

THE INNOVATION ENGINE AT RITE-SOLUTIONS: LESSONS FROM THE CEO

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I BACKGROUND

I spent over 30 years in a highly structured, hierarchical organization where good ideas could only flow top-down and where the firm's intellectual capital was more defined by the level of organizational "box" that a person occupied than by the actual insight that person possessed. In January 2000, as a "second career", I set out to build a company that would be liberated from such restrictions of thought and, instead, would capitalize on the intellectual bandwidth of the entire organization to "Innovate Every Day". Such a company would be based upon two of my most fundamental beliefs: "No one is as smart as everyone", that is to say that good ideas are not bounded by organizational structure, but can come from anyone, in any place, at any time; and second, that the Hierarchical Pyramid as an organizational business structure is an enigma in the 21st century knowledge economy. An enigma more suited to controlling information flow than fostering innovation.

My challenge in building such a company was two-fold: to develop a mechanism that could "operationalize" innovation by tapping the collective genius in my organization in a non-intimidating, fun way to generate these good ideas continuously; and, second, to institute a new organizational model with enough control to operate as a responsible, profitable business, but with sufficient flexibility to leverage and disseminate brilliant, innovative ideas across the organization – that's all!!

II THIS PAPER'S INTENTION

This task, though daunting, has been greatly aided by the "knowledge workforce" that is emerging and the Web technology that is connecting this workforce in a manner never before experienced. My job has been to capitalize on these events in building a company designed for this future state, which I believe will be a significant strategic discriminator as time goes on.

The two pillars of this new breed company are a unique organizational design that operates as team-oriented nodes on a network as opposed to the

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hierarchical pyramid and our Innovation Engine. The latter is designed to provoke and align thought among all of our people while the former is necessary to foster collaboration that helps to nurture and mature good ideas as opposed to the traditional filtering and restricting of innovative thought that occurs in most organizations today.

In this article, I will address, in some detail, our Innovation Engine as a principle means of Tapping an Organization's Collective Genius. I will try to briefly answer:

What is it? Why use it? Who benefits from it? And How?

III THE INNOVATION ENGINE IS NOT A PREDICTION MARKET

First, let me start by clarifying what the IE *is* and just as important, what it *is not*.

My vision was to create an organization where innovation happened everyday - with or without me and would alleviate me of the burden of always having or selecting the right ideas. For the first two years of operation, I struggled with the mechanism that would provoke our people to think in order to capitalize on the intellectual bandwidth of the entire workforce; to align the "collective genius" of their ideas in a business sense, and then to assess the value of those ideas in a constructive, non-threatening manner. I started with several more traditional means – innovation summits (as if innovation is a timed event), white boards throughout the facility for people to scribble down their innovative ideas (nothing is more depressing than empty white boards), and an Innovation Room that would help foster the creative process (more conducive to naps than great ideas). Finally, I hit upon the idea of a game, mirrored after the Stock Market, where ideas could be launched in a socially friendly, non-intimidating electronic forum and the peer group would assess the potential value of these various ideas by purchasing stock with their Opinion Money (every employee, including me, gets \$10,000), and, more importantly, by volunteering their time to mature and build upon the idea. The "price" of a stock, then, is driven by an algorithm that takes into account the peer group's opinion, willingness to contribute, and desire to help build the product idea. The game approach capitalized on several factors of the new workforce: they enjoy competitive games: many of them are introverts who shun the spotlight but still want to contribute; they have amazing bandwidth to contribute on a 24 hr. basis to things that excite them; they will openly provide their best efforts in a cooperative environment that is supportive rather than judgmental. The game proved to be very successful. To date we have generated well over 50 innovative product, service, and process ideas.

Over 15 of these have been successfully launched and currently account for approximately 20% of our total revenue. As important, we have filed for 12 patents for innovations that we believe have great value to the company's future. (All IE investors acknowledge that all IP that stems from collective genius is the property of the company.)

