

Innovation speech for K.I.N Theme “Changing Contexts and Competitive Advantage”  
October 21, 2004, by Blythe J. McGarvie

**The FISO Factor, Fit In, Stand Out**  
**Or “Competing and American Business Prospects in a Changing World”**

Most financial managers are thought of as black and white thinkers. The creative genius is a word not often used to describe accountants. For me, saying “creative genius” evokes the image of Einstein with his white hair flying in non-gravity controlled waves. Or, it makes me think of one of those crazy marketing guys who strike it rich. You know the type: he dresses a little differently than the Brooks Brother catalog, flying to various points on the globe to meet with business leaders and world leaders who want to tap into his genius and rub his shoulder hoping for some magic to touch them. A third vision that pops into my mind as I think of the word Creative Genius, is someone who took ordinary and everyday behaviors or products or ideas and turned it into a lasting trend. She runs a movie studio and hears the heartbeat and dreams of her heavy purchasers, 14 to 17 year boys, regardless of their true chronological age or gender.

So maybe you are not Albert Einstein, Mohan Sawhney or Sherry Lansing. You may be thinking there is a chance for you to be a creative genius, but in today’s competitive world, with so many priorities to hit your financial targets, please your boss and achieve your goals, you just can’t quite “break out of the box”. If only you could get others to support your innovative dreams. You may be thinking that one of the toughest obstacles to overcome may be your Chief Financial Officer sitting in his or her office, whose innovative dream is interrupted by the nightmare of no cash left in the bank, hunker down, and wake up!

Today I would like to tell you a couple of stories to help you transform your CFO and help him or her embrace innovation in our changing world. Some of these stories come from a book I am writing called The FISO Factor, Fit In, Stand Out. This book presents six agents about successful and effective leadership which requires both imperatives: to fit in to integrate into an organization and to stand out to transform an organization. One of these agents is learning – The Wellspring of Renewal.

“Past results are no guarantee of future returns.” Every investor is familiar with that gloomy sentence; it is the part of the boilerplate that warns them that their money is at risk. Leaders also need to heed that warning because what worked in the past will not work forever. Organizations and people must change to grow. Learning, the fourth agent of FISO, is the platform that enables corporate and personal change.

Learning is the process of growth. It is through this process of gathering and synthesizing data that aspiring leaders understand and fit into the culture and processes within their organizations. Learning is also an important key to standing out – all progress, whether it is incremental or break through, is created through the learning process.

Dr. James Cronin, the 1980 Nobel Prize winner in Physics, shared a secret with me. I am lucky to know him because my best friend from high school is his daughter. I grew up calling him Mr. Cronin. The first thing that strikes you about him is the twinkle in his eyes, slightly pointed ears and a regular tempo in his demeanor. He never rushed, often sat thinking and was a good listener. Mr. Cronin would leave at 5am to drive to an obscure Chicago suburb called Batavia to work on particle physics. The fun part of him was that he seemed to be interested in everything we were doing. He would ask about our classes, our tennis and about music. It's not as if he sat still for long, but he made an impression. He flew to CERN in Switzerland like a frequent commuter, exposing him to French way of life over the years.

He had a way of taking concepts and relating them to things I understood. For example, over the last decade he has shifted his research to a new form of astronomy, studying the nature and origin of rare but extremely powerful, high energy cosmic rays that bombard the Earth. When describing how he did this with a grid, he explained how this was a large grid with different detectors about 1.5 kilometers apart in an area about the size of the state of Rhode Island. Ah-hah! Now, I understood.

We are all born with curiosity. The secret I learned from Mr. Cronin was that he was interested in all kinds of subjects. He would often have the left side of his brain, the analytical side working on a research project, yet he would also engage the right side of his brain and find appreciation in modern art, piano sonatas, and political news. I never understood how he was able to combine all of his interests and find the time to accomplish so much. For example, this latest cosmic ray project includes more than 250 scientists from nineteen nations. Then, one day a few years ago, I was staying at his home and we both needed to leave for work. As we were eating breakfast, we were discussing work and ideas. He noticed the time and in a casual voice said, “I don’t mean to be an alarmist, but if you are going to catch your plane, don’t you think you need to leave.” His discipline, calm demeanor and awareness showed even in deep conversation, he had his antennas up for his environment around him at all time.

Financial people are often the gate-keepers and feel the need to be aware of anything that effects the financial health of the company. It’s more than just making sure the budget is done on time and the financial processes are working. I believe your CFO and financial people have more interests than just the financial figures. They are probably broader, less black and white thinkers than they ostensibly appear. By sharing interesting stories, you are engaging their right-side of their brain. This will give them a broader perspective and put meat on the bones of the numbers... the beginning of unleashing their innovation spirit.

A second success strategy for competing in today's world is called "the Law of the Farm". The concept is quite simple. As in farming, success in life comes from regular disciplined, daily effort. A farmer can not harvest a bumper crop or even have a chance of that if he has been lazy for a few months and then "crammed" to catch up. Similarly, the greatest success in life is built slowly and deliberately through focused, consistent, high-quality efforts on a daily basis. The Nobel Prize is often awarded to people decades after the original research. In fact, Jim Cronin's research for his PhD in 1955 was the basis for his award.

