THE BUCK STARTS HERE

By Jane Edison Stevenson and Bilal Kaafarani

The power to innovate, like many other kinds of power, is fraught with paradoxes. It must start at the top but be disseminated widely; it must be part of the CEO's vision, but the vision must be shared; the CEO must lead, but buy-in from others is required. And while innovation often requires extra hours of work — not to mention a deeper, more perceptive way of thinking — if the CEO does not prod the group into moving in this direction, the organization will demand it. The happy truth is, people want to work for innovative firms. And yet, too many CEOs fail to grasp the degree to which their organizations look to them for guidance. Even worse, some CEOs fail to understand their role in the innovation process, which can retard or even stop progress.

Approaching innovation correctly is not easy. It requires the right ideas, the right culture, the right people and the right leadership to bring it all together. Let's face it, innovation fuels the engine of growth, but leadership gets the fuel to the engine. This leadership is driven from the top and requires that CEOs have both the organizational credibility and emotional capital for a successful innovation agenda. The most successful CEOs recognize that a hard-driving strategic agenda isn't enough. Innovation requires capturing people's hearts as well as their minds. If the organization has been alienated, the risk factor goes up exponentially.

Here's an illustration of why this is so important. When Jacques Nasser became CEO of the Ford Motor Company in 1999, he already had a distinguished career at the company spanning 33 years. At the time he took over, Ford was in excellent shape. It had $143 billion in revenue, strong earnings of about $6.6 billion, and a share price of around $65 (a level it has not reached since). It had several highly profitable category

Chris Whetzel (all)

leaders, including SUVs and light trucks in the United States, and a number of well-designed smaller cars aimed at Europe, Asia and Brazil. It also had 370,000 motivated employees.

Nasser's vision, however, was not to build on Ford's impressive base through an intense focus on product innovation — new models, new designs, new technologies, new features. Rather, it was to focus on some key acquisitions, like Land Rover, the luxury off-road vehicle brand. It was also to put Ford's high-end portfolio of cars — Jaguar, Aston Martin, Volvo and Land Rover — into a distinct entity, the Premier Auto Group (PAG).

PAG was Nasser's baby. There were glamorous regional offices in Berkeley Square in London and an imposing new headquarters building for the group in Irvine, Calif., distinct from the company's headquarters in Dearborn, Mich. Though the PAG group was run as a business unit, its existence was downplayed so that the individual brands would be seen as independent, and not as units of mass-market Ford.

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As PAG grew ever more exclusive, it became more expensive to operate. It populated its advertisements not with Ford's cadre of "regular people," but with "beautiful people." To demonstrate that it was hip, it even installed fuel cells to heat and cool its Irvine headquarters.

But while it concentrated on luxury, it also distanced itself from the rest of the company. Remember that Ford began in 1903, with a mission of fulfilling the transportation needs of ordinary people. This was one of Henry Ford's most innovative ideas. But now, under Nasser's leadership, it was in the business of selling high-priced cars, like Volvos, and ultra-high-priced cars, like Aston Martins.

Rather than being seen as innovating, PAG was viewed by the rest of the company as distancing itself from the company and its roots. Instead of having people in the company buy in to Nasser's goals for the group, PAG was increasingly thought of as a diversion, with many worrying that Nasser was taking his attention away from what really mattered. But there was another problem. Even if innovations emerged at PAG, its independence and isolation were creating resentment in the mainstream organization, which prevented those innovations from being shared.

Nasser's dreams were big. He projected that PAG would be earning up to 80 percent of Ford's profit within a decade, and he projected wildly optimistic sales figures. Jaguar's sales were pegged at 800,000 cars a year, from about 100,000 in 1999. (In reality, Jaguar's 2011 sales are expected to be just under 200,000.) Volvo's sales were pegged at 650,000 cars in the United States alone (double Volvo's actual 2011 projected global sales figure).

At the same time that he was investing in PAG, Nasser was looking at Ford's core business as a cost cutter. In the first year, he closed money-losing plants, discontinued models that didn't generate desired profits, sold losing operations and weeded out executives. Not unneeded activities, but difficult to do when you're aggressively investing in areas of the company that the work force views as only tangential to the company's core mission.

