Unlock the Creative Genius

Why so many companies never realize the value of Employee Ownership

By Martin Staubus and Robert Porter Lynch

Even in our ever more difficult economic environment, some employee owned companies are immensely successful, expanding their business and creating enormous value for their owners. Others flounder, with dismal results. Why the difference?

One of the most important reasons for the difference lies in how employee ownership is used to drive the creation of value.

The Capital Myth

The less stellar companies look at employee ownership as a "motivational tool," hoping that by giving the workforce a piece of the action, they will, in response, try harder ot make the company more profitable because it's in their best interests to do so.

These companies typically miss the mark because they don't understand that people don't simply work hard to make money. People are a bit more complex than that. Decades of behavioral studies have shown that people want far more from a job than money. Security, recognition, personal respect, and fellowship are critical needs, to name a few.

In addition, the notion that we can drive more work out of employees is an anachronism left over from the industrial days when people debated labor versus communism. People are not machines, and fortunately so. In the age of industrial capital, the highest goal of management was to develop a standardized production process, and then to *prevent* workers from varying from it – to eliminate change. But as we moved from the industrial age to the information age (and on to the knowledge age), this simply stifled competitiveness and drove workers into despair.

Southwest Airlines didn't beat United Airlines (both employee owned) because it had more money – it didn't. Foreign car makers didn't bring Detroit to its knees because it had better access to financial capital. Nor did Wal-Mart beat K-Mart because it was better endowed with monetary resources.

Even in the teeth of the global recession, the capital-access playing field has been effectively leveled. With costs of labor and other production inputs working against them, the only competitive advantage left to American producers lies in their ability to systematically spur innovation, creativity and human productivity. Businesses that don't apply this strategy successfully will be overtaken by lower cost producers around the globe.

Collaborate to Innovate

The companies that succeed consistently display a keen understanding of the value of *intellectual* capital – the hidden passion for people to create, solve problems, learn from their environment, adapt to new situations – in other words, to innovate together.[1]

Collaborative Intellectual Capital is the often-unseen dimension that separates the successful employee-owned companies from their mediocre counterparts.

Why do some companies understand this critical difference, while others seem to be blind to it? Here's why:

Those leaders who win understand that employee ownership is not just a financial *tactic* to be used as an incentive to get people to work hard. Rather, they understand that engaging employee-owners in the ongoing challenge of creating better products and better ways to deliver them is a *strategy* – not just to survive, but to create an unassailable competitive advantage to thrive in the marketplace.

By focusing on a *strategy* using employee's imagination to win in the competitive world, companies create economic value on the bottom line, revenues on the top line, and personal value in the hearts and minds of the stakeholders.

The Employee Ownership Advantage

For employees, the pursuit of continuous innovation can be engaging and rewarding. Some might even call it stimulating and fun. But no one will describe it as easy; it demands a higher level of engagement, of being alive, alert and actively involved. Frankly, it asks more of people than traditional workplaces have asked, where the standard has so often has been to trudge through one's routine and do no more than is necessary to avoid getting fired. How does company leadership get their people to embrace this more demanding strategy?

This is where employee ownership companies have a key advantage. They are positioned to offer a convincing answer to employees who question why they should move to this higher, more demanding level of engagement in the mission of their company.

One of the great figures who have shown the way in this area is Jack Stack, CEO of SRC. Jack has developed a comprehensive, strategic operating system built around a never-ending process of continuous collaborative innovation. As he so distinctively puts it, companies have a tendency "to use stock merely as a form of compensation – a carrot to get people to work harder. In a company with a strong ownership culture, stock is more

---

[1] This concept is to be distinguished from intellectual *property*, the legal term used to refer to patents, copyrights and other ownership of intellectual products. In speaking of intellectual capital, we refer to the capacity to *produce* intellectual property, not the property itself.

than compensation. First and foremost, it's a vehicle for change. The goal is not just to reward people for the work they do, or to maximize profits for their own sake, or to enhance shareholder value, improve cash flow, or whatever. Rather, equity is used to involve people in the process of making a difference in the world. Why? Because business is a tool that allows us to accomplish the things that matter most to us, and those things must transcend business to have real meaning and value."[2]

Caring about the success of the organization comes from finding a sense of meaning and purpose in both the organization's mission and the manner in which employees' creativity and teamwork is deployed to accomplish that mission.

No leader can force this from the outside; it's got to come from the heart. According to Stack, "the Big Lie … is the notion that you can manage effectively by forcing people to do things they really don't want to do. It is just not true. People only get beyond work when their motivation comes from the inside. That's the higher law – *you gotta wanna* – says it all."[3]

How to Create the Innovative Engine

Most leaders have never realized the wealth of creativity and ingenuity that lies untapped within the workforce; those who do become the real winners. Here are some simple ways to get started:

First, recognize that all innovation comes from differences in thinking. If two people in the same room think alike, one is unnecessary for innovation. Cherish the difference in how people view a problem or an opportunity. Encourage differences in points of view. To start the innovation engine, ask a diverse group of people a lot of insightful questions, honor their thoughts, and watch new ideas snap to attention like popcorn on a fire.

Second, encourage people to experiment, try out new approaches, and pilot ideas on the work floor. And a word of caution: eliminate the word "failure" when an "experiment" doesn't work. Substitute the word "learning." Then share the learnings, and jump back in the ring with the next experiment.

