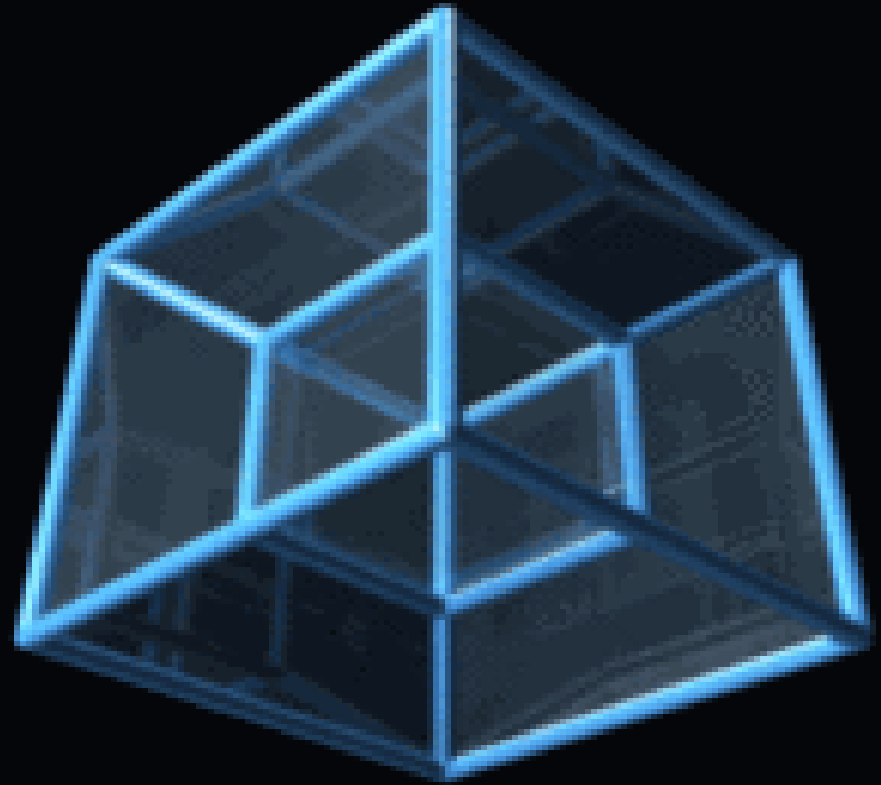




**BUILDING
COMPETITIVE ADVANTAGE**
in the
Age of Innovation ®
(Thriving in this Economic Crisis)

**Employee
Ownership
as an
Engine of
Innovation**



Presented by Robert Porter Lynch





Employee Ownership as Engine of Innovation

Key Issues

1. Do You Have a Strategy to Thrive in this Economic Crisis?
2. Is there a way to Create More Value in a company?
 - Why is Collaborative Innovation so Important?
 - What is Innovation?
 - What Results can be Produced?
 - Where do we Start?
 - Is it worth the Effort?



Original Visionary Giants of Employee Engagement

Louis Kelso - 1956

- **Employee & Consumer Stock Ownership Plans (ESOP) (CSOP)**
- **Core Economic Issues**
 - **Employee Ownership as alternative to Communism – Cold War**
 - **Free market is unstable, exhilarating highs & terrifying descents into economic collapse**
 - **Technological change makes machines, structures and processes ever more productive while leaving human productiveness largely unchanged**
 - **Delivers progressively more to capital owners and progressively less to workers who make their contributions through labor**