Nasser also put new human resources policies in place, mandating that 10 percent of workers receive a "C" grade, which could lead to termination. Nasser's justification for this was that new people, new philosophies and new technologies were required to assure Ford's success in the new economy — all reasonable assumptions, but with a price tag in terms of employee engagement. While other CEOs of his day, most notably Jack Welch at G.E., used this approach, the changes further alienated Ford's employee base and lowered their willingness to stand behind the company's leadership.

So in 2000, when Ford's flagship four-wheel-drive sport utility vehicle, the Explorer, was involved in numerous rollover accidents, the moral support that Nasser needed to survive the crisis was gone, and his vision would never be realized. As the disaster unfolded, employee morale was shaken, and Ford's famous quality image was tarnished. Ford reported its first consecutive quarterly losses in nearly a decade, and stock prices plummeted.

The Explorer incident soured Ford's fortunes and contributed to Nasser's removal in October 2001. By the end of the decade, all of the car brands within PAG had been sold. When Bill Ford replaced

Nasser as CEO, he announced that his first task would be repairing stakeholder relationships and going back to the basics of the car and truck business. He also made it clear that his intention for the automaker was innovation and growth.

This is an important point — intention is a powerful force in both leadership and innovation. When the intention at the top is to build a sustainable company that benefits all, decisions are made to further that intention. When it's about power or beating the competition or even maintaining the status quo instead of winning for customer, company and stakeholders, decision making is completely different.

After his tenure as CEO, when Bill Ford worked to build an innovation culture throughout the entire organization, finding someone who could carry on his vision of sustainable growth was at the top of Ford's mind. If he had learned one thing in running the company, it was that innovation too often was lost in the day-to-day drama, and it seldom survived internal politics. So when he went looking for a new leader, he wasn't looking just for a talented executive but a partner in spirit — someone who could reinvent and reimagine an entire corporate culture focused on innovation. Bill Ford found his man in the No. 2 chair at an aircraft manufacturer, Boeing.

The choice of Alan Mulally shocked industry observers. Never had someone with absolutely no car experience been appointed to such a high position. But the person who drove the development and commercialization of the innovative Boeing 777 had what Ford needed, and he wasted little time proving his worth. Sensing long before Ford's crosstown rivals that the automotive business was about to get extremely difficult, Mulally's first task was to ensure that Ford had enough cash on hand to weather a recessionary storm. He did this by mortgaging all of Ford's assets on Wall Street, borrowing $23.5 billion. "I spoke to a room with over 500 bankers," he recalled. "Why did they give us the money? Because we had a plan."

That plan included fixing an insular, backstabbing executive culture, with fiefs spread around the globe that paralyzed the company's decision making. Mulally managed to unite (or send packing) these competing factions and establish an executive team whose members actually work together for a common purpose. Ford Motor also began leveraging its worldwide capabilities, bringing the cool Ford Fiesta and the new global Focus to America.

All of what Mulally did to move the company forward would be impressive at any time, but it's nearly miraculous today. Unlike its two Detroit rivals, Ford didn't declare bankruptcy and didn't request emergency United States government funds during the recent financial crisis. And while the company is not fully out of the woods, by mid-2010 Ford had posted a $4.7 billion profit and began reducing its debt.

Ford and Mulally are proof that extraordinary leaders with vision and determination really can make the difference in an organization. This is especially true when a leader has the support of the board. The Ford Motor Company is now in a position to succeed, not only because of the company Mulally has rebuilt, but the one that Chairman Bill Ford has envisioned. The chairman is passionate about innovation and making its vehicles more fuel-efficient. By investing in a number of technologies, including electrification, biofuels, fuel cells and more efficient gas engines, Ford is securing its future growth. By increasing spending on innovation when everyone else was cutting back, Ford ensured its sustainability. That's where the company's future lies. Despite the precarious financial position of the company, Ford has a good chance of succeeding because, unlike a decade earlier, its focus isn't on power; instead, it's on innovation.

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From Oh No! to Go Hasbro!

Hasbro, the No. 2 toy company in the world, has been through an evolution of leadership that has moved the company from an environment happy with maintaining the

status quo to one on the cutting edge of continuing innovation. Founded in 1923 as a pencil-box company, Hasbro faced one of its greatest challenges in 1996 when Mattel endeavored to take it over. Though it failed, the attempted coup sent a signal — things needed to change.

