Text D

The Psychology of Innovation

Innovation is key to business survival, and companies put substantial resources into inspiring employees to develop new ideas. There are, nevertheless, people working in luxurious, state-of-the-art centres designed to stimulate innovation who find that their environment doesn't make them feel at all creative. And there are those who don't have a budget, or much space, but who innovate successfully.

For Robert B. Cialdini, Professor of Psychology at Arizona State University, one reason that companies don't succeed as often as they should is that innovation starts with recruitment. Research shows that the fit between an employee's values and a company's values makes a different to what contribution they make and whether, two years after they join, they're still at the company. Studies at Harvard Business School show that, although some individuals may be more creative than others, almost every individual can be creative in the right circumstances.

One of the most famous photographs in the story of rock'n'roll emphasizes Cialdini's views. The 1956 picture of singers Elvis Presley, Carl Perkins, Johnny Cash and Jerry Lee Lewis jamming at a piano in Sun Studios in Memphis tells a hidden story. Sun's "million-dollar quartet" could have been a quintet. Missing from the picture is Roy Orbison, a greater natural singer than Lewis, Perkins or Cash. Sam phillips, who owned Sun, wanted to revolutionize popular music with songs that fused black and white music, and country and blues, Presley, Cash, Perkins and Lewis instinctively understood Phillips's ambition and believed in it. Orbison wasn't inspired by the goal, and only ever achieved one hit with the Sun label.

The value fit matters, says Cialdini, because innovation is, in part, a process of change, and under that pressure we, as a species, behave differently, "When things change, we are hard-wired to play it safe," Managers should therefore adopt an approach that appears counter-intuitive — they should explain what stands to be lost if the company fails to seize a particular opportunity. Studies show that we invariably take more gambles when threatened with a loss than when offered a reward.

Managing innovation is a delicate art. It's easy for a company to be pulled in conflicting directions as the marketing, product development, and finance departments each get different feedback from different sets of people. And without a system which ensures collaborative exchanges within the company, it's also easy for small "pockets of innovation" to disappear. Innovation is a contact sport. You can't brief people just by saying, "We're going in this direction and I'm going to take you with me."

Cialdini believes that this "follow-the-leader syndrome" is dangerous, not least because it encourages bosses to go it alone. "It's been scientifically proven that three people will be better than one at solving problems, even if that one person is the smartest person in the field." To prove his point, Cialdini cites an interview with molecular biologist James Watson. Watson, together with Francis Crick, discovered the structure of DNA, the genetic information carrier of all living organisms. When asked how they had cracked the code ahead of an array of highly accomplished rival investigators, he said something that stunned me. He said he and Crick had succeeded because they were aware that they weren't the most intelligent of the scientists pursuing the answer. The smartest scientist was called Rosalind Franklin who, Watson said, "was so intelligent she rarely sought advice".

Teamwork taps into one of the basic drivers of human behaviour. "The principle of social proof is so pervasive that we don't even recognize it," says Cialdini. "If your project is being resisted, for example, by a group of veteran employees, ask another old-timer to speak up for it." Cialdini is no alone in advocating this strategy. Research shows that peer power, used horizontally not vertically, is much more powerful than any boss's speech.

Writing, visualizing and prototyping can stimulate the flow of new ideas. Cialdini cites scores of research papers and historical events that prove that even something as simple as writing deepens every individual's engagement in the project. It is, he says, the reason why all those competitions on breakfast cereal packets encouraged us to write in saying, in no more than 10 words: "I like Kellogg's Corn Flakes because…" The very act of writing makes us more likely to believe it.

Authority doesn't have to inhibit innovation but it often does. The wrong kind of leadership will lead to what Cialdini calls "captainitis, the regrettable tendency of team members to opt out of team responsibilities that are properly theirs". He calls it captainitis because, he says, "crew members of multipilot aircraft exhibit a sometimes deadly passivity when the flight captain makes a clearly wrong-headed decision". This behavior is not, he says, unique to air travel, but can happen in any workplace where the leader is overbearing.

At the other end of the scale is the 1980s Memphis design collective, a group of young designers for whom "the only rule was that there were no rules". This environment encouraged a free interchange of ideas, which led to more creativity with form, function, color and materials that revolutionized attitudes to furniture design.

Many theorists believe the ideal boss should lead from behind, taking pride in collective accomplishment and giving credit where it is due. Cialdini says: "Leaders should encourage everyone to contribute and simultaneously assure all concerned that every recommendation is important to making the right decision and will be given full attention." The frustrating thing about innovation is that there are many approaches, but no magic formula. However, a manager who wants to create a truly innovative culture can make their job a lot easier by recognizing these psychological realities.