Joe Scanlon - 1940s - '56

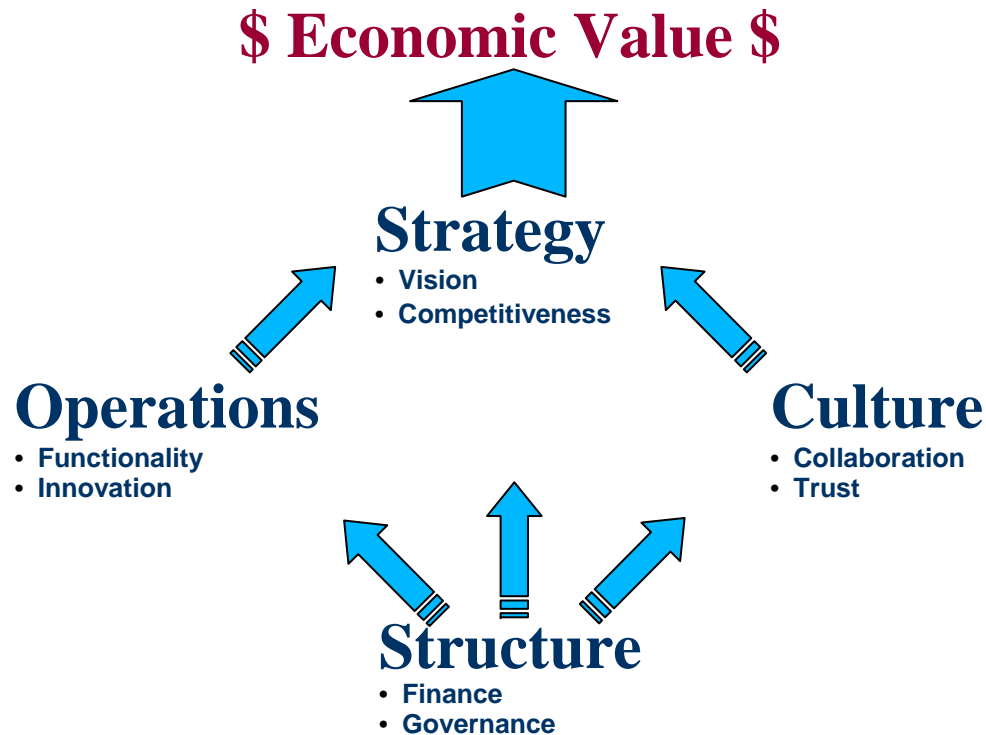
- **“Wealth of ingenuity that lies untapped in workforce.”**
- **Massive potential to use a workforce’s collaborative innovation to enable industries to compete again.**
- **Gain-Sharing Movement**
 - **Original Vision stalled in U.S. (few exceptions: SRC, P&G, etc)**
 - **Adopted by Japanese after WWII, linked with Deming & Quality**
- **Later emerged as Collaborative Innovation, Trust, and Strategic Supplier Alliances**
 - **Example: Toyota, Honda, P&G**

Collaborative Structure

Collaborative Strategy

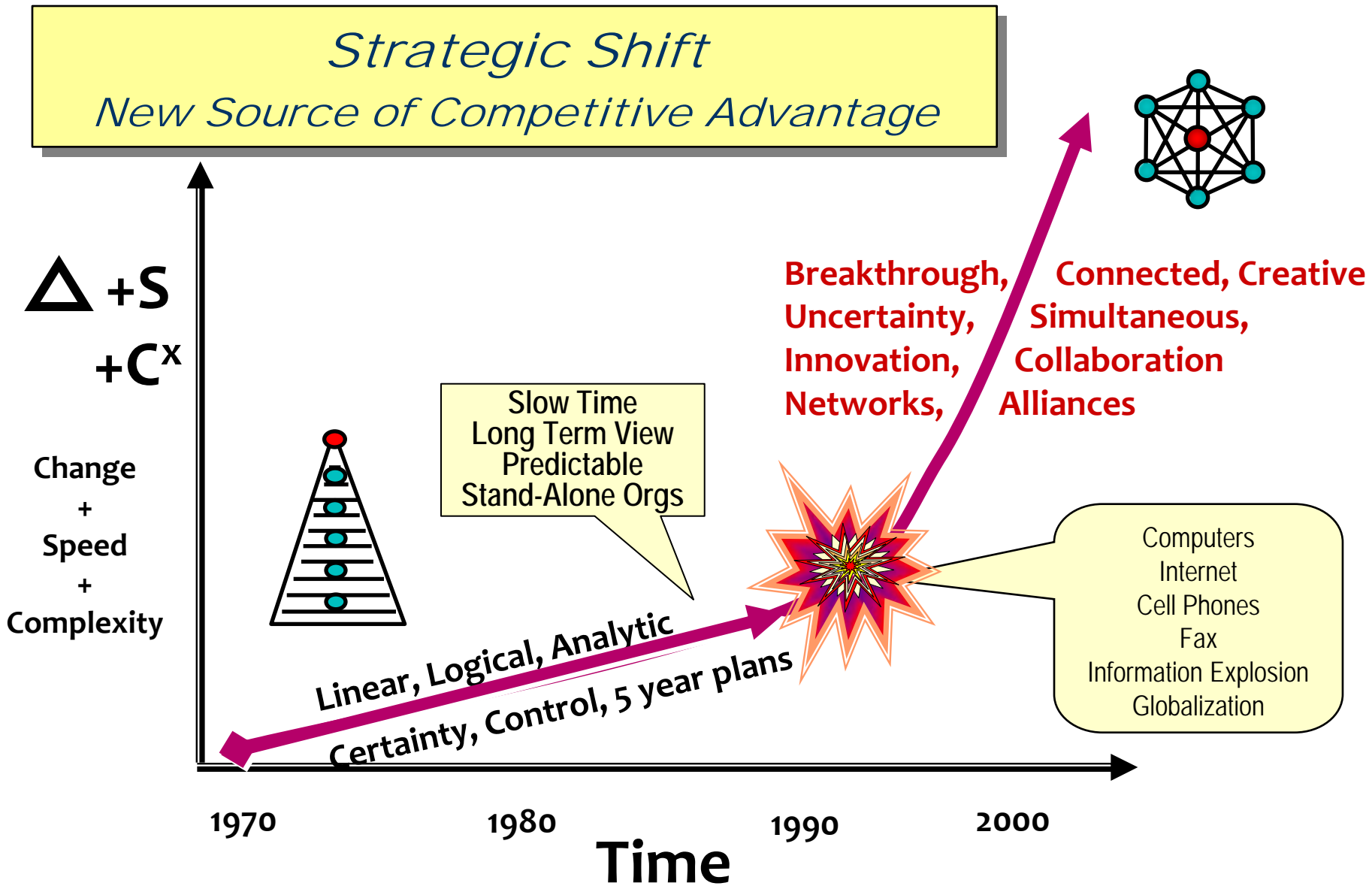
These two worlds emerged separately, they should have been joined!