Many have confused our IE with Predictive Market Tools. The fundamental difference between the two is that the IE seeks to generate new ideas which have the potential to *create* a new future state while Predictive market Tools are aimed at *evaluating* the most likely future state. In short, the Innovation Engine (IE) is focused on creating the future rather than spotting trends faster than co-workers. While Predictive Tool set up win/lose scenarios, the IE employs a socially friendly network as a safe electronic forum that recognizes that good ideas can come from anybody, anywhere, at anytime in the company. It recognizes the great contribution that the quiet geniuses can make to a company if they have a chance to present their ideas in a comfortable way, and where they can solicit the intellectual bandwidth of others to help an idea mature. The IE gives ideas a chance to grow before business metrics clutter the idea germination phase. Used in this way, the Innovation Engine serves as an ideal input device to predictive tools for topics of interest to the organization and may be best employed in concert with predictive tools that leverage employee intellectual creativity with the truth vetting features and reality checks of a Prediction Market.

I hope that this clarifies what IE is and what differentiates this tool from Predictive Market tools. In the following sections, I will discuss, in greater detail, my motivation for developing the IE and how it works within Rite Solutions. Finally, I will explain what the tool does for me, as CEO, and what I believe it has the capacity to do for all CEOs.

IV MOTIVATION FOR THE INNOVATION ENGINE

To fully understand my motivation in developing the IE, it is necessary for me to explain my view of the future workforce which I believe will be driven by two factors: Web 2.0 technology and the traits of the Y Generation

At its core, Web 2.0 has to do with the next generation of interaction with the World Wide Web as a much more interactive, collaborative network engagement that connects businesses and people in a more natural manner.

When I speak of Web 2.0, however, I'm speaking of this movement in the broader sense of its impact on culture and organizational design. For the Y Generation entering the workforce, the old norms associated with Command & Control organizational structure embodied in the hierarchical "pyramid"

design, are no longer relevant. In the world of Web 2.0, information will no longer be controlled and then “doled out” as a source of power. Employees will expect, and demand, total transparency, and if they cannot get information from their “boss”, they will seek answers elsewhere. Relevancy, then, to this generation is no longer based upon the old paradigm of hierarchical power but rather upon the notion that “good ideas and useful information can come from anyone at any time”. This fact that divorces information flow from corporate position means that the future organizational design will necessarily mirror its most enabling function – a network. In our company, we have embraced this fact and implemented an organizational design of individual, functional teams, acting as nodes on a network, “publishing” information that is freely passed along to anyone “subscribing” for that information. Such a structure is more in-line with the socially friendly environment of community, collaboration, and innovation promised in a Web 2.0 world.

As important as new organizational structures will be to *enabling* the full power of Web 2.0, there is still the need to generate these “good ideas” that *fuel* a Web 2.0 environment. This is the function of the IE. Just as important to generating innovative ideas, the IE becomes a way to engage the Y Generation in striving for the betterment of the organization; to ensure that they feel relevant in a very tangible way to the success of the business, and to tap their amazing intellectual bandwidth far beyond “job tasks” to be performed. The IE, then, becomes a mechanism to take the employee relationship beyond the transactional level (I pay you, you do a job) to an emotional level where they are entrusted with the future direction of the company, asked for their opinions, listened to, and rewarded for successful ideas. The benefits of such an approach are astounding. Not only are ideas freely generated, vetted, supported, and nurtured, but enduring loyalty is fostered which directly impacts reduced attrition, development of a healthy collaborative culture, and self-forming communities of interest around ideas and concepts.

Couple this with the fact that the Web 2.0 world and the intellectual bandwidth of the Y Generation will greatly enhance the opportunity for collaboration and creativity; it becomes a competitive imperative that companies find a way to harness this power. This is at the heart of my corporate mission to Innovate Every Day. Those who fall short of this mark will be left behind in tomorrow’s marketplace.

V OBJECTIVES AND BENEFITS OF THE INNOVATION ENGINE

The following provides greater detail on some of the underlying objectives of the IE including some personal insights that drove much of the creation and instantiation of this tool at Rite-Solutions. I provide this granularity in the hope that these underlying objectives will resonate with other leaders and leadership teams. I suggest to other leaders that they at least consider these items to allow the entire intellectual bandwidth of their organization to emerge more often than annually, or semi-annually. Who knows; maybe even daily?

