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INNOVATE OR DIE

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"I cannot recall a time when we were in the midst of a more dramatic change to our business environment." Opening the IOD's Convention 2000 in London in May, Lord Young of Graffham, president of the Institute, said what every executive instinctively knows. Yet while the world around us changes in extraordinary ways, it's business as usual in many companies. Too many executives fail to accept that "innovate or die" is not just a conference theme: it's reality.

Halfway through the first year of the new century, South Africa is at a critical turning point. Predictions of surging economic growth – most economists saw 3,5% while one was confident of at least 8% – have given way to fears of a slump. Zimbabwe's election crisis has hurt the entire region. Growing Afro-pessimism is deterring foreign interest. Business confidence is falling.

In this climate, it is too easy to overlook opportunities and to focus only on fixing problems. It is tempting to hunker down and do more of what worked yesterday in the hope that things "will come right". But now more than ever, looking backwards is a bad idea. At a moment in human history when almost anything is possible, it is critical that we look ahead, look around, and apply our minds to what might be.

Companies that have to be dragged kicking and screaming into the future won't have a future. Events will simply overtake them. They will become irrelevant.

Many local firms have changed remarkably in recent years. They have not only cut costs and improved quality, they have also reinvented their products and services and underlying processes of delivery. Strategic alliances with a wide range of partners have become wide-spread. Global ambitions have been turned into sales in some of the toughest markets in the world.

Yet for all these efforts – and even though terms such as "globalisation", "world class" and "competitiveness" have become the stuff of headlines and part of everyday corporate conversation – there is cause for serious concern about where South African business is headed. Talk is not often enough underpinned by action.

Consider one indicator. While visiting London for the convention, I spent time each day browsing the appointments pages of the daily papers to see what kinds of people British companies were hiring. In the week I was there, I collected a pile of ads for e-commerce strategists. Back home, I looked for similar jobs in the Sunday Times Business Times. Over four weeks, I found not one!

Sure, there were plenty of jobs for IT experts of various kinds, including systems engineers, programmers, and individuals with ERP skills. But strategists, it seems, aren't needed in South Africa. Our companies know what they must do to exploit the opportunities of the information age.

If only this were true. And if only we faced more benign competition.

The reality, however, is that both the pace and magnitude of change will accelerate in coming years. "In a single day last year," said George Cox, director general of the IOD, in his address to the convention, "there was as much world trade as in the whole of 1949. In a single day last year, there was as much scientific research carried out in the world as in the whole of 1960. In a single day last year, we made as many phone calls as in the whole of 1983 and in a single day we sent as many e-mails as in the whole of 1990."

One consequence of these changes is that world business is engaged in a talent war. Yet while many countries make immigration easy for people with key skills, South Africa makes it hard. And while companies here worry about onerous new labour laws, foreigners have another concern: how to attract and manage Generation X-ers.

Said Peter Sondergaard, head of research at Gartner Group in Europe: "The number one strategic planning assumption now is that for every ten vacancies in the technology department you will soon only be able to find eight staff. A significant portion of your people will have to acquire new skills over the next five years."

But it's not only IT people who are in demand and increasingly elusive. Dotcom-mania has made old-line organisations unattractive to young people.

"How," asked Jan Leschly, chief executive of SmithKline Beecham, which is currently being merged with Glaxo Wellcome, "do we enable the young but very experienced people in this new world to get the budget, the authority and the management capabilities to work within this bureaucracy of ours?" His own son had started an internet business with $2m in finance after graduating from Harvard Law and Business schools in June 1999, and just eight months later sold it to Amazon for $200m.

One firm that obviously understands innovation is 3M. "We have a term for misplaced loyalty to past models of success," said William Coyne, senior vice president of R&D. "We call it a competency trap."

In his view, companies need three things to survive at the leading edge: "First, you need a sense of direction or vision. Second, you need to know the needs of those for whom you are changing – your customers – even if they do not recognise those needs themselves. Third, you need to set the right vigorous pace."

Ten years ago, 3M's target was to get 25 per cent of sales from products invented in the past five years. They then added the goal of getting 10 per cent of sales from products introduced in the past year. Recently, they raised the bar again, and now aim to get 40 per cent of sales from products less than four years old. But they're still not satisfied: the next step is to get 50 per cent of sales from new inventions.