Unified, Synergistic Approach



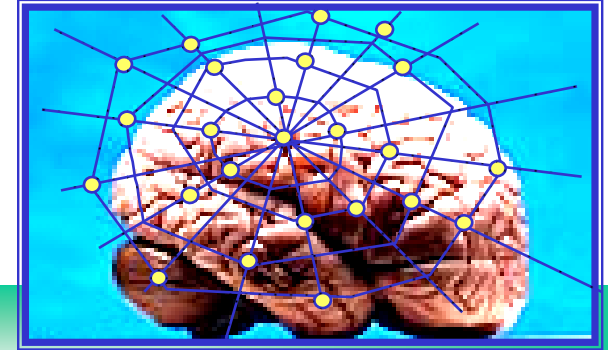
Success in Employee Ownership is Highly Dependent
on ALIGNMENT of all Four Factors

Engines of Innovation



The World Has Changed

Co- Creative Neural Network



2000 → **Innovation Age** *Financial Capital vs. Intellectual Capital*

This New Era requires a reassessment of the power of Employee Ownership

1980-2000 **Information Age** *Analog vs. Digital*

1800-1980 **Industrial Age** *Labor vs. Capitalists*

The Era Kelso conceived of ESOPs

*Critical Driving Force
in Today's Competitive World*

*In a Fast Moving, Rapidly Changing World,
the Most Sustainable Source of
Competitive Advantage is...
Collaborative Innovation*



Generating Economic Value

"Creating Bigger Pies"

We hear a lot about

- **Sharing the Pie**
- **Benefits of Ownership**
- **Stock Value**
- **Ownership Culture**

Operating Statement

- **Revenues (Sales)**

Minus

- **Expenses**

Equals

- **Earnings (Profit) → Economic Value**

But not too much about
CREATING ECONOMIC VALUE
(Growing the Pie)

What Generates Economic Value?
Competitive Advantage

Where do you get Competitive Advantage?
Collaborative Innovation

- *Internal Collaborative Innovation*
- *External Innovation*
 - *Alliances with Suppliers*
 - *Alliances with Customers*

