Three

An Agenda for Management Innovation

A S HUMAN BEINGS, WE ARE DEFINED BY THE CAUSES WE serve and the problems we struggle to surmount. Whether it's Nelson Mandela battling the scourge of apartheid, Craig Venter unraveling the human genome, or Larry Page and Sergey Brin bringing order to the vastness of cyberspace, it is a passion for solving *extra*ordinary problems that creates the potential for *extra*ordinary accomplishment. Thus to invent the future of management you're going to need more than an intellectual faith in the value of management innovation. You're going to need a passion for some very specific, very noble challenge.

Be Bold

If management innovation has been mostly incremental in recent years, it may be due to a lack of daring in the choice of problems to tackle. Ask yourself, has your company ever taken on a management challenge that was truly unprecedented, where you couldn't rely on another company's experience as a guide? General Electric has. In 2006, chairman Jeff Immelt set his colleagues the goal of growing GE's top line at twice the rate of global GDP growth—net of acquisitions. No company of GE's size has ever managed to sustain this sort of growth, yet that didn't deter Immelt from taking on the challenge. There's no guarantee that GE will achieve its growth goals, but if it fails, it won't be for a lack of moxie.

While big problems don't always yield big advances, small ones never do. As the Nobel Prize–winning zoologist Sir Peter Medawar once put it: "Dull or piffling problems yield dull or piffling answers."[1] So you're going to need to think big.

If you are worried about biting off more than you can chew, keep two things in mind. First, you don't always have to take big risks to solve big problems. Innovation is usually an iterative process where solutions emerge through trial and error. In the early years of the U.S. space program, scientists sent more than ten monkeys into space before strapping a human being to a rocket. As we'll see in subsequent chapters, you don't have to take a big gamble to test out a bold new management idea.

Second, if the problem is big enough, progress of any sort will be valuable, even if you never find a "solution." I once heard former U.S. Secretary of State George Shultz draw a distinction between "problems you can solve" and "problems you can only work at." As a seasoned diplomat, Shultz knows that some problems, like ethnic strife, global poverty, and terrorism, defy once-and-for-all solutions. Yet he also understands that when you're up against problems of this scale and significance, even modest advances can yield big dividends. It may turn out that many of the 21st century's most perplexing management problems are ones we can only work at—they will resist attempts at a quick fix, but will reward persistent, imaginative effort.

It takes ingenuity, pluck, and perseverance to solve big problems. These human qualities are most abundant when the problem to be addressed is not only weighty but soul-stirring as well. As a devout Quaker, Frederick Taylor's single-minded devotion to efficiency stemmed from a conviction that it was iniquitous to waste even an hour of human labor when a task could be redesigned to be performed more efficiently. That Taylor could spend days studying the most productive ways to shovel coal was evidence not only of an obsessive mind, but of a missionary zeal for multiplying the value of human effort. This passion shines through in the introduction to his 1911 opus, *Principles of Scientific Management*: "We can see and feel the waste of material things. Awkward, inefficient, or ill-directed movements of men, however, leave nothing visible or tangible behind them. Their appreciation calls for an act of memory, an effort of the imagination. And for this reason, even though our daily loss from this source is greater than from our waste of material things, the one has stirred us deeply, while the other has moved us but little."[2]

Given Taylor's singularly influential role in the history of management, we would do well to heed his example: to maximize the chances for precedent-breaking management innovation, devote yourself to a problem that is consequential *and* inspiring, essential *and* laudable.

If you don't already have such a challenge in mind, here are a few leading questions that will help you focus your search:

- First, what are the new challenges the future has in store for your company? What are the emerging discontinuities that will stretch its management processes and practices to the breaking point? *What's the "tomorrow problem" that you* need *to start working on right now?*
- Second, what are the tough balancing acts your company never seems to get right? Is there a critical trade-off where one side always seems to prevail at the expense of the other? *What's the frustrating "either/or" you'd like to turn into an "and"?*
- Third, what are the biggest gaps between rhetoric and reality in your company? What are the values it has the hardest time living

up to, or finds the most difficult to institutionalize? *What's the espoused ideal you'd like to turn into an embedded capability?*

- Finally, what are you indignant about? What are the frustrating *in*competencies that plague your company and other organizations like it? *What's the "can't do" that needs to become a "can do"?*

Having zeroed in on a big-league challenge, you'll need to break it into smaller, more tractable components. This will allow you to focus your energies on high-impact subproblems, and will help to maximize the returns on your innovation efforts.

Because the technology of management varies only modestly from company to company, you'll find that most of the failings you need to address are endemic rather than idiosyncratic. This will make the diagnostic process easier. Much has been written, for example, on why companies are slow to change, and how bureaucracies stifle new thinking.[3] The real challenge, though, is not diagnostic but therapeutic. We know a lot about *why* large companies are incompetent at certain things (like proactively reinventing their strategies or growing new businesses), yet despite a mountain of advice and admonition, few companies seem to have overcome these limitations. What's lacking is not insightful analysis, but truly bold and imaginative alternatives to the management status quo—and an army of innovators who have the stamina to reinvent management from the ground up.

Calibrating Your Agenda for Management Innovation

In the remainder of this chapter, I'll outline three of the most formidable challenges that confront companies in this new century.

