

Unleashing Innovation

How Whirlpool Transformed an Industry

Nancy Tennant Snyder and
Deborah L. Duarte

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Foreword

In the late 1990s, Whirlpool Corporation was facing a defining moment. Our company was almost ninety years old and had faced defining moments four or five times during our history. Over this period, the company had gone from being a one-product, one-customer manufacturer of washing machines to being the global leader of marketing and manufacturing major household appliances, with revenues over \$10 billion. We sold its products in over 170 different markets, and the Whirlpool brand was the top-selling appliance brand in the world.

In 1997, we rolled out our “post-globalization” strategy, which we called our Brand-Focused Value-Creation strategy. The strategy was (and is) quite straightforward. To succeed and create value in the global appliance business, we must perform well in three areas: (1) global operating platform . . . cost, quality, and asset utilization; (2) trade customers . . . alignment, service, B-T-B; and (3) strong brand loyalty . . . great brands and winning repeat purchases from our consumers.

In many respects this strategy reflected our evolution from a manufacturer to a great trade sales organization and a now to consumer-driven brand company. Our strong belief was that success in all three areas would lead to above-average growth and value creation.

By 1999 it was clear to us at Whirlpool that there was something critical missing in our strategy. Growth rates were flat, average selling prices were going down, and margins had become a cost game. We somewhat reluctantly concluded after deep soul

searching that the “something” was innovation. In 1999, we were not an innovative company; we were only an “operating” company. To succeed and to execute our Brand-Focused Value-Creation strategy, we concluded we had to be both innovative and operationally excellent.

Nancy’s recap of our innovation journey is well documented in this book. She describes very vividly the learning process that we’ve gone through in trying to embed innovation throughout our company. In 1999, we certainly had no idea how to do this, or the path that it would take. We did know, however, that we would take a principles-based all-inclusive approach in building innovation as a core competency across our entire company. Nancy captures the steps that we took along the way, the learnings, the successes and setbacks. Looking back ten years later, we are embedding innovation across our company; it is a critical business process that we must continually improve. Persistence and perseverance have proven to be the important leadership characteristics that have enabled our success to date.

I believe this book will provide some refreshing insights to others who are serious about building an innovative organization. This is not a how-to book; there are plenty of those already. This book offers examples of the struggle that organizations and leadership groups will likely experience with a large-scale innovation transformation. It also offers some great learnings and tools that can shorten the implementation time by allowing organizations to learn from others’ experience.

Overall, the book is a “real-life” example of how innovation can transform an organization and is a great read for anyone serious about making innovation a reality in his or her organization.

Jeff M. Fettig
Chairman and CEO
Whirlpool Corporation

Preface

We wrote this book to contribute to the new and growing field of inclusive innovation—innovation from everyone and everywhere—in large organizations. When we started this approach to innovation at Whirlpool Corporation in 1999, very few companies were on this path. Today Whirlpool has become a teacher of sorts; many companies come to benchmark us to understand both how we got started and where we are today. Many world-class companies now share our path.

The Whirlpool story is both unique and compelling. Whirlpool is one of the few companies in the world that have transformed every aspect of their business to drive continuous innovation. Whirlpool has differentiated itself in innovation by creating a sustainable and repeatable innovation model and by embedding it in every aspect of the organization: vision, mission, strategy, operations reviews, design, communications, reward, education, career paths, financials, and more. What makes Whirlpool unique is that it has chosen a path that shuns the popular notion that innovation can come only from the geniuses at the top. Whirlpool “innovated innovation” by putting systems and processes in place that enable every person at every level, including entry-level professionals, clerks, secretaries, and hourly employees, to innovate.

In 2006, Whirlpool was ranked in the top one hundred innovative companies worldwide by *BusinessWeek* magazine. What is quite amazing about the ranking is that five years earlier, Whirlpool would not have been considered for the index.

Today Whirlpool's leaders are sought-after speakers and are benchmarked by the world's leading companies. Three Harvard Business School cases have been written on Whirlpool's transformation and are taught in leading business schools around the world.

Much can be learned from the Whirlpool story as told in this book. We present a real-life story of a practitioner, her coauthor, and her many accomplices who are struggling every day to embed innovation. As in our previous book on Whirlpool, we present a balanced view of what is working and what is not. We are not interested in writing a "good news" story. Whirlpool's current CEO, Jeff Fettig, is fond of saying that we are perpetually dissatisfied with where we are in innovation. That is because we continue to be on a learning curve, and the more we learn, the more we see what we need to improve or what new areas we need to conquer.

We wrote this book as a team, but we bring our own perspectives. Nancy is the insider, the one originally charged with bringing innovation from everyone and everywhere to Whirlpool in 1999, as we describe in the Introduction. Deb is the outside consultant with more than a decade of experience at Whirlpool. We usually write in the first person plural, as the observations we share come from both of us. Occasionally, Nancy shares her personal experiences as the corporate insider, and uses the first person singular.