"Simple" Innovation Definition



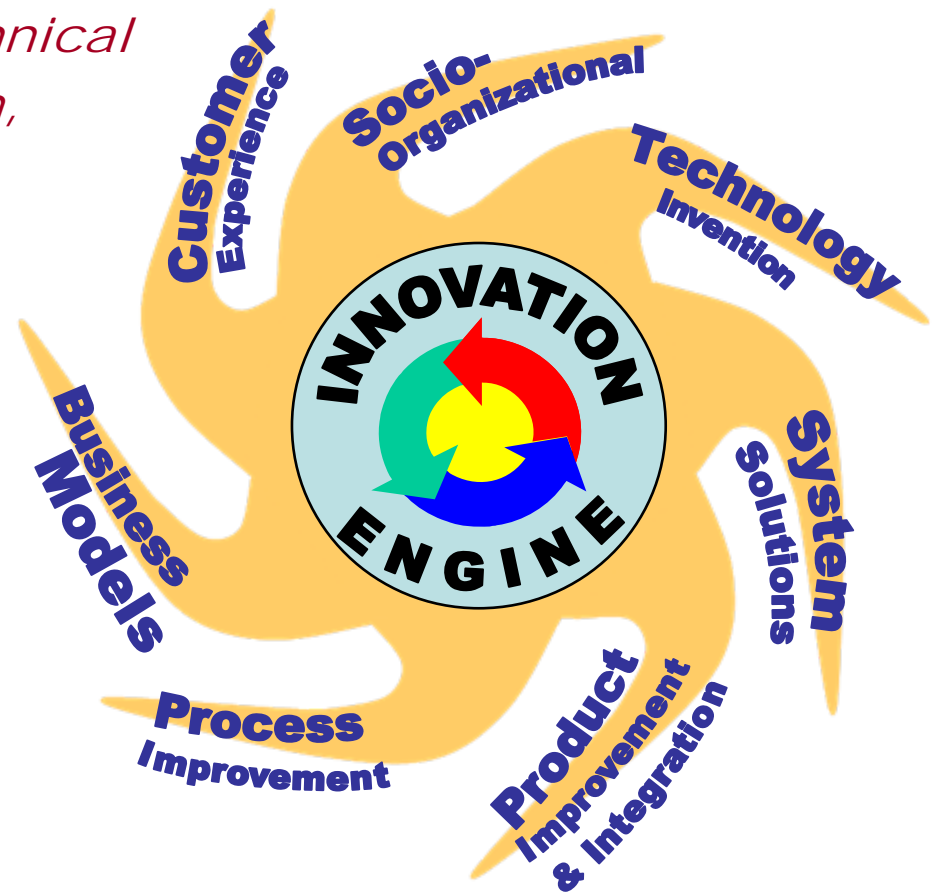
People Co-Creating

*Strategies, Systems, Structures & Processes
that Generate
New Sources of Value or Growth
for an Organization*

Note: This does not make TECHNOLOGY the sole source of Innovation

Seven Different Kinds of Innovation

- *80% of Innovation is Non-Technical (Solutions, Process Innovation, New Business Models, etc.)*
 - ✓ Means Every Employee MUST BE /CAN BE an Innovator
- *Corporations Must Capture Multiple Forms & Sources of Innovation to be Highly Competitive*



Innovation Triggers

- *High Total Cost of Ownership*
- *Repeating Problems*
- *Dysfunctionalities*
- *Confusion*
- *Isolation*
- *ReWork*
- *Dreams*
- *Anxiety*
- *Frustration*
- *Breakdowns*
- *Separateness*
- *Excessive Time*
- *Lack of Synergy*
- *Short Life Cycles*
- *Non-Value Added Work*
- *Adversarial Relationships*





Employee Ownership as Engine of Innovation

Generating a Continuous Stream of Ideas

Getting employees to contribute innovative & productive ideas

1. You don't have to "train" employees to be creative
– they came to you that way!
2. You don't have to reward them with big money
– recognition and action-results are all that's necessary!
3. You don't have to do a lot of convincing
-- observation and listening are more important!