1. Dramatically accelerating the pace of strategic renewal in organizations large and small

2. Making innovation everyone's job, every day
3. Creating a highly engaging work environment that inspires employees to give the very best of themselves

I'll explain why these challenges deserve to be at the top of *your* agenda for management innovation, and will then break them down into a number of more focused subsidiary challenges.

My goal here is twofold. First, I want to help you become passionate about some big 21st-century management challenge. Each of the problems discussed below is meaty and righteous. Taken together, they are to 21st-century organizations what efficiency, scale, and control were to early 20th-century businesses—and I have no doubt that the most successful companies in the years ahead will be the ones that take the lead in tackling these capstone challenges.

Second, I want to illustrate the sort of argument you'll need to make if you hope to recruit others to your cause. Potential coconspirators are going to ask: Why is it important that we address this problem *now*? Why does it require *radical* innovation? And what, *exactly*, needs fixing? You will need convincing answers to these questions.

The purpose of this chapter, then, is not to propose specific solutions to our trio of make-or-break problems—that will come later. Rather, the goal is to give you some benchmarks that will help you calibrate your own management innovation agenda: Am I thinking big enough? Can I make a compelling case? And am I digging deeply enough into the root causes?

Building a Company That Is as Nimble as Change Itself

There's little that can be said with certainty about the future except this: sometime over the next decade your company will be challenged to change in a way for which it has no precedent.[4] It will either adapt or falter, reinvent itself or struggle through a painful restructuring. Given the recent performance of industry incumbents around the world, the latter is more likely than the former. Few companies, it seems, are able to change ahead of the curve.

There have always been dinosaurs—companies like Kodak, Sony, Sears, General Motors, Toys "R" Us, and Sun Microsystems—that have failed to reinvent themselves on a timely basis and have paid the price. Yet in recent years, entire industries have been caught behind the change curve. Television broadcasters and newspaper publishers, record companies and French vintners, traditional airlines and giant drug companies, American carmakers and European purveyors of haute couture—all have been struggling to rejuvenate seriously out-of-date business models. Sure, many of the companies in these industries will regain their footing—eventually. But in the meantime, billions of dollars and millions of customers will be lost. Such is the price of maladaptation.

What accounts for this epidemic of senescence? Is it that executives around the world have suddenly become dull-witted? Unlikely. If once-immortal business models are abruptly going toes-up, it's because the environment has changed—and what has changed most remarkably is change itself. What distinguishes our age from every other is not the world-flattening impact of communications, not the economic ascendance of China and India, not the degradation of our climate, and not the resurgence of ancient religious animosities. Rather, it is a frantically accelerating pace of change.

Over the coming decades the adaptability of every society, organization, and individual will be tested as never before. Luckily, perturbations create opportunities as well as challenges. But the balance of promise and peril for any particular organization depends on its capacity for adaptation. Hence the most critical question for every 21st-century company is this: Are we changing as fast as the world around us? As we've already seen, the answer for many companies is "no."

While executives readily acknowledge that products and services need to be periodically refreshed, they often assume that strategies, business models, competencies, and core values are more-or-less immortal. Such an assumption is increasingly foolhardy. Companies miss the future when they mistake the temporary for the timeless; and today, just about everything is temporary.

A review of the extensive library on managing change reveals a disturbing fact. Nearly all the accounts of *deep* change—entailing big shifts in a company's business model or core mission—are stories of turnarounds, with a new CEO typically cast as the hero. It seems that deep change is nearly always crisis-led, episodic, and programmatic—accomplished through a top-to-bottom cascade of tightly scripted messages, events, goals, and actions. Sadly, it is rarely opportunity-led, continuous, and a product of the organization's intrinsic capacity to learn and adapt. While one can celebrate Lou Gerstner's turnaround at IBM, Carlos Ghosn's Lazarus-like resurrection of Nissan, or Rosemary Bravo's revitalization of the Burberry fashion brand, a turnaround is transformation tragically delayed—an expensive substitute for well-timed adaptation.

The goal, then, is to build organizations that are capable of continual, trauma-free renewal. An apt analogy is found in the body's autonomic systems. When you step on a treadmill and start to jog, your heart automatically increases the blood supply to your muscles. When you stand up in front of an audience to speak, your adrenal gland spontaneously pumps out a hormone that accelerates your heart rate and heightens your faculties. And when you glance at someone who is physically attractive to you, your pupils dilate reflexively, drinking in the agreeable visage. Automatic. Spontaneous. Reflexive. These aren't the words we typically use to describe deep change in large organizations. And therein lies the challenge: to make deep change more of an autonomic process—to build organizations that are capable of continuous self-renewal in the absence of a crisis.

Many factors contribute to strategic inertia, but three pose a particularly grave threat to timely renewal. The first is the tendency of management teams to deny or ignore the need for a strategy reboot. The second is a dearth of compelling alternatives to the status quo, which often leads to strategic paralysis. And the third: allocational rigidities that make it difficult to redeploy talent and capital behind new initiatives. Each of these barriers stands in the way of zero-trauma change; hence each deserves to be a focal point for management innovation.

Denial

Every business is successful until it's not. What's disconcerting, though, is how often top management is surprised when "not" happens. This astonishment, this belated recognition of dramatically changed circumstances, virtually guarantees that the work of renewal will be significantly, if not dangerously, delayed.

Denial follows a familiar pattern. Disquieting developments are at first *dismissed* as implausible or inconsequential, then *rationalized* away as aberrant or irremediable, then grudgingly *mitigated* through defensive action, and then finally, though not always, honestly *confronted*.