Third, beware of the confusion about the word "innovation." Most people think innovation means conjuring up a new technology. Research has shown that only 1% of all innovation is patented. The vast majority of innovation is not technical – it's unique solutions to problems, rearrangements of how we deliver products and services, improving the customer experience, making the flow of goods and services

> **What exactly is "Innovation?"**
> **Here's a simple definition**:
> *It's People Co-Creating Strategies, Systems, Structures & Processes that Generate New Sources of Value or Growth for an Organization.*

[2] Jack Stack, A Stake in the Outcome, p 5
[3] Jack Stack, The Great Game of Business, p 36

more efficient, reducing waste, getting rid of non-value added effort, or creating new business models.

Fourth, provide a continuous flow of business information to those whom you will rely on to innovate. People can't meet customer needs they don't know about, improve cost structures they have no metrics for or streamline processes they don't understand. Information about company operations is the fuel that fires innovation. Organizations that limit information access to a chosen few are limiting the capacity of their employees to participate in collaborative innovation.

Fifth, extend your relationships for innovation beyond your own company. Ask suppliers for innovation they might provide. Ask customers for problems they encounter. Form strategic alliances with suppliers, outsourcers, and even other honorable competitors. Procter & Gamble formed alliances with their suppliers and a new stream of products like Crest White Strips, Mr. Clean Eraser, and the Swiffer emerged to create highly profitable revenue streams.

Sixth, be sure ideas are shared throughout the organization, and with suppliers and customers. According to Andrew Hargadon, "successful innovators are no smarter, no more courageous, nor tenacious, nor rebellious than the rest of us – they are simply better connected."[4] By sharing ideas, new evolutions of the idea build a momentum that ultimately creates competitive advantage, which in turn shows up as higher profitability.

Seventh, reward the entire organization for its innovation; don't put financial rewards solely into the pocket of individuals. Otherwise you'll reward people for sabotaging others and undermine the effort. Remember, innovation must be collaborative to be effective if value is to be created throughout the entire organization. Reward teamwork, sharing, and helping others when they run aground.

One of the great things about the "innovation engine" is that it runs on fuel that's free – ideas don't cost anything. Generating a continuous stream of ideas comes from asking employees to contribute their imaginations. Remember several things:

1. You don't have to "train" employees to be creative
   – they came to you that way!
2. You don't have to reward them with big money
   – recognition and action-results are all that's necessary!
3. You don't have to do a lot of convincing
   -- observation and listening are more important!

It's a leader's job to make sure the ideas are not killed and that the majority of ideas actually get implemented; otherwise the engine's fuel will dry up.

---

[4] Andrew Hargadon, -- ***How Breakthroughs Happen,*** *The Surprising Truth About How Companies Innovate, p 11*

Championing Innovation

Leading innovation is fun, but challenging, particularly for organizations that have not navigated this path before. It requires senior management to do far more than state superficial platitudes about innovation. A program needs to be put in place that is blessed throughout the organization.

Then innovation champions must be given air cover by senior execs to do the heavy hauling necessary to change a stagnant culture into one of vibrant collaborative innovation.

For example, Malcolm De Leo, V.P of Innovation at employee owned Daymon Worldwide, is the designated champion. He's a passionate crusader with a commitment to the value of innovation as the means for employees to create personal meaning and purpose, as well as for the company to gain a major competitive edge. He says that innovation is a faith-based profession: you start with faith and belief and often don't have any evidence that the goal is achievable. From experience in other companies he has come to expect that he will come under severe challenge, or even attack, by hardened skeptics; thus the need for air cover by senior management.

> Internal Qualities of an Innovation Champion
>
> 1. Creative Inquiry: Ability to ask challenging questions in a manner that will generate new insights or draw others into the question, enabling diversity of thought to shift thinking to a new, higher order
> 2. Collaborative Learning: Willingness to learn from others and respect/honor their insights (which keeps people from being caught in their own paradigm)
> 3. Perseverance: Ability to push forward, finding a "way" in the face of adversity -- not accepting defeat or failure, not believing it "can't be done"
> 4. Synthesis: Ability to envision the whole picture -- how all the pieces fit together -- at the very start, before the solution is complete.
> 5. Enlightened Dissatisfaction: Positive perspective that there is always a better way, perfection is not a state but a process.
> 6. Trust Building: Dedication to taking the honorable approach committed to a strategic vision that will be achieve by collaborative innovation

De Leo is entrepreneurial; a risk taker with demonstrated leadership skills and a successful track record. But he has encountered difficulties and failures enough times to have an innate wisdom about the possibilities, complexities, and difficulties he and his innovation teams will encounter.

Nevertheless, he's committed to getting results in an environment that's honorable, dedicated to the greater good, and committed to building trust, (on this issue, we devote the second article solely to the methods to generate trust), a powerful team builder dedicated to working not for himself, but for the greater good of all. He's a man dedicated to strong values, integrating across boundaries and building alliances with customers and suppliers to ensure innovation flows throughout the value chain.

Conclusion

Success in employee ownership means unleashing the creative energy inbred in every human being, and focusing that energy on achieving a strategic vision for the company that creates enormous competitive advantage, as well as meaning and purpose for the individuals that perform its everyday tasks.

There's an old adage that "work is only work when you'd rather be doing something else." When people engage in collaborative innovation, everyone wins.

Hidden within the employee ownership structure lies the enormous potential
for co-creative breakthroughs, enjoyable work, and financial wealth.

-30-

LAWS of COLLABORATIVE INNOVATION

Sharing Expands, Hording Contracts

Exploit Past Knowledge to Spur a Creative Future

Create Win-Win Alliances to Move Ideas into Reality

Honor and Respect Diverse Thinking