#1 – You (management) have to get introverts involved or you’re missing the large majority of your Intellectual Bandwidth.

Be honest...offsites are for extroverts. Extroverts are experts in passion and theatre and play an important role in idea shepherding, but most of your genius is in your introverts. The only nice thing about an offsite event for an introvert is that it ends! We made the innovation offsite a 24/7 on-line game that our introverts see as a safe-haven for sharing. We developed a game called The Intellectual Capital Investment Market as a way to collect ideas into common groupings and allow everyone to get involved by using their Intellectual Capital.

Some ideas are right in our “sweet spot” as a company. These are low risk ideas that we call Blue Chip Stocks (low risk/probably a good (safe) investment). There are other ideas that save money which in-turn affects our bottom line performance. Guaranteed cost reduction ideas are called Savings Bonds (money in the bank). There are also high risk/high reward ideas that are a little scarier, but you need to have a few to penetrate new areas. In our game, these are called Futures. And sometimes we just want to survey what our people think about some of the things we’re contemplating or ideas that are germinating, so we have penny stocks where employees can easily give us their 2 cents.

#2 – You (management) have to make it part of your daily 24/7 fabric. (Don’t expect “just in time” innovation)

People can play anytime they feel like a little mental gymnastics outside the normal project challenges. Typically, this happens outside both the office and the normal work hours. It occurs in the white space (where all innovation comes from), and often the office is not the best place for white space. Secure

access via any web browser and you're playing. It all starts by developing your own personal intellectual capital investment portfolio in the company.

#3 – You (management) have to provoke thought. (If provoked to think, thinking takes place; if told to do, only doing gets done)

ASK! – By asking knowledge workers their impression of our initiatives for the future, we provoke them to think about our collective future and glean the combined impression of our folks on which ideas have the best promise for the company if those ideas are pursued. Knowledge workers tend to pass on ideas where they have little understanding or interest and move on to ideas where they have some insight.

#4 – You (management) have to align everyone's Intellectual Bandwidth. (To your future)

Guide their involvement in your future - By watching activity and intellectual capital alignment in the engine, you'll see where their intellectual bandwidth is being applied to move ideas forward, and now you (management) can get in the game "behind" the bandwidth.

For us, these are called "Budge-It Items" (small steps to move an idea forward). It's amazing to watch as investment clubs self-form around different initiatives. These self-forming teams are a lot like after school activities (clubs). Clubs center around a common activity for their own good. You don't have to assign anyone to anything, they simply belong to an initiative they select by virtue of interest, curiosity, or because it matters to them.

#5 – You (management) have to recognize behavior and reward results. (It's free money)

Give lots of reward and recognition away. Positive recognition is usually very inexpensive and takes many forms in the knowledge economy. Introverts like recognition as much as extroverts, only differently. The IE has a ticker tape, a leader board for short and long term IE contributions, patents with contributing employees as inventors, and just being acknowledged as a part of an organization's future is all it takes to cause an employee to grow deeper roots within the organization. For us: ideas that lead to savings or profit lead to a pay off for the investment team of 25% of the savings for a two year period, or 25% of the profit for a two year period. Sometimes it's a little money, sometimes it's more, but the point is that for the organization, it's free money that they realized only through the intellectual bandwidth of invested

employees. Also, spouses see the pay-off of working on the company's future. It's like a part time job at your full time job and the rewards and recognition are clear.

#6 – You (management) should make your entire workforce (including retirees) relevant. (Knowledge Tethering)

Foster relevance. Most people want to contribute their intellectual capital to improve their organization but many organizations make it too hard for them to help. This is as true for our Generation "Ys" as it is for our "Knowledge retirees". Knowledge retirees want to remain relevant on a "not to interfere with my next life basis" – Being and staying relevant is the most important intellectual goal of a retiring knowledge worker. I know; I was one. It was no fun feeling like my contributions to something I cared about for so long were no longer necessary. It felt deeply necessary for me! With the Innovation Engine, I can retire this time and stay active in a community I know and care a lot about. Why would any company want to lose intellectual bandwidth?