The recent travails of the music industry provide us with a typical case. Record companies were initially contemptuous of downloaded music. MP3 files were sonically inferior to CDs, and downloading music was a clumsy and time-consuming process. Who'd want to listen to music on a PC anyway? Yet despite this self-soothing disdain, the downloading snowball started to roll down the hill. Still, executives in New York and London discounted the trend, complaining loudly that the new distribution model was based entirely on theft. If people had to *pay* for their music, they argued, the torrent of downloads would slow to a trickle. Acting on this logic, the industry embraced a draconian strategy: it would threaten to sue all those morally defective college students who would rather download Coldplay than spend their 15 bucks at Tower Records. When the industry finally began experimenting with its own online distribution model, its Fort Knox approach to digital rights management made the nascent services virtually unusable. With the door to the future left wide open, Apple sauntered in and quickly became the world's leading online music retailer. Such is the price of denial.

As you might expect, the propensity to disclaim disconcerting facts increases as one moves up the hierarchy. One reason: corporate leaders are often not close enough to the bleeding edge of change to sense for themselves the growing risks to a long-venerated business model. In the absence of their own corroborating evidence, they are unlikely to give much credence to the distant echo of alarm bells rung by individuals out in the corporate hinterlands.

A Dearth of New Strategic Options

To escape the gravitational pull of an economically challenged business model, a company needs a compelling array of *new* strategic options—exciting alternatives to the status quo. Problem is, few companies have a disciplined process for generating hundreds of new strategic options, yet that's what it takes to fuel renewal.

Innovation follows a power law: for every 1,000 oddball ideas, only 100 will be worth experimenting with; out of those, no more than 10 will merit a significant investment, and only two or three will ultimately produce a bonanza. Venture capitalists understand this arithmetic. In a given year, a typical VC firm will review thousands of business plans, meet with hundreds of would-be entrepreneurs, invest in a dozen or so companies, and then hope that one or two of them will become the next Google, Cisco, or Amgen. Few managers, though, seem eager to acknowledge the inescapable arithmetic of innovation.

The majestic oak tree provides a good analogy. Walk through a forest in Northern California and you'll find that the ground is covered with acorns. Nature isn't wasteful, so how does one explain this extravagance? Simple: the oak doesn't know which patches of ground are fertile and which aren't. The profusion of acorns is a "search strategy" aimed at finding the most felicitous combination of soil, light, and moisture. As with the tender seeds of innovation in a corporate setting, it's almost impossible to know in advance which acorns will germinate and which won't. (For example, in 1996, who would have guessed that eBay, then a fledgling start-up, would one day have a market value in excess of $35 billion?) This is why innovation suffers when senior executives demand ironclad assurances of future success before investing even small amounts of capital and talent in nascent ideas.

This doesn't mean that every new idea, however loopy, deserves to be funded. Just as it's possible for a hiker to distinguish between acorns and rabbit pellets, it's possible to differentiate between ideas that are inherently promising and those that are patently stupid. It does mean, though, that executives, like VCs, must invest in a portfolio of strategic options, and must resist the temptation to prematurely focus their resources on one or two "surefire" ideas. Again, it's a numbers game. While the median return on a VC's portfolio may be close to zero (many, if not most, ventures will ultimately fail), the average return can be eye-popping—thanks to the disproportionate effect of one or two runaway successes. The lesson is clear: to build an adaptable company, managers need to worry less about weeding out low-probability ideas, and more about building a diverse portfolio of nonincremental strategic options.

Allocational Rigidities

Sometimes the real hurdle to renewal is not a lack of options, but a lack of flexibility in resource allocation. All too often, legacy programs get richly funded year after year while new initiatives go begging. This, more than anything, is why companies regularly forfeit the future—they overinvest in "what is" at the expense of "what could be." There are several things that typically frustrate the timely redeployment of resources in medium- and large-scale organizations.

In most companies, a manager's power correlates directly with the resources he or she controls—to lose resources is to lose status and influence. Moreover, personal success often turns solely on the performance of one's own unit or project. As a result, program managers resist attempts to reallocate "their" capital and talent to new initiatives—regardless of how attractive those new projects may be. Of course it's unseemly to appear too parochial, so executives often hide their motives behind the façade of an ostensibly prudent business argument. New projects are deemed "untested," "risky," or a "diversion of resources." Thus while senior execs may happily fund a billion-dollar acquisition, someone a few levels down who attempts to "borrow" a half dozen talented individuals for a new project, or carve a few thousand dollars out of a legacy budget, is likely to find the task on par with a dental extraction.

The tendency to overfund the status quo is aggravated by two additional factors. First, in most companies there is a monopsony on new ideas (a monopsony implies one buyer; a monopoly, one seller). Typically, a lower- or midlevel employee with a new idea has only one place to go for funding—up the chain of command. If the nascent project doesn't jibe with the boss's near-term priorities, it won't get funded. For an analogy, try to imagine Silicon Valley with a single venture capital company. Given that scenario, how many great ideas would never see the light of day? Keep in mind that most entrepreneurs get turned down by seven or eight VCs before finding a willing investor.