I. Choose the correct answers.

1. Which of the following is the implicit information in the first paragraph?
   A. The ability to innovate is the "secret sauce" of business success.
   B. Most of us know very little about what makes one person more creative.
   C. Innovation won't happen without the inner workings of the masters' minds.
   D. Financial investment doesn't have to cultivate creative intelligence.

2. The author takes the example of the "million-dollar quartet" to demonstrate that ________.
   A. solidarity in a group is vital to achieve access
   B. innovation is to break the conventional thinking
   C. sharing a common goal is essential for innovation
   D. all stories have beginning and ends

3. According to the passage, ________is recommended for managers to stimulate innovation?

A. the bonus pay policy
B. creating the sense of crisis
C. establishing the system of rewards and punishments
D. the compulsory paid vocation policy

4. By mentioning "managing innovation is a delicate art", the author implies ___________.
A. top executives should be good at facilitating the innovation process
B. manager's ability of thinking creatively comes though learning
C. the ability to successfully connect seemingly unrelated questions, problems, or ideas from different fields, is central for innovation
D. innovative thinkers have the capacity to hold two diametrically opposing ideas in their heads

5. Which of the following statement about the "following-the-leader syndrome" is not true?
A. Emphasizing the leader's authority induces a domineering manner.
B. Team members' personal responsibilities are often neglected.
C. The innovating spirit in the team will diminish gradually.
D. The leader's wrong decision could not be corrected in time.

II. Do the following statements agree with the information given in the passage? Are they true, false or not given?

1. Identifying with company's concept and core values is vital for employees' innovation.
2. James Watson and Francis Crick's success is due to their determination.
3. The writings in competitions on breakfast cereal packets are to promote customers' loyalty.
4. Innovative managers are much more likely to challenge assumptions.
5. Under pressure, most people instinctively choose a strategy of risk aversion.

Keys:

I. 1. D 2. C 3. B 4. A 5. A

II.

1. False
2. False
3. True
4. Not given
5. True

Text E

The Wrong-Headed Belief That Every Business Should Scale Up

Devotees of Stumptown Coffee, a high-end roastery with fewer than 10 total locations in four select cities, pride themselves on avoiding mainstream coffee chains. What they are probably oblivious to, however, as they sip their mochas and cold brews, is that their haven of individuality may soon be just another chain in the phoenix airport. What they might suspect even less is that the story of microfinance in Bangladesh may foretell the fate of their preferred coffee shop.

Stumptown, the iconic small-scale brand, was recently acquired by Peet's, a chain with a couple hundred locations. On a buying-spree, Peet's has been in the news for taking over the at-home coffee-brewing system Keurig and another well-loved and self-consciously indie coffee brand, Intelligentsia. While Peet's offers reassurances that Stumptown will retain its authenticity even as it attempts to scale, precocious corporate growth has been shown to corrode the very core of what has, so far, sustained Stumptown: loyalty.

Stumptown's sale to Peet's exemplifies an economic phenomenon not confined to the world of craft coffee. Stumptown joins the ranks of a number of popular brands that went from independent to corporate — the Italian San Pellegrino, now owned by the Swiss giant Nestle (alone with is main competitor Perrier), the originally Quaker-owned chocolate-bar maker, Cadbury, acquired by the U.S. corporation formerly known as Kraft, and The Body Shop, the cosmetics brand synonymous with ethical sourcing, bought by the French behemoth L'Oreal, to name a few.

Stumptown's story is typical of an innovative young venture becoming a victim of its own success. Founded in 1999 by Duane Sorenson in his native Oregon, it turned into a national phenomenon (albeit appearing in only a few select cities) and was at the forefront of the small-scale retailers that positioned coffee-making, and coffee-drinking, as a kind of art form. Stumptown's business model rested on providing an intensely personal experience, designed to build a dedicated following: Baristas were offered quirky benefits that included massages between shifts and, for the many musically inclined staff members, the possibility of having their first albums recorded. Coffee-drinkers, meanwhile, were treated with top-notch beans and unique brews crafted in Stumptown's "coffee labs." These were more than just gimmicks — they were integral to the enterprise. Indeed, Sorenson's expenses were more than justified: His staff was willing to go above and beyond, and his customers willing to shell out for premium treatment.

