HOW THE IDEA REVOLUTION IS LIBERATING PEOPLE AND TRANSFORMING ORGANIZATIONS

IDEAS ARE FREE

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an excerpt from

Ideas Are Free:
How the Idea Revolution is Liberating People
And Transforming Organizations

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PREFACE

Performance expectations for managers keep going up. Managers are continually asked to do more, but to do it with less. For top management, the standard response to flagging profits and increasing competition has become budget cuts and layoffs. Middle managers and supervisors suffer the consequences, as they are left with too few resources and people to do the work. They are forced to operate in survival mode, putting in long hours to deal with an endless stream of urgent problems. Almost never do they have the time to think beyond this month's results. In addition, they are under constant scrutiny, and their jobs are not secure.

Ironically, help is closer than they realize—in the people who work for them. They are the ones who *do* the work, and they see many things their managers don't. On a daily basis, they see what is frustrating customers, causing waste, or generally holding the organization back. Employees often know how to improve performance and reduce costs *more intelligently* than their bosses do. Yet they are rarely given a chance to do anything about it. No one asks them for their ideas.

Over the last century, many managers have recognized the huge potential in employee ideas and tried to tap it. But few have been truly successful. Those few found that they had fundamentally changed their organizations and helped them reach extraordinary levels of performance. Today, most managers either don't realize the full power of employee ideas or have never learned how to deal with them effectively. That is why we wrote *Ideas Are Free*.

The book has its origins in the late 1980s when we both were on the faculty of the University of Massachusetts. Before going into academe, Dean Schroeder had headed a number of organizational turnarounds and major change initiatives, and had learned that the employees of distressed companies could often identify and solve critical problems which management had either missed or ignored. Invariably, they had penetrating insight into the issues that their companies faced and good ideas about how to address them. Why, Dean wondered, had their managers made no use of this free and willing resource?

Around this time, Alan Robinson came to ask the same question. He was studying how leading Japanese companies were managed. Many of them had higher productivity and better products than their Western counterparts, and he wanted to understand why. Through professional contacts and family members living and working in Japan, he was able to gain unusual access to twenty Japanese companies. Alan found that these companies put a great deal of emphasis on something that most Westerners had largely overlooked.

The Japanese managers were asking ordinary employees—the ones who staffed the offices, worked in the factories, and served the customers—for their ideas. *Small* ideas. Not creative whiz-bang new product or service ideas, but *everyday common-sense* ideas that would save a little money or time, make their jobs easier, improve the customer experience, or in some other way make the company better. Some of the companies Alan studied were getting and using extraordinary numbers of ideas—in some cases almost one per person per *week.* And these ideas accumulated into significant competitive advantage.

We both found the concept of seeking employee ideas compelling—it was clear how this would lead to high employee involvement and superior performance. Strangely, the vast majority of companies we were familiar with seemed to ignore this huge opportunity. Most of them were far better at *suppressing* ideas than *promoting* them.

The journey that led to *Ideas Are Free* began as a process of informal discovery. We gathered general information about how different organizations deal with employee ideas, visited some that did it well, and studied the history of efforts to promote employee ideas around the world. Ever since the Scottish shipbuilder William Denny put up the world's first industrial suggestion box in 1886, a wide variety of approaches to promoting employee ideas have been tried. Even Stalin tried to coax improvement ideas from front-line workers in the Soviet Union as part of his effort to catch up with the West.

We found that radical change did indeed take place when managers began encouraging and implementing large numbers of employee ideas. The implications were vast and profound—for improving performance, the organization's culture, and the quality of people's lives. Although few of the companies that were managing ideas well were publicizing their success, it was clear that the number of these companies was growing. And the deep transformation that these organizations experienced as ideas began to flow smoothly made us realize that we were looking at something quite revolutionary.

Our goal then was to figure out how organizations can successfully promote employee ideas and to understand the nature of the extreme change that pursuing ideas can create. The research turned out to be much more extensive than we anticipated. It took us to seventeen countries and into more than 150 organizations, representing a broad variety of industries—financial services, retailing, health care, manufacturing, hospitality, agriculture, publishing, high technology, transportation and logistics, telecommunications, not-for-profit, and government—and ranging in size from small family-owned businesses to large multinational corporations, in both union and nonunion environments. We studied best-practice companies and those whose attempts were struggling or just being launched. We compared what *worked* with what *didn't*, developed hypotheses, and tested them against our spectrum of organizations. We repeated the process until we were confident that we had distilled the general principles needed for success.

As people learned of our research, we found ourselves being invited to help many organizations that wanted to promote employee ideas. The hundreds of managers we worked with helped us further refine, clarify, and strengthen the concepts we now present in *Ideas Are Free.*

Tapping the potential in employee ideas is not a matter of merely buying into the concept and becoming more receptive and welcoming to them. There is a considerable amount to know, much of which is counterintuitive. We believe every manager should read this book, from the front-line supervisor to the CEO.

We hope that you enjoy *Ideas Are Free* and that it makes you a better leader.