Locked Inside the Employee Ownership Structure lies the Enormous, but Hidden, Potential for Co-Creative Breakthroughs



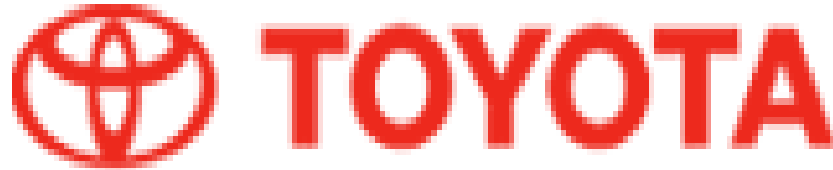
The Power of Innovation

	<i>Japan</i>	<i>United States</i>
<i>Number of Ideas per Employee (annually)</i>	<i>37</i>	<i>.12</i>
<i>Adoption Rate</i>	<i>87%</i>	<i>32%</i>
<i>Average net savings per adoption</i>	<i>\$126</i>	<i>\$6,114</i>
<i>Net Savings per 100 employees</i>	<i>\$422,000</i>	<i>\$22,825</i>

Source: *Ideas are Free*, by Robinson & Schroeder

Employee Owned Companies have a greater opportunity to produce innovation than any other form of business – but it's still just *potential* -- not reality yet!

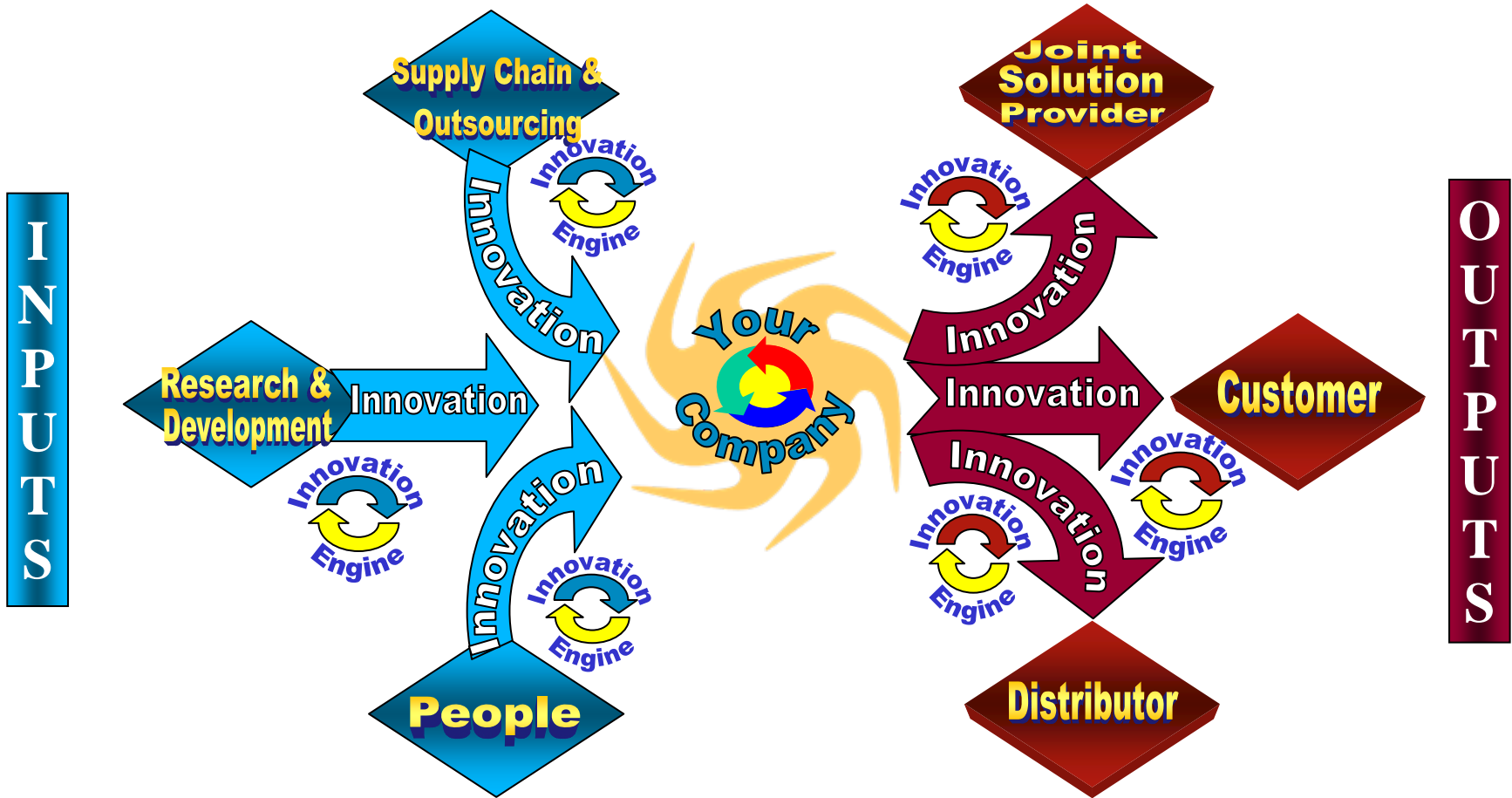
Ideas are the Fuel of the Innovation Engine



