

EUROPEAN CORPORATE LEARNING FORUM



Instigating Innovation Through Corporate Learning Interventions

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INNOVATION AND CORPORATE LEARNING

By Roland Deiser
Executive Chairman, ECLF

Full video coverage of this conversation is available on the DVD which is attached at the back cover of this documentation

The topic of the 2007 ECLF conference is "Instigating Innovation Through Corporate Learning Interventions". It is a topic that lies at the core of some of the most important challenges for today's organizations. And it is a topic very closely related to learning, although most organizations may still underutilize the potential contribution of the Learning Function.

When we talk about innovation, it may be worthwhile to revisit the concept of ambidexterity. In a nutshell, mastering ambidexterity means to win the present *and* shape the future at the same time. It is already quite a challenge to create a high performing organization that is successful in existing environments. To do so, organizations have to build on their current strengths. They have to nurture existing capabilities, their current markets, and excel with current products and services. Business strategy is informed by current key success factors, by a thorough assessment of how the company compares against the current competition, how it positions itself in existing segments, and how well its current assets are utilized. Today's performance is driven by a company's sound strategic position and its effective organizational design - the prerequisites for competing successfully in existing environments.

At the same time, organizations are ill advised if they focus only on high performance in the present. We all witness a declining shelf-life of business models. Disruptive technologies have the power to wipe out entire industry paradigms (think communication industries, think Biotechnology, think Nanotechnology etc.). If companies do not want to become just a passive victim of circumstances, they have to develop the capability to shape the future by their own force. They have to continuously reinvent themselves, and by doing so also reinvent the industry space they occupy. The next start-up with a different business paradigm may be just around the corner and strike unexpectedly. And this means usually bad news for the incumbents.

Recent corporate history is full of examples of business model paradigm shifts. Think of Google taking on Microsoft (and all the Telecoms, and more). Or think how CNN redefined news coverage, leaving the traditional networks in the dust. Think how Southwest Airlines' low cost carrier model has shaken up the airline industry, and how the "legacy carriers" are still wrestling with the new rules of the game. Charles Schwab redefined the entire brokerage industry with its hybrid discount business model, online banking giant ING Group shakes up traditional retail banking - the list could go on and on.

Novel ways of doing business, often driven by disruptive technologies are coming their way - if we want it or not. The only question is: Is your company the one that creates the future, or is your company the one that stays behind and will ultimately go into oblivion?

The question is how to stay sharp and competitive today and, at the same time, lead an industry into its future by learning and changing faster and smarter than the competition. We see: Learning plays a major, major role in this game, even if most Learning departments have not yet defined their mission accordingly. It is the

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Learning and Development function that shapes current and future leaders through leadership development programs. It is the L&D function that plays a major role in building dynamic capability portfolios. And it is the Learning Function that has the task to design an organizational architecture for learning and change, linking people, strategy and organization.

The agenda for corporate and executive learning today is to create and nurture a strategic learning architecture that enables a company to win in the present *and* the future. With other words: The task is to create a learning framework for managing ambidexterity, an organizational design that helps manage innovation in a creative and effective way.

WHAT IS INNOVATION ANYWAY?

Based on the above, it comes as no surprise that the talk about innovation is ubiquitous these days. During the innovation fad between 2003 and 2006, the capital expenditure on innovation initiatives moved steadily up. According to an article in Business Week from June 15, 2007, however, the amount of money allocated to innovation is now decreasing again, and the hype seems to become more rational. In a recent CEO survey only 26% indicated innovation to be important for them – as opposed to 38% in a previous similar survey.

But do we even speak about the same thing when we talk about innovation? The term covers an incredibly wide spectrum. We call it innovation when a shampoo bottle gets a different screw top, or when a bank creates a new structured financial product, reshuffling and repackaging existing financial instruments. On the other side of the spectrum are the true breakthrough innovations that create new markets, or that even enable new industry spaces. Gutenberg's invention of the printing press created literacy and thus the basis for modern society. The invention of the steam engine allowed mass production, enabling industrialization. Most recently the Internet is shaking up everything we knew about communication, and so on.