CHAPTER 1

THE IDEA REVOLUTION

What will future generations say about the way we practice management today? What will they consider our most conspicuous failure?

We believe they will accuse us of having squandered one of the most significant resources available to us: employee ideas. Every day, all over the world, millions of working people see problems and opportunities that their managers do not. With little chance to do anything about them, they are forced to watch helplessly as their organizations waste money, disappoint and lose customers, and miss opportunity after opportunity that to them are all too apparent. The result is performance far lower than it should be and employees who do not respect or trust management and who are not fully engaged with their work.

At the same time, their managers are under constant pressure to do more with less. But with so much of their time consumed by "firefighting" and trying to meet short-term demands, they have little or no time to think about how to build their organizations' capabilities. They are chronically short of the resources they need to keep performance at current levels, much less *improve* it. They wonder how to motivate their employees, who don't seem as involved in their work as they should be. In short, a great many managers today find their work stressful and unfulfilling. Because there seems to be no alternative, both managers and employees become jaded, and they accept the situation as the way things have to be.

But a quiet revolution is under way—an *idea revolution*—led by managers and supervisors who, in a small but growing number of companies, have learned how to listen systematically to their employees. With each implemented idea, performance improves in some way. Some time or money is saved, someone's job becomes a little easier, the customer experience is enhanced, or the organization is improved in some other way. With large numbers of ideas coming in, performance improves *dramatically*. And as employees see their ideas used, they know they are having an impact on their organization and become engaged in their work.

Why do we call this movement a revolution? We do so because it liberates people and transforms the way that organizations are run. It changes the nature of the relationship between managers and their employees. As Ray Winter, then president of BIC Corporation, observed about the effect of his company's idea system on the corporate culture:

> *This system has taught my managers* ***real*** *respect for their employees. My managers have learned that their employees can make them look awfully good, if they only let them.*

This comment could easily be taken to mean that it does not take much—other than receptiveness on the part of management—to get large numbers of ideas from employees. But, just as it did the other companies we have studied, it took BIC years of experimentation and learning to discover how to tap this potential. There is a lot to learn, much of which goes against the initial assumptions most managers make about why people give ideas and which ideas are important.

WHAT'S IN AN IDEA?

Ideas are the engine of progress. They improve people's lives by creating better ways to do things. They build and grow successful organizations and keep them healthy and prosperous. Without the ability to get new ideas, an organization stagnates and declines and eventually will be eliminated by competitors who *do* have fresh ideas.

An idea begins when a person becomes aware of a problem or opportunity, however small. Every day, regular employees—the people who do the office work, make the products, and serve the customers—see plenty of problems and opportunities and come up with good ideas about how to address them:

- When accounting for oil purchases, a staffer in a regional distribution center of Deutsche Post, the German post office, noticed that the company was paying too much for the engine oil for its trucks. Drivers were buying oil at roadside service stations, paying the equivalent of $8.50 per liter. After some research, he found that Deutsche Post could buy the oil in bulk for a quarter of the price and proposed that it do so. At the time of this writing, the idea was being implemented at distribution centers across Germany. With tens of thousands of diesel trucks and vans on the road, it will no doubt save millions of euros every year.

- At Good Shepherd Services, a not-for-profit health care organization with a nursing home in northern Wisconsin, a group of employees learned in a training session that dementia patients often see areas of black flooring as holes and avoid them. Instead of using alarm bracelets or restraints to keep such patients from wandering into unsafe areas, the group suggested simply to paint the floor black in front of the doorways to these areas. The idea worked, and it not only reduced patient stress but saved staff considerable time because they no longer had to respond to alarms.
- At LaSalle Bank, one of the largest banks in the United States, whenever someone requested a new laser printer, they were given the standard model specified by the purchasing department. One day, an employee unpacking his new printer noticed that it included an expensive internal disk drive, which no one would ever use. With all the printers the bank purchased each year, his idea to eliminate this feature saved a considerable sum of money.
- At a Massachusetts Department of Correction facility, a guard proposed a change in the way pictures were taken of new inmates. Instead of using film, why not use digital cameras and store the images in a database? Across the department's sixteen correctional facilities, this idea saved $56,000 the first year in film alone.

- An office worker in a Florida branch of a national temporary-placement firm realized that there was a problem with her company's screening practices. At the time, it was paying an outside vendor to test applicants for literacy, numeracy, and computer skills. Those who passed were then given a drug test and criminal background check, which some *70 percent* failed. Why not do the drug testing and criminal background check *first*, she asked? When the idea was implemented nationwide, the savings were huge.

- At Winnebago Industries, the recreational vehicle maker, an assembly worker pointed out that the 10 percent of customers who ordered the deluxe sound system option were getting additional speakers they never used. No one had told the crews on the main assembly line that installed the built-in speakers for the *regular* sound systems to skip the vehicles that would be having the deluxe speakers installed later. The regular speakers embedded in the walls were never connected. They were *seen* but not heard. Although the savings from this idea were significant, the main benefit was that customers stopped bringing vehicles back to the dealers and asking them to fix speakers that were not working.