Looking to revitalize the company, Hasbro brought in a consultant who rearranged parts of the organization, but without a strong innovation strategy its traditional brands were neglected. Instead, the toymaker chased hot licenses tied to movies like Star Wars and Spider-Man. It also suffered from internal competition, with divisions acting like unruly siblings, competing against one another for attention.

The reckoning came in 2000. That year, Hasbro's revenue fell more than 10 percent, to $3.8 billion, and it lost $144.6 million. Fighting to regain its footing, Hasbro turned to Alfred Verrecchia, who had been with the company for 38 years. Verrecchia was promoted to president in 2000, and he quickly initiated crucial changes, including moving all the far-flung toy divisions to headquarters in Pawtucket, R.I., to cut costs and get them to work together; reducing $1.2 billion in long-term debt; and focusing on extending Hasbro's main brands, such as G.I. Joe, Monopoly and Easy-Bake Oven. In 2003, he was appointed CEO.

His leadership helped to complete the turnaround, centered primarily on reinvigorating the company's classic toys and games and adapting its lineup to the increasing influence of electronics. Between 2003 and his retirement in 2008, the stock price increased 60 percent, net income more than doubled and sales climbed 22 percent.

Central to Verrecchia's success was a young visionary who joined the company in 2000, Brian Goldner. Goldner was responsible for taking Transformers from a $30 million product line to a $500 million core brand. It was no surprise then that the CEO's mantel passed to him on Verrecchia's retirement. Goldner had not only earned the job; he was perfect for it. In his first years, Goldner implemented a strategy that is still leading to sustainable growth, even during the economic downturn. In 2010, the company gave him a raise and a new contract to keep him on board.

For nearly a century, Hasbro has made it through the ups and downs of leadership, and through leadership it has a bright future. It wasn't always on track, but it managed to find its way, as most of the companies we talked about have. What today's Ford and Hasbro have in common is someone at the top who believes in innovation, has the courage to champion it and has the desire for everyone involved to win — not for power, domination, control or ego — but for customer and company.

We started off by saying leadership is the glue that connects the innovation dots and creates the playbook for a true innovation company to follow. Because we believe that to be true, we want to share something very special that CEOs should recognize and know —the thoughts and feelings of people who work for them, their employees. What follows is a candid, emotional and hopeful message, in the form of a letter, that captures the thoughts that every CEO should know.

DEAR CEO,

You hold the keys to our destiny. As your employees, our future depends on you, so we wanted to share our thoughts with you. You are the company's chief architect — your design sets the tone for everything. If you design a business based on growth and innovation, we will be unleashed to build and create. If you design a business based on cost cutting or productivity, we will stay focused only on what already exists, trying to do things cheaper, faster, better. How you design the plans will determine whether we unite to create an exciting future beyond what any of us could individually imagine, or whether we will simply fight to survive.

We're committed to doing well, both for ourselves and for our company. With your leadership, we can achieve something great and sustainable. We want to play full out, using all the talents we have to contribute in this world. We measure our success by the yardstick you provide. If the measure is doing what we're told, then we'll be careful to do just that. If you set a vision that excites us and measures us by our ability to uniquely and boldly take it as far as we can, we'll do that.

We need your vision, integrity and courage to bring out the greatness in each of us. We're counting on you to be that leader, because no one else in the company can take your place. Only you can set the vision that will inspire and motivate us. Together, we can achieve the company's rightful destiny. Your hands control the tremendous resources that are available in our organization. These resources can either be used to create ground-breaking innovation and market supremacy, or they can be micromanaged, diminished and underutilized. The culture you create will either focus us on business possibility and an abundance mentality, or will keep us contained by fear, using our political skills to compete for limited resources in an endless internally competitive game.

We want to be part of something that encourages us to move beyond perceived limitations. We want to be proud of you, our CEO, and to feel honored to be a part of this company. We want to believe in what this company can accomplish, not just for ourselves, but for the world.

Please call us to a level of greatness that most of us never dreamt possible, but that we are proud to attempt. We are willing to stretch ourselves far enough to ensure that we will sometimes fail. And when we fail, we want to feel proud that we took it as far as we could and that we have learned and grown from our mistakes.

When we take risks to help push the company forward, your understanding and appreciation will ensure that we continue to give it our all, and don't slink away in fear of reprisal for having tried. Making this possible is all in your hands. You determine whether our focus will be on trying to achieve what is possible, or on making sure we are never to blame.

