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THE PEOPLE EQUATION

# THE **PEOPLE DUATION** WHY INNOVATION IS PEOPLE, NOT PRODUCTS

DEBORAH PERRY PISCIONE WITH DAVID CRAWLEY



Berrett–Koehler Publishers, Inc. *a BK Business book* 

## The People Equation

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To our respective families, who inspire us to think differently every morning: Dino, Dominick, Drake, Dayne Alexandria, Suzana, and Katarina.

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Are you trying to get into the first-class cabin, or are you trying to make the train go faster?

# WHY PEOPLE MATTER

What type of organization are you part of? Are you in an organization in which everyone is trying to get into the first-class cabin or one where everyone is trying to make the train go faster? The question may seem trivial, but is emblematic of the shift we are going through within our organizations, and perhaps the world at large. Are we going to live in a world of tension between the haves versus the have nots, those who command and those whom are commanded? Or are we going to live in a world where we move forward together? The query illuminates the dichotomy between those who are motivated by power, greed, and control versus those who want to bring forth new thinking. Those in the latter group believe that we should democratize the opportunity for people to bring forth new thinking, new ideas and audacious innovations. The type of organization that they build holds people paramount. Its processes are set up to support, nurture, and provide psychological safety, enabling the organization to leverage all of the talents, passions and interests of their people. In this book, we advocate for a people-centric organization, where rather than trying to focus on getting a first-class ticket, everyone works together to try to make the train go faster.

#### Organizations and the People Equation

Imagine being the manager who has to look into the eyes of an employee that he or she has worked with for years and tell that employee that his or her job has been eliminated, that they are no longer required, and that their working future has been thrown into disarray. Envision this happening in a world where 45 percent of the people you work with have been replaced by automation. That is the percentage of jobs that McKinsey & Company estimates could be displaced by currently available automation technology.<sup>1</sup>

Given this prospect, where millions will have their jobs displaced, why is it that we are so optimistic about the future? Why do we think that the world will offer more fulfilling work, not less? In the future, the uniquely human capability of innovation will consume more of our work lives. And what's more, because the world is changing faster than ever, the need to innovate will be greater, not less than today; the speed with which companies have to innovate will increase not decrease; and the number of people that companies will need in innovative roles will be greater than they are today. In this future society, companies will have to adapt to harness the passions and interests that drive their people.

However, because the modern hierarchical company is organized principally to get many tasks done, rather than to generate new thinking, companies will have to organize differently—they will have to have different business processes and a different mindset about how they treat their people. It is certain that companies that are not able to change the way they operate will disappear, just like companies that failed to make the leap during other periods of rapid change.

## WHERE OUR OBSESSION WITH THE ORGANIZATIONAL PYRAMID COMES FROM

In 1911, during the later stages of the industrial revolution, Frederick Winslow Taylor, a mechanical engineer who had a passion for organizational efficiency, published The Principles of Scientific Management.<sup>2</sup> His book encouraged managers to think of their employees as specialized, replaceable components, like cogs on a wheel. By studying processes and the way people spend time, Taylor created *Taylorism*, an approach by which managers could "secure the maximum prosperity for the employer."<sup>3</sup> Treating employees like a capital asset had a certain attraction, as it provided a clear role for management. In the mass-production era, where the principal method of doing more revolved around deploying more capital and more bodies, Taylorism seemed to fit the world that executives envisioned. Taylorism paid little attention to the thoughts, feelings, and desires of employees, and set the tone of American management practice for the better part of a century and beyond.

At the time, Taylorism was a fantastically successful model, in part because it caused fear—anxiety over losing one's job is a powerful motivation to get things done. Yet in 1924–32, the National Research Council conducted the Hawthorne Experiments, countering Taylorism and asserting that workers are not just machines but people who have feelings and motivations, where wages were just one piece of the pie that encouraged workers to give their best. But despite this new insight, many companies maintained a classic command-and-control structure.