Second, the resource-allocation process is typically biased against new ideas, since it demands a level of certainty about volumes, costs, timelines, and profits that simply can't be satisfied when an idea is truly novel. While it's easy to predict the returns on a project that is a linear extension of an existing business, the payback on an unconventional idea will always be harder to calculate. That's why VCs spread their risk by investing in a number of companies, rather than in a single start-up. Large companies, by contrast, tend to view every new idea as a stand-alone investment, and consequently require a degree of certitude that can be met only by projects that are modest extensions of existing activities. In contrast, managers running established businesses seldom have to defend the strategic risk they take when they pour good money into a slowly decaying business model, or overfund an activity that is already producing diminishing returns.

This brief examination of the barriers to strategic adaptability highlights several critical management innovation challenges:

1. How do you ensure that discomforting information isn't ignored or simply "explained away" as it moves up the hierarchy?

2. How do you build a management process that continually generates hundreds of new strategic options?

3. How do you accelerate the redeployment of resources from legacy programs to future-focused initiatives?

We'll add to this list as we dig into our next two future-focused management problems.

Making Innovation Everyone's Job

In a world where strategy life cycles are shrinking, innovation is the only way a company can renew its lease on success. It's also the only way it can survive in a world of bare-knuckle competition.

In decades past, many companies were insulated from the fierce winds of Schumpeterian competition. Regulatory barriers, patent protection, distribution monopolies, disempowered customers, proprietary standards, scale advantages, import protection, and capital hurdles were bulwarks that protected industry incumbents from the margin-crushing impact of Darwinian competition. Today, many of these fortifications are collapsing.

- Deregulation and trade liberalization are reducing the barriers to entry in industries as diverse as banking, air transport, and telecommunications.

- The power of the Web means upstarts no longer have to build a global infrastructure to reach a worldwide market. This has allowed companies like Google, eBay, and MySpace to scale their businesses freakishly fast.

- The disintegration of large companies, via de-verticalization and outsourcing, has also helped new entrants. In turning over more and more of their activities to third-party contractors, incumbents have created thousands of "arms suppliers" that are willing to sell their services to anyone. By tapping into this global supplier base of designers, brand consultants, and contract manufacturers, new entrants can emerge from the womb nearly full-grown.

- Incumbents must also contend with a growing horde of ultra-low-cost competitors—companies like Huawei, the Chinese telecom equipment maker that pays its engineers a starting salary of just $8,500 per year. Not all cut-price competition comes from China and India. Ikea, Zara, Ryanair, and AirAsia are just a few of the companies that have radically reinvented industry cost structures.

- Web-empowered customers are also hammering down margins. Before the Internet, most consumers couldn't be sure whether they were getting the best deal on their home mortgage, credit card debt, or auto loan. This lack of enlightenment buttressed margins. But consumers are becoming less ignorant by the day. One U.K. Web site encourages customers to enter the details of their most-used credit cards, including current balances, and then shows them exactly how much they will save by switching to a card with better payment terms.

- In addition, the Internet is zeroing-out transaction costs. The commissions earned by market makers of all kinds—dealers, brokers, and agents—are falling off a cliff, or soon will be.

- Distribution monopolies—another source of friction—are under attack. Unlike the publishers of newspapers and magazines, bloggers don't need a physical distribution network to reach their readers. Similarly, new bands don't have to kiss up to record company reps when they can build a fan base via social networking sites like MySpace.

Collapsing entry barriers, hyperefficient competitors, customer power—these forces will be squeezing margins for years to come. In this harsh new world, every company will be faced with a stark choice: either set the fires of innovation ablaze, or be ready to scrape out a mean existence in a world where seabed labor costs (Chinese prisoners, anyone?) are the only difference between making money and going bust.

Given this, it's surprising that so few companies have made innovation everyone's job. For the most part, innovation is still relegated to organizational ghettos—it is still the responsibility of dedicated units like new product development and R&D, where creative types are kept safely out of the way of those who have to "run the business."

Today innovation is the buzz word du jour, but there's still a yawning chasm between rhetoric and reality. If you doubt this, seek out a few entry-level employees and ask them the following questions:

1. How have you been equipped to be a business innovator? What training have you received? What tools have you been supplied with?

2. Do you have access to an innovation coach or mentor? Is there an innovation expert in your unit who will help you develop your breakout idea?

3. How easy is it for you to get access to experimental funding? How long would it take you to get a few thousand dollars in seed money? How many levels of bureaucracy would you have to go through?

4. Is innovation a formal part of your job description? Does your compensation depend in part on your innovation performance?

5. Do your company's management processes—budgeting, planning, staffing, etc.—support your work as an innovator or hinder it?

Don't be surprised if these questions provoke little more than furrowed brows and quizzical looks. Truth is, there are not more than a handful of companies on the planet that have, like Whirlpool, built an all-encompassing, corporatewide innovation *system*.

While there are many impediments to innovation in large companies, there are three barriers that are particularly pernicious, and therefore essential to surmount.

Creative Apartheid

There are many folks, CEOs included, who believe that creativity is narrowly distributed in the human population. In this view, there is a tiny minority of individuals who are highly inventive and a big majority who are not. In my experience, this prejudice is particularly strong among those who have "creative" careers—filmmakers, designers, entrepreneurs, and the like. While these individuals may be innately creative, they often fail to adequately credit the myriad of environmental factors—inspiring teachers, iconoclastic parents, and lucky job breaks—that fueled their passions and afforded them the opportunity to develop their talents. Most human beings are creative in some sphere of their lives. Stephen Fry, the English actor who, like all actors, makes his living by parroting lines that other people have written, is an accomplished author and poet. Other folks paint, compose music, garden, or figure out new ways to entertain their bored toddlers. If folks don't appear to be creative at work, it's not because they lack imagination, it's because they lack the opportunity.

