

## Change, Innovation, and Opportunity

### About the Event

On September 29, 2015, *CEO Perspectives* held a reunion event to mark 12 years of providing the growing community of Fellows continued access to relevant business and leadership insights and ongoing networking opportunities. The event brought together Fellows from each program year from 2005 to 2015, and focused on how corporate leaders can lead breakthrough change and innovation-focused thinking amidst mounting market uncertainty, disruption, and opportunity.

After welcome remarks from Cheryl Francis and Sheila Penrose (Co-Chairs, Corporate Leadership Center), the program included three main sections. First, David Pottruck (Chairman, HighTower Advisors LLC), discussed how executive leaders can promote breakthrough change for their organizations, in a conversation moderated by Sheila Penrose. Next, a panel including Dr. Greg Hyslop (Vice President and General Manager, Boeing Research and Technology), Andrew Taylor (Senior Partner and Managing Director, The Boston Consulting Group), and Howard Tullman (CEO, 1871 in Chicago), discussed innovation trends and approaches in the private and public sectors, as moderated by Kenneth Porrello (Principal, Deloitte Consulting LLP).

Finally, Fred Smith (Chairman and CEO, FedEx Corporation) was the keynote speaker, sharing thoughts on the changes he has seen and reinvention he has led at the giant overnight-delivery company he founded, in a conversation moderated by John Edwardson (Retired Chairman and CEO, CDW Corporation). Sunil Kumar (Dean, Booth School of Business, University of Chicago) introduced Fred, and Sally Blount (Dean, Kellogg School of Management, Northwestern University) offered closing remarks.

### Key Insights Summary

**Change is the Only Constant.** Business leaders need to understand that change is inevitable and that failure to adapt is often failure to survive. The best leaders understand not just where things are, but where they are going and what that means for the firm.

**Reinvention Rules the Day.** Adapting to large-scale change means reinvention, or the ability to see change not as a threat but an opportunity. The most successful, longest-lasting firms engage in strategic reinvention built upon breakthrough changes.

**To Break Through, Break Away.** Driving breakthrough change means stepping away from established plans and facing resistance and other obstacles with grit, authenticity, a high-performing team, and a systematic approach to innovation.

**Inspiration, not Motivation.** Motivation is not sufficient for breakthrough change. The most successful leaders inspire their people, customers, and partners by making them part of something meaningful and truly worthwhile; something that matters.

**Reward the Three C's.** Reinvention and innovation result from a combination of curiosity, creativity, and courage. Find and reward those qualities in your organization through attractive career paths, high-profile recognition, and opportunities and resources to drive real change.

## Leading Breakthrough Change in a Time of Uncertainty, Disruption, and Opportunity

As former CEO of Charles Schwab Corporation (who led the firm to an over \$30 billion market cap), current Chairman of HighTower Advisors, and adjunct faculty at the Wharton School, David Pottruck has led and studied breakthrough business change of multiple kinds. He shared his insights and advice, including those from his *New York Times* bestselling book, *Stacking the Deck: How to Lead Breakthrough Change Against Any Odds*.

**To break through, first break away.** Unlike incremental change, breakthrough change—whether a new product, acquisition, or operating efficiency—requires breaking away from established plans. Don't settle for a momentum-maintaining plan. Recognize that leading breakthrough change is hard and progress is rarely linear. Pottruck put this advice into practice when guiding Schwab to cut prices dramatically as digital-only brokerage competition rose. Analysts were skeptical, but the strategy worked.

**The deck is stacked against you.** Companies are built for reliability and risk-minimization. Planning almost always reinforces those goals. That means your teams and broader organization will be resistant to breakthrough change. Improving your chances of success means restacking the deck by following a systematic process, leading with authenticity and inspiration, developing the right team, and other means.

**It's a process.** Leading breakthrough change requires breaking from established plans, but can proceed through a systematic process: understand the need to change and create urgency around it; work with your inner circle to develop a compelling vision for the future; recruit people from finance, operations, and elsewhere to go from vision to reality; anticipate resistance and understand its sources (such as culture); model the economics, determine the best metrics, and test what you need to test; roll it out and test again. Repeat for the next breakthrough change.

**Aim for 'noble' failures.** The path to successful breakthrough change typically involves failure. But the best kind of failure is the noble variety, or the kind that follows specific rules, includes a contingency plan, involves minimal regulatory/reputational risk, and avoids financial calamity. Aim for noble failures and reward those who take risks in a structured, prudent way—even if they don't always succeed.

**Lead with authenticity and ask high-gain questions.** Leading breakthrough change requires authentic determination, interest, and confidence on the part of leaders. The best leaders show their companies and other stakeholders who they really are and what they stand for. They don't just read speeches but speak from the heart. They care. That means getting out of your office and talking to frontline employees (they can tell you what's working—or not—with operations, processes, and risk management). It also means asking customers real, high-gain questions like, "If you could change anything about how we work with you, what would it be?" They can tell you the what. Your job is to figure out the how.

**Be a talent magnet.** You need to invest significant time and energy in developing the best team for breakthrough change—not just people with the right work ethic, but with the right experience. Every meeting is an opportunity to build your network and find people for current and future teams. Always be recruiting. And remember: when people are struggling, they are unlikely to improve, even with support. Don't forestall the inevitable. Have the difficult conversations sooner rather than later. Sometimes this means saying goodbye to talented people who can't change what they've built at your organization, but can succeed in driving breakthrough change with a different employer.

