

# 1 Introduction

## 1.1 Innovation and the Human-Centred Enterprise

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Businesses and business schools still treat innovation as an exceptional feature of business life and as an elective in the majority of MBA programmes.

Over recent years *innovation* and *internal organic growth* have climbed to the top of the corporate agenda. Recent studies on the importance of innovation, as well as anecdotal evidence, now suggest that today's global business environment is in some respects a 'post-execution' environment. For the past several years management gurus have extolled the virtues of execution as if *what* needs to be executed is no longer in question. This assumes that corporate strategy is clear and fixed and that employees have little to do but turn up and follow orders. While execution is and always will be important for firms, it is no longer enough on its own.

New ideas, from both employees and customers, often redirect corporate strategy in productive ways. Companies such as Toyota, BMW and Southwest Airlines regularly incorporate fresh ideas from employees and customers and in doing so their strategic goals gradually change over time. That is, in these companies employees do not simply 'execute' mindlessly. They are empowered to make real decisions in real time that matter to the future of the company. In this respect, they are working in 'post-execution' workplaces. On the one hand, employee creativity and innovation are talked about as being important strategic activities and goals. On the other hand, businesses and business schools still treat innovation as an exceptional feature of business life and as an elective in the majority of MBA programmes throughout the world. In firms that actually solicit and incorporate employee insight into work processes, 'execution' is a fluid and evolving concept and not a simple set of marching orders.

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Take for example the October 2006 issue of *Harvard Business Review*, in which David Garvin and Lynne Levesque further extend this view of ‘innovation as an exception’. The article concerns the challenges of ‘corporate entrepreneurship’ and in it they argue that ‘new businesses require innovation, innovation requires fresh ideas, and fresh ideas require mavericks... But most mavericks, sadly, can’t tell the difference between good and bad ideas’. Then, as if to validate this myopic view of human creativity, they quote former Home Depot CEO (and current Chrysler CEO), Robert Nardelli, when he says: ‘[T]here’s only a fine line between entrepreneurship and insubordination’.

The gap between the rhetoric surrounding the importance of innovation and tangible commitments to innovation as an integral part of business strategy can sometimes be enormous.

If innovation is increasingly important to business leaders, as they say it is, while at the same time it is seen as an activity engaged in by mavericks and insubordinates, then what type of serious commitment and investment are companies likely to give to an innovation agenda? The answer, sadly, is not very much. The gap between the rhetoric surrounding the importance of innovation and tangible commitments to innovation as an integral part of business strategy can sometimes be enormous.

## 1.2 A Thousand Flowers Innovating

This book is about that gap. I am interested in an alternative perspective, one that sits opposite the dominant ‘innovation as insubordination’ view of the world. This perspective, embraced in different ways by the seven firms considered here - Southwest Airlines, Google, Whole Foods, SAS Institute, Starbucks, Innocent Drinks and Shanghai Tang - views innovation as an everyday organizing principle of work itself. This applies to work within a company, as well as to the process by which new products, services and experiences are delivered to customers. In this book I adopt a broad definition of

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Getting new ideas into practice is one of the most difficult challenges facing would-be innovators.

innovation, one borrowed from IDEO's Tom Kelley. Kelley defines innovation simply as 'people generating value through the implementation of new ideas'. This sounds simple, but getting new ideas into practice is, as those who have tried can attest, one of the most difficult challenges facing would-be innovators.

Consider Germany's BMW, which expects employees at all levels of the company to generate new ideas to push the company further into an innovative future. Some of their most innovative features and design concepts are derived from line-level engineers who are encouraged to insert their own ideas into the design and manufacturing process at the company. They are not viewed as mavericks or as insubordinates; they are simply employees. At BMW innovation is everyone's business and the traditional view that innovative strategy is generated at the board level and employees are there simply to execute is challenged on a daily basis. Yet, as its financial results and global cultural equity among consumers indicate, BMW is successful in what it does. It is, like the firms I shall discuss in more detail, 'subversive' as well as successful. Similarly, at Toyota, the notion of *many flowers blooming* is taken even further. Each year hundreds of thousands of employee ideas for process improvement are incorporated into the company's day-to-day work. Toyota too has the financial heft to prove that this translates into success. As I elaborate throughout the book, it will become clear that these organizations are successful precisely because they dare to be different and have the courage to innovate.

