

## **THE INNOVATION FACTORY**

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**IDEO** helps top executives rethink their approaches to problem-solving and developing creative environments. Senior managers turn to IDEO to learn how to foster creativity by developing corporate cultures that are founded on breaking rules, building teamwork and stimulating the free expression of ideas.

**By Janet Wiscombe**

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IDEO began as a place where fun-loving, brainy engineers invented products ranging from stand-up toothpaste tubes to high-tech blood analyzers.

But in the past 15 years, the Palo Alto, California, company has morphed into an innovation factory where the corporate elite from places like Procter & Gamble, Kaiser Permanente and mMode at AT&T Wireless Services flock to participate in projects and brainstorming sessions with IDEO designers, engineers and social scientists. The company is ranked No. 15 on Boston Consulting Group's 2006 list of the 25 most innovative companies in the world.

Here, on a small campus down the street from Stanford University, is the company that has been variously described as wildly creative and collaborative, contagiously dynamic, open and intense, iconoclastic and slightly zany, flexible and flat as a pancake—the world's top honchos come to learn how to fundamentally rewire their companies for innovation, from product design to developing a creative mind-set throughout an organization.

With about \$80 million in sales and 450 employees, the firm may seem like small potatoes. But it has grown at a consistent rate of 20 percent per year for the past five years, and its global influence is huge. At the World Economic Forum in Davos, Switzerland, in January 2006, IDEO chief executive Tim Brown played a starring role in helping top execs rethink their approach to problem-solving and to developing creative environments.

At a time when creativity and innovation are the driving forces of the new economy, as well as the old one, senior managers throughout organizations turn to IDEO to learn how

to foster creativity by developing cultures that are founded on breaking rules, building teamwork and stimulating the free expression of ideas. IDEO general manager Tom Kelley, author of the book *The Ten Faces of Innovation*, talks about managing people inside a veritable innovation factory:

**Workforce Management: How specifically do you at IDEO find employees with the skills needed today to help create new workplace cultures to support innovation?**

**Tom Kelley:** Several years ago, I had responsibility for HR at IDEO, and was always conscious that our ability to continuously recruit new talent was crucial to the ongoing success of the firm. We tend to think of the recruiting journey as having two separable components—attraction and selection.

**Attraction:** Nobel laureate Linus Pauling once said that the way to get a good idea is start with a lot of ideas, and of course the same applies to getting good people. After IDEO got named as one of the best small companies to work for in America [by Inc. magazine], word seemed to get out, and attraction has never been an issue since.

So I'd say our experience at IDEO suggests that the attraction component goes well beyond the traditional scope of an HR role, and is broadly influenced by the company's overall reputation, its brand and its relationship to the surrounding community.

**Selection:** When I joined the firm, selection was much simpler than it is today, because back then we were searching mainly for product designers who combined a humanistic orientation with a technical background. My brother David [founder of IDEO] was teaching in a two-year master's program on product design at Stanford University that was graduating small groups of bright, creative "renaissance" engineers who we found to be perfectly suited to do innovative work.

Having seen their project work for two years, my brother knew those students very well, and when they started applying to our firm, he had more data available than can be ever be gleaned from the traditional recruitment interview. In fact, I'm not sure there were any sessions with prospective employees in that first decade of the firm that would be recognizable as job interviews, because my brother hired people he already knew pretty well—myself very much included.

Selection today is a bit more complex, partly because of the diversity of talent we are looking for, but we remain acutely aware of the limitations of a 60-minute hiring interview. We try to compensate for the relatively low-bandwidth communication of a traditional interview by doing lots of interviews before making a hiring decision—often using groups of IDEO people talking to a candidate in the same session—so that typically a dozen people may have talked to them before we make an offer.

That way, we triangulate on whether they will be a good fit at IDEO, and the IDEO team has a sense that they were broadly consulted on who will be joining their team.

**WM: How does the strategy for innovation work at IDEO?**

**Kelley:** IDEO has been practicing innovation throughout its history. Some of the key ingredients in that recipe for innovation are:

1. A human-centered approach that ties innovation to customers' underlying needs—even the psychological or emotional needs that are not immediately apparent and that customers themselves may not articulate.
2. A belief in the value of quick prototyping, the kind of experimentation that usually has relevant learning attached.
3. Heavy use of brainstorming as an engine for idea generation and a way to tap into the collective knowledge of the organization.