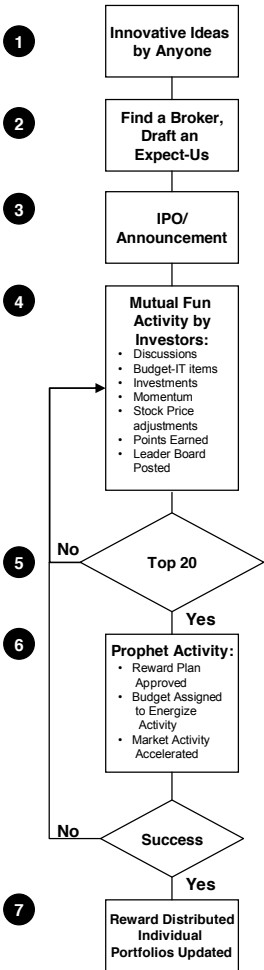
#7 – You (management) can relieve yourself of the burden of being right while remaining relevant as their leader. (Breath easier)

If you're helping to run a company and its innovating everyday, life is good.

VI THE IDEATION PROCESS

The flowchart that follows examines the process associated with getting an idea prepared, into, and out of the Innovation Engine. It is included to provide some clarity as to a typical sequence of events.

Innovation Engine Process Diagram



1. **IDEA.** Any employee in a knowledge organization is likely to have the next brilliant idea. It may come from two people discussing a problem, but it will almost certainly take the combined talents of several individuals to transform the idea into a successful idea on the stock market. If you, or you and a friend discover a possible brilliant idea, the way to begin to get Corporate and Community support is to fill out a Draft "Expect-Us" form within the Stock Market.
 2. **If you need assistance,** under "Help" in the Stock Market is a category called "Brokers". These are people with experience in developing these documents and who volunteer to help new inventors. They will help you complete a Draft Expect-Us form and prepare a compelling entry into the market.
 3. **IPO/Announcement.** Your Broker will IPO your idea into the Stock Market and announce to all employees using the market's Ticker Tape, that a possible brilliant ideas has emerged. This is when the fun begins.
 4. **Mutual Fun Activity.** Smart employees with varying talents from around the company may make the new idea a part of their portfolio. If they decide to "buy into" your idea as part of their portfolio, it means that they believe your idea has merit and deserves further discussion and investigation. There is a discussion feature within every stock on the market. It is here that people begin to massage your idea. As investment activity increases, the "Price" for that idea rises. Increased "Investment Activity" and "News" will likely provoke more "Mutual Fun" activity, which will likely provoke more "Harvested Brilliance", "Budge-IT Items", "Intellectual Capitol Investments" and so on. As people take stock in your idea (buy-in) as part of mutual fun, their combined interest (compound interest) in your idea is ranked by combining all portfolio allocations. If your idea reaches the "Top 20" for momentum it automatically attracts additional corporate support. (i.e., time and money)
 5. **Top 20,** for all "Top 20" ideas, the "Adventure Capitalists" (Senior Leaders) assign a "Prophet". The "Prophet" develops a necessary budget and a "Reward Plan". The budget is intended to fuel activity. The "Reward Plan" is prepared to document the "Reward" that will be shared between the inventor and the "Intellectual capital investors".
 6. **Prophet Selected.** The "Prophet" works to provoke talented people to apply their competencies toward the realization of an inventor's idea. This includes taking part in discussions, identifying small steps of progress to move the idea forward. These small steps are called "Budget-IT items". The "Prophet" also posts progress on the "Ticker Tape" for all to see and to keep the investment team motivated.
 7. **Success.** A "Success Beacon" has been described as part of the Expect-Us preparation. When an idea reaches that point, it can be taken off the market. When a stock is successful and is "cashed out" of the market, the "Mutual Fun" portfolios that contain that stock are updated to include new "Unallocated Mutual Fun Currency". Also, this triggers the Rewards for the inventor and the intellectual capital investors.
- NOT Successful.** A stock can be removed from the market for several reasons; such as:
1. We give up (not a good technology, no user market, won't work, things changed)
 2. Impressions and Interest are very low
 3. It is combined with a similar stock.