#### QUALITY IS JOY AT WORK

In 1950, W. Edwards Deming, an engineer and management consultant, addressed the Union of Japanese Scientists and Engineers and preached the concept of "quality management," where the basic principle is that profit comes from repeat customers. Therefore, employees should concentrate on making the best possible product instead of focusing on management-mandated sales quotas. Deming's concept that "quality is joy at work" implied that productivity would increase when individuals' thoughts, feelings, and desires were respected and taken into consideration. It is perhaps an accident of history that Deming spent most of his career improving Japanese industry as part of post–World War II reconstruction. Simultaneously, in America, Marvin Bower, of the management consulting firm McKinsey & Company, lamented the difficulty of enabling alternatives to traditional hierarchical models.

But despite the fact that many of the underlying assumptions of Taylorism have been thoroughly debunked, it remains an organizing standard that has proved difficult to change. Those who lead hierarchies are more likely to stick with habitual convention and the command-and-control processes of twentiethcentury management. In some industries, when the specialized cogs—people—in an organization have been tuned to the needs of a precise business topic, those businesses can run rather well, but only when serving the needs of that particular business process. This means that the hierarchical, fear-oriented, and control-based organization can maintain its position because it can execute on what it does right now. But the world has changed.

#### THE FLUID ECONOMY: FROM THE LINEAR TO THE EXPONENTIAL

Just as the variability and abundance of the world today was likely implausible a thousand, a hundred, or even twenty years ago, the future of the world will be inconceivably more fluid and more dynamic than the world we know today. In this book, we describe this pace of rapid change—or perhaps even constant disruption—as "the fluid economy."

Research on the nature of corporate growth indicates that its primary driver is expansion into new and growing markets rather than the market share growth of core markets.<sup>4</sup> In the fluid economy, where every economic domain is ripe for disruption, sustaining a company in the long run requires continually claiming new economic domains.

There is now a considerable disconnection between traditional pyramid-management style and an innovation economy with knowledge workers. By definition, knowledge workers have knowledge that management doesn't and are usually employed to generate new wisdom—making this wisdom useful for the company. Therefore, management must inspire the organization to move to new, often uncharted territory, where people have to be treated better than as cogs in a machine.

As we move from linear to exponential speed in technological advancement, it's clear that the type of work that people do will change. Individuals such as IDEO CEO Tim Brown and University of Michigan professor Jeffrey Liker have started to discuss some of the organizational requirements needed to respond to rapid change and have proposed tactics for doing so.<sup>5</sup> In this fluid economy, having capable, intelligent people who respond quickly to changes in the marketplace is going to be more important than having carved out a market. In a world where information flows freely and start-ups can be formed at practically no cost, it is much easier for an upstart competitor to disrupt whatever market you think you own.

#### WHY GROWTH IS HARD TO ACHIEVE

Surveys of senior executives by McKinsey & Company indicate that the growth of an organization remains the preeminent challenge, often ranking higher than the combination of many other considerations, such as strategic planning, operational effectiveness, and marketing and branding.<sup>6</sup> This same research indicates that companies that prioritize innovation are able to grow, innovate better, and generate superior shareholder returns. In addition, companies with superior returns are not only better able to return money to shareholders, they are better able to invest in employee support and satisfaction. This difference in company performance and the consequent ability to compensate workers is so pronounced that it has been used by Jason Furman of the President's Council of Economic Advisers and Peter Orszag, nonresident senior fellow at the Brookings Institution, to explain most of the much-storied increases in the income-inequality gap of the last thirty years.<sup>7</sup> Finally, only a small number of companies manage to generate significant revenue from new businesses, and surveys of senior executives indicate that only 6 percent are satisfied with their company's innovation performance.<sup>8</sup> These facts point to a separation between companies that are innovating, growing, and providing for their employees and those that are not. According to Furman and Orszag, since 1990, the performance of publically traded nonfinancial firms has seen a dramatic improvement relative to the average firm. These top performers-those with a return on invested capital (ROIC),<sup>9</sup> excluding goodwill, in the top 10 percentile-perform ten times better than the median firms, compared with three times better only a few decades ago. So some companies seem to be responding to the world we live in now and genuinely profiting from it. This same dramatic separation is not as pronounced when goodwill is included. Some companies seem to be trying to use mergers and acquisitions to respond to these challenges, but while buying innovation does work, it is not as effective as growing it internally.