None of these ideas required particular insight or much creativity, or required much in the way of time or resources to implement. (In the case of Deutsche Post, oil suppliers were so eager for the business, they were willing to install the bulk tanks for free.) To the people who came up with them, they were simply common sense.

Every employee idea, no matter how small, improves an organization in some way. It is when managers are able to get *large numbers* of such ideas that the full power of the idea revolution is unleashed.

HOW IDEAS DRIVE A CULTURE OF HIGH PERFORMANCE

There is a clear link between an organization's ability to tap ideas and its overall performance. Consider the following examples:

- Boardroom Inc., a Connecticut publisher, averaged 104 ideas per employee in 2002. Its sales per employee were more than seven times greater than the average publisher.
- Richer Sounds has been listed a number of times in the *Guinness Book of World Records* as having the highest sales per square foot of any retailer in the world. It also has one of the best idea systems in the United Kingdom, which brings in some twenty ideas per employee per year.
- Milliken, a global fabric and specialty chemicals company, averaged 110 ideas per employee in 2002. In a number of its textile product lines, it competes with companies in developing nations whose prevailing wages are less than *one-twentieth* of those in Europe and the United States, where most Milliken operations are located. To be successful, the company has to *outmanage* these competitors. Over the last two decades, Milliken has actually been able to *increase* its advantage over them, a feat that Roger Milliken, chairman and CEO,

attributes in large part to the company's idea system. Milliken is one of only two companies in the world that has won both the Malcolm Baldrige National Quality Award (MBNQA) and the European Quality Award. The other is the French-Italian company ST Microelectronics, which has one of the better idea systems in Europe.

- DUBAL, a major aluminum company in the United Arab Emirates, has none of the natural advantages typically associated with aluminum producers. It must produce its own electricity, desalinate seawater from the Persian Gulf to get the large amount of fresh water it needs, and import its primary raw materials from Australia. Yet DUBAL, whose people average more than nine ideas each per year, is one of the lowest-cost producers of aluminum in the world. According to CEO John Boardman, much of the company's excellent performance can be credited to its idea system.

- Dana Corporation, a global company with over sixty thousand people, expects every employee to submit two ideas each month, and in some facilities it exceeds twice this number, with a worldwide implementation rate of *80 percent*. Two of the company's U.S. divisions have won the MBNQA.

In our experience, when people first encounter examples of companies like these—work environments that are clearly so different from where *they* work—they are full of questions. How do the employees in these organizations come up with so many ideas? Are the ideas any good? Who has time to deal with all of them? Don't you have to create a huge bureaucracy just to deal with ideas? How are employees motivated to give in so many ideas? Are they offered rewards? These are all good questions, and we will answer them in this book. But before we do, it is important to understand just how radical the concept of going after large numbers of employee ideas is. It brings about so much change, in fact, that for most managers it is revolutionary.

Ever since Frederick Taylor first advocated that management's job was to *think* and the worker's job to *do*, this has been the default perspective. In most organizations around the world, the division between thinking and doing is "hard-wired" into policies, structures, and operating practices, although it is rarely explicit or even recognized for what it is. While this approach may have been the right one a hundred years ago, today it has become severely limiting. This is why the simple concept of going after employee ideas—when done properly—fundamentally transforms the way organizations are run, allows them to achieve levels of performance well beyond what they were previously capable of, and liberates the people working in them.

The mechanics alone of handling large quantities of ideas *forces* considerable change. Managers whose employees are submitting one or two ideas *every week* cannot hope to evaluate, test, and implement them all unless they push decision-making authority for most of them back down closer to the employees and their supervisors. This empowerment starts a virtuous cycle. As employees see their ideas being used, they begin to feel valued as part of the team and become more involved. As managers see this change in attitude and the impact that ideas have on performance, their respect for employees grows. Employees are trusted with more information, training, and authority. This in turn leads to even more and better ideas—and the cycle continues, ultimately creating a positive, high-performance culture.

THE NEED FOR MANAGERIAL HUMILITY

It is easy for managers and supervisors to come to believe that they know better than the people who work for them. After all, they are usually better educated, have merited positions of greater responsibility, and earn significantly more money. They wear the "suits." Managers who get large numbers of ideas from their employees have the opposite view. In our experience, they are much less arrogant. They recognize their heavy dependence on input from their subordinates. Every day, they are reminded of how valuable front-line ideas can be.

In a famous essay, Friedrich Hayek, founder of the Austrian School of Economics, articulated why employees often see problems and opportunities that their managers do not.[1] In writing about decision making in organizations, Hayek divided knowledge into two types: *aggregate* knowledge and knowledge *of the particular circumstances of time and place*. Managers usually deal with the first kind of knowledge—things like "Sales are off 10 percent" or "Costs went up 5 percent." The higher a person is in an organization, the more aggregated his or her information tends to be. While aggregate knowledge is important for understanding general relationships and formulating broad strategies, it is not very useful for coming up with specific performance-improving ideas. These come primarily from the second kind of knowledge that Hayek discussed—the detailed knowledge of particular events, day-to-day problems and opportunities, and how things are actually done. This is exactly what employees tend to possess and why they can often come up with better ways to meet organizational goals than their managers can.