Not all firms, of course, can be as creative and innovative as these high flyers. However, an increasing number of traditional 'old-school' firms - Procter & Gamble (P&G), General Electric (GE), Kimberly Clarke, Unilever, Pitney Bowes, Office Max, Whirlpool and HP - have begun to embrace some of the emerging *disciplines of innovation*, such as *design* and *design thinking*, *architecture* and

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Ethnography, architecture and design together form the emerging disciplines of innovation that are being integrated into the organizational DNA of a new breed of innovative firms.

*ethnography*. Ethnography, architecture and design together form the emerging *disciplines of innovation* that are being integrated into the organizational DNA of a new breed of innovative firms; firms both old and new. While the case studies I present here are intended as examples and exemplars of financially successful firms that were founded in an ethos and culture of innovation, each company accomplishes this in a different way. Innovation discipline in some instances is largely implicit. Some of these firms are so grounded in innovation that they no longer have to talk about it; they ‘just do it’. Other firms, in fact most of the companies in the world, have to work hard at this. Hopefully, this book can prove useful for those companies contemplating the journey to innovation. More specifically, I am interested in advancing the notion of human-centred innovation, as it is increasingly referred to by design firms engaged in helping firms increase innovative capacity. What, though, do human-centred innovation and human-centred design mean?

### 1.3 The Human-Centred Enterprise

The award-winning design and innovation consultancy, IDEO, refers to its work as ‘human-centred’ design and innovation. This is the spirit I try to capture here. The human-centred enterprise (HCE) as a management concept is drawn from the vocabulary of user-centred design, as it manifests itself in the work of architects, computer programmers, industrial designers, urban designers and ‘consumer-experience’ designers. This book is presented with attitude: it is loudly and equally focused on the principles of humanistic management and consumer-focused innovation. Of course, others, such as Roger Martin, Bruce Nussbaum, Tom Kelley, Herbert Simon, Daniel Pink, Jeffrey Pfeffer, Tim Brown, Fred Collopy, Richard Boland and above all, Peter Drucker, have written about many of these ideas for years, but I

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believe this book brings together their ideas in a way that can reshape our approach to innovation.

If the *Cluetrain Manifesto* was intended to start a conversation, then this book hopes to extend that conversation. Here I synthesize and chronicle what I see as a cultural shift occurring in the way that some businesses are thinking and working. Keywords and key phrases in an emergent, innovation-oriented management agenda are: differentiation; consumer experience and experience design; employee experience and experience design; ethnography; prototyping; iterative and abductive work; experimentation and sustainable business practice.

A central idealism defines the '*Fast Company* generation' that I write about here. In his Foreword [sic] to the recently published, edited volume of *Fast Company* articles, Jim Collins (co-author of *Built to Last* and *Good to Great*) sums up these values and goals succinctly in the following observations and subsequent 'five basic premises':

The point - that we should think about life, work, and the connection between the two - needs to be resuscitated. Sifting through the best articles from *Fast Company*'s first ten years, I see an underlying order to the chaos, captured in five basic premises that - while the bubble has come and gone - remain relevant:

*Premise No. 1: Work is not a means to an end; it is an end in itself.* If you create work you are deeply passionate about - because you love to do it and you believe in what it can contribute - the very act of work can become a source of sanctuary and meaning.

*Premise No. 2: If your competitive scorecard is money, you will always lose.* There are two ways to be wealthy. One is to have a

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huge amount of money. The other is to have simple needs. What is your answer to ‘How much is enough?’ As Professor Michael Ray of Stanford taught: comparison is the primary sin of modern life.

*Premise No. 3: Business is a mechanism for social change - for good and ill.* If you build a great enterprise, it will have an impact - on its people, on its customers, on the communities it touches. The question is: will that impact be positive? How will the world be better off, beyond wealth creation?

*Premise No. 4: Entrepreneurship is a life concept, not a business concept.* There are two approaches to life. One is to buy the ‘paint-by-numbers kit’ and stay within the lines. The other is to start with a blank canvas and try to paint a masterpiece. You can be an entrepreneur without starting a company, by creating a path uniquely designed by you.

*Premise No. 5: Performance is the fundamental requirement.* Good intentions mean nothing without great performance. Businesses must deliver results. Nonprofits must deliver on mission. People must deliver on responsibilities.

