

INNOVATION

Source of Hope in a Troubled Economy

by John Di Frances

Almost everyone realized that the U.S. economy was in a recession long before the December, 2008, official government announcement, which acknowledged that the economic downturn had begun a full year earlier. What no one knew then, and what remains the subject of much conjecture today, is how deep and long will be its impact.

Initially, most economists and futurists predicted a moderate, but brief blip in the economy. Amid predictions of recovery beginning in mid 2009 and return to a robust economy by 2010, the bad news did not seem so bad after all. However, as more key indicators of economic decline appear, such as retail store and industrial plant closings with the attendant soaring unemployment, falling imports and exports, a formidable and tenacious credit freeze and plummeting executive and consumer confidence, the outlook for the next few years seems much less positive.

These negative economic indicators have tempered the initial enthusiasm of economists, futurists and finally the media. Many are now calling this the worst recession since WWII; some even predicting the 'Greatest Depression' beginning in mid 2009. How bad will it really be for America and the world? No one knows for certain, but the signs are growing more ominous. To quote Robert B. Reich, former Secretary of Labor under President Clinton, testifying before Congress in January; "We have never been here before. If anybody tells you they know exactly what to do, don't believe them." Or Senator Kent Conrad, Democrat from North Dakota and Chairman of the Senate Budget Committee; "This is one of the worst budget forecasts I have seen in my lifetime."

In early January, the Chairman of the House Budget Committee, Representative John M. Spratt, Democrat of South Carolina, convened a hearing to ask both fiscally conservative and liberal economist's one question: Should there be *'any'* limit to the deficit spending that the new administration enacts in attempting to turn the economy around? The answer by noted economists on both sides of the philosophical fiscal fence was "No!" In other words, the fear of a ballooning deficit from 2008's \$455 billion to a projected 2009 \$1.5-1.8 trillion, or fully ten percent of GDP, poses less of a danger than failing to stop the recession from turning into a depression.

BusinessWeek Magazine offered this warning in a January 5th article headline; *A DEFLATION MALESTROM IN THE MAKING — The Fed is pulling out the stops to thwart it, but slack demand, rising joblessness, frozen credit, and vanishing home value are all feeding a vicious spiral.* Not what can be called a positive outlook for 2009 and beyond.

Given such somber news, what should business, government and not-for-profit leaders do to survive? And is *'mere'* survival to become the goal in dealing with the looming economic 'Perfect Storm'?

What action can be recommended to your members? Naturally, cost cutting is the first that comes to most people's mind in an economic downturn. While in severe instances it may be an unfortunate necessity, the long term organizational impact is distinctly negative. Moreover, many organizations have already employed a *'Lean'* philosophy and have no more *'fat'* to cut. In fact, I find that many organizations'; especially in the corporate sector, have already cut their personnel too deeply, leaving them with little or no capacity to respond to marketplace fluctuations. Furthermore, cutting highly experienced personnel who understand the organization's culture, inner workings, customers and vendors, will exact a high price when the economy does rebound. In many cases, these people will no longer be available to return to the organization in the future, thereby resulting in a very expensive resource vacuum that will not be quickly filled.

Another tactic is to *'hunker-down'* and ride out the storm. Were this just another of the 'garden variety' recessions we have faced in the past several decades, this *'hanging tough'* approach might work, but not this time. All indications point to the 'worst' economic collapse since the Depression and if the new administration's stimulus efforts fail to jump start the economy, it may be the 'worst' in the past century, including the Great Depression.

What then remains as a viable strategy, not just for survival, but growth despite the economy? And what strategy, if any, will result in favorable positioning for the turnaround that we can look forward to when the economy finally does rally? In a single word, ***Innovation!***

Innovation is the central issue in economic prosperity. — Michael Porter

Why Innovation? Simply because at some point, despite the economy, every organization must grow in order to survive in our rapidly changing world. Although the bottom line can be shored up in the short term by cutting expenses, even if costs could theoretically be reduced to near zero, an organization still requires revenues to remain vibrant and capable of seeking future customers. A myopic fixation on cost reduction can only enable an organization to continue for a limited period of time and if this economic downturn lasts as long as many economists are now predicting, a very large number of organizations will be unable to survive on the basis of cost reduction alone. Unless America once again rises to the challenge of becoming an innovatively productive country, instead of just a consuming one, then it will have no economy, no products and ultimately no cash.

Innovation is going to be the key in the 21st century. — Gerald Celente, Founder, The Trends Research Institute

For the past decade, we have had a preview of what it means to live and work in a globally competitive world. The unvarnished truth is that in many sectors the United States is simply no longer a viable producer of goods and services. Our world leadership, once undisputed in nearly every industry, is now

either under attack or already only a rapidly fading memory. Why? We are no longer the world's undisputed innovators. Rather than investing in creatively arming our people with the most advanced technology in the world, which is readily available, in order to out-compete our foreign rivals, we have instead chosen the 'easier' road of out-sourcing to the lowest dollar labor sources. In doing so, we have given away the industrial methods and practices that made our nation great. Step by step, we have created and subsequently funded our own fiercest competitors.