We came across a particularly telling instance of this fact when we helped set up an idea system for one of the world's largest cranberry growers, a company with more than forty-five thousand acres of bogs under cultivation. At a time when cranberry prices were plummeting, management was desperate for ideas that could save money, other than ones involving more layoffs. The value of being on the spot showed in one of the very first ideas that came in. Cranberry production, like rice production, is water-intensive, and pumping large volumes of water is extremely costly. The idea, which came from a field worker, was simple: "When it rains, turn off the sprinkler systems."

WHY ORGANIZATIONS NEVER RUN OUT OF IMPROVEMENT OPPORTUNITIES

Two questions managers often ask when they learn how well some companies are doing at getting employee ideas are "Don't employees ever run out of ideas?" and "Can an organization get so good that there is nothing left to improve?"

If these were real concerns, one company that would have had to deal with them is Toyota. In 1992, Yuzo Yasuda published a book about the company's idea system, entitled *40 Years, 20 Million Ideas*. It told how Toyota got more than a million ideas per year from its employees and had been doing so for more than a decade. Around this time, a U.S. Army lieutenant general asked one of us how this could be. To him, it made no sense. Either Toyota was in very bad shape, he asserted—so bad that it needed a million ideas per year to fix its problems—or the whole thing was some kind of charade. Whichever was the case, Toyota's idea system didn't seem to be something other companies would want to emulate. It was a thoughtful comment from someone with considerable leadership experience. But it also exposed a degree of ignorance.

Let us look at the two possible explanations the general proposed. First, Toyota is hardly a screwed-up organization. In fact, it is one of the most successful automakers, and one of the most admired companies, in the world. And as for the idea system being some kind of charade, it is instead absolutely *central* to Toyota's management philosophy. Toyota has long been a relentless improver. As Yasuda's book pointed out, ever since 1951, a top executive—including several future CEOs and chairmen, and even members of the founding Toyoda family—has headed the company's idea system. What is more, many members of its board of directors have been personally involved in idea system activities. Few companies have ever matched this level of top management commitment to listening to employee suggestions. A significant percentage of the company's overall improvement comes from its idea system.

As for the quantity of ideas being a sign of a company with an inordinate number of problems, perhaps the general would be correct if the world never changed. Sooner or later, Toyota might get everything right and employees would run out of ideas. But everything changes, and changes constantly: technologies, competitors, customers, suppliers, employees, the economy, the overall business environment—*everything.* To stay competitive, a company has to respond. And since an organization is a living, interconnected, and integrated system, an action taken in one place influences things elsewhere. In other words, change creates the need for further change. New problems and opportunities are born all the time. There will never be a shortage of them, and the faster an organization can spot and act on them, the more successful it will be.

OVERVIEW OF THE BOOK'S MAIN POINTS

This book is organized into eight chapters. Chapters 2 and 3 deal with two fundamental principles of managing ideas that are highly counterintuitive—the importance of going after small ideas rather than big ones, and the problems with the most common reward schemes and how to avoid them. Chapters 4 and 5 describe how to make ideas part of everyone's job, and how to set up and run an effective process for handling ideas. Chapters 6 and 7 show how to take a good idea system and make it *great*, by focusing employee ideas on the areas where they are most needed and by helping employees come up with more and better ideas. Chapter 8, the final chapter, shows how good idea systems have a profound impact on an organization's culture. At the end of each chapter (except this one and chapter 8), we provide "Guerrilla Tactics"—actions to promote ideas that any manager can take on his or her own authority and that require little or no resources.

The remainder of this chapter provides a brief overview of the main points in the book.

The Importance of Small Ideas

In 2001, we were asked to help a German automobile manufacturer beef up its idea system. "It is so hard in our business today," its managers told us. "We figure out a way to cut significant costs out of our operation, and before we are finished, we have to start looking for the next big cost-cutting idea. We never seem to be able to relax or get any breathing space. Every one of us works long hours and is exhausted all the time."

These managers couldn't seem to create much advantage that was *sustainable*—most major improvement initiatives undertaken were quickly countered by other automakers, and any advantage gained from them soon evaporated. The root cause of the problem, we soon realized, was that these managers thought that big ideas were the only way to get ahead.

Business leaders are always looking for the next breakthrough idea—the "home run" that will put them well ahead of the competition with one swing. Because of this, the systems and policies they put in place are aimed at *big* ideas. Few managers realize how severely limiting this is. In chapter 2, we explain why it is much smarter to go after the *small* ideas.

For one thing, as that German auto manufacturer had already discovered, the bigger an idea the more likely it is that competitors will discover and counter it. If it affects the company's products or services, it is directly visible—in fact, it may well be *advertised.* If the idea involves a major process change behind the scenes, it is often copied even more rapidly. Significant internal initiatives usually require outside suppliers, contractors, or consultants—people whose jobs are to sell their products, services, and expertise. And companies are proud of their latest innovations. They like to impress their customers with them. These same customers might well share the exciting new development with their other suppliers. No matter how hard the managers in that German company worked to get big cost-cutting ideas, they were unlikely to develop much sustainable competitive advantage from them. While the big ideas were necessary to keep up with the competition, they were not sufficient to get ahead and stay there.