So there are innovations that resemble major earthquakes, disrupting societies and creating a new world, and there are innovations that are not more than tweaking an existing product, merely adding a little twist. As the term is so very broadly used, we need to create a mutual basic understanding of what we mean when we talk about innovation in the context of corporate activity.

Novel ways of doing business are coming their way - if we want it or not. The only question is: Which companies will create the future and which will stay behind and ultimately go into oblivion?



Incremental and radical innovations are equally important. They mirror the two different elements of ambidexterity: present and future.

The following matrix may help to structure this wide spectrum. It uses the well-known difference between incremental and radical innovation and links it with different levels of innovation, namely innovation on the level of products/services, organizational processes, and strategic business models.

	Product	Process	Business Model
Incremental	Next Generation Products Adding Value to existing Services	Continuous Improvement Six Sigma Next Generation IT System	Strategic moves to outperform competition within current paradigm
Radical	Combustion Engine Television Internet	Assembly Line Modular Production Outsourcing	Xerox Click charge Low cost Airlines VoD

Incremental innovation can be defined broadly as improving existing products or practices within an existing logic or paradigm (i.e. "making things better"). Radical innovation, on the other hand, can be defined broadly as transcending the existing logic or paradigm (i.e. "making things different").

High definition DVD or TV is a good example for incremental product innovation in consumer electronics, while PVRs (Personal Video Recorders that record TV programs and allow people to skip commercials and create their own programming) are clearly of the radical variety, disrupting the established business model of Television advertising, and the power of content providers to structure the time of viewers.

The improvement of an IT system through a new release of an existing solution is a classic example for incremental process innovation, whereas Ford's assembly line, for example, was a radical process innovation that revolutionized the entire world of manufacturing.

Incremental business model innovations are the introduction of a new pricing strategy, aimed at outperforming the competition within the current paradigm. Radical business model innovations are characterized by changing the paradigm and entering new spaces, as was done with Xerox' Click Charge, for instance, which created an entirely new model of managing cash flow from investment goods. The same is true for Peer to Peer file sharing which is totally disrupting traditional media consumption and may well be a death knell to the industry.

The matrix does not suggest any judgment as to which dimension is the most important one. Incremental and radical innovations are equally important. They obviously belong to the two different elements of ambidexterity: In order to excel in the present it is crucial to improve existing products, processes and business models, while radical innovations are opening up paths into the future, setting out to shake the world to its core.

THE DISEASE OF THE LEADER

In his groundbreaking book “The Innovators Dilemma”, Clayton Christenson provides a convincing analysis of a fundamental paradox. In a nutshell, his argument goes as follows: The better an organization becomes in what it does, and the more its practices are not only rooted in resources, but also in processes and supporting values, the harder it will be able to innovate. In other words: The better your organization is equipped for mastering today’s agenda, the less it is equipped to change.

A closer look at the success factors for organizational performance sheds more light on this argument. A new entrant usually starts with an idea, organizes resources (such as capital and people), and satisfies a market demand that was previously underserved. If successful, the organization grows and becomes more complex. To deal with complexity and to assure efficiency, processes are introduced. These processes - if done well – turn into a competitive advantage as they establish structures and mechanisms that build capabilities into the *organization*, making the company more independent from specific people. To anchor its success even more, companies develop over time deeply embedded values that become an even more solid competitive advantage as they sustain the capabilities beyond mere processes.

Unfortunately, there is a negative correlation between the ease of change and the sustainability of each of these capabilities: While resources are relatively easy to acquire and to change, they are not a very sustaining advantage. Everybody has access to resources, people can leave. Processes are already more solid, but it takes time to build them. They are not that easy to imitate, so they can become true differentiators. Being solidly embedded in organizations, processes tend to take on their own life, although they can be changed through considerable effort. Values, eventually, take the longest time to develop. They are a very deeply anchored capability, virtually impossible to emulate by the competition, but it is extremely difficult to modify them once they are established.

This leads to the innovators dilemma: How can innovation happen when the company’s success is built on and dependent on deeply anchored processes and values that are the harder to change the better they are?