- *Toyota is an IDEA ENGINE*
 - 900,000 ideas from employees each year just from its North American ops (estimated adoption: 600-700,000 ideas)
 - Over 1,000,000 Suggestions for Improvement from Employees in Japan
 - 65% of its Innovation Comes from Suppliers (who make 80% of the car)
 - Total New Innovations in North America: Estimate – about 2,000,000

Toyota Beat GM, Ford, Chrysler by becoming an Engine of Collaborative Innovation!

Supercharging External Innovation Strategy



Collaborative Innovation Across the Entire Value Chain (Value Comes from Innovation Flows)

*Connect & Develop:
Innovating Across the Value Chain*



Where Do You Find Innovation?

- *Traditional Answer: R&D organization in house*
- *Today's Answer: External & Internal networks*

*For P&G "Research & Development" has become
"Connect & Develop"*

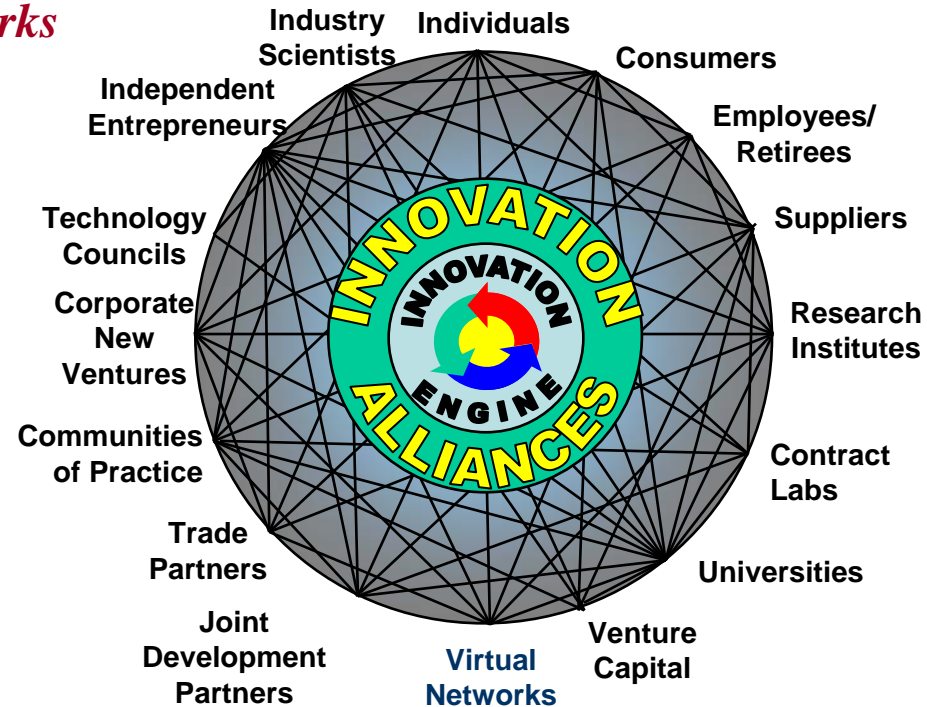
P&G's Connect + Develop Strategy

- Resulted in more than 1,000 active agreements.
- Types of innovations vary widely, as do the sources and business models.
- Inbound or out, know-how or new products, examples of our success are as diverse as our product categories.