Small ideas, on the other hand, are much less likely to migrate to competitors. They are often site- and situation-specific, and therefore of little use outside the company anyway. For example, when the *Vidette Times*, a regional newspaper in Indiana, ran out of newsprint late one night owing to a strike at its Canadian supplier, the press operator was ready with a backup plan—not a great one, but one the company could limp along with. Although his presses used rolls that were forty-five inches in diameter, earlier that day he had borrowed some *forty-seven-inch* rolls from a sister operation, just in case. His plan was that if the new shipment of forty-five-inch rolls didn't arrive in time, he and his coworker would manually unroll the larger rolls until they fit on the *Vidette Times*' printing press. They were not looking forward to this, as it would involve stripping *thousands* of feet of paper off rolls that weighed more than three tons.

When the shipment of forty-five-inch rolls didn't turn up, the two men brought a forty-seven-inch roll across to the press on their forklift truck, to see exactly how much they would have to unwind in order to squeeze it on. To their astonishment, they found that it just fit as it was. The press manufacturer's specification had been too conservative. Their discovery had significant implications. Being able to use larger rolls of paper saved the company thousands of dollars per year, because it meant fewer roll changes, and hundreds of fewer "trial copies" needed to get the ink flowing again after each roll change. It also shaved about a half-hour per night off the press run.

The point is this: When this idea came up, the *Vidette Times* was in the middle of a circulation war. Had it come up with an innovative new column or marketing approach, its archrival would have been aware of it immediately. But how would it learn about the forty-seven-inch roll idea? And even if it had, it wouldn't have mattered, since the competitor didn't have the same model of printing press. Because most small ideas remain proprietary in this way, they accumulate into a tremendous competitive advantage that is *sustainable*, the kind of advantage managers *should* be striving for. Ironically, what would have really relieved the pressure on the managers at that German automaker was the very thing they had all but issued direct orders to ignore.

Small ideas also enable an organization to pay exceptional attention to detail. In many important aspects of business—such as customer service, responsiveness, quality, and managing costs—excellence means getting the details right. It is simply impossible to improve performance beyond a certain level without small ideas. And a superior ability to handle details, in turn, raises the level of complexity an organization can deal with effectively. This can allow an organization to do things its competitors literally *cannot do.*

Perhaps the ultimate irony is that managing small ideas is the most effective way to get big ones, a phenomenon we shall also describe in chapter 2, along with several other surprising benefits of small ideas.

If small ideas are the goal, the challenge becomes one of designing a cost-effective process to evaluate and implement them. That is the subject we turn to next.

The Problems with Rewards

Whenever managers start to think about how to promote ideas, the question of rewards almost always pops up. In the late 1990s, the British government released a white paper entitled

"Modernizing Government," in which Prime Minister Tony Blair and his cabinet laid out a comprehensive and long-term plan for reforming the way the government worked. One of its key initiatives was to make the Civil Service more innovative, by giving employees an "incentive to change behavior":

> *We will foster innovation and continuous improvement of services in the public sector by rewarding staff who suggest ideas that lead to savings or better services. Government Departments and agencies will introduce schemes which reward staff with a sliding scale percentage of any savings or improvements made as a result of their suggestions.*[2]

On the surface, offering rewards for ideas commensurate with their value seems a smart thing to do. The more generous the rewards, the more ideas will come in. So the thinking goes. The British government is far from alone in this regard. It is an easy conceptual trap to fall into. A great many managers have unwittingly sabotaged their efforts to promote employee ideas by making exactly the same mistake. The problem is not in sharing the benefits of ideas with employees—this can be done very effectively—but in doing so with rewards for individual ideas based on their value.

Consider this: Not one of the companies we mentioned earlier that has been successful at getting large numbers of ideas from its employees offers rewards in this way. As we shall explain in chapter 3, not only do such rewards substantially increase the cost, time, and effort needed to evaluate and implement ideas, but they create a host of unanticipated problems that end up acting as *disincentives* for people to offer ideas. It is ironic that so many managers have such faith in a motivational tool that actually works *against* them.

The first set of problems has to do with calculating the value of an idea. It can be very time-consuming to quantify the effect of even the simplest idea. Take, for example, the first idea mentioned in this chapter—the one at Deutsche Post to buy oil in bulk for one-fourth of the cost. Deutsche Post gives employees 10 percent of the annual value of their ideas. In this case, calculating the reward seems simple enough. But someone has to spend the time figuring out how much oil Deutsche Post uses, because the company does not track it centrally. Furthermore, not only does Deutsche Post have some eighty-three distribution centers, but it may take years to implement the idea at all of them. Some of the centers are even *resisting* the idea, because they have to go through the hassle of installing the tanks and getting special environmental licenses and inspections. These costs, too, have to be factored into the reward. And, of course, the price of oil fluctuates, and even varies by region within Germany. What price should the company pick to make the calculations? From the point of view of estimating cost savings, *most* ideas are more complicated than this one. Having to determine the worth of every single idea means a tremendous amount of non-value-adding work. And since it is impossible to calculate the value of most ideas accurately anyway, whatever numbers are produced are often perceived as underestimates by the very people the rewards are intended to thank and motivate. In the 1980s, United Airlines abolished its suggestion system—one of the oldest in the United States at the time—because of the large number of disputes that arose in this way.