But these quirky personal touches don't fit well in the assembly lines of large-scale operations, as the seemingly irrelevant — but actually highly instructive — case of a poverty-reduction program in South Asia would suggest. Microfinance is a lending scheme with a twist: It involves neither contracts nor collateral. Launched as a small experiment in Bangladesh by the economist-entrepreneur Muhammed Yunus and his team of "bicycle bankers," microfinance, like a high-end café, relies on the power of personal relationships. Just as in Sorenson's case, Yunus's bold gamble paid off: Because the borrowing was grounded in feelings of loyalty, poor Bangladeshi women paid back their loans much more reliably than borrowers who were considered non-risky by conventional measures.

The model grew into the Nobel-prize-winning Grameen Bank, and microfinance became the most influential single development intervention of recent times, organically amassing a borrower base of I billon worldwide. Yet a growth model based on the example of fast-scaling consumer industries — the bid to develop the Starbucks of microfinance, as explicitly attempted by SKS Microfinance in India — was met with a complete breakdown of trust on the part of borrowers and a mass default, The cookie-cutter approach to growth — driven by speed and profit — simply didn't work in the absence of the personal relationships that characterized the Grameen Bank.

The arithmetic of the "bigger is better" paradigm, or what economists call "economies of scale," is simple enough. The larger the bushel of coffee beans, the lower the cost per bean. The larger the machine, the more lattes it can spew out. Most of all, scale translates into standardizations: the conversion of an unpredictable creative process into a precise and highly economical algorithm of productions. All of this means more profits.

But, based on studies of human behavior in places ranging from blood banks to day care centers, academics now recognize that the calculus is more complex: People act more responsibly in the context of personal relationships that are meaningful to them than in strictly commercial transactions. In fact, loyalty sometimes even trumps economic rationality: going that extra mile to get the perfect cup of coffee, or paying a loan back when the opportunity exists to default. This is what the shift from boutique to mass-manufactured cuts out.

Even as Peet's plans to treble Stumptown's presence and make it more widely available at grocery stores, it threatens to make the Stumptown experience increasingly impersonal. But making Stumptown indistinguishable from Starbucks will jeopardize its core constituency, and may even hurt Peet's bottom line.

Smaller institutions have much to offer — not just sentimentally, but in terms of pure economics. The idea goes back to the 20th-century British economist E.F. Schumacher's declaration that "Small is beautiful," a notion fashionable again in the era of institutions "too big to fail," Since the logic of scale is more attuned to quantity than quality, workers (whose wages are usually driven down), consumers (who enjoy lower prices, but usually get a worse product) and the landscape of the economy (which shows signs of marked decreases in diversity) all suffer from growth that is too rapid. Size is the conventional metric of economic success, but when stability is pursued as passionately as profit, less may truly be more.

I. Choose the correct answers.

1. According to the passage, which of the following is not the characteristic of Stumptown Coffee's brand management?
   A. Its stores are well-designed and artistic.
   B. It chooses store locations carefully.
   C. It serves coffee with a characteristic flavor.
   D. It sticks to upscale strategy.

2. What's the author's prediction on Stumptown Coffee's future direction?
   A. To secure customer loyalty, it will lower the price of its products.
   B. It will encourage customers' involvement to spread brand awareness.
   C. More characteristic flavors of its coffee will be developed.
   D. It will enlarge its customer reach to maximize its profitability.

3. Why did SKS Microfinance in India meet its Waterloo?
   A. Because it expanded too fast.
   B. Because it invested too heavily.
   C. Because its study on Starbucks was not so complete.
   D. Because it focused on making a quick profit.

4. Which of the following might not be the advantage of scale effects?
   A. It is easier to reduce operating costs.
   B. It helps to improve a creative atmosphere.
   C. It is more powerful to withstand market risks.
   D. It helps to improve staff's welfare.

5. What does E.F. Schumacher's quotation — "Small is beautiful" mean in the passage?
   A. Building our economies should be around the needs of communities, not corporations.
   B. Things of a smaller scale are more aesthetically pleasing than those of a larger scale.
   C. The optimal pattern of business is to avoid a drive for scale economy.
   D. From an economic point of view, the central concept of wisdom is permanence.

II. Complete each sentence with the correct ending.

1. Conventional loan needs the borrowers' ____________.
2. The success of microfinance in Bangladesh depends on the responsibility __________________.
3. Peet's hurried acquisition of Stumptown is an example of ____________.
4. Stumptown competitiveness is from its ____________.
5. According to the last sentence of the passage, shelling out for a cup of coffee is beyond _________.
   A. the size of the seller
   B. core constituency
   C. in the text of personal relationship
   D. economic rationality
   E. contract and collateral

Keys:

I. 1. A 2. D 3. D 4. B 5. C

II. 1. E 2. C 3. A 4. B 5. D