We're excited about the vision you're creating and hope you'll share it in a way that we can relate to. The vision has to be big enough and worthwhile enough to inspire us and clear enough so we all know our roles in making it happen. You're a great communicator, but sometimes we don't get the message because it's all wrapped up in fear of failure and pressure to perform to standards mired in numbers instead of achievements.

We know you're under tremendous pressure to cut costs and promote efficiency. Things are tough everywhere. We agree that operational efficiency can't be ignored, but with your guidance and empowerment, there are people in our organization who can manage the processes necessary to "do things right." What these people can't do is to provide the leadership that determines "what the right things are to do." This is your sole responsibility.

We crave courageous leadership — unlimited by barriers that put what's reasonable above what's possible. We know that in today's world, these words might seem irresponsible or dangerous to your career. We also know that as you listen and create an environment where we are expected to use our creativity to deliver results and to reach for the stars, imagine and explore, "possible" then becomes reasonable.

Growing the company requires that all of us, especially you, become explorers. Without exploration there is no discovery, and without discovery there is no innovation. That means risking failure, something we're willing to do if you are.

You set the tone. When people see you or someone on your team annihilate an associate for taking a risk, it ensures

that very few of us will ever seek out the opportunity to achieve something great. We're sure you have witnessed this type of degradation or felt its sting yourself. The ongoing fear this creates convinces us that we aren't empowered to think independently. You will then have to specifically direct us or micromanage us to get anything done. Do you see how this will exponentially diminish what we can accomplish? Even with your extraordinary capacity, you can't hope to direct and evaluate the work of thousands of people — it's a waste of your talent and energy.

Instead of intimidation, what we want and need is a safe environment where we can risk the occasional failure and speak openly to help the company achieve its goals. In this environment, we will have the passion and commitment needed to make our company extraordinary instead of just average or even mediocre. If you ask for our courage and honesty in telling you when you or the company is off track, you won't be told that you look elegant as you step off the cliff and fall to your own demise. We've all seen that happen, and it's not what we want for you. Transparency is an innovation imperative and as much as we want greatness for ourselves, we also want greatness for you.

You have the power to make this happen, if you remember to own your own power. What that means is to recognize how much is under your control and how using that power wisely is now one of your greatest responsibilities.

The day you took this job, you changed. As CEO, you're not the same as you were the day before. If you don't own your own power, you will use it without responsibility. Think of it as a nuclear weapon. If you use it as a threat or set it off without thinking, you lead by intimidation. That works for a while, but eventually, silently or openly, people will leave or rebel. Watch the people inside the company and see if they are acting empowered or are telling you exactly what you want to hear. If the latter is true, you'll need to better harness your weapons to achieve your goals. Diversity of thinking is very important in creating an environment of innovation and growth. If you shut us down, you'll lose this advantage.

If you set an innovation strategy and are proactive, not reactive, in driving it forward, we'll all thrive. For that to happen you have to outline the priorities for the business and help us to succeed by providing the guidance and tools to do so.

Demonstrate that innovation is a priority by appropriating the needed funds and providing the visibility for people to see this is true. Always remember that actions speak louder than words. If you're courageous, we will be too. Take risks to move the company forward through innovation and growth. If you don't, in the end, you'll lose the respect of your best team members and that will hurt all of us — especially you. It's your responsibility to retain and develop great leaders, because without them you can't succeed. We're all in this together — or at least we should be.

In the past, many of us have been troubled by the amount of time we end up spending on keeping innovation from moving backward, instead of moving it forward. We've worked for leaders that had great potential to be an innovation leader, yet they weren't able to capitalize on their promise commercially. We don't want this to happen to you. Creating a culture that encourages successful innovation will deliver big dividends for all of us. By doing these things, we know we can build a world-class organization that is united and focused on winning in the marketplace, not just internally.

There's one last thing we have to say. The most respected leaders we know have come to their role with the humility of a servant. As a CEO who serves, you will empower your people to do amazing things. Believe in what you're doing, believe in what can be done and stay open, excited and driven to achieve an inspired vision. You're not in this alone, but you are the only one who can make it happen — because the buck doesn't just start with you, it ends there too.

Sincerely,
Your People

Jane Edison Stevenson is vice chairman for board and CEO services at Korn/Ferry International, the world's leading C-suite talent management firm, and has spent 25 years assessing and recruiting the world's top innovation leaders.

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