The Law of the Farm principle is something that Steve Covey, Earl Nightingale and others have discussed. I apply it to the zeitgeist of the financial thinker. Most accountants and CFO want to have a regular, predictable and stable flow of earnings and cash. For sustainable success, your CFO is happy with a few windfalls, but would be pre-disposed to choose security and predictability over hot gushers. In a world where we talk about the winner-take-all-society and people want instant success, it's important to realize that the rewards of life only come to those who put forth the effort and creativity it takes to become successful. You can only reap what you have sown. (This was said over 2000 years ago.) So, if you want to increase your harvest, increase the quality of your efforts and intentions to things that will grow. Innovative ideas and investigating future possibilities will reap rewards.

But, we live in an impatient world. There must be some shortcut or secret to break through technology or creative genius. It doesn't work that way. Recent financial scandals prove that eventually gimmicks and lying will be discovered to the shame of the perpetrator. Your CFO wants to know you are following the Law of the Farm. You both have the same objective: sustainable success.

I learned when I was at Bic that the founder and famous innovator, Marcel Bich was quite the disciplined and focused worker. He would start every day at 7am. Then at exactly noon, he would take his 2 hour lunch. Not at a restaurant with a bottle of wine. He would eat a light lunch and then spend most of his time walking through the Bois du Boulogne. Since his office was in Clichy, right next

door, this was a convenient, pleasant place to walk where he could think, undisturbed and focus on building his business. After an afternoon in the office, most evenings he would drive himself to the same restaurant, Marius and Janette in the eighth arrondissement near the River Seine. At 6:55pm, once car phones were available, he would call ahead to the restaurant and tell them to put the sea bass in the water as he would be there in 5 minutes. After a brief dinner, he would return home or do his other activities with his family. Every Friday night, he would eat at home with his family. At the end of the meal, he would take out his checkbook, looking at the cash balance for the week. This became part of his regular routine as told to me by my boss, Bruno Bich, who was his son.

Over time, Marcel Bich built a company that operates or distributes convenient products to over a 100 countries. His inheritance to his wife and 7 children continue his sustainable success based on his trial and error to find and create innovative products and processes.

Not everyone distinguishes themselves with innovation. But if you look, you can find ways to communicate and transform your business in this changing world. That's part of your role as a leader in your organization. (Translation: that's why they pay you those big bucks.) You will notice I am shifting from talking about creative genius to innovation to leadership. For example, being part of KIN is a great way to indulge your passion and help you on your journey. I discovered an interesting model relating leadership and innovation to circumstances and change, written by Jim Selman who also wrote a 1989 article with Roger Evered called "Coaching and the Art of Management". His thesis is "that a competency for innovation is a natural by-product of certain ways of relating to the world; the context in which we relate to circumstances and change." If you think about it, leadership has a vision which is future-focused. In this sense, leaders must be innovators.

He purports that a "powerful way to think of innovation is that it means" intentionally "bringing into existence" something new that can be sustained and repeated and which has some value or utility." An example would be something

useful such as a nail gun. This is a new method of hammering. Creating a new tool is innovation. He makes a distinction between leadership and innovation. “Our concern is about accomplishing some sustainable change whether large or small, continuous or breakthrough...I distinguish leadership as always occurring in a context of some intention to create the latter: Breakthrough, to break with the status quo.”

Allow me to share Jim Selman’s concept of how he distinguishes six different ways, “different states of being or contexts available to every human being, at every moment, to differing degrees depending upon our commitments, concerns and competence in various domains of action.”

SOLDIER --	Resistance:	Opposition to circumstances
FACILIATOR --	Coping:	Positive reaction to circumstances
FATHER, TEACHER --	Responding:	Owning the circumstances
COACH --	Choosing:	Accepting the circumstances
CHARISMATIC --	Bringing Forth:	Creating the circumstances
GIFTED --	Mastery:	Creating the context for change

Your CFO and financial function may be at different places on this spectrum. To summarize the thoughts in this model, “If we are resisting or coping, we see no innovation and whatever change we generate will be as a reaction to the circumstances and part of the process by which those circumstances persist. When we are responding or choosing we are in a position to innovate and will do so naturally and consistently as a function of what we observe to be possible or what we observe is missing in our perspective of the world. Change based on this view is likely to be an improvement on what already exists. When we are going forth or creating we are not only in a position to innovate but are predisposed to do so.

Further, we are likely to be generating breakthroughs or even creating entirely new spheres of possibility.”

Each of the ways of relating and leadership models has a different intention. For example, the soldier wants to survive; the facilitator wants to thrive, the teacher wants to be responsible; the coach to be serene; the charismatic, to create circumstances; and the gifted to create possibilities. How you and the CFO’s point of view of the circumstances is considered, will determine which ways you need to relate in order to get to the point of innovation.