**WM: Please describe the culture at IDEO.**

**Kelley:** The culture is very deep at IDEO, and very nuanced. I'll highlight a few characteristics:

1. **An intense intellectual curiosity.** From the moment I joined the firm almost 20 years ago to the present day, I have always enjoyed the voracious appetite for new information and new ideas at IDEO. Stanford professor Bob Sutton, who studied IDEO quite extensively several years ago, described it as "an attitude of wisdom," a healthy balance between knowing things and distrusting what you know that encourages continued curiosity.
2. **An abundance mentality.** Since demand for IDEO's services has exceeded our supply during much of the firm's history, there is a healthy interest in doing the right projects, as opposed to doing whatever comes along. So both at an individual level and for the firm as a whole, we are looking for innovation programs that offer a good "fit" with our interests and capabilities. I believe that abundance mentality also results in a people who are generous in sharing ideas with other team members.
3. **An inherent restlessness.** The culture does not tend to "leave well enough alone." If you deeply believe that anything can be made better, then you tend to tinker with things a lot. So at IDEO, we are constantly tinkering with our methodologies, our offerings, our structure and even our workplace. I am sure a good accountant would tell us that we should keep every new office configuration, every new piece of furniture or equipment until it is fully depreciated, but that doesn't tend to happen at IDEO.

4. **A vitality that manifests itself in the group being relatively fit.** From the ongoing "boot camp" fitness programs to the 24-hour bike ride competitions to the pre-work surfing groups, the average IDEO person is pretty active.

**WM: What can HR executives learn from IDEO?**

**Kelley:** In my book, I tried to capture the key elements of IDEO's approach to innovation. I could have chosen to focus on creative tools or techniques, but instead created a framework around the people of innovation.

One intent of the book is to help teams and individuals go beyond doing innovation and start being the innovators. I believe this people-based strategy relates directly to human resources throughout an organization. There's not a role called "the human resources manager," but in a way, the whole book is about HR.

**WM: What does HR in the areas of hiring, retention, leadership and cultural development and training mean at IDEO?**

**Kelley:** Our founder may have been an engineer, but the founding principles of the firm were all about HR. Back in 1978, when hatching the firm that became IDEO, my brother told me two of the defining characteristics for the new enterprise: First, he said, he mainly just wanted a place where you could work with your friends. Second, he wanted a place where no one had a boss' boss.

The "work with your friends" rule is still in full swing, in a firm with more than its share of parties, and a very active social life. One telling indicator of how well people get along is that when IDEO has leadership meetings, bringing in managers from around the world to the San Francisco Bay Area, we routinely host them overnight in our homes. I have had several guests at my house over the years from IDEO's locations like Chicago, Boston, London and Munich.

An acquaintance of mine who works for the federal government finds this arrangement "creepy," but it seems perfectly natural because of the natural friendships within the firm, and of course it is purely voluntary on both sides. If we didn't enjoy doing it, we would have stopped long ago.

And when we did our first-ever firm-wide meeting of all 350 people a few years back, we hosted more than 100 visitors in the homes of Bay Area people [no one stayed in a hotel those nights]. It was great fun, and a memorable event in the history of the firm.

The "boss' boss" rule is maintained today as the minimization of hierarchy. In an idea-friendly environment, you want to minimize the amount of corporate posturing associated with trying to guess what answer the boss is hoping for. I am not saying that IDEO

people lack respect for authority, exactly; just that they are prone to speak their mind, regardless of whether there's a "boss" in the room.

**WM: What companies have best implemented IDEO's innovative strategies?**

**Kelley:** I am not sure that I would characterize them as having implemented our strategies per se, but there are dozens of client companies where I think we have helped add fuel to their engine of innovation. Procter & Gamble under CEO A.G. Lafley has strengthened their culture, quickened their pace of product development and doubled their stock price in recent years.

PepsiCo under Steve Reinemund [who announced his retirement as CEO in August 2006] diversified their portfolio way beyond carbonated soft drinks and created a bundle of new better-for-you products that enabled the market capitalization of PepsiCo to pass the market cap of Coke for the first time [in December 2005].

Among smaller organizations, Phil Newbold at Memorial Hospital and Health System [in South Bend, Indiana] has nurtured a culture of innovation at his hospital.

**WM:** What specific "how to" steps did you use at IDEO for fostering creativity when the company was founded? How have you sustained innovation over the years?

**Kelley:** Since my brother never wrote anything down—though I did much later, of course—most of those steps were implicitly leading by example, rather than having explicit policies or procedures. Smart team members are really quick to read an organizational culture and figure out what kinds of behaviors are encouraged versus those that are frowned upon.

For example, it was clear from the beginning that good-natured humor—even poking fun at the boss—was a part of the culture, but that ridiculing people for a "stupid" idea was not. And the absence of hierarchy I mentioned earlier was a part of it too. From the very beginning, IDEO was an idea-friendly environment.

**WM: At IDEO, how specifically do you identify the types of people who keep an organization creative?**

**Kelley:** In my book, I've identified 10 specific roles people have available to them, and all a manager has to do is give team members an opportunity to explore their aptitude for those roles. So, for example, if you think that someone on your team is very bright and has latent or underdeveloped talents for teaching others, simply give them a chance.