The point here is that you can get yourself into a virtuous circle or a vicious one. If you are able to grow and innovate, you'll be able to take better care of your employees and recruit the best talent, which will further help you innovate. If you aren't, your organization is likely doomed to a long, slow decline.

### THE WORLD HAS CHANGED, SO WHY HASN'T MANAGEMENT?

The ugly truth is that irrespective of all the great ideas in leadership and business management—about a century's worth of ideas and initiatives—the lasting impact on true revolutionary thinking in general-management practice has been limited. Even initiatives that were dramatically successful at one time, such as the results-only work environment (ROWE) at Best Buy from 2005–12, have often been discarded by the organization that introduced them. Sooner or later, bureaucratic institutions revert back to what they know best—being bureaucratic. It is this autopilot mentality that prohibits organizations from growing. You have to wonder, what is the fear about evolving beyond command and control and allowing people to be more free, creative, and able to bring forth new ideas? An even more nagging question is, why is it so difficult to change?

According to an email exchange with Steve Denning, the author of *The Leader's Guide to Radical Management*:

Achieving sustainable innovation has thus turned out to be a much more intractable problem than most leaders expected it to be. Hierarchical bureaucracy is not a set of linear mechanisms, that can be improved one-by-one through implementing proven remedial measures.... Hierarchical bureaucracy operates more like an ingeniously morphing virus that steadily adapts itself to, and ultimately defeats, intended fixes and returns to its original state, sometimes more virulent than before.<sup>10</sup>

Denning's view reminds us how we deal with many social, economic, and financial ills in our society: when problems are seemingly gargantuan in nature, they are ostensibly impossible to solve, so we do little about them. A simpleminded metaphor may be when you sign your child up for piano lessons, and after six months you discover that your child is not a much better piano player than when she started. Who do you blame? Do you blame the piano teacher who is highly regarded and has many talented and proficient students under her belt? Do you blame your child for not practicing thirty minutes a day as the teacher instructed? Is the piano out of tune or the keys difficult to stroke? Is your child not as focused and disciplined as she should be? Do you blame the music that has been selected for your child, which is perhaps too difficult or uninspiring? Or does the time of day when the lessons occur make it difficult for your child to focus? Often, you can identify the problem but have great difficulty in prescribing the appropriate remedy.

The reality is that we are living in a world where automation is going to displace the day to day. We've already mentioned that 45 percent of activities that people are paid to perform could be automated with technologies that are available today. In this world, it is people and their ideas that matter, not execution of the leaders' plan. This calls for a very different organization, where it is the frontline people who are at the center of everything the organization does, not the execution of the will of those high in the hierarchy.

### What the Fluid Economy Looks Like

We see a less structured world for those who want to excel, not one that involves going to a traditional school or university and then committing to a company in the hope of rising up through the ranks. The days are over when you could offer someone a paycheck and just expect them to perform. Many in the younger generations now want to make a dent in the universe rather than just earn their pay. Firms that can enable people to be bold can achieve audacious new thinking by tapping into each person's passions, desires, and interests. Firms that show people that there's something in it for them are the firms that will win. But you won't and can't win without providing psychological safety.

The gig economy means that contractors and consumers can now be paired online for services ranging from driving someone to their hotel to developing mathematically sophisticated computer algorithms. The emergence of this type of work requires leveraging all the skills and talents of each individual. We expect that T-shaped people—who offer a vertical, hard skill set such as programming, but who also have a horizontal range of curiosity for exploring other interests, such as marketing, sales, financial forecasting, and customer empathy—will succeed in this more fluid economy. In an Uber-like fashion, a young adult may perform many mini apprenticeships that might be widely unrelated but give them exposure to various skills and let them see things from a different perspective. They would be able to draw on all these skills to make themselves a more rounded individual who is better informed, more engaged, and ultimately more fulfilled.