In his classic essay "On the Folly of Rewarding A, While Hoping for B," Steven Kerr articulates another set of problems with rewards. Often, rewards that are intended to promote desirable behaviors are actually encouraging undesirable behaviors. And when it comes to rewards based on the value of ideas, the list of detrimental side effects is long. For example, rewards are usually given only to the *originator* of the idea. Doing anything else would be incredibly complicated. But this undermines the teamwork necessary to bring off most ideas. The contributions of the people involved in evaluating, testing, and implementing them are largely ignored, and they often resent it. Why should they put in extra work to develop an idea, when *someone else* will collect the reward for it? The most common complaint we hear from idea system managers in companies that use rewards is that it is hard to get anyone to evaluate and implement ideas. And when they can persuade someone to look at an idea, the easiest course of action for that person to take is to find a reason to *reject* it.

A poorly designed reward scheme can also interfere with the free flow of ideas in more nefarious ways. It can give rise to unethical behavior, as managers look for ways to save money on rewards they owe, and workers look to "game" the system for higher payouts. When potentially large sums of money are at stake, managers and employees can be tempted into outright fraud and corruption. As the saying goes, "If money can be made by doing something wrong, someone will." For organizations that use such reward schemes, unethical behavior can turn into a real problem.

But as we shall also explain in chapter 3, perhaps the most surprising aspect of rewards, and the good news for managers concerned about the issues they raise, is that they really are not needed. People give in ideas because they *want* to see them used. Either they see a way to make their jobs easier or less frustrating, or they find an opportunity to improve the organization in some way. Employees also have a natural pride in their work; they like to feel valued and to know they are having an impact. As the experience of many companies shows—including several whose idea systems could be considered among the best in the world—employees willingly give in large numbers of ideas without the prospect of monetary rewards. The most important rewards they get are seeing their ideas used and being recognized for them.

This does not mean that organizations should avoid rewarding their people with substantial money for their ideas. Rewards *can* be given, provided they are properly structured. A number of companies with high-performing idea systems—including several we have already mentioned, such as Boardroom, Wainwright, and Dana—give substantial rewards for ideas. On average, employees in these companies get far more money from their ideas than they would earn under traditional schemes.

Making Ideas a Central Part of Work

In 1997, we took a busload of college students on a study trip to Canada. One of the visits was to a large subsidiary of a well-known U.S. company. After a tour of the facility, the company assembled a panel of its senior managers for a question-and-answer session. At one point, the discussion turned to the suggestion system. When a student asked how many ideas the company was getting from its roughly two thousand employees, the conversation took an interesting turn.

"Last year, I think it was three," the general manager replied.

"Was that three per employee or three *in total*?" the question came back.

"Oh, three total." And then, quite unabashedly, the manager turned to his management team and remarked, "Come to think of it, I still have some ideas on my desk from the late 1980s that I probably should do something about."

On paper, this company had a process for seeking and acting on employee ideas. But with the lack of management interest and follow-through, it might as well not have bothered. It was getting an average of one idea per employee every *six hundred years.*

The general manager's comment is jarring because it reveals a complete lack of concern for something that should have been extremely important to him. Had he worked at a company that valued ideas, his casual remark would have been as outrageous as his announcing publicly, "I still have some financial reports to finish from the late 1980s that I must get to sometime."

Any system, no matter how well conceived, works only if people are held accountable for the roles they have to play. In chapter 4, we describe how to put accountability into the process of managing ideas at all levels in the organization.

Organizations that are successful at getting ideas monitor which employees are turning them in, which managers are getting them, and how rapidly they are acted on. Employees and managers are given appropriate training and support, and then held accountable for their roles in the idea process. Coming up with ideas is made a central part of the employees' work. Supervisors and middle managers are assessed on how well they do at *promoting* ideas. The supervisor's role is to coach, mentor, and encourage employees and to champion ideas with broader implications. Middle managers need to ensure that ideas are processed rapidly and fairly and that appropriate resources are available for implementation. They often must get directly involved with ideas whose impact is more significant or cross-functional.

Finally, in addition to their oversight responsibilities, top managers should have roles that routinely bring them into direct contact with suggesters and their ideas. This not only shows that top managers support employee ideas, but it keeps them in closer touch with what is happening in the trenches. There is a huge difference between the actions of a leader who sees employees as a tremendous source of improvement ideas and one who sees them as a *cost* to be minimized.

