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## Welcome to the Change Challenge Newsletter

Dear Eric,

Welcome to the August issue of *The Change Challenge*. Congress passed yet another extension in unemployment. While endless unemployment seems humane, it does little to create jobs. Investments that stimulate innovation and encourage the creation of new companies is the cure for unemployment. That's the theme of this month's feature article titled "**Innovation + Entrepreneurship = Jobs.**"

This month's *Leading Change* article titled "**Skunk Works**" encourages leaders in government and industry to cultivate innovation in their organizations. The *Personal Change* story titled **A Newspaper Safari@** offers an interesting way to find innovative solutions to your most perplexing problems.

Your feedback and recommendations to improve this e-letter are appreciated via return email or through *The Change Blog* at [www.dickstieglitz.com](http://www.dickstieglitz.com).

Sincerely,

*Dick Stieglitz*

### Feature Article

**INNOVATION + ENTREPRENEURSHIP = JOBS**

Most people think today's most urgent challenge is to create millions of

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**Buying or selling a**

new jobs. But we face more threatening challenges: global warming, an aging population, bankrupt governments, pandemic disease, terrorism, and nuclear proliferation to name just a few. During this decade, we must face up to a slew of survival questions. For example: *How can we*

- \$ Expand without exhausting resources or intensifying global warming?
- \$ Provide enough food and clean water for 10 billion people?
- \$ Afford to deliver quality health care to an aging population?
- \$ Educate our children to thrive in an increasingly competitive world?
- \$ Build an efficient infrastructure that is safe from cyber attack?

At first glance, these seem like social questions - and they are. But look more closely and you'll also see huge business opportunities that will generate new jobs.

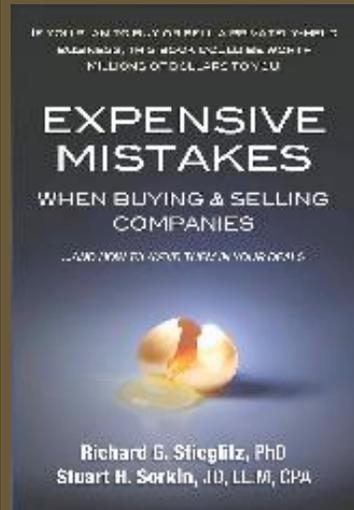
Substantial wealth will accrue to those who apply innovation and entrepreneurship to these challenges. Leading an organization in new directions or starting a new venture is difficult in any recession; but this one is especially hard. Employment dropped more than in past recessions; consumer spending is recovering slowly; and the value of stock and real estate portfolios is way down. The key to surviving is to remember that this recession will eventually end. When recovery takes off, will you be more competitive or less? The successful companies will be those that invest in critical competencies, innovate new products, and deliver superior customer value. Redirect your organization's creative energy toward these global challenges.

In past recessions, the U.S. led the global recovery by developing new products and exporting them to the rest of the world. Our ability to innovate softened the impact of losing manufacturing jobs. But can we do it again? Will Yankee ingenuity be enough to save us? The numbers say the world is catching up in terms of innovation. For example, according to the U.S. Patent & Trademark Office, in 2009 for the first time the number of patent applications submitted by foreigners exceeded those submitted by Americans. Furthermore, the total number of patent applications fell for only the second time. Experts attribute the decline to three factors. First, the recession caused companies to slash R&D budgets to sustain profits. Second, the U.S. which once lead the world with generous R&D tax credits now ranks in the middle of OCED countries relative to favorable R&D tax provisions. And third, India and China are graduating more scientists and engineers than the U.S.; and new immigration policies since 9/11 push foreign students who attend American universities to return home after they graduate.

Government R&D also isn't the prolific source of ideas it once was. The Internet grew from a military research project; the Global Positioning System (GPS) uses satellites put in orbit to guide missiles; and noise-cancellation headphones use technology that quieted submariners in the cold war. In these cases, technologies developed for the military resulted in products that spawned new companies and new jobs. Unfortunately, today's Defense research focuses on tactical projects to satisfy needs in Iraq and Afghanistan; and NASA's budget has been cut substantially. Hopefully, as Defense develops micro-gadgets for soldiers and sailors, those gadgets also can be the source of new products, new companies, and most importantly new jobs! That's not to say that industry is off-the-hook. The consumer-electronics industry is fully capable of outspending the military in R&D and spreading costs over a large market (e.g., two billion mobile phones). Cutbacks in government and industry R&D may make sense in a recession, but in the long term they are economic suicide.