Fifty years ago, most CEOs believed that "ordinary" employees were incapable of tackling complicated operational problems like quality and efficiency. To a modern executive familiar with the benefits of *kaizen*, total quality management, and Six Sigma, such a belief seems like simple bigotry. Yet today many CEOs seem unwilling to acknowledge that the next billion-dollar idea in their company might come from an hourly employee or a road-weary sales rep. Nevertheless, history shows that innovation almost always comes from unexpected quarters, often from individuals who appeared quite ordinary to their friends and family. Sir Godfrey Hounsfield, the Nobel Prize–winning inventor of the CAT scanner, never earned a university degree. Neither did Richard Branson, who got his start in the music business selling records from the trunk of his car. Andreas Pavel, who invented the idea of a personal music player, was a Brazilian-educated philosophy student living in Switzerland. (His pioneering patent would eventually earn him millions of dollars in royalties from Sony.)[5] Despite these and thousands of similar examples, few executives seem to believe that "ordinary" employees can be extraordinary innovators. Yet in a world where innovation is more essential than ever, this sort of chauvinism is not only wrongheaded, it's potentially suicidal.

In the midst of writing this chapter, I was interviewed by CNBC on the topic of innovation. During the discussion, I commented on the fact that Whirlpool had trained more than 35,000 of its employees in the principles of business innovation. At that point, one of my fellow panelists butted in: "You can't teach people how to be creative," he declared. "You're either creative or you're not." Now if this were true, art institutes, design schools, and architectural programs wouldn't exist, and courses in creative writing would be pointless. The fact is, creativity is a human aptitude, like intelligence, musical ability, or eye-hand coordination. Like any other aptitude, it can be strengthened through instruction and practice.

Sure, some people are more creative than others, but in the colorless corridors of corporate-dom, hardly anyone lives up to their creative potential. Why? Because they haven't been given the tools and the time to exercise their gifts, and aren't held accountable for doing so. As a result, companies regularly waste prodigious quantities of human imagination—a profligacy that's hard to defend when the winds of creative destruction are blowing at gale force. R&D departments and new venture units have their place, but a small conclave of ingenious souls is no match for an entire company filled with employees who are giving full expression to their creative urges. If Toyota became one of the world's most renowned companies by harnessing the problem-solving abilities of its employees, just think of what your company could accomplish if it fully utilized the creative capabilities of each and every one of its employees.

The Drag of Old Mental Models

Innovators are, by nature, contrarians. Trouble is, yesterday's heresies often become tomorrow's dogmas, and when they do, innovation stalls and the growth curve flattens out.

Take the case of Dell Inc. Dell's business model—indirect channels, generic product designs, and Web-based customer support—made it the world's largest maker of PCs, and made Michael Dell, the company's founder, a multibillionaire. Given that, how tough do you think it would be for Michael Dell to admit that his profusely praised business model might have reached its sell-by date? How hard would it be for him to admit that Hewlett-Packard had closed its cost gap with Dell? Or that Apple's slick products and high-concept stores were making customers swoon? In the end, it seems to have been very hard, and very costly: as I write this, Dell has lost its leadership position to HP, has suffered a precipitous drop in its share price, and has been rocked by the forced resignation of its once highly regarded CEO, Kevin Rollins.

In this case and many others, the real barrier to strategic innovation is more than denial—it's a matrix of deeply held beliefs about the inherent superiority of a business model, beliefs that have been validated by millions of customers; beliefs that have been enshrined in physical infrastructure and operating handbooks; beliefs that have hardened into religious convictions; beliefs that are held so strongly, that nonconforming ideas seldom get considered, and when they do, rarely get more than grudging support.

Contrary to popular mythology, the thing that most impedes innovation in large companies is not a lack of risk taking. Big companies take big, and often imprudent, risks every day. The real brake on innovation is the drag of old mental models. Long-serving executives often have a big chunk of their emotional capital invested in the existing strategy. This is particularly true for company founders. While many start out as contrarians, success often turns them into cardinals who feel compelled to defend the one true faith. It's hard for founders to credit ideas that threaten the foundations of the business models they invented. Understanding this, employees lower down self-edit their ideas, knowing that anything too far adrift from conventional thinking won't win support from the top. As a result, the scope of innovation narrows, the risk of getting blindsided goes up, and the company's young contrarians start looking for opportunities elsewhere.

When it comes to innovation, a company's legacy beliefs are a much bigger liability than its legacy costs. Yet in my experience, few companies have a systematic process for challenging deeply held strategic assumptions. Few have taken bold steps to open up their strategy process to contrarian points of view. Few explicitly encourage disruptive innovation. Worse, it's usually senior executives, with their doctrinaire views, who get to decide which ideas go forward and which get spiked. This must change.

