

TRANSFORMATIONAL INNOVATION: A JOURNEY BY NARRATIVE

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(PART TWO OF A TWO PART ARTICLE)

For this article, Steve Denning drew on his latest book *The Leader's Guide To Storytelling* (Jossey-Bass, 2005). Formerly the Program Director, Knowledge Management, at the World Bank, he advises organizations on knowledge management and organizational storytelling (www.stevedenning.com).

In a previous article in Strategy & Leadership (Vol. 33, No.1) the author argued that innovation remains a management paradox—long-term survival requires a commitment to transformation via disruptive growth, but it's a challenge few companies address. Though the need to innovate is universally acknowledged, it's not enough for companies to merely get better. They have to become different—not just at their periphery through extensions of existing businesses, but in their

core, through a commitment to disruptive growth. To solve the dilemma presented by a disruptive growth strategy, corporate leaders must address its inherent conflict. The author argues that sophisticated leadership communications is key, and that any attempt at transformational innovation will flounder and sink unless leaders acquire the capability to deploy the full array of narrative tools of leadership, and do so consistently over a period of years.

Transformational innovation entails a transition from a mode of operating that is known and secure to one that is unknown and potentially chaotic. Transformational innovation requires *offering or doing something fundamentally different*; a metamorphosis most organizations don't excel at. Such innovation is disruptive because it introduces products and services that change the business landscape by providing a dramatically different value proposition. And championing transformational innovation involves going to war with all the elements *inside* an organization that benefit from the status quo. Within the organization, it may involve persuading managers and staff to turn their working lives upside down and inside out and not to do so slowly and grudgingly but quickly and enthusiastically. Such a shift will never be easy because it puts in question existing strategies, jobs, careers, processes, brands, customers, and culture.

Thus to solve the paradox of disruptive innovation, we need a different kind of leadership—one that goes beyond the familiar command-and-control. That approach is adequate for maintenance of the status quo and even for incremental innovation, i.e. innovating within the fundamental assumptions of the existing business by doing the same thing only cheaper, quicker or better. But it is inadequate to cope with the challenges of transformational innovation, which entails changing the very foundations on which the business has been run, and doing something fundamentally different.

Transformational innovation entails a capability to deploy an array of leadership narrative tools that can persuade people to change, get people working together, transfer knowledge, neutralize the rumor mill and create a compelling new future.

One of the key skills of any innovator is to communicate to the organization the risks in clinging to the status quo and the potential rewards of embracing a radically different future. The natural language for accomplishing this is artful narrative—that is, telling a story about the path to a desired future in a way that fully engages the listener. This requires presenting a compelling narrative informed by all the tools of analytic thinking—planning, scenarios, evaluation of

alternatives, macro environmental analysis, industry analysis, and assessing core competencies. Thus it is through narrative that we discover a different view of who we are and what the organization might become. It is through narrative that we imagine a new story of the future in which we can passionately believe. It is through narrative that we overcome the fear that accompanies venturing into the new and the unknown. By crafting a logical narrative and testing a potential new business model against it, leaders learn to adapt the innovation to the evolving realities of the marketplace. It is by narrative that leaders persuade others to believe in, and act on, a vision.

Transformational leadership

Deploying the full array of narrative tools isn't simply about making the occasional speech about the future while continuing to manage on a daily basis in the command-and-control mode. Transformational innovation requires leadership that continuously looks at the world so as to understand the story that is emerging, and is constantly on the lookout for the possibility of creating a new narrative that can successfully guide the organization into the future. This persistent openness to story is necessary because innovation is unlikely to appear according to some management timetable, at the strategic planning committee, in the orderly "stage gates" of innovation theory or in the confines of a scenario planning exercise. Innovation can be encountered when it is least expected. The idea that could change your organization's future could come from a heretic, an odd duck, a prodigy, or business unit on its periphery.

As Peter Drucker pointed out, more than thirty years ago, "In the innovative organization, the first and most important job of management is...to convert impractical, half-baked, and wild ideas into concrete innovative reality.... Top management, in the innovative organization, knows that new ideas are always 'impractical.' It knows that it takes a great many silly ideas to spawn one viable one, and that in the early stages there is no way of telling the silly idea from the stroke of genius. Both look equally impossible or equally brilliant." [1: 797]

The transformational leader obviously doesn't set aside analysis. Rather the narrative tools of leadership are married with traditional analytic approaches. The leader uses narrative to explore the future and persuade others to believe in it, at the same time as analyzing the idea to see whether it will fly. There are thus two tests for any radically new business model—does it create new customer value and is the underlying story logical? [2]

Of course, narrative *per se* is not some kind of panacea to the problem of transformational innovation. The mere fact of using narrative tools doesn't guarantee success. Even if the leader does deploy the full array of narrative tools, it's all too easy to fall for the wrong story and pursue this passionately to disaster. Or we may fail to recognize a major opportunity that is staring us in the face and let it slip out the door. But without the capacity to use narrative tools of leadership, a leader has no chance of being successful at transformational innovation.