This dilemma is also known as the “Disease of the Leader”: Industry leadership is very often the beginning of the end. As inventors of whole industry spaces, industry leaders usually carry the dominant “DNA of the industry”. They have a particularly hard time of letting go of the paradigm that made them successful, leaving the door wide open for wild entrants who don’t care about tradition and established rules.

So it is the capabilities that sustain the current business model that unfortunately get in the way of innovation. While these capabilities are great for incremental innovation within the rationale of the existing business model, they are a barrier for radical innovation, innovation that is necessary for coping with disruptive forces.

MASTERING AMBIDEXTERITY

There are, however, ways to deal with this paradox. We need to go beyond the either-or perspective which leaves us clueless and paralyzed. The challenge is to develop the meta-capability to master ambidexterity, i.e. to play with incompatible capability patterns.

As this sounds quite abstract, here are a few practical examples:

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Spin Outs

In order to create free spaces for new endeavors ("air to breathe", if you will), it is a good idea to spin out any capabilities that used to be a corporation's core assets but may no longer be this important in the future. This can for example be achieved by outsourcing. A careful assessment of the strategic importance of the capability at stake is obviously the key.

Acquisitions and Corporate Venturing

Buying other companies has a rejuvenating effect on an organization. The higher degree of diversity (which is a typical result of M&A activities) gets the discourse going – something that allows for innovation but is unfortunately often suppressed. Great Post Merger Management efforts are an abundant source for rejuvenation. To capitalize on it, it is imperative not to overpower the acquired firms' culture and capabilities, so the potential that comes from diversity is not killed. The same is true for Corporate Venturing, which – managed well – has the potential to be an excellent source of innovation and "fresh air". It is sad to see how most companies underutilize these opportunities through lack of systems and mechanisms. And it is equally sad that there is currently practically no established connection between the world of Corporate Venturing and Corporate Learning.

Creating independent spaces of "heavy teams" within the existing corporation

Heavy teams consist of people with "weight", influence and reputation from different functions or divisions, who have naturally distinguished and diverse perspectives on the organization. These teams need independent, protected spaces outside their traditional roles, without the overall operational pressure. These "heavy teams" get the assignment to think about radical innovation, especially when it comes to processes and business models. Their "weight" assures that they are heard, and that their ideas have a chance to get implemented. To make them successful, it is important to keep them away from their traditional roles for some time.

While there is also considerable innovative energy in "lightweight" employees such as secretaries or assembly line workers, heavy teams are needed for changing business models that shape the very existence of a corporation.

While people forming the backbone of the existing business model run a risk of being too deeply embedded in the established system, complete outsiders, on the other hand, might destroy the model for today's success in business. It is crucial for the Heavy Teams to include people who are able to bridge this chasm, and to instill enough diversity in the group so it is enabled to transcend existing paradigms. Facilitators, consultants, partners or customers could be included in the process for this purpose.

Create S.W.A.T. teams with the mission to "Destroy your own business" (GE)

One of Jack Welch's genius ways to deal with the dot com threat was the introduction of SWAT teams that got the assignment to "destroy their own business.com". For this purpose, the smartest people were put into teams that put the existing business models to the hardest test imaginable. The idea behind the approach is that either the new idea is strong enough to destroy the old model – then the good news is that the new model comes from within, and the transition is manageable. Or the idea is too weak - then the current model will be revitalized and stronger by having fought the threat successfully.

Surprises usually come from outside – so deal with the outside

Businesses need to deal with the outside, where the competition and the market are, because they are usually destroyed from the outside rather than from within. Traditional R&D is often too strongly focused on the inside and very product driven without paying attention to the market for the respective products. Great ideas from

the lab will not succeed without an understanding of the business rationale. While this traditional kind of R&D is great for incremental innovation, all innovation without an underlying business case is useless. So innovation needs to be linked to business modeling.

One of the biggest weaknesses of large corporations is inward orientation. While there is a need to protect intellectual property, it is open environments and collaborative practices (such as Linux or Wikis) that are changing the world today. Customer communities play an increasing role in product innovation and process innovation, and companies who can best tap into this resource and create loyal partnership architectures will have an advantage in managing innovation.