Just as traditional newspapers were challenged by the advent of online news media, traditional higher education will be challenged by an age of online learning. Schools such as Make School, a San Francisco-based, two-year college replacement program for founders and developers, are helping graduates become ready for growing their own companies-or helping them land programming jobs at Google and other leading companies. Free of debt, Make School students don't pay any tuition but provide 25 percent of their earnings from their first two years out of school. You can make lots of arguments for why kids should go to a traditional four-year college for reasons other than academics, but kids are learning at much faster rates in academics today than they did a decade ago. Additionally, millennials and their younger cohorts of Generation Z are developing interests and passions that let them grow into their authentic selves earlier in life in comparison with previous generations.

As more routine work is performed by computers, the value of people will land less on their hard skills and more on their human skills. Creativity, design thinking, and collaboration will be far more important than where one went to college or what you majored in. In 2020, according to *Inc.* magazine, "the ability to come up with solutions, ideas and responses will be highly sought after and propel you" to become a more valuable asset as a worker or entrepreneur.<sup>11</sup> Cross-cultural competency and social intelligence will be an asset as business will continue to operate on a more global scale.

#### Why Does the People Equation Matter?

We live in Silicon Valley, the innovation capital of the world, where the region's greatest asset and secret sauce is its people and mindset. Deborah moved to Silicon Valley in 2006 after spending eighteen years in one of the most hierarchical environments in the world, Washington, DC. Working in the halls of Congress and the White House and serving as a television commentator for CNN and other national networks, Deborah learned how to do two things really well: put fear in people (because no one does that better than the people in Washington or in the news media), and divide people into "us" versus "them" so that trust is diminished. People were disposable, and no matter how talented you were, there seemed to be a younger, cheaper version of you.

Within six months of arriving in Silicon Valley, Deborah raised capital and inevitably built out four companies in ten years: BettyConfidential, a content leader in the women's space; Alley to the Valley, a national network of accomplished women that fast-tracks professional opportunities; ChumpGenius, an educational gaming company to help kids learn about twenty-first century STEM skills; and Nobiyo Freshwear, a patent-pending undergarment that manages perspiration stains and odor. Convinced that raising money just by having an investor believe in you would not have happened had she stayed in Washingtongiven its culture and mindset-Deborah took a leave of absence from her entrepreneurial venture to write Secrets of Silicon Valley: What Everyone Else Can Learn from the Innovation Capital of *the World*.<sup>12</sup> In that book, she scratched the surface of the history behind the value placed on people and why the collaborative mindset remains so rooted today. These were the brilliant foresights of people such as Leland Stanford Sr., founder of Stanford University, who came west from New York during the California Gold Rush in the 1850s. Stanford realized that these daring risttakers who came from around the world didn't have to speak the

same language or share common cultures or traditions to have the desire to seek a single goal, figure out how to collaborate, and vastly succeed. Stanford knew extraordinary developments could happen—where anything is possible—once you are free from tradition and hierarchy.

When the Fairchild Semiconductor Corporation was founded in Silicon Valley 1957, the company's eight cofounders believed that an organization's people should be like family. Having great disdain for East Coast hierarchy, the "Traitorous Eight," or the "Fairchildren," as they were know, then promised that they would take the "family" culture to any subsequent company they founded. When times are tough, you don't just lay people off, you figure out how to cut back and take care of your people. Collectively, the Fairchildren later founded new companies, creating more than 130 businesses in Silicon Valley, Intel and Advanced Micro Devices among them. In the late 1990s, Google cofounders Larry Page and Sergey Brin believed in creating a lifestyle workplace, where play and creativity are seminal and one's physical, emotional, and spiritual needs are met at an unprecedented level. Firms such as Google, Netflix, Facebook, and Pixar all have lifestyle workplaces that make them tough to compete with.

Because of this mindset, it is Silicon Valley's people who make the difference between an organization's success and failure. This is why in Silicon Valley an equity stake in the company is awarded to those who participate. Often, people are willing or able to trade short-term compensation for the prospect of longterm wealth. It is the brainpower and mindset of Silicon Valley's people that will continue to change the world's expectations and behaviors—the way we think, interact, and evolve. If you can get the mindset right, most anything is possible.

When you launch an entrepreneurial venture in Silicon Valley, it is as if you have given birth to a baby. A majority of founders stay put long after the company has gone public or been acquired. They are the parents who help raise their baby into adulthood, often after gaining extreme wealth. The very notion of birthing a baby changes everything we know to be true about the context of what it means to lead an organization—it changes the mindset of who you hire to help raise your child and, more importantly, how you treat them.

