or level of authority. These people can meet regularly with the goal of generating innovative ideas, challenging assumptions and engage in "what if" thinking. You do not need a corporate division of engineers or product developers to think innovatively.

Brainstorming is another activity that builds a company's imagination. However, most groups quickly focus on what's wrong with ideas. Our minds gravitate to seeing the faults or flaws within an idea. Often these faults are only faults within our current frame of reference but we seldom take our thinking that far. Companies that are successful in innovating are often well practiced in the work of building ideas, incorporating elements of different perspectives into a new, robust idea. These companies encourage people to borrow ideas from others, to share credit, and to value the products of good thinking more than the individuals involved in doing the thinking. These companies often live the idea that anyone can learn from anyone.

Any company that thinks well has a leadership team that places a premium on rigorous thinking. It is expected. Weak or sloppy thinking is challenged. Research is expected. Preparation is demanded. People are expected to continue to learn and to evolve their ideas based upon that learning.

These are the skills that enable innovative thinking. However, they do not cause it. Companies that want to institutionalize innovative thinking and integrate it into the way that they do business have to create an internal process that ensures it.

### **Creating a process of innovation**

Innovation often starts with the desired end state and works backward through the chain of events that works to create it. It involves a variety of thinking skills. Accurately embracing the current reality, critical thinking, resourcefulness, and imagination are all critical elements of the equation.

The process described below is meant to be illustrative rather than definitive. As with the end products of innovative thinking there are many ways to get there. However, to institute innovative thinking, a company needs to have a process that fits its circumstances. 3M is a company noted for its ability to innovate and to bring new products to the marketplace. Their expectation that a specific percentage of revenue should come from new products is one way that they support this effort. So to is their support of intrapreneurship, partnering with scientists to create new businesses is another.

On the other hand, IDEO, a California based industrial design firm uses a process that they call the “deep dive” as a way to drive practical, innovative solutions for their clients (Kelley, 2001). Jerry Hirschberg has described a different process used at the Nissan Design Studio in his book, *The Creative Priority* (Hirshberg, 1998). There are countless examples, but you will find that innovative companies not only have the intention to innovate and support the thinking skills to do it, they also have a defined process of innovation that fits their circumstances.

The process suggested below starts by envisioning a desired end state that would provide value for the customer. It requires an accurate assessment of what you are doing today and what capabilities and drawbacks might be inherent in your process given current market realities. It looks at how you might reconfigure what you do if you were starting today with a clean slate. Yet it is framed within what is possible within the realities of your business potential.