We Build Strong Relationships with Partners

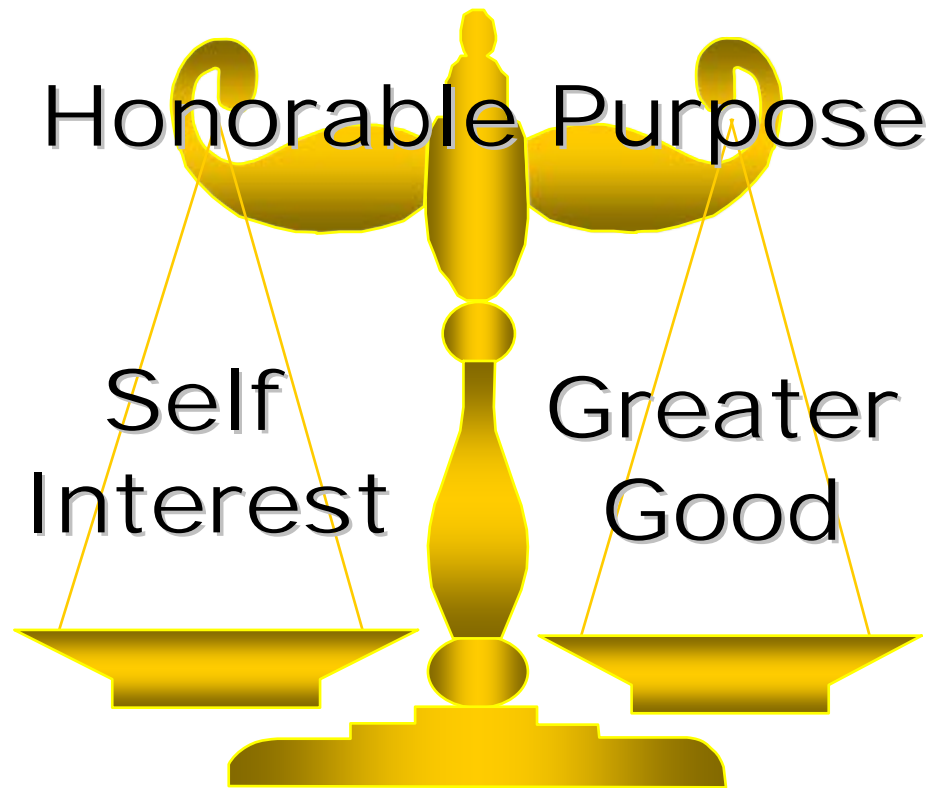
- P&G believes in Win-Win deals that build trust and achieve strong, lasting relationships.

*Fuels innovation by leveraging external
innovation assets and partnerships to deliver
superior P&G products and services Creating
Greater Value to consumers.*