"We estimate conservatively that we should be a $20 billion company in 2004," said Coyne. "So we expect that about $8 billion will come from products that we have not launched yet."

At 3M, innovation is a way of life, not just a flavour-of-the-month. The organisation not only sets stretch goals, it has also developed a way of consistently delivering against those goals. There's nothing mysterious or magical about it. Any company could, in theory at least, do the same.

The first requirement, according to Coyne, is "a climate of communication and sharing." But while saying it is easy, creating that climate is much harder. The critical factor and the potential stumbling block is the attitude of top management.

"Transformation is a group process," warned Coyne, "and the leader who tries to control evolution cell by cell is not going to succeed. "Never try to control or make safe the fumbling, panicky, glorious and chaotic adventure of discovery.

"Occasionally I see articles that describe how to rationalise the invention process, how to take the fuzzy front end and give it a nice haircut. I would urge you to make that fuzzy front end as unkempt and as furry as you can because innovation is not neat. We stumble on many of our best discoveries."

Determined to make the United Kingdom a competitive leader in the future, the British Department of Trade and Industry is sponsoring a major study of innovation. According to Nigel Crouch, leader of the "Living Innovation" project, "…there are three critical areas that you must get right. First, leaders must inspire and build a culture of innovation. Second, you must have in place the right management techniques and approaches, both formal and informal, to create outstanding products and services. Third, you must connect unbelievably closely with your customers and your markets."

Other speakers echoed the need for management to create a context in which people could show off their creativity. But the value of customer inputs into the innovation process was contentious.

"Be very attentive to your customers," said Coyne, "but never assume that they fully understand their own needs and desires. "If you take everything the customers says at face value you will be spending your career pursuing the same goals that your customer has described to every other supplier."

For Stelios Haji-Ioannou, the thirty-something chief executive of EasiGroup, success is only partly about identifying a customer need, and largely about delivery. "I am very much process-driven," he said. "All our companies are very production oriented: we do not ask customers what they like, but we define a product we believe is acceptable, and then we sell it."

His EasiJet airline has rapidly gained favour as a low-priced carrier in Europe by focusing on the basics and being meticulous about boring detail. It has also turned competitive disadvantages into a profit formula.

To another operator, the fact that landing slots at major airports were unavailable would be a huge handicap. To EasiJet, however, use of out-of-the-way airports means that planes spend less time on the ground and more in the air, which maximises use of the most expensive asset.

To another operator, travel agents would be vital. But to EasiJet, travel agents are a cost that neither the airline nor passengers need. So seats can be booked only by phone or via the internet. "We have a simple relationship with travel agents," says Stelios. "They hate us and we hate them!"

EasiJet's process-driven business model obviously works. (According to one survey, passengers rated its in-flight entertainment tops – even though it offers no entertainment at all.) Stelios is now applying the same principles to other start-ups, including a car hire company and a chain of internet cafes. And soon he will start a bank – naturally to be named EasiMoney!

The insights and lessons from the IOD's 2000 Convention added up to an obvious message: new challenges demand new ways of thinking and acting. The global business arena is being changed by people who see things through fresh eyes, and who bring extraordinary passion and energy to their work. To play the new game, companies need to reinvent themselves from top to bottom.

Can South Africa compete?

Only if people at every level of our companies accept the new realities and start working together to seize the new opportunities. For too many are looking backwards when they should be looking ahead. Too many stand in the way of progress. And too much time is spent on conversations that do not add value.

Of all the speakers at the "Innovate or Die" convention, the one who probably made the greatest impression on most people was not a business person, but rather a trade union leader. According to John Monks, secretary general of the TUC, a new kind of partnership is necessary in the workplace. “We cannot fight each other,” he said. “Competition is very considerable and working together is the key.”

His organisation recently did a survey to find out what workers wanted from their jobs. First came job security – no surprise there. What was a surprise, was what came second. “Not pay, not hours, not holidays or the usual stuff of the collective bargaining agenda – but the desire of individuals to be held in esteem by the person for whom they worked and the organisation for which they worked.”

What makes partnerships successful? “We have identified six principles,” said Monks. “Shared commitment to the success of the enterprise, recognition of legitimate interests, commitment to employment security, quality of working life, transparency, and the fact that each partner must add real value.”

Innovate or die. That’s the choice. And since it’s no choice at all, perhaps we should snap into action.

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