In regard to services, we have relied on the equally devastating approach of rampant outsourcing. Only recently has the move back to domestic services again become the vogue, with companies like DELL, offering premium 'on-shore' technical support, thereby guaranteeing immediate access to highly qualified technical customer service representatives who speak English in a clear and understandable manner. Although this simple offering may be seen as old school, it is in reality a new service innovation currently being employed by DELL as a unique marketing distinctive. At \$119 for five years of 'premium' laptop warranty support coverage, it is a bargain for any business user who depends upon DELL for support. A single hour of lost productivity during the five year period will repay the cost, not to mention the frustration, of long waits on 'HOLD', being transferred to multiple service representatives with increasing levels of technical proficiency and desperately attempting to communicate with someone for whom English is a second language.

Innovation has nothing to do with how many R&D dollars you have. When Apple came up with the Mac, IBM was spending at least 100 times more on R&D. It's not about money. It's about the people you have, how you're led, and how much you get it. — Steve Jobs

What prevents Innovation? In a word, 'Culture'. An organizational culture that values Innovation fosters the trust necessary to encourage individuals and teams to embrace a positive attitude toward risk taking, essential for creative innovation to flourish. The two factors that I find most common in organizations where Innovation is thwarted are a lack of trust and the mistaken belief that successful innovation is an option only for those organizations with large R&D budgets. Many of the most successful innovations cost little or nothing, but instead save substantial sums of money and result in increased profits by solving business problems.

Whether applied to internal processes or systems improvements, new products and services or the launching of entirely new ventures, Innovation results in growth and if properly managed, is highly profitable. If an organization lacks a consistent history of Innovations that add to the bottom line, by meeting either real internal or marketplace needs, then it is time to examine the culture and determine how it can be changed to encourage an Innovation hotbed at every level, rather than the prevailing doom and gloom atmosphere so prevalent in organizations given the present economic climate.

DARE TO INNOVATE — Innovating now can leave you nicely situated for a turnaround. — BusinessWeek

Someday, the present economic crisis will pass and Innovation is key to positioning your organization to quickly advance as the economy heats up. Many organizations will not survive and even of those that do; a large percentage will emerge from the recession severely weakened. Leaders that embrace Innovation now, will find themselves prepared to capitalize on the new opportunities that a reviving economy will offer. With reduced competition, they will enjoy more rapid growth opportunities than have been seen since the economic boom brought about by WWII.

INNOVATION is the ability to view and seize upon sudden 'Change' as an opportunity, not a threat.

Google CEO, Eric Schmidt, says: “*We don't have a traditional strategy process, planning process like you'd find in traditional technical companies. It allows Google to innovate very, very quickly, which I think is a real strength of the company.*” *Innovation requires leaving one's comfort zone and asking 'Why?' constantly. We become so accustomed to doing things in certain ways that we cease questioning why. We need to become like small children again who are always asking 'why'? Why can't we find a better way? Why do our customers buy from us versus our competitors or vice versa? Why don't we create a new way of doing the ordinary? Why? Why? Why?*

It was James Russel Lowell who said: "The foolish and the dead alone never change their opinions." In the coming economic ordeal, there will be many 'foolish' organizations that will end up 'dead'. A recent business headline read: “FEWER LIFELINES FOR THE BANKRUPT — With lenders reluctant to help, more insolvent companies will be forced to shut down. Change is not the threat, failure to respond proactively is!

Innovation...is the act that endows resources with a new capacity to create wealth... Business has only two functions -- Marketing and Innovation. — Peter F. Drucker, American Management Consultant & Author

To begin creating a culture where Innovation will flourish:

- Be **BOLD** in imagining the possibilities
- Be **FLEXIBLE** in encouraging and allowing people to ‘*think outside the box*’
- Reward those who seize the **INNOVATION** opportunity
- Make Innovation at all organizational levels an **IMPERATIVE**

In doing so, you will create a ***Bold, Flexible, Innovation Imperative*** to counteract the recession.

He that will not apply new remedies must expect new evils; for time is the greatest innovator. — Bacon Essays; Of Innovation

The time is now for a bold commitment to embracing Innovation as the best organizational remedy for whatever the economy may hold in store during the next few years. Executives need to embrace this message boldly, providing a source of hope to their employees. Winston Churchill made famous the words; “We have nothing to fear, but fear itself.” Those words hold just as true today as they did in those dark days of the London blitz. However, just as then, bold action is required to provide leadership and most of all, *HOPE*. A commitment to Innovation will go a long way toward accomplishing both.

Strategic Innovation Consulting (www.StrategicInnovation.Consulting) provides Open Innovation and Strategy consulting services to a wide range of corporate, Fortune 100's to startups, not-for-profit and government organizations globally. John Di Frances is Managing Partner.