See www.PG.com

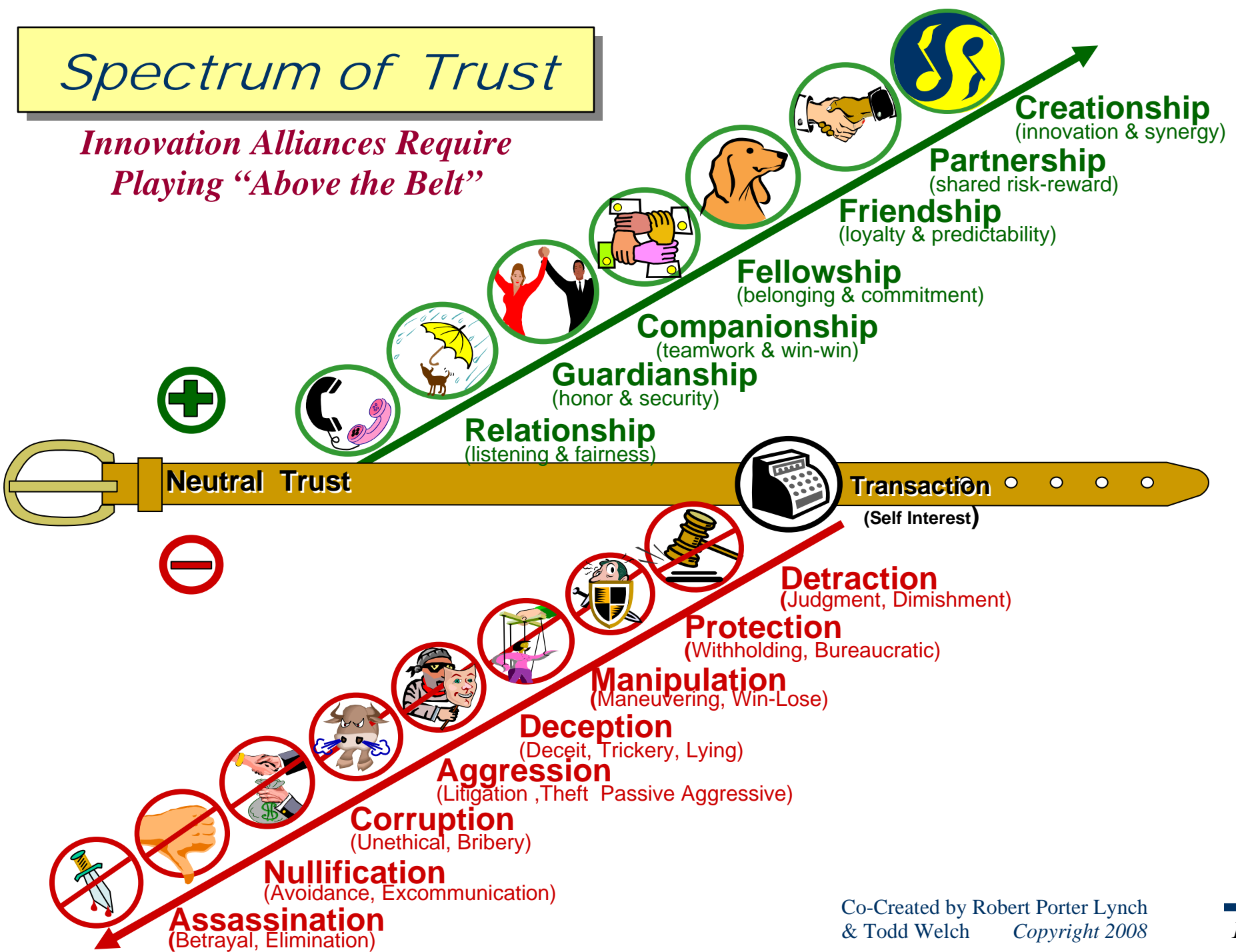
Innovation Alliances Require Trust



Must Consciously Balance

Spectrum of Trust

*Innovation Alliances Require
Playing "Above the Belt"*



BusinessWeek

The Most Competitive Companies are the Most Innovative

The Innovation Payoff

These innovators have racked up steadily higher profit margins



Of the 25 Most Innovative Companies in the world:

- Innovators achieved median profit margin growth of 3.4% a year since 1995,
- Compared with 0.4% for the Median Standard & Poor's 8 ½ Times LARGER GROWTH than the Median

Starting Your Innovation Engine: Requires a Champion

Champion Profile

- **Passionate Crusader and Creator of a Future Vision and Powerful Value:**
 - Starts with Belief,
 - then creates Evidence
- **Entrepreneurial, Risk Taker**
 - Values Character more than Competence
- **Demonstrated Leadership**
 - Successful Track Record,
 - But has Failed too (and learned)
 - Make things happen – Get Results
- **Strong Values:**
 - Ability to Build Trust, Build Alliances
 - Team Builder Works for the Greater Good of All
 - Committed to “Win-Win”
- **Well Versed in Alliance & Innovation Best Practices**
- **Integrates across Boundaries**





Employee Ownership as Engine of Innovation



Examples?
Comments?
Cautions?
Counter Points?
Insights?
Questions?
Wisdom?
Intuition?

Thank You

Best Practice "Architecture"



WARREN
COMPANY™

www.WarrenCo.com

- Collaborative Innovation
- Strategic Alliances
- Trust Systems

Mr. Robert Porter Lynch

Founder of The Warren Company, Robert has been recognized for his ground-breaking work in creating "alliance architecture" and benchmarking studies. He is founding Chairman of the Association of Strategic Alliance Professionals, and has trained thousands of executives around the world in the best practices of alliance formation and management. He is also the author of several books as well as the "Fostering Champions" chapter in Peter Drucker's book, *Leader of the Future*. He has consulted widely for major organizations including Cisco, Flextronics, Hewlett Packard, IBM, Intuit, and P&G, among numerous others worldwide. He is also a founding member of the Silicon Valley Innovation Institute.

C: 401-640-1166
Email: RobertLynch@warrenco.com

Strategies
Systems
Structures
Solutions
Skill Sets

By Using Proven Processes:

- » **Replicable**
- » **Scalable**
- » **Trainable**
- » **Adaptable**

Produce Consistent Results