A different kind of leader

Thus using the full array of narrative tools is a necessary, but not a sufficient, condition for solving the problem of innovation. If interactive leadership, consistently using narrative tools, is combined with smarts and analysis and courage and passion and imagination, it can show us the way to tackling the most difficult leadership challenge facing management today.

Example: IBM and the Internet

In 1994, a young engineer, David Grossman in IBM set out to persuade the management that the emerging Internet was huge business opportunity. In due course, John Patrick who had managed the marketing of the IBM ThinkPad laptop, helped Grossman and other innovators get the attention from the top management of IBM, which at the time was centered on closed systems, particularly vertically-integrated mainframe computers. [1: 22] In due course, IBM's CEO, Lou Gerstner heard about the initiative, and he provided "just enough" leadership by encouraging the team. [2]

With Gerstner's support, Grossman and Patrick led a struggle inside IBM that lasted for five years. Rather than frame the Internet as a technical challenge, Grossman and Patrick presented it as a cultural and values challenge. As middle managers, they had the authority to directly only those few who reported to them. Even then, they could not order employees to act against company policy, though occasionally they exceeded their authority, for example, when they committed IBM for the biggest display space at a future Internet trade show.

IBM executives unveiled e-business to the rest of the world during a Wall Street briefing in November 1996, when it received a modestly positive reception. But when, months later, IBM's advertising agency, Ogilvy & Mather, developed a memorable TV advertising campaign featuring black-and-white narratives, suddenly the message clicked. This was because the narratives reflected the confusion that most customers felt about the Internet, and offered a narrative way of understanding the Internet's real value. [3: 173]

IBM offered tools and services to support e-business, effectively abandoning the vertically integrated business model that had been the backbone of IBM's business for many decades. By 1999, the Internet was worth some \$20 billion in annual business for IBM. [1: 23]

IBM's success depended on a group of managers at various levels – Gerstner, Grossman, Patrick among others – having the ability to perceive a new story of business opportunity, the courage to believe passionately in that future story and act on it, the flexibility to adapt the idea in the light of market realities, and above all, the capability to persuade first IBM staffers and eventually the rest of the world that this was indeed the path to the future.

As a lowly engineer, Grossman went around the chain of command, taking the risk of being obnoxious and putting himself on the line in danger of ridicule. Once, he barged into the Armonk NY IBM corporate headquarters, alone but for a UNIX computer under his arm, to introduce the senior executive in marketing, Abby Kohnstamm, to the Internet. [1: 23]

Gerstner in turn was not only willing to change IBM's business model but also make the case both inside the organization and out. Initially Gerstner made the case to for e-business to CEOs and in speeches at industry meetings. For instance, in his address to the Internet World '96 conference on December 11, 1996, he told a series of persuasive future stories like the following:

"I'm often asked by IBM customers where the Net is headed. I tell them: Clearly, connectivity is important -- but it isn't the real issue. Let's say soon there will be 1 billion ways to get on the Net. Then what? What will these connected millions do? What will they want to do? What will they value? And what will they be willing to pay for? The answer is-- all the things they do today. Buy and sell; bank; follow legislation; work together; access entertainment, earn a college degree, renew a driver's license. In other words, they'll want applications. Not shrink-wrapped "bloatware." And certainly not static information posted on Web sites. We're talking about interactive, transaction-intensive, networked applications that let people do something meaningful." [4]

In due course, a \$200 million advertising campaign in 1997 telling graphic stories about IBM and the Internet got clients and other external stakeholders all around the world thinking about IBM and the Internet in a very different way. [3: 175]

The end result was that Gerstner, Grossman, Patrick and others succeeded in persuading IBM staff and the rest of the world that IBM could be a major player in the Internet. In due course, belief in the story helped turn it into a reality. Five years later, the story was worth some \$20 billion a year to IBM.

Two-page Sidebar

The role of narrative in the stages of transformational innovation

The process of introducing transformational innovation is seamless and inherently unstructured. There is no orderly sequence or phases, even where there are efforts by management to establish such sequencing or phasing. Transformational ideas do not arrive by timetable. Nevertheless there are pivot points in the seamless flow of interactions when the dynamic of transformational innovation changes. These pivot points occur, first, when the top management blesses the new idea, and second, when significant benefits start to flow. There is a different “feel” to the organization before and after these pivot points.

Before top management blesses the idea...