No Slack

In the pursuit of efficiency, companies have wrung a lot of slack out of their operations. That's a good thing. No one can argue with the goal of cutting inventory levels, reducing working capital, and slashing overhead. The problem, though, is that if you wring *all* the slack out of a company, you'll wring out all of the innovation as well. Innovation takes time—time to dream, time to reflect, time to learn, time to invent, and time to experiment. And it takes *uninterrupted* time—time when you can put your feet up and stare off into space. As Pekka Himanen put it in his affectionate tribute to hackers, ". . . the information economy's most important source of productivity is creativity, and it is not possible to create interesting things in a constant hurry or in a regulated way from nine to five."[6]

While the folks in R&D and new product development are given time to innovate, most employees don't enjoy this luxury. Every day brings a barrage of e-mails, voice mails, and back-to-back meetings. In this world, where the need to be "responsive" fragments human attention into a thousand tiny shards, there is no "thinking time." And therein lies the problem. However creative your colleagues may be, if they don't have the right to occasionally abandon their posts and work on something that's *not* mission critical, most of their creativity will remain dormant.

OK, you already know that—but how is that knowledge reflected in your company's management processes? How hard is it for a frontline employee to get permission to spend 20 percent of her time working on a project that has nothing to do with her day job, nor your company's "core business"? And how often does this happen? Does your company track the number of hours employees spend working on ideas that are incidental to their core responsibilities? Is "slack" institutionalized in the same way that cost efficiency is? Probably not. There are plenty of incentives in your company for people to stay busy. ("Maybe if I look like I'm working flat out, they won't send my job offshore.") But where are the incentives that encourage people to spend time quietly dreaming up the future?

So here's another clutch of challenges for the intrepid management innovator:

1. How can you enroll every individual within your company in the work of innovation, and equip each one with creativity-boosting tools?

2. How can you ensure that top management's hallowed beliefs don't straitjacket innovation, and that heretical ideas are given the chance to prove their worth?

3. How can you create the time and space for grassroots innovation in an organization that is running flat out to deliver today's results?

Make progress on these challenges and your company will set new benchmarks in innovation.

Now let's move on to our last meta-challenge.

Creating a Company Where Everyone Gives Their Best

Ask a group of your colleagues to describe the distinguishing characteristics of your company, and few are likely to mention adaptability and inventiveness. Yet if you ask them to make a list of the traits that differentiate human beings from other species, resilience and creativity will be near the top of the list. We see evidence of these qualities every day—in ourselves and in those around us. All of us know folks who've switched careers in search of new challenges or a more balanced life. We know people who've changed their consumption habits for the sake of the planet. We have friends and relatives who've undergone a spiritual transformation, or risen to the demands of parenthood, or overcome tragedy. Every day we meet people who write blogs, experiment with new recipes, mix up dance tunes, or customize their cars. As human beings, we are *amazingly* adaptable and creative, yet most of us work for companies that are *not*. In other words, we work for organizations that aren't very human.

There seems to be something in modern organizations that depletes the natural resilience and creativity of human beings, something that literally leaches these qualities out of employees during daylight hours. The culprit? Management principles and processes that foster discipline, punctuality, economy, rationality, and order, yet place little value on artistry, nonconformity, originality, audacity, and élan. To put it simply, most companies are only fractionally human because they make room for only a fraction of the qualities and capabilities that *make* us human. Billions of people show up for work every day, but way too many of them are sleepwalking. The result: organizations that systematically underperform their potential.

In 2005, Towers Perrin, a consulting company, conducted a survey of 86,000 employees working for large and medium-sized companies in 16 countries.[7] The researchers used a nine-item index to measure the extent to which employees felt engaged in their work. Respondents were asked how strongly they agreed with the following statements:

- I really care about the future of my organization.
- I am proud to tell others I work for my organization.
- My job provides me with a sense of personal accomplishment.
- I would recommend my organization to a friend as a good place to work.
- My organization inspires me to do my best.
- I understand how my unit/department contributes to the success of the organization.
- I understand how my role in my organization is related to my organization's overall goals, objectives, and direction.
- I am willing to put in a great deal of effort beyond what is normally expected to help my organization succeed.
- I am personally motivated to help my organization be successful.

An aggregate score was calculated for each respondent measuring the extent to which that individual was "highly engaged," "moderately engaged," or "disengaged" at work. Once all the data had been tabulated, the researchers had no choice but to conclude that: *"The vast majority of employees across all levels in an organization are less than fully* *engaged in their work."*[8] [Emphasis in the original.] According to the study, a mere 14 percent of employees around the world are highly engaged in their work, while 24 percent are disengaged. Everyone else is somewhere in the tepid middle.

In other words, roughly 85 percent of those at work around the world—from Montreal to Munich, from Pittsburgh to Paris, and from Dublin to Delhi—are giving less of themselves than they could. This is a scandalous waste of human capability, and it helps to explain why so many organizations are less capable than the people who work there.

Weirdly, many of those who labor in the corporate world—from lowly admins to high powered CEOs—seem resigned to this state of affairs. They seem unperturbed by the confounding contrast between the essential nature of human beings and the essential nature of the organizations in which they work. In years past, it might have been possible to ignore this incongruity, but no longer—not in a world where adaptability and innovation have become the sine qua non of competitive success. The challenge: to reinvent our management systems so they inspire human beings to bring all of their capabilities to work every day.

The human capabilities that contribute to competitive success can be arrayed in a hierarchy. At the bottom is obedience—an ability to take direction and follow rules. This is the baseline. Next up the ladder is diligence. Diligent employees are accountable. They don't take shortcuts. They are conscientious and well-organized. Knowledge and intellect are on the next step. Most companies work hard to hire intellectually gifted employees. They value smart people who are eager to improve their skills and willing to borrow best practices from others. Beyond intellect lies initiative. People with initiative don't wait to be asked and don't need to be told. They seek out new challenges and are always searching for new ways to add value. Higher still lies the gift of creativity. Creative people are inquisitive and irrepressible. They're not afraid of saying stupid things. They start a lot of conversations with, "Wouldn't it be cool if . . ." And finally, at the top, lies passion.