In the start-up world, the entrepreneurial experience of work runs counter to the traditional firm. It is about acting with the unknowns and not necessarily working toward a planned goal. Even more, it is about fulfilling a passion or about being one's authentic self. Most entrepreneurs begin with a problem they want to solve, an opportunity space to tackle, or an underaddressed need to be met. Sometimes, the drive is "let's explore a really cool thing to do and see what comes out of it," or "let's throw up eight to ten things and see what sticks." In this model, it is not about a job description (for anyone who has worked in a start-up, you know that you wear many, many hats). It is extremely improvisational, like a jazz band ready to change direction or add in new rhythms or beats at any time. Regardless, the idea is to get something out there as soon as possible (before it's ideal for what most would consider ready to launch) and see how quickly the need arises to adjust, tweak, or pivot to what the market tells you. In this model, you are testing an entrepreneurial team's thought process, passion, and authenticity, where things continuously develop and change over time. The strategic focus is an ongoing movement that is open-ended, and as far as people go, hinges on trust, collaboration, and being their best self. It is about creating the future together rather than operating in a dichotomy of "us versus them."

Dr. David Crawley is a British citizen raised in Hong Kong during the 1980s, a semiconductor physicist who graduated from Oxford and Cambridge Universities, a former McKinsey consultant, and an athlete who competed in the Olympic trials in rowing for the 2004 Athens games. David witnessed the rise of Hong Kong to become one of the most (if not the most) dynamic cities of commerce on the earth. David saw firsthand the difference between the successful, free-flowing chaos of free market Hong Kong and the stifling and unsuccessful top-down organization of what was then "communist" China. David has worked for, worked in, and managed organizations of every type, from startups to military to large mission-driven not-for-profits to huge hierarchical companies. He was always struck by how easily hierarchies, if incorrectly implemented, could stifle the very creative humanity that we all share, and for years he sought to find a better way that more closely matched the world we will all enter into.

We collaborated on Improvisational Innovation, the methodology that came out of Deborah's time observing Qualcomm's ImpaQT innovation program. Over the years, we have been in numerous conversations with C-suite executives of multibilliondollar companies who are kept up at night not knowing the future of their company or where the next big idea is. Very often, discussions of innovation with the C-suite devolved into a conversation about the products that the company will release soon, rather than addressing any underlying method by which new ideas get explored or, more importantly, a deep sense of who the people are that work for them. We'd inevitably ask about who in the organization were their great risk takers or entrepreneurial types, and we'd inevitably end up with blank stares. It confirmed our view—innovation and the growth that it brings are the greatest things that these executives lack. Meanwhile, despite the confidence they may or may not have in their team (no matter how large the organization is), they usually cannot clearly articulate who in the organization is there to generate ideas or what the process is by which it occurs.

We are often asked, "Who has done talent development well?" As you read ahead, the answers may not be what you'd typically expect. The stark reality is that we couldn't find strong examples of people-centric organizations within traditional corporate America, and the Googles of the world have been exhaustively researched and documented. Therefore, you will find many case studies that we have gathered from outside corporate America that show what might be possible when a company focuses on the creative energies of its people rather than its hierarchical organizing structure.

We have seen what happens when you organize for control rather than for your people. We've worked in and witnessed other spheres of influence, where greed, money, politics, and control are the driving influences, and we understand that when you are surrounded and ingratiated into those cultures, that is your normal. Organizations are finding that they can't sustain healthy revenues if they are not increasing the speed of innovation. Investments in new technologies or operations do not create innovations—people do.

What unfolds in the next eight chapters is what you need to do in order to adopt the People Equation. These will be the keys to how you transform your organization to put people first, enable them to innovate, and drive the business to success in a fluid economy. We will show you how to create a culture where risk taking is rewarded, mavericks are encouraged, collaboration between highly competent people is nurtured, and, when experiments and new initiatives are proposed, the response is to ask how rather than question why. We are convinced that orienting your organization around the creative energies of your people will enable you to grow and build value more effectively. Just watch how much faster the train can travel!

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