The financial crisis that caused the recession and the decline in patent applications (i.e., innovation) may seem like separate issues, but they are two symptoms of the same disease. In the years before the 2001 recession, the U.S. economy grew rapidly based on cheap computing power. But the dot-com bubble burst because too much capital was chasing too few opportunities. Soon the housing bubble replaced the dot-com bubble and fueled growth - but again, too much capital chased too few opportunities and the bubble burst. What might we have today if the trillions of dollars that were channeled into real estate derivatives were instead invested in new technologies, products, and business processes?

## business can be a lucrative but risky transaction

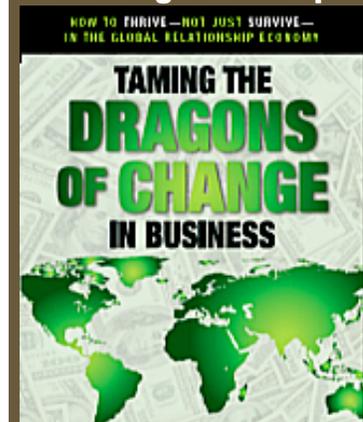


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A popular maxim says average people learn from their mistakes, stupid people repeat their mistakes, and brilliant people learn from the mistakes of other. This book is designed to move you toward the brilliant category among business owners who buy and sell privately-held companies.

Looking to have your  
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Taming the Dragons  
of Change can help!



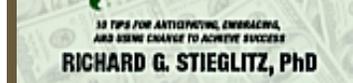
This recession has left a deep scar on working people. In previous recessions, there weren't as many layoffs and the rebound came quickly. Largely because of President Obama's rhetoric, most people blame the recession on big business. Ironically, that blame might be a good thing for the economy - it could encourage a wave of entrepreneurship. If a capital gains tax increase doesn't smother small business owners, innovation in new companies could be a major source of new jobs. Big companies also can recover by appealing to entrepreneurial employees. In the "new normal" economy, whatever that looks like, innovation and entrepreneurship will be more important than ever.

We need creative legislation to renew American competitiveness, but our political system at best seems only capable of incremental change. We need policies that spur innovation and incentives that entice people to launch new businesses, rather than extended unemployment and temporary highway jobs. More companies create more jobs; and new, fast-growing companies create the most jobs. During the dot-com era, the U.S. economy created nearly 100,000 small businesses each month. A legion of entrepreneurs, particularly in the computer and finance fields, became frustrated with rigid corporations, accepted the risks of entrepreneurship, and launched a wave of innovation. Many of the new companies failed, of course, but some grew rapidly.

We also need the optimism, energy, and sense of adventure that entrepreneurship fosters. Silicon Valley's greatest contribution to the economy was more than just new technologies. It also created a new entrepreneurial spirit: a culture of risk-taking not only by business owners and investors, but by employees who tied their success to their company's success. That entrepreneurial spirit built companies where everyone felt they could get rich by creating superior products and services. Leaders in those companies fueled the fever pitch by building a culture that rewarded results, injected fun into the workplace, and allowed innovative ideas to flow freely. It's hard for laid-off union workers in the Rust Belt to see that innovation and entrepreneurship are the cure to expiring unemployment. The U.S. economy wouldn't be in the toilet bowl it's in today if it followed Silicon Valley's leadership rather than Wall Street's financial vaporware.

What kind of leadership will get us out of this mess? Largely, it's the same traits that have succeeded in the past (e.g., clear vision, positive energy, building a great team, and effective execution), except more courage and risk-taking are needed. Part of the challenge is the business-bashing that's happening today. Leaders are reluctant to push future possibilities when so many people are unemployed or worried about keeping their jobs. Too many of today's managers are *do-do* machines who run around trying to survive by reducing costs, slashing staff, and squeezing productivity. If you are leading a team, a company, or an agency, get past that survival mentality - get your people to help you invent a future where everyone thrives instead of just survives. There's no doubt this recession will change the future of your organization and your career. Whether you come out of it weaker or stronger than your competitors depends on how you respond. Are you up to the innovation and entrepreneurship challenge?

[Leading Change](#)  
**SKUNK WORKS**



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The recession, layoffs, budget shortfalls, new technologies, acquisitions, and out-sourcings have produced a world of constant change.