**Inspiration, not motivation.** The entire organization takes inspiration from the CEO and top management team. Motivation, or exchanging rewards for the hoped-for behaviors, is not sufficient for breakthrough change. Inspiration requires connecting the challenge of breakthrough change with what matters most to your people, what's most fulfilling for them. They have to want to do it because it's important to them, not just to you. Help them feel they are part of something big, meaningful, and worthwhile. Show real grit in the face of adversity to maximize inspiration. After returning as its leader, Howard Schultz turned around Starbucks by shifting the culture back to valuing the things that mattered most: premium coffee, service, and other dimensions.

## Innovation Inside and Out

Innovation is increasingly critical across the private and public sectors—whether at the team, enterprise, regional/national, or global ecosystem level. In a recent Boston Consulting Group global innovation survey, 79% of executives rated innovation as a priority among their top three, but respondents also saw 70% of spending in this area as ineffective. Here are key innovation-related insights offered by the panelists at the reunion event.

**Innovation is a (flexible) system.** Breakthrough innovators view innovation as a system or comprehensive business practice, and are able to identify the effective and ineffective components of the system and address the latter. The resurgence of corporate venture departments and greater investment by companies in external startups also reflects a more systematic approach to innovation. As advocated by Amazon founder Jeff Bezos, successful innovation can emerge when leaders are firm on their vision but flexible on the details of making it a reality. While innovators should not fear failure, they should take care not to fail in the same way repeatedly, understanding the difference between a mistake and a systemic error.

**Innovate like bumblebees.** Based on conventional mechanics, bumblebees shouldn't be capable of flight. But they fly by rotating their wings, not flapping. In the same way, innovators—regardless of age, gender, or culture—look beyond what people take for granted to find new insights and solutions. That approach applies not just to product design but also to manufacturing processes, as innovations like robotics boost capability, capacity, and efficiency. Similarly, successful innovators excel at breaking into and capturing adjacent markets, rather than focusing only on their core.

**Promote and reward the three C's.** Those who excel at innovation exemplify curiosity, creativity, and courage. Kids who grew up obsessed with air flight are now Boeing engineers eager to put their fingerprint on spacecraft. Finding and investing in passionate, intrinsically motivated people—through robust career paths and multiple recognition events—has helped Boeing file about 750 patents/year, leading the aerospace market on this measure. In service organizations, promote innovation by providing motivated people the opportunity to build things—practice, service, client team—with less intense focus on billable hours.

**Connect the dots.** Successful innovation often means aligning disparate teams, organizations, and regions, including within and among companies, universities, governments, and incubators. Boeing's corporate R&D group looks across the enterprise to connect the efforts and outputs of the commercial and defense business units. Innovation hub 1871 in Chicago maintains reciprocal relationships within multiple countries to share ideas and progress across borders. The organization also unites domain and technology experts to develop innovative solutions. Part of connecting the dots is weaving a simple, compelling story around them to inspire those within and outside your organization.

**Capital no bar.** In the sharing or surplus economy of Uber and AirBnB, capital is no longer the gatekeeper. That means rising innovators, whether individuals or organizations, have a much more open playing field and require fewer traditional resources to take on traditional industries, with long regulatory lag times.

**Innovation and discipline**—two sides of the same coin. As a strategic system or practice, innovation requires discipline. That can mean pulling the plug more quickly on zombie (large, failing) projects, especially in established corporations. Boeing corporate acts as a traffic cop, looking at total R&D spend, identifying gap/overlaps, and synchronizing spend across operating units.

## The Power of Reinvention

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Fred Smith founded Federal Express Corporation in 1971 and serves today as its Chairman and CEO. He shared multiple stories and insights around the themes of facing change by using reinvention to drive large-scale business success.

**Change is the only constant.** The one constant in human existence is change. Business leaders need to understand this, lest their organizations face extinction. Smith saw this firsthand, capitalizing on the growing automation of society and complexity of supply chains by building a delivery business that combined hub-and-spoke operations with integrated air-and-ground service; an unprecedented offering. The most thoughtful leaders understand not just where things are, but where things are going.

**Reinvention is the common denominator of successful firms.** Because change is inevitable, successful firms see it not as a threat but an opportunity to reinvent. For FedEx, that meant worldwide expansion to address globalization; adoption of new technologies (radio capability, handheld devices, and airline reservation software) to enable better tracking; cutting-edge quality management; and the migration of tracking systems into customers' offices, among other dimensions of reinvention.

**The power of scale.** Growing populations and globalization drive prosperity by enabling scale: products can be offered to more people and unit costs spread across a broader number of customers. The power of scale was advocated by former US Secretary of State Cordell Hull, who urged President Franklin Roosevelt to pass free-trade-promoting legislation. Smith, too, is passionate about free trade as gateway to scale and a means of bringing prosperity to once-underserved populations, such as China's.

**Culture matters.** Behind the power of any team—in business, sports, the military, or elsewhere—is culture. It's what lifts employees from good-enough performance to maximum effort and productivity, which can be worth millions. From its inception, FedEx understood the value of creating a culture that drove intrinsic motivation and customer loyalty and has done so through practices, such as promoting mostly from within, and recognizing superior individual performance with the Bravo Zulu ("Well done," in the Navy) Award, Purple Promise Award (for superior customer service), and many others.

We are grateful to all presenters and participants for sharing their insights.

### Additional Readings

*FedEx Delivers: How the World's Leading Shipping Company Keeps Innovating and Outperforming the Competition*

Madan Birla, Wiley, 2013

*Stacking the Deck: How to Lead Breakthrough Change Against Any Odds*

David S. Pottruck, Jossey-Bass, 2014

*The Five Dysfunctions of a Team*

Patrick Lencioni, Jossey-Bass, 2012