In a nutshell, Jim Collins is introducing us to some of the core values and commitments of what I describe as a New Pragmatism that is evolving within the business community in countries such as the UK and the US. When Al Gore announced in the summer of 2007 that he would not make another run for the US Presidency, he stated in *Fast Company* magazine that much of

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Much of the progressive agenda in the West - green and clean technology, sustainable enterprises, socially responsible investment funds - is actually being led by business and not government.

the progressive agenda in the West - green and clean technology, sustainable enterprises, socially responsible investment funds - is actually being led by business and not government. That is, the social idealism that originated in the 1960s and 1970s is alive today in the business community more so than it is in many governments throughout the world. Among participants in this business-cultural movement, if one can call it that, the goals of profit and social good are not seen as incompatible. In some respects this *is* reflected in politics, in notions such as the Third Way in British politics and in President Clinton's business-friendly management of the Democratic Party in the US.

## 1.4 Drucker's Maxim

Peter Drucker has been enormously influential in the world of management, challenging two generations of managers to ask such basic questions as: 'what business am I in?'; 'who is my real customer?' and 'if I was not in this business already, would I go into it today?'. He is famous for saying that he never gave advice so much as he asked good questions. Nevertheless, he did give advice, often in grand claims and proclamations. One of his core insights, which I believe is as fundamental and true today as it was in the early 1970s when he first wrote about it, concerns where and how 'value' is created in firms and where it is lost. He made some of his most important and timeless statements in his 1973 textbook, *Management: Tasks, Responsibilities, Practices*.

'The purpose of a business is to create a customer'.

The first of these statements is that 'the purpose of a business is to create a customer'. Drucker suggested that: 'Because its purpose is to create a customer, the business enterprise has two - and only these two - basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs'. Continuing, he says

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For Drucker, innovation was not for mavericks and insubordinates, it was the purpose of business itself.

it is necessary that ‘business starts out with the needs, the realities, the values of the customer... business [must] define its goal as the satisfaction of customer needs... business [must] base its reward on its contribution to the customer’. Give or take a few different words here or there, these sentences could easily have been written by one of today’s design enthusiasts discussing the importance of customer experience in the ‘experience economy’. Distilled, Drucker offers a simple formula here, where he suggests that Results are derived from Marketing and Innovation and that all else represents costs:  $I + M = R$ . I prefer to present the formula as  $I + M = V$  (Value). This is, as I suggest throughout the book, the *modus operandi* of today’s design and innovation consultancies, as well as of design- and innovation-focused large firms. Drucker was years ahead of his time and the bulk of the argument I am making here, and that others like Bruce Nussbaum at *Business Week* and Roger Martin at the Rotman School of Management are making today, draw closely on Drucker’s thinking. For Drucker, innovation was not for mavericks and insubordinates, but rather it was the purpose of business itself. Firms like those profiled in this book make this a reality every day. And a goal of this book is to try to reclaim the simple Drucker maxim that *the purpose of a business is to innovate for customer experience* (and not to play the quarterly earnings game on behalf of institutional investors, to get inflated media coverage or to inflate short-term share prices for the sake of executive compensation or anything else). Simple stuff, but nevertheless true.

## 1.5 From ‘Managing the Known’ to ‘Building the Unknown’

How, though, do you get to innovation? How do you break out of the frameworks of thinking and practice that prevent mainstream managers from understanding and

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appreciating this simple Drucker maxim? For generations, management thinking and management education have rested on the intellectual framework and assumptions of three core disciplines: Mathematics (plus engineering), Economics and Psychology. Money and markets have been explained respectively by mathematics and economics, while human behaviour in business has been explained by psychology. These disciplines have served business well and have helped create the foundation of contemporary management practice.

The hub of the wheel that connects design, architecture and anthropology is *innovation*.

This book outlines a new management paradigm, one wherein the disciplinary assumptions shift from the purely analytical and calculative disciplines of mathematics, economics and psychology, to the action-oriented, experienced-based disciplines of Design, Architecture and Anthropology. The hub of the wheel that connects design, architecture and anthropology is *innovation*. Anthropology (and ethnography) is the source of ever-deeper insights into the natural, sometimes unarticulated, desires and aspirations of consumers and employees. Architecture is a way of thinking that must relate constraints to the building of new things. Design is both a way of thinking about the world and a methodology for building new things. It transforms consumer insights into new products, experiences, business models and work processes.

A view of the Mathematics/Economics/Psychology paradigm contrasted with the Architecture/Design/Anthropology paradigm looks like this:

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M/E/P MODEL	A/D/A MODEL
'Managing the Known'	'Building the Unknown'
through:	through:
* Mathematics	* Architecture
* Economics	* Design
* Psychology	* Anthropology
for:	for:
* Replication & Scale	* Emergence/differentiation
learned in:	learned in:
* MBA programs	* MBD programs

This book outlines a shift from a traditional approach, ‘managing the known’, to a design and innovation approach, ‘building the unknown’.