Next time they are going to an interesting conference or taking an international trip, maybe to visit one of your other offices, ask them to share the most interesting things they learned in an informal follow-up lunch session with their colleagues.

Basically, you're setting up an advanced form of the show-and-tell we all did in kindergarten. But doing so has three potential benefits. First, the person will pay closer attention when they are out of the office. They will learn more themselves, because they know they will be sharing the insights later. Second, if they are any good at the sharing process, the rest of the team who stayed at the office will get some new insights during lunch.

Third, and most important, you will get a sense of whether you were right, whether this person who you know to be bright is also good at transferring their knowledge to others.

So you have created a little experiment, and if it is successful you have identified a "cross-pollinator" for your innovation team.

If it fails, as many experiments do, then you can always try a new experiment with a different team member or nurture one of the other "faces of innovation."

**WM: How does your own company strategy improve the bottom line and give you an advantage over your competition?**

**Kelley:** We tend to spend more time worrying about our clients' bottom line than our own. But having said that, I am sure our CFO would tell you that IDEO has had pretty solid performance in the past couple of decades and is a healthy firm today. You may have seen the annual Boston Consulting Group/Wharton survey results on the world's most innovative companies. Every company on that list gains value from the innovation momentum they have built up within their organizations.

That innovation premium shows up in the stock price of the publicly traded companies, in their top-line growth and in their profit margins. In the long run, one of the biggest benefits of such innovation momentum may be in attracting bright, creative people who want to keep the innovations rolling along.

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## **Workforce Management**

### **Procter & Gamble Get Some IDEO**

**By Janet Wiscombe**

A couple of years ago, Procter & Gamble CEO Alan G. Lafley loaded up his entire Global Leadership Council, 40 business-unit heads, for a pilgrimage to San Francisco. The one-day immersion, sponsored by IDEO, was designed to open the eyes of the executives to new ways of thinking

"I think the world of them," says Lafley, one of dozens of top execs who maintain a close strategic relationship with IDEO and who has been at the helm of P&G as earnings at the \$70 billion consumer products giant have more than doubled in five years.

IDEO general manager Tom Kelley says that successful businesses like P&G build fresh innovation strategies into the fabric of their operations, from product design to people management. Their goal isn't just to develop hot new products, but to learn how to create the process of creativity itself through constant collaboration, brainstorming and the free expression of ideas.

Kent Lynde, P&G's associate director of research and development, credits IDEO chief executive Tim Brown with being the one of the forces in the change of thinking at P&G. At IDEO, "all company levels are fluid and organic," Lynde says. "There's no 'I'm better than you.' There are no barriers. People work quickly and holistically. The human and the mechanical are symbiotic.

"P&G is very well structured about how it profiles people to a corporate standard," Lynde continues. "The person we hire in Russia has the same profile as here in America. The major element is this: Core skill sets project the winners of the future. We hire outside but only promote from within."

Jennifer Irwin, P&G's senior manager of global HR, says the 140,000-employee company has updated its HR programs in the past couple of years to reflect the high priority the CEO places on innovation throughout the organization.

"Innovation was called out as a key competency," Irwin says. "It is communicated through our global competencies, or 'success drivers.' All of our businesses use it in every region of the world to find out the aspects of successful employees.

"P&G is a leader in assessment technology—more than any other company. We try to get innovation into the process of our assessment methodology," she says. "Our focus is on innovation in the creation of the brand and on new ideas and products."

At P&G, where as many as 200,000 assessments can be conducted in a year, the evaluations are developed and executed internally and are delivered online. Applicants with the highest scores are then given multiple interviews that typically last an hour or more for entry-level management or office administration positions. The same interview standards are used worldwide.

"We measure online biographical assessments in our competency model," Irwin says. "We look at historical behavior, how a person handles new ideas to solve new problems. It's very rigorous."

At P&G, the centerpiece of its new model for innovation is the company's connect-and-develop program, a highly successful strategy that dispensed with the company's "invent it ourselves" model and now scours the Earth for new technology and people. It created new job classifications such as 70 worldwide technology "entrepreneurs" to embrace the brains of the world from places like university labs.

The radical strategy now produces more than 35 percent of the company's innovations and billions of dollars in revenue. "We have expanded the mind-set of people throughout the organization," says Larry Huston, P&G's vice president for innovation and knowledge and the principle architect of the program.

"We are developing specialty roles and redefining roles," he says. "If we need innovation, we use to run to the bench. Now, we have to be clear about what [we need] and ask, 'Does the solution exist within P&G? Does it exist in the world?'"

"It used to be that we'd go back to the bench and find the solution ourselves. It used to be about know-how. Now it's know-how plus know-who."

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