Making Change Easy

Visualize your organization's suggestion box, stuffed with ideas. If you were responsible for processing these ideas, would you be excited to open the box or horrified at the prospect?

Managers at a Fortune 100 company with a traditional suggestion system told us that it cost approximately $500 and took four hours of staff and management time to process each idea—just to *process* it, not to implement it. Suppose that Milliken, whose 16,000 employees average 110 ideas each per year, had such a cumbersome and expensive process! The resulting overhead would be crippling: $880 million, or $55,000 per employee, and over 7 million labor hours, the equivalent of 3,600 full-time employees, more than *20 percent* of its current workforce. If Milliken had an idea process like that Fortune 100 company, it could not afford to ask its employees to think on the job.

To be able to handle large numbers of ideas in a cost-effective way, an organization has to drastically reduce the time and effort needed to evaluate and implement them. While the specific processes employed can vary greatly between companies, every effective approach we know of follows the same basic principles.

Take the process at Boardroom Inc., for example. Each week, every employee is expected to come up with two ideas—no matter how small—and bring them to his or her departmental meeting. During the meeting, everyone (including the manager) presents his or her ideas in turn. After each one is explained, the group discusses it and, if possible, improves on it. If members of the group decide that the idea can be used, they determine who will be responsible for implementation (usually the person who came up with it). If the proposal needs further consideration or review at a higher level, someone will be assigned to follow through. The average meeting involves eight to ten people, lasts forty-five minutes, and, in addition to taking care of normal departmental business, processes some twenty ideas.

Boardroom's deceptively simple process—which has evolved significantly since it was started in the early 1990s, when *every* idea went to the CEO—has most of the attributes of an effective system.[3] First, ideas are part of everyone's normal work. Second, it is easy to submit ideas. Third, ideas are reviewed and discussed by people who have direct knowledge of the situation at hand, who will be directly affected if the idea is implemented and who can build on or help modify it so that it will work better. Fourth, decision making is rapid, effective, and efficient. Fifth, feedback to the suggester is quick and complete—in this case because he or she is present in the room. Sixth, whenever possible, ideas are implemented almost immediately, often before higher-level managers even become aware of them. Finally, the system itself is actively managed and constantly improved.

Like all good idea systems, Boardroom's is highly attuned to the way the company operates, to its culture, and to its particular needs and goals. What is important here is not *how* the company addresses each of the attributes of a good idea system described here but that it *does* address them, and does so effectively. In chapter 5, we discuss these attributes in more detail and describe some of the different ways companies have incorporated them into the way they operate.

Drawing Attention to What Is Important

In the early 1990s, Winnebago Industries had a sales opportunity it did not want to lose. Demand for high-margin options, such as microwave ovens and generators, on its popular Micro-Mini models was strong, but the company could not meet it. Unfortunately, the Micro-Mini was close to its vehicle weight limit, a limit that Winnebago is always very careful to stay below. To be able to offer customers the options they might want, its weight had to be reduced.

By writing an open letter in the company's newspaper, *The Smoke Signal*, and by a variety of other means, chairman and founder John K. Hanson let his employees know about the opportunity and asked them for ideas, however small, that would reduce the weight of the vehicle. Within a month he had received more than two hundred—many of them for just a few ounces—that collectively solved the problem. Here are some examples:

- Remove the two heavy metal hooks that the Japanese supplier bolted to the bottom of each chassis so that it could be chained down on the ships during its journey across the Pacific.

- Stop installing special steel brackets into the walls of the vehicles' master bedrooms, since the mirrors they were designed to hold have been replaced with lightweight murals.

- Stop installing carpeting under the beds, since they are bolted flush to the floor anyway.

By drawing attention to the opportunity the company faced, Hanson made weight-saving ideas legitimate. Before, the weight of the vehicles was primarily the responsibility of the engineers. Front-line employees were not concerned about it, and even if they had come up with ideas to reduce weight, their managers might not have taken these ideas seriously. But once Hanson alerted the entire organization to the issue, his front-line people came up with plenty of weight-saving ideas, and these were quickly implemented. With relatively little additional effort, he had given his idea system a target and turned it into a powerful competitive weapon.

In chapter 6 we discuss how managers go about focusing employee ideas on critical areas. These range from initiatives to take advantage of specific one-time opportunities like that of Winnebago, to ongoing practices that keep everyone focused on the key strategic drivers of performance.

Helping Employees See Beyond the Obvious

In the mid-1990s, one of the world's largest airlines spent millions of dollars putting its employees through creativity training. Looking back on the effort a few years later, the executive in charge of the initiative remarked to one of us that all it had really accomplished was to create a lot of frustration. When the training was over, the participants returned to their jobs expecting their company to be open to their ideas. Unfortunately, the company had not changed while they were away, and it remained just as unresponsive to them as it had always been. The real bottleneck to creativity all along—this lack of responsiveness to ideas—had not been addressed.

Once an organization has an effective idea system in place, however, it makes sense to do what this airline did and begin to think about ways to increase the quantity and quality of the ideas people come up with. In chapter 7, we describe proven approaches to doing this. The key point is this: Any approach must build on the ways that people *already* come up with ideas at work. Too often, this seemingly obvious point is overlooked.