The emphasis in the A/D/A model falls more on building and doing and less on analytical abstractions such as planning, strategy and policy formation. The shift is from a traditional approach, ‘managing the known’, to a design and innovation approach, ‘building the unknown’. As Herbert Simon argued in the 1960s, it is only our hubris that leads us to assume we have full and perfect information before we implement grand strategies. In practice, our rationality (and information) is bounded and we learn most effectively by doing, taking stock, iterating (doing again), taking stock, iterating and so forth. IDEO Chief Executive Tim Brown has referred to the fundamentals of the ‘design as strategy’ approach as a process of *building to think*, which seems to me to capture brilliantly the spirit of the design-driven approach to innovation.

## 1.6 The ‘Design Revolution’

The shift from M/E/P to A/D/A does not just happen through words. It requires a certain worldview, a method and a methodology. This is where design thinking, as a way of viewing the world and a way of solving problems, is important. Roger Martin, Dean of the Rotman School of Management at the University of Toronto, has articulated

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more clearly than perhaps any other mainstream business voice the case for what he calls a ‘design revolution’ to take place in the world of business. Co-founder and former director of Monitor Group Consulting, Martin is not a career academic. When he left Monitor to return to his native Canada to lead the Rotman School, Martin was on a mission. He took a massive pay cut in making the transition into academia and since then Rotman has climbed to the top echelon in most global business school rankings. This has been due in large part to the way that Rotman has restructured its core offerings around the principles of design, innovation and integrative and interdisciplinary thinking. It has initiated collaborative curricula with the Ontario College of Art and Design, with whom it is building a new generation of management education, blending business with art and design. Commenting on Martin’s work at Rotman, Peter Drucker once stated that: ‘what the Rotman School is doing may be the most important thing happening in management education today’. What is this new thing? How does it impact upon management education, management practice and, most importantly, the practice of innovation?

Martin has written prolifically about what he sees as the design ‘imperative’ or ‘design revolution’ that is re-defining global competitive strategy today. He talks about this in terms of a paradigm shift or movement from a traditionalist view of the centralized firm to a design-focused, decentralized view of the firm:

‘Value creation in the 20th century was about taking a fundamental understanding of a ‘mystery’ - a heuristic - and driving it to a formula, an algorithm - so that it could be driven to huge scale and scope.’

As we leave behind one economic age and enter another, many of our philosophical assumptions about what constituted competitive success grew out of a different world. Value creation in the 20th century was largely defined by the conversion of *heuristics* to *algorithms*. It was about taking a fundamental understanding of a ‘mystery’ - a heuristic - and driving it to

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a formula, an algorithm - so that it could be driven to huge scale and scope. As a result, many 20th century organizations succeeded by instituting fairly linear improvements, such as re-engineering, supply chain management, enhanced customer responsiveness, and cost controls. These ideas were consistent with the traditional Taylorist view of the company as a centrally-driven entity that creates wealth by getting better and better at doing the same thing.

McDonalds, Dell, EDS and Wal-Mart have all standardized to global scale via finely tuned algorithms of replication and sameness.

Examples of firms that have succeeded in a traditional way, according to Martin, are McDonalds, Dell, EDS and Wal-Mart, all of which have standardized to global scale via finely tuned algorithms of replication and sameness.

The Taylorist view of the firm cannot explain, though, the success of firms such as Apple, Google, BMW, Whole Foods, Starbucks, *Fast Company* magazine, the new P&G or Microsoft. These firms thrive on a combination of research, innovation, creativity and being systematic. They are better than the competition at generating new things and experiences for customers. Martin frames it in the following way, suggesting that:

Competition is no longer in global scale intensive industries; rather, it's in non-traditional, imagination-intensive industries. Today's businesses are sensing an increased demand for speed in product development, design cycles, inventory turns, and competitive response, and there are major implications for the individuals within those organizations. I would argue that in the 21st century, value creation will be defined more by the conversion of *mysteries* to *heuristics* - and that as a result, we are on the cusp of a design revolution in business.