Orchestrating that type of enlarged clusters and utilizing them for innovation is the most promising approach for juggling the contradictions of ambidexterity, as a company's business environment is not as tied up in inherent processes and values that may inhibit innovation. Also, co-development creates ownership and commitment. It leads to market orientation by forcing you to listen. Furthermore, it requires a collaborative attitude which permeates the sometimes too strong boundaries companies draw between themselves and the world.

REMARKS ON THE SOCIAL ORIGIN OF BREAKTHROUGH IDEAS

Recent Sociological Research on network theory and the social origin of innovation provides convincing evidence that change and innovation is driven primarily by the fringes and the boundary of systems, not by the dominant core.

Strong and closely knit teams may have high value in certain contexts. But the stronger a team holds together, the stronger and more rigid their normative patterns are. The stronger a leader represents the team's values, the more the group tends to close and have strong boundaries. New people who want to enter the group face enormous normative pressure to adhere to the prevailing social norms. They are rejected if they don't comply. Also, groups with strong identities are more self-sufficient. They tend to have weaker relationships to other groups and therefore get less confronted with different ideas, get less irritation. Unified teams are not a fertile ground for innovation and change.

Diverse groups, on the other hand, often lack cohesion and team spirit. They provide less identity and security and tend to have less influence in the organization. They may have innovative ideas, but a hard time to make them heard.

In light of these social network dynamics we need to focus on people who have multiple group membership, have "weak ties to many", and who can act as brokers bridging the "white spaces" between tightly knit groups. Such people are typically influential facilitators who have their ears on many different elements of the corporation and know what's going on.

Chief Learning Officers are ideally suited to fit the profile of knowledge brokers. They are the ones who host programs where representatives from different organizational functions meet. If their function also encompasses Leadership Development (as it often does), they have a unique knowledge about who is who and who has what kind of perspective on issues. They see the diversity of the corporation in their day-to-day work and know about the distribution of knowledge and abilities throughout the company.



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THE ROLE OF LEARNING AND DEVELOPMENT

This leads us to the role of the Learning Function in driving or enabling innovation. This role is much larger than usually perceived. It is only a question of putting on the right lens:

For one, Learning Executives are ideally positioned to foster cross-boundary processes by designing systematic encounters where different functions meet. They usually know best who is who in the organization, and who can contribute what for a certain purpose. This makes L&D executives powerful knowledge brokers and allows them to compile heavy teams that can think out of the box.

There is also a powerful – yet rarely utilized – role for the learning function in shaping relations to the external world. This includes designing structures and mechanisms for transorganizational learning (with customers and other stakeholders), or creating “learning conditions” in the context of M&A and Corporate Venturing. An important fuel for innovation lies in the collaboration between the strategy-driven M&A department and the learning function.

The home turf of the learning function is of course people development: Fostering entrepreneurship, developing leadership competencies for managing creative talent, risk taking etc. are promising ways of furthering innovation.

Finally, becoming an organizational architect opens up a whole new space for CLO role definition that goes way beyond training and development. In this respect, Corporate Learning can become a critical function to enable a corporate culture that is capable of managing ambidexterity.

In a nutshell, there is high potential in the DNA of the Learning and Development function to provide key contributions in the field of innovation and change. A potential, however, that is widely underutilized today.

DISCUSSION

The discussion added complexity to the breadth of the term “innovation” when the question was posed: *Is learning the same as innovation?*

The concepts of learning and innovation are most certainly at least closely intertwined: Incremental innovation improves the way things are done, as does learning, and radical innovation entails the need to learn new patterns.

While the creation of a new product always has an incredible learning implication, it is not necessarily learning in itself. Innovation could be regarded as a product of learning. Learning creates new knowledge (thus happening in people’s minds) and innovation is the application of new knowledge through bringing new things into this world.

There is also a kind of contradiction between learning and innovation: In order to be innovative, you have to be able to forget (or “un-learn”) what you have learned before. Business models or behavioral patterns that proved successful for certain contexts can well inhibit one’s ability for innovation in this area.

Also, there is not only the conscious process of innovation but also innovation by chance which has less to do with learning at that very moment, although it might afterwards.