People think of ideas because they see a better way of doing something, or an opportunity to exploit. To have a good idea requires a combination of perspective, knowledge, and alertness. In chapter 7, we describe what we have come to call "idea activators"—training sessions aimed at helping participants see more improvement opportunities in important areas. We use examples from Toyota and Good Shepherd Services to show how different organizations have developed their idea activators to produce impressive results. The chapter then turns to more general tactics that companies can use to broaden employees' perspectives and expose them to new ways of thinking. These tactics help them in different ways to spot considerably more problems and opportunities.

Profound Change

In the late 1980s, Wainwright Industries was becoming increasingly concerned about its future. The company operated in two very competitive industries—aerospace and automotive. Although sales were increasing, profit margins remained meager. Wainwright had tried to implement total quality management, but with mixed results. The company was not a happy place to work. As Mike Simms, its general manager, put it, as management retrenched, its tactics became increasingly based on fear, mistrust, and intimidation. Some of the company's middle managers were so frustrated that they had secretly met a number of times to discuss a leveraged buyout.

But then something happened that changed everything. In January 1991, a vice president from IBM-Rochester, which had just won the Malcolm Baldrige National Quality Award, came to speak at a local business breakfast meeting. A group of Wainwright managers were at the meeting, sitting at a table in the back. Simms, who did not particularly want to be there, was doodling on his napkin, when he heard the speaker say the words “sincere trust and belief in people.” He looked up.

He wrote these words on his napkin and underneath them wrote, “What is that?” He passed the napkin to the person sitting next to him, who happened to be the company’s comptroller.

She wrote, “I don’t know what trust is. Do we have it at Wainwright?”

Simms wrote back, “If we don’t know what trust in people is, we can’t possibly have it.” He passed it back to the comptroller and went back to his doodling. Without thinking, she passed the napkin on. A few minutes later, Mike Simms realized to his horror that the napkin had gone to CEO Don Wainwright and both other owners of the company. As the management team looked back to that event, there was general agreement that this had been a key moment for the company. It was when they collectively articulated what they had been missing all along. It was not that the *employees* didn’t trust management, they all agreed; it was that *managers* didn’t trust employees. And this, the management team realized, was holding the company back.

Trusting employees was the starting point for the company’s effort to transform itself. Don Wainwright and the rest of the management team asked themselves a simple question: “If we *really* trusted our employees, how would we behave, and what would the benefits be?” The answer to this question was “We would listen to them and give them more ability to change things when they see a better way to do them." The transformation didn't happen immediately, but by staying true to the vision of increasing trust, gradually the TQM initiative began showing results. By 1994, performance had improved so much that the company won the Malcolm Baldrige National Quality Award. In presenting the award, Vice President Al Gore cited the company's world-class idea system as one of its most impressive achievements. Since that time, Wainwright has continued to improve and refine it. As mentioned earlier, in 2002, it averaged sixty-five implemented ideas per employee. It would be impossible for the company to handle all these ideas, unless it really did trust the employees to make good decisions and act on them.

In chapter 8, we discuss the connection between an organization's culture and its idea system. The culture of a company has always been, and will always be, very important for its success. Yet because it is so intangible, organizations find it difficult to measure and manage. However, organizations that successfully promote ideas have found that the performance of their idea systems is directly related to important aspects of their cultures—such as trust, respect, morale, involvement, and teamwork. They discovered that when employees see that their thinking is valued, attitudes change, and the corporate culture improves. This has a profound effect on performance and on the quality of the lives of everyone in the organization.

CONCLUSION

The world is becoming an increasingly competitive place. Those managers who recognize the potential in employee ideas and are able to encourage and use them, will be the ones who thrive. They will be able to create more pleasant and rewarding work environments, attract and retain better employees, and deliver superior performance. We believe future generations of managers will look back on us as having missed a huge opportunity. Managers who pay little attention to employee ideas will be viewed as having mismanaged a critical resource and as having paid a high price for it. The level of success with employee ideas will become a primary measure of the quality of a leader.

Don Wainwright once remarked to us that most business leaders manage from financial measures—that is, *lagging* indicators that impart mostly historical information. On the other hand, the most important indicator he uses is the number of ideas implemented in the previous week. This, he has learned, is the best *leading* indicator of his company's future performance. If he gets this number right, a great deal else will follow. Referring to the general tendency to manage predominantly by financial indicators, he told us that he could beat Pete Sampras or Patrick Rafter at tennis, if they watched the scoreboard while he watched the ball.

When managers first realize the value in the ideas of their employees, it is a profoundly liberating experience. When they learn how to go after these ideas, they also learn that it is well worth the time and effort. Ideas *are* free. Employees become allies in solving problems, spotting opportunities, and moving the company forward, to the benefit of all. And when managers decide to let their employees think alongside them—and no longer seek to go it alone—they will have joined the Idea Revolution.

Ideas Are Free:
How the Idea Revolution is Liberating People
And Transforming Organizations