Underlying the shift towards design thinking is a generational and cultural shift wherein employees in their 30s and 40s now expect and demand working arrangements, styles and content that are more in line with Martin's thinking than they are with those of the traditionalist firm. Also, in light of the fact that millions of baby boomer senior corporate managers are set to retire in the next five years, the managerial implications of this shift become very real. This demographic reality poses significant and long-term challenges for the overall management of human resources in the global economy. In turn, the expectations of the new generation of managers will demand that companies become more innovative and will affect changes at an organizational level, from who is recruited to how people are managed. Martin presents the move from 'traditional' to 'design' in the following schematic:

FEATURE	FROM 'TRADITIONAL FIRM'	TO 'DESIGN SHOP'
Flow of Work Life	* Ongoing tasks * Permanent assignments	* Projects * Defined terms
Source of Status	* Managing big budgets and large staffs	* Solving 'wicked problems'
Style of Work	* Defined roles * Wait until it is 'right'	* Collaborative * Iterative
Mode of Thinking	* Deductive * Inductive	* Deductive * Inductive * 'Abductive'
Dominant Attitude	* We can only do what we have budget to do * Constraints are the enemy	* Nothing can't be done * Constraints increase the challenge and excitement

To attract and retain the types of Generation X and Generation Y employees who will drive tomorrow's innovative companies, a whole menu of new organizational commitments will become increasingly important.

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innovative companies (that is, those people who combine right-brain and left-brain skills and values), a whole menu of new organizational commitments will become increasingly important.

Bridging left-brain and right-brain, the *doing* with the *empathy*, is what IDEO's Tim Brown refers to when he discusses the importance of 'T-Shaped' people to IDEO's success:

Regardless of whether your goal is to innovate around a product, service, or business opportunity, you get good insights by having an observant and empathetic view of the world. You can't just stand in your own shoes; you've got to be able to stand in the shoes of others. Empathy allows you to have original insights about the world. It also enables you to build better teams.

Brown continues, suggesting that the T-Shaped employee (or leader) is also a technically competent 'doer':

We call them T-Shaped people. They have a principal skill that describes the vertical leg of the T - they're mechanical engineers or industrial designers. But they are so empathetic that they can branch out into other skills, such as anthropology, and do them as well. They are able to explore insights from many different perspectives and recognize patterns of behaviour that point to a universal human need.

T-Shaped people are able to explore insights from many different perspectives and recognize patterns of behaviour that point to a universal human need.

In some respects this book is concerned with enumerating those T-Shaped values, practices and *commitments* to employees and customers and to the way work is defined and managed. I see eight key commitments that re-state Martin's basic thesis:

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1. Commitment to placing *customer experience* and *experience architecture* at the centre of the firm's work.
2. Commitment to *abductive thinking* and *innovation* where employees are encouraged to generate innovation opportunities for customers.
3. Commitment to *hands-off management*, defined by *interdisciplinary* team and *project* work.
4. Commitment to *work/life balance* being built into the fabric of the firm (note Google's 20% time, wherein employees spend one day a week working on one of their own innovation projects - more on this later).
5. Commitment to reframing organizational relationships with *constraints*, which become innovation opportunities and not deal killers.
6. Commitment to a new generation of leadership and management development grounded in *design education* as much as in business education.
7. Commitment to *employee* and *customer retention* in equal measure.
8. Commitment to the idea that business organizations can (and should) be instruments of *good in society*.

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## 1.7 Outline of the Book

This book could be divided into three parts. First, in Chapters 2-4, I discuss the disciplines of *architecture*, *design* and *anthropology* as they relate to the new agenda for innovation. I provide examples of how these three disciplines are being incorporated into the daily practice of businesses. I also present the case of SAS Software as an example of a human-centred organizational architecture. This allows me to introduce the philosophy of architect Christopher Alexander, whose writings on the relationship between the built environment and the pattern languages of ‘living organizations’ and the ‘timeless way of building’ help me frame my overall argument. I try here briefly to introduce Alexander’s philosophy of building to a general management audience.

Next, Chapters 5-10 present six case studies of innovative firms - Southwest Airlines, Whole Foods, Starbucks, Google, Innocent Drinks and Shanghai Tang - as the centrepiece of the book. These chapters provide the empirical demonstration of what successful innovation actually looks like.

Finally, Chapter 11 summarizes the lessons gleaned from the case studies and provides recommendations for ‘Leveraging the Innovation Moment’. My conclusion outlines a design and innovation methodology meant to help those managers interested in making the transition, from ‘traditional’ to ‘design’, which Roger Martin and others are talking about.

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