Passion can make people do stupid things, but it's the secret sauce that turns intent into accomplishment. People with passion climb over obstacles and refuse to give up. Passion is contagious and turns one-person crusades into mass movements. As the English novelist E. M. Forster put it, "One person with passion is better than forty people merely interested."

If we were to measure the relative contribution that each of these human capabilities makes to value creation, recognizing we now live in a world where efficiency and discipline are table stakes, the scale would look something like this:

Passion	35%
Creativity	25%
Initiative	20%
Intellect	15%
Diligence	5%
Obedience	0%
	100%

I'm not suggesting that obedience is literally worth *nothing.* A company where no one followed *any* rules would soon descend into anarchy. Instead, I'm arguing that rule-following employees are worth zip in terms of the competitive advantage they generate. In a world with 4 billion nearly destitute souls, all eager to climb the ladder of economic progress, it's not hard to find biddable, hardworking employees. And what about intelligence? For years we've been told we're living in the knowledge economy; but as knowledge itself becomes commoditized, it will lose much of its power to create competitive advantage.

Today, obedience, diligence, and expertise can be bought for next to nothing. From Bangalore to Guangzhou, they have become global commodities. A simple example: turn over your iPod, and you'll find six words engraved on the back that foretell the future of competition: "Designed in California. Made in China." Despite the equal billing, the remarkable success of Apple's music business owes relatively little to the company's network of Asian subcontractors. It is a credit instead to the imagination of Apple's designers, marketers, and lawyers. Obviously, not every iconic product is going to be designed in California, nor manufactured in China. The point, though, is this: if you want to capture the economic high ground in the *creative economy*, you need employees who are more than acquiescent, attentive, and astute—they must also be zestful, zany, and zealous. So we must ask: what are the obstacles that stand in the way of achieving this state of organizational bliss?

Too Much Management, Too Little Freedom

While most executives would willingly attest to the value of initiative, creativity, and passion, they face a troubling conundrum. They are, by training and temperament, *managers*. They are paid to oversee, control, and administer. Yet today the most valuable human capabilities are precisely those that are the least manage*able*. While the tools of management can compel people to be obedient and diligent, they can't make them creative and committed.

Anyone who has ever run a university, a film studio, or an open source software project will tell you that getting the most out of people seldom means managing them more, and usually means managing them less. It means giving fewer orders, worrying less about alignment, and spending less time checking up on folks. Managing less implies more than having fewer managers. Powerful new communication tools have allowed companies to thin the ranks of middle management—but this doesn't mean that employees are any less fettered than they were in the past; it just means that it's easier for managers to manage more people. Management has become more efficient, but I doubt that most employees feel like there's less of it about.

Asking a manager to manage less is a bit like asking a carpenter to pound fewer nails, or imploring a high school principal to hand out fewer detention slips—this is what these people *do*. Yet the oversight, the rigid plans, the comprehensive assessments, the strict policies, the mandatory procedures—in short, the whole "father knows best" premise of management—is antithetical to building companies that are filled with energetic, slightly rebellious, votaries. If you want unbounded contributions from your employees, you're going to have to bind the hand of management—or at least a few fingers.

In recent years there's been a lot of rhetoric about involvement, empowerment, and self-direction. In many companies, employees are now referred to as "associates" or "team members" in an attempt to disguise their powerlessness. But ask yourself, have the liberties and prerogatives of first- and second-level employees in your company expanded dramatically over the past decade? Do they have more freedom to design their own jobs? Do they have greater discretion in choosing what to work on, or in deciding how to execute their responsibilities? These are important questions. Most of us are unlikely to get excited about a task that has been *assigned* to us. We bristle when we're bridled. In a sense, it's a zero-sum game: the more meddlesome the managerial oversight and the more constricting the shackles of policy and process, the less passionate people are going to be about their work. You can't expect automatons to be zealots.

Too Much Hierarchy, Too Little Community

When in your life have *you* felt the most joyful and the most energized by work? Maybe you were leading a skunk works project populated with brilliantly inventive coworkers. Maybe you were building a new company with a small, entrepreneurial team. Maybe you were plastering walls at a Habitat for Humanity build, along with other bighearted volunteers. Whatever the particulars of that episode in your life, I bet it involved a group of people who were bound by their devotion to a common cause, who were undeterred by a lack of resources and undaunted by a lack of expertise, and who cared more about what they could accomplish together than how credit would be apportioned. In short, you were part of a community.

Hierarchies are very good at *aggregating* effort, at coordinating the activities of many people with widely varying roles. But they're not very good at *mobilizing* effort, at inspiring people to go above and beyond. When it comes to mobilizing human capability, communities outperform bureaucracies. This is true for several reasons. In a bureaucracy, the basis for exchange is contractual—you get paid for doing what is assigned to you. In a community, exchange is voluntary—you give your labor in return for the chance to make a difference, or exercise your talents. In a bureaucracy you are a factor of production. In a community you are a partner in a cause. In a bureaucracy, "loyalty" is a product of economic dependency. In a community, dedication and commitment are based on one's affiliation with the group's aims and goals. When it comes to supervision and control, bureaucracies rely on multiple layers of management and a web of policies and rules. Communities, by contrast, depend on norms, values, and the gentle prodding of one's peers. Individual contributions tend to be circumscribed in a bureaucracy—marketing people work on marketing plans, finance people run the numbers. In a community, capability and disposition are more important than credentials and job descriptions in determining who does what. And where the rewards offered by a bureaucracy are mostly financial, in a community they're mostly emotional. When compared with bureaucracies, communities tend to be undermanaged. That, more than anything else, is why they are amplifiers of human capability.