Before top management blesses the new idea, an innovator is essentially fighting a guerrilla war with the powers-that-be in the organization. The activity will be opportunistic, often a rogue operation, because the idea will bring disruption and disorder into the organization, threatening careers, brand, processes and more. Innovators can therefore expect discouragements and even punishments for their efforts. Because in this stage the innovator lacks top management support, the innovation may not yet be seen as a major threat. (Of course, if it's top management that's launching the new idea, then we move immediately into the next phase.) The powers-that-be may refrain from wasting institutional capital on closing the activity down, perhaps hoping that the operation will die of its own accord. In this phase, one is trying to win converts to the idea even as one develops and adapts the idea to the reality of the marketplace. In this phase, the most important narrative elements of the scene are:

- **Discover the right idea through story:** The innovator has to find the right idea, one that can transform the firm's future. But how? Generally it's a matter of putting yourself in the way of a new thought, making yourself available, waiting alertly for the approach of something other, and then nabbing the idea before it disappears. [3] Both the front-line staff and external experts are fruitful sources of discovery, which is often the easiest element of innovation. [4]
- **Use stories to win buy-in:** The innovator needs stories to persuade others that the idea is not only possible but desirable. Without infectious enthusiasm, the best idea, invented, adapted, and perfected and ready to storm the world will remain unloved and unimplemented. However, the right narrative can unleash pent up passion, playfulness and openness. A simple “springboard story” can communicate a complex idea and spark people rapidly into action. [5]
- **Use business models as plots:** These are stories that flesh out how the idea is going to work, how it is going to provide value to customers, and how the firm is going to make money out of it. This is how to find out whether it's a good idea or not. You examine the numbers but you also examine the logic of the narrative. Does the story in the business model make sense? Is it likely that the people involved will act the way the narrative anticipates that they will? [2]
- **Use scenarios:** Scenarios may also be useful to explore how the idea might play out in different alternative futures in the longer term: [6]

- **Understand the customer's story** and develop new brand narratives that build on the customers' stories. The best way to understand the customers' stories is to go and meet them face to face. [7: 154] For example, IDEO, the renowned design firm, gets executives to live the customers' experience. [8]

After top management blesses the idea...

One might imagine that progress would be easy once top management has blessed a disruptive new idea. In reality, this is when the fighting gets tough, because now there is a risk that the innovation may actually happen and the forces in favor of the status quo are on high alert. In this phase, it's all-out war, no holds barred. This is also when attacks become personal. That's because the most effective way to kill an idea is often to eliminate its leading proponent, the person who gives it life, passion, energy and who has the courage to speak up for it. This is the time when many good ideas die – the time when significant investments are required and benefits aren't yet apparent. This is a propitious moment for the opposition to strike back, particularly when there is the inevitable setback in implementation, when something doesn't go exactly according to plan. [9] In this phase, the most useful narrative tools include:

- **Tell springboard stories and stories that build community:** winning new converts, getting people working together, making alliances on the fly, turning fence-sitters into the believers, resisters into mere skeptics – all this is the natural territory of the springboard story.
- **Listening to the customer's story:** When the innovator studies the landscape as the customer sees it, a widened set of possibilities emerges, enabling the adaptation of the idea to the realities of the marketplace.
- **Learning and adapting through knowledge-sharing stories:** No idea is implemented exactly as originally conceived. Some development – learning by doing – is necessary to get the idea into a form that is practical and can be implemented. Narrative is one of the tools by which we learn and communicate about the process of adaptation.
- **Taming grapevine through story:** Keep an alert ear for the rumors and unreasonable criticism that will inevitably emerge at this time, including some from among the most senior managers. Innovators also need to keep alert to the possibility that maybe some criticism may be on the mark and they will need to adapt the idea in response.
- **Telling future stories:** Future stories can help people imagine a different future by clarifying what the business would eventually look like if the idea were successful. They also show how the business is likely to fare in alternative scenarios in the longer term.

Once benefits start to flow....

Finally when benefits are becoming apparent, the scene tends to change from open warfare to sporadic violence. Now it is usually too dangerous for the opponents of the change to launch outright attacks. Now the innovator is the establishment and the opposition is the guerrillas. Hence the warfare will tend to go underground. To deal with this, the innovator will need *inter alia*:

- **Continue to tell springboard stories:** Even though momentum is now on the innovator's side, it's still important to keep spreading the message. There are always newcomers who need to learn, as well as old-timers who need to be reminded why the idea was important in the first place.

- **Tell stories that build community:** The innovator needs to keep building coalitions of people who have the vision and can continue to develop it, adapt it, nurture it and make it a reality.
- **Communicate the brand narrative:** It's not enough to win over staff. The innovator needs to communicate with the existing customers and other external stakeholders what the new meaning of the brand is.
- **Celebrate success:** Innovation narratives need to relate the familiar and the strange, past and future, expectations and surprise. In time, innovation becomes accepted, and eventually revered. Perhaps by then it will be time to start the transformation process over again. Reminding people of what was accomplished in the first transformation is an essential part of the new narrative.

Endnotes

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