VII A FEW LESSONS LEARNED

When some companies read about the Innovation Engine, they immediately licensed and launched the product within organizations much larger than Rite-Solutions (175 employees). The result was not good. Here are a few lessons learned from those hasty launches.

- A. Match.com - At Rite-Solutions, everyone knows everyone. In very large geographically dispersed organizations, people didn't know enough about the other people to know who could help them with an idea. This prompted an enrollment feature to be added to the Innovation Engine as well as a "WHO?" search feature. Enrollment simply gathers an individual's interests, hobbies, curiosities, passions, expertise, etc. into a central repository for use by the WHO? function. When a person has an idea, they use the WHO? function to identify a likely community interested in their idea by selecting from a list of attributes that match to the repository of interests, hobbies, competencies, etc. This narrows the field quickly within a large organization to probable "kindred spirits".
- B. Human Bias - At first we had the stock price controlled by a person who watched the market and raised stock prices based on activity. This introduced a bias into the process that was removed by an algorithm that raises and lowers stock prices based on intellectual activity by the player pool.
- C. Gaming the Game - In the first revision of the product, players could view other player's portfolios and the statistical graphics of the cumulative impressions. This led to new employees simply following the crowd instead of giving their honest assessment. Now, players have no short-cut to portfolio plagiarism.
- D. Watch Longer – If you inject too much management too early, it hinders the creativity and can choke bandwidth
- E. The IE is not magic – poor cultures are not good candidates for this type of social product

VIII A BIT MORE ABOUT PLAYER TRACKING

We were fortunate. Rite-Solutions is involved in Player Tracking/Loyalty programs for the entertainment industry. Our software applications keep a close eye on player behavior and tracks trends in the data. In this way companies create customer profiles and can provide more targeted rewards for their customers. We embedded this functionality into our product for much

the same reasons, but also as a way to create the slightest bit of competition into the game. Additional byproducts of including this software into the product were also gleaned. They are:

We are able to automatically generate a leader board for our Headlines Page – the new leader board illustrates recent leaders (e.g. quarterly) and the Legends Leader Board displays top contributors since instantiation.

We can automatically calculate stock prices based on activity – taking the human out of the loop and allocating different points to individuals for different levels of contribution.

We can quantify “innovation” for stocks and individuals – by awarding points and tracking all play, an individual can contribute a percentage of 100% of the innovation points.

We can graph momentum over time – as momentum builds among employees, we look for ways to accelerate the group toward a success milestone.

We can recognize individuals on the ticker tape for all to see – recognition is a big deal in a social network.

We can increase people’s portfolio amounts based on their intellectual capital expenditures – this gives them more influence and a bigger plate at the buffet.

IX HOW TO LEARN MORE FOR YOURSELF

The art of innovation can be sampled by readers at:

<http://artofinnovation.net/sm.nsf>

At this site, I have included several employee ideas in each intellectual capital index (Savings Bonds, Blue Chip, Futures, and Penny Stock). You may want to just poke around for a while and play the game a bit to get familiar with some of the functionality and vocabulary. Any thoughts you have to improve our intellectual bandwidth are welcome. (jlavoie@rite-solutions.com)

X CONCLUSION:

Too early to tell; but, it’s more fun and rewarding than the command and control method I used for 30 years. I have relieved myself of being solely responsible, as the CEO, for recognizing and sheparding the next Big Idea for

the company. I'm exploiting people's intellectual capital to make my life easier and provide more opportunities for relevance to all my knowledge workers (introverts and extroverts). We have recorded double digit growth in top and bottom line every year since using the Innovation Engine and greatly increased our Intellectual Property (IP) portfolio in the process. Note to CEOs using prediction markets: an accurate prediction is nice; the right patent; priceless.

This article talks about my personal views on innovation management and intellectual bandwidth, but only skims the surface in describing the power of a continuous Innovation Engine fueled by the full intellectual bandwidth of an empowered organization.