Before you accuse me of being a starry-eyed idealist, or just plain goofy, let me be clear: I'm not arguing that we should turn every organization into some version of the Boy Scouts. I'm not naïve. I know it would be impossible to keep people coming to work every day without the inducement of a paycheck—warm and fuzzy feelings won't put food on the table and gas in the car. But here's an interesting thought experiment: suppose you knew that in 12 months' time, a looming financial crisis would force you to cut the salary of every employee in your company by a third. Assume further that your company is running very lean and that every associate is making an indispensable contribution. Now, if the goal is to minimize the risk of a mass exodus when the financial crunch finally hits, what changes would you make over the next few months to keep your colleagues from jumping ship? Take some time with this question, be creative. My guess is that the changes you ultimately envision will be precisely those that would make your company feel less like a hierarchy and more like a community.

Too Much Exhortation, Too Little Purpose

Initiative, creativity, and passion are gifts. They are benefactions that employees choose, day by day and moment by moment, to give or withhold. They cannot be commanded. If you're a CEO, you won't get these gifts by exhorting people to work harder, or by ordering them to love their customers and kill their competitors. You'll only elicit these capabilities when you start asking yourself and your colleagues: What kind of purpose would *merit* the best of everyone who works here? What lofty cause would inspire folks to give generously of their talents?

Over the years, I've sat through a lot of rah-rah pep talks in big companies. I've seen CEOs pound the lectern, have had my eardrums pummeled by upbeat rock anthems, and have watched thousands of pumped up employees cheer and stomp. Trouble is, an adrenaline rush is transient. It can produce a thunderclap of emotion, but it can't produce a long, nourishing rain of inspired contribution—that takes more than breathless exhortation, it takes a moral imperative. That imperative could be producing impossibly beautiful products—a goal which motivates many at Apple. It could be curing diseases that were once thought incurable—a mission that inspires the folks at Genentech. It could be harnessing the world's wisdom and making it available to everyone, for nothing—the majestic notion behind Wikipedia.

A moral imperative can't be manufactured by speech writers or ginned up by consultants. It can't be cobbled together in a two-day off-site. Rather, it must grow out of some genuine sense of mission, possibility, or outrage. A moral imperative is not something one invents to wring more out of people. To be regarded as authentic, it must be an end, not a means.

Think about the management processes in your company. How much time and priority do these rituals give to conversations around purpose and destiny? Not much, I warrant. Sit in on a typical management meeting—to discuss strategy, budgets, employees, or anything else—and not only will you observe a distinct lack of right-brain thinking, you'll also hear virtually nothing that suggests the participants have *hearts*. Beauty. Truth. Love. Service. Wisdom. Justice. Freedom. Compassion. These are the moral imperatives that have aroused human beings to extraordinary accomplishment down through the ages. It is sad, then, that the vernacular of management has so little room for these virtues. Put simply, you are unlikely to get bighearted contributions from your employees unless they feel they are working toward some goal that encompasses bighearted ideals.

As a management innovator, you may not be in a position to single-handedly craft a sense of purpose for your company, but you can look for ways of weaving discussions of purpose and principle into the fabric of your company's management conversations. For example, the next time you're in a meeting and folks are discussing how to wring another increment of performance out of your workforce, you might ask: "To what end, and to whose benefit, are our employees being asked to give of themselves? Have we committed ourselves to a purpose that is truly deserving of their initiative, imagination, and passion?"

There are a few more tasks, then, that we must add to our management innovation agenda:

1. How can you broaden the scope of employee freedom by managing less, without sacrificing focus, discipline, and order?

2. How can you create a company where the spirit of community, rather than the machinery of bureaucracy, binds people together?
3. How can you enlarge the sense of mission that people feel throughout your organization in a way that justifies extraordinary contribution?

I hope the problems discussed in this chapter will inspire you, and will help you to benchmark your own aspirations as a management innovator. At this point, you may be wondering whether it's really possible to make progress on problems this big. Are they tractable? Can you actually manage less without ending up in chaos? Is it really feasible to let employees choose what they'd like to work on? Can you build slack into an otherwise highly disciplined company? Can you make a profit-making enterprise feel like a community? If you're skeptical, then it's time to meet three modern-day management pioneers. These companies have been wrestling with the seemingly intractable challenges that I've laid out in this chapter—and they've been making real progress.

Whole Foods has some of the most amped-up and engaged employees of any big retailer. W.L. Gore has been labeled the world's most innovative company, and has one of the weirdest, most effective organizations on the planet. And then there's Google. Though young and still untested, it has been honing a management system that values adaptability above all else. While these companies aren't perfect, or invincible, they are heralds of a new management order—ongoing experiments in management innovation from which we can learn lessons both salutary and cautionary. So if you're still not sure it's possible to spit in the face of management orthodoxy and live to tell about it, read on. Let this trio of management renegades inspire you. Then keep on reading, and I'll lay out the building blocks for turning aspiration and inspiration into bona fide management innovation.