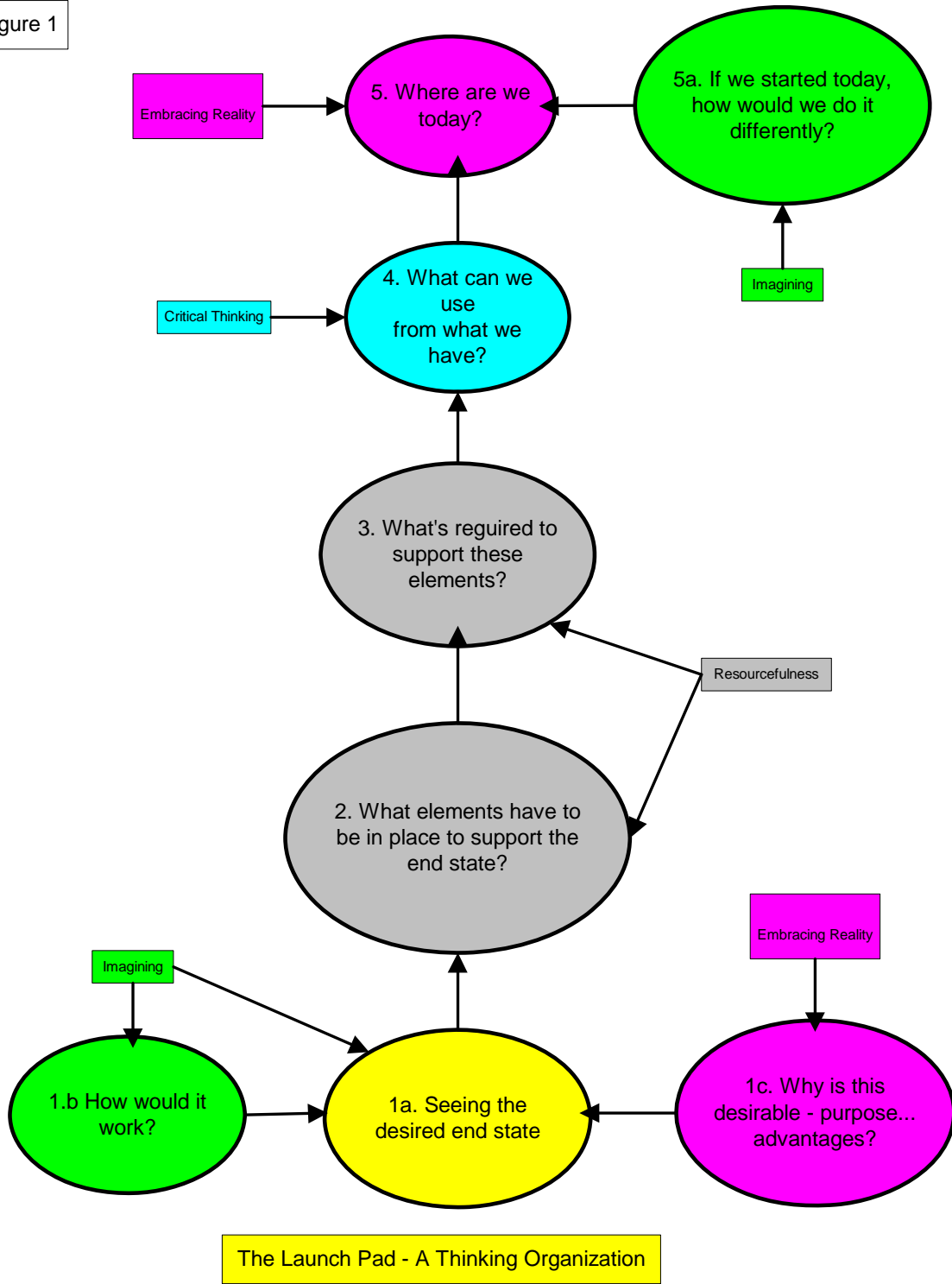
The desired end state needs to be envisioned within a business purpose. This provides a context for innovation. One package delivery company currently uses an ad where a worker considers using wormholes in the galaxy to help gain shipping efficiencies. All he has to do is to work out that “space – time continuum thing.” There may be the seeds of great innovation there but more realistic boundaries are required for a useable solution to emerge.

Once an end state is envisioned, development requires that the key elements that support the end state have to be understood and cobbled together. What new elements need to be developed or added to your mix? You have to understand what changes are required to sustain the new elements to the business. You’ll have to identify what you do today that

you can adapt to support a new application and what you may have to abandon. Practicality is essential to this thinking and it provides the context for a useable solution.

Below, in figure 1, you'll find the schematic for this process of innovation and the critical thinking skills required at each stage.

Figure 1



### Summary

Small and mid-size companies can gain significant advantage by fostering innovation. Innovation is a powerful competitive advantage that is available to any firm that seeks and develops the necessary skills. Innovation depends more on the intention to innovate than it does upon corporate size or wealth.

In order to live the intention to innovate there are several things that any organization must do. It must develop the appetite for rigorous thinking and build the muscles that sustain it. It must establish a culture that embraces reasonable risk. It requires the exercise of a corporate imagination. Finally, it requires the creation of an innovation process, a way of stimulating innovative thinking and channeling it into the mainstream of the organization's thought processes.

These are not easy tasks to accomplish, but the failure to address the challenge is fraught with risks in its own right. While human nature may tend to keep us in our comfort zones, the intention to innovate can provoke us to significant action.

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