So how do you move your CFO to more of an attitude of Gifted, viewing the circumstances as not fixed and seeing a commitment to create context? “Always remember that someone, somewhere is making a product that will make your product obsolete” according to the renowned Georges Doriot. He was born in France in 1899 and one of the inventors of the modern practice of venture capitalism in 1946. One of the biggest motivator is fear. Financial executives must look beyond just security and protecting the company’s current assets. The financial team must understand that if there is not an awareness of the changing world, it doesn’t mean it is not happening. In other words, ignorance is not bliss. Staying the same is not possible when the world around us is changing. The finance executives that I know who take risks and embrace change keep sustainable growth. I am sure you know many examples of financial people who could inspire your CFO and team.

Look at Steve Bollenbach. As a financial executive of Marriott Corporation, he and the executive team determined that the company could earn a higher return on invested capital if they sold the hotels and kept the management contracts to run the hotels. Lower capital tied up in the business, higher profits in controlling the revenue and expense part of the model was a bell weather new model for the hotel industry. He has since gone on to many successful positions, currently as President and CEO of Hilton Hotels Corporation since 1996.

Of course, the alternative could be a life like Joe. (roll the clip of Joe vs. the Volcano).

Assuming now that you have a creative genius who happens to be a financial executive or vice-versa, I would like to discuss two last areas of importance to engaging your CFO. I want to touch on funding and metrics. Finance is focused on financing innovation and ROIC (Return on Invested Capital). That's fine. But unless financial executives see innovation as everyone's role, they could be at the top of a company without a future. The last hope to clue in the financial team is to show how capitalizing on innovation gives a return and can be an opportunity of using the leverage of OPM, other people's money.

In the most recent upturn in technology, it wasn't just banks, VCs or public debt that helped fund innovation. The government funded those firms with clear incentives that could operate on the supply or the demand side. Research published by the ESRC Centre for Business Research at the University of Cambridge in September 2002 reveals a surprising link between law, innovation and finance. It shows that while "venture capital is used to finance a small minority of companies with the potential and ambition to grow rapidly, it is thought to be of disproportionate importance in stimulating innovation." As you know, financing is not released all at once. It is rather "staged" with subsequent rounds being made available as performance targets are met or at a higher cost if the interim targets are not met. Such areas such as capital gains tax and subsidies stimulate venture capital investment. Yet, the government can also provide direct influence to help stimulate innovation.

In the research, The US Small Business Investment Company (SBIC) is a federally-guaranteed risk capital firm in operation from 1958-1969. It led to the provision of more than \$3 billion to small firms, more than three times the money that was privately provided during this period. More recently, SBIR (Small Business Innovation Research) in operation from 1983 to 1995, provided as much funding for small, high-technology companies in 1995 as the entire private supply of early-stage venture capital in that year. (Lerner 1996). Europeans cite these examples of how government can help, particularly if they are careful in setting the eligibility criteria necessary for funding. This same research "provides evidenced that investee firms of the publicly-funded SBIR program experienced greater long-run growth (measured in terms of sales and employee numbers) than matching firms which did not receive such investment." Synergistically, "this outperformance was limited to investee firms which were located in areas where there were substantial levels of private VC investment as well." In other words, without the

addition of VC investments, the firms did not produce better returns than the matched firms in the areas.

The purpose of this discussion is not to review the law. The point is that funding for innovation is available in many forms. Government can be a critical partner. Also, the CFO should look for creative ways to find funded support. Tax credits for one of my clients provided a real impetus for job growth and the investment of \$140 million.

Finally, metrics. If you don't have them, get them. Innovation metrics are valuable because they help organizations become more ambitious. There are many metrics for measuring innovation: Revenue growth from new products (called the innovation gap), patent submission, idea submission and flow, innovation capacity using survey tools such as KEYS, the innovation Climate Questionnaire or other tools. The best practice is an innovation index.

Research shows “Dow Corning, for example, uses an innovation index that combines idea generation employee participation, revenue growth, and patent filing. The index, developed with the sponsorship of the CEO, is based around an ideal 100 point score. It is discussed at regular management meetings to set targets, track performance and look for gaps. ...Other companies have gained executive credibility by using past results to justify future innovation investments. A \$50 million target for organic revenue growth focuses the mind, especially if history indicates that the group has achieved past growth through acquisitions alone. Some companies, such as Proctor and Gamble, have used this type of analysis to help executives understand the importance of investing in major new product platforms.”

As we discussed competing and our prospects in a changing world, I know that other speakers will talk about the importance to listen to your customers and the marketplace. That's where it all begins. I hope you will keep in mind the

takeaways of this talk as you think about the customers (roll the video clip from Big).

In summary, the key takeaways: To compete successfully in a changing world and exercise your leadership, you must:

- 1) Engage both the left and right brains.
- 2) Require constant daily work.
- 3) Consider various leadership models to help you communicate to the black and white thinker.
- 4) Remember if no innovation, then no security, no results, no job, no fun. (Joe vs. the Volcano)
- 5) Look for funding for innovation in many places.
- 6) Use metrics (to comfort your CFO).
- 7) ALWAYS, listen to your customers and the marketplace. (Big)