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**THAT'S WHAT THIS  
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## **QUICKLINKS**

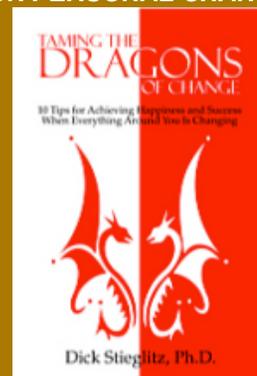
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ON PERSONAL CHANGE**



A government executive who was a client received a directive from top management in early 2000: *AStart a skunk works. See if there=s something useful in that Internet stuff.*@ It was an unusual mandate, since exploring technologies wasn't part of his division's mission. But he accepted the task and retained us to test new capabilities with willing users. He told us to take risks and try things that might not work. During the 9/11 crisis, the fledgling system was tested and passed with flying colors. Easily accessible from anywhere, the system became a trusted source of information throughout the organization. After 4 years of research, responsibility and funding for the system were transferred to the division where they originally belonged.

Skunk works, a term coined during World War II, can produce innovations that alter the basis of competition. By contrast, the mainstream of most organizations thinks in terms of incremental change. Like the white blood cells in our bodies that quickly destroy foreign material, most organizations have people who staunchly resist new ideas. Skunk works are most effective when they are separated from mainstream activities where they can set aside the quicksand of daily routines and be free to try new strategies that could reshape the organization's future.

Progress in a skunk works is discontinuous. Breakthroughs occur one day, and embarrassing failures the next. Skunk works are normally small, avoid structure, have loose procedures (if any at all), and pursue ideas that may seem irrelevant or impossible. The key people in such units are usually young, inexperienced, brilliant, and technologically savvy. On the other hand, the team leader is often a respected veteran who understands how the mainstream operates, but doesn't feel constrained by its boundaries. Skunk works people gain experience from failures and false starts. Executives shouldn't be discouraged by such difficulties, nor should they be overly excited by early successes. Following a major breakthrough, a skunk works may be disbanded and the new product or service transferred into the mainstream.

Transferring innovations from a skunk works for implementation by the mainstream is high-risk. Sometimes the existing strategy must be dismantled before the innovation can be brought to market. Senior executive attention during this tenuous period is essential. They must maintain control by:

- Communicating a clear vision for the future,
- Promoting the innovation broadly across the organization,
- Adjusting the organization and budget to support the innovation, and
- Being open to feedback and taking corrective actions when needed.

Change leaders must consistently communicate a vision for the future even as the vision itself is a moving target. Look for an opportunity to join a skunk works team, or to start such a team in your organization.

## **Personal Change** **NEWSPAPER SAFARI**

When I'm struggling to solve a problem, I treat myself to a newspaper safari. My routine is to read the front-page, business, and sports sections of the Washington Post every day. But if I'm stuck on a problem and need a new perspective, I take a safari into the health, style, or apartment-living sections. Alternatively, I take an Internet safari by googling a topic totally unrelated to my problem and being open to recognize a new perspective.

Newspaper safaris work because the real challenge isn't finding a solution. It's emptying my mind of old ideas that caused the problem to begin with. So for an hour or so, I browse through strange newspaper sections. I don't read every page. I just get a feel for the issues and solutions from foreign subjects, and use them to find an innovative solution for my problem. Try a safari yourself, although sports or business may be the foreign sections of the newspaper for you.

Innovative people connect old concepts in new ways, often adding just one

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small new idea. They have an uncanny ability to frame the problem in a way that produces new alternatives. Then they develop a creative solution by connecting ideas that others see as unrelated or useless. They find the missing links that connect jigsaw puzzle pieces into an exciting new solution.

In today's global economy, innovations happen so fast in so many fields that most breakthroughs are merely a combination of specialized innovations from yesterday. You might discover a breakthrough by combining innovations from your organization and other organizations. Implementing a breakthrough probably will require relationships with like-minded innovators in other fields. That's why building relationships today ensures your success tomorrow.

## **Friends & Colleagues,**

If you're looking for ways to cultivate innovation in your organization, contact me to discuss the possibilities. If you found this e-letter to be useful, send it to a friend. If not, please let me know why at [dick@dragonsofchange.com](mailto:dick@dragonsofchange.com).

Until Next Month,

*Dick* ([www.DickStieglitz.com](http://www.DickStieglitz.com))