The book is structured to help you see the uniqueness of the story. It starts with a real-life example of an innovation team, Centralpark; we look at how their innovation came to market and their reflection on how difficult yet motivational the innovation process was to them. The book then looks at the set of rational drivers that top management must put in place to make innovation from everyone work. Part One is an overview of innovation and a hands-on story of innovation. Part Two comprises the "MBA" portion of the book, the portion that explains the total

business framework that is required. Part Three looks at what is unleashed in people when you establish the conditions for innovation from everyone and everywhere. These are the emotional drivers, the people side of the book. The final chapter, the Epilogue, takes an unusual turn. As I wrote the book and talked to the innovators and I-mentors (the highly skilled facilitators of the innovation process), I learned that many of them use their innovation skills in the community to help local agencies. It was the first time I had collected so much information, and I realized that embedded innovation inspires and gives innovators tools to use in their volunteerism. It was also written as a tribute to Dave Whitwam, who started it all and who, now that he is retired, spends his time and energy helping create a new future for our communities. It was fun and rewarding to write. We found ourselves smiling.

Origins

This book had an auspicious beginning. We were in Chicago when we got a voicemail message from our editor at Jossey-Bass, Neal Maillet. We called him back and smiled the entire time he talked to us. He wanted us to write another book on innovation, but for a broader market and with an up-to-date story of where Whirlpool was in its transformation. He was current on all the business press stories about Whirlpool and, like many, was intrigued by the story and how it continued to evolve. He was so gracious in his confidence that we could write a story that was compelling and unique that we continued to smile throughout the weekend.

When we wrote our first book, *Strategic Innovation*, Dave Whitwam was at the helm of Whirlpool. Once we approached him with the idea, he was encouraging and gracious in the time and interest he took in the book. Now Jeff Fettig was at the helm, and we were not sure how he would react. But he immediately said yes and also offered any support we needed. We wrote a proposal and sent it to Neal. His phone call to us altered

the course of events for this book. He said, and we paraphrase, “I could publish this book, and it would be good, but there is something you missed that really makes the Whirlpool story instructive and exciting. There is something just under the surface, an excitement in the people of Whirlpool that exists because of the way you went about this. That is the story I want you to write.” We were a bit angry. We both had a great deal on our plates, and Neal had seen through us. We had been hoping to write this on autopilot. Neal had done us a great favor. He disrupted our trajectory and made us really look for what was unique and valued by the reader. In essence, he forced us to use our innovation skills and tools and put our money where our mouths were.

Over the next month, I drove everyone around me crazy, the way an innovator does, searching for what made Whirlpool’s innovation tick and how to present it. Deb was a valuable and insightful force in the innovation process; her organization savvy and knowledge of Whirlpool was invaluable paired with her distance from the day-to-day. We resubmitted the proposal. I was pacing on a street in Santa Margherita, Italy, when I got the call from Neal. He and Jossey-Bass loved the new approach. I quickly called Deb, and we organized ourselves to start. One of my big learnings in writing the manuscript was that it can be quite daunting when your editor leaves to take on a new role. I was fortunate that Rebecca Browning and Byron Schneider did not miss a beat and kept the torch burning for recording the Whirlpool innovation story.

There are always down periods when you write a book—times when you stare at a blank page or completely mess up a chapter and wonder if you will ever get it right. During those times, we were also collecting information from the innovators of Whirlpool. It was always motivating for me to talk to the innovators and hear them describe their innovation or their learning. These times were what kept us going. It was a unique opportunity

to sit in a conference room with a team of innovators and listen to them reflect on how and why they do what they do.

Last, we set up an editorial board inside Whirlpool to help us stay true to the story. There are many points of view to a story and many ways to tell it; I wanted to make sure that the way Deb and I chose to tell it rang true and well represented the people of Whirlpool.

What follows is the result a yearlong effort to capture, organize, make sense of, and explain the Whirlpool innovation story as it exists today. A collateral benefit was that as we wrote, we engaged many Whirlpool people. In the process, we started thinking about new spaces for Whirlpool's innovation effort. It was an incredible learning experience for me personally as well. I also gained help from my classes at the University of Notre Dame and my class at the Graduate School of Business at the University of Chicago. My students shed new light and insights that were helpful in understanding how to think about and tell the story.

We wrote this book for all business leaders who realize that innovation is the lifeblood of today's global economy. Any leader, executive, or business owner (including small business owners) who wants to grow his or her company can learn from the tools, concepts, and methods presented. Team leaders or department heads who want to engage their people to innovate can put many of the practices to work. Academics and business students interested in competitive strategy, innovation, organizational change, and team building will also find much that is new. Our sincere hope is that you will learn as much from reading the book as we did in writing it.

Introduction

“Innovation will come from everywhere and everyone, and when we are successful, every job at Whirlpool will change.”

I heard the words coming from Whirlpool Corporation’s CEO, Dave Whitwam, and I was baffled. He was looking directly at me. He wanted me to take charge of this massive effort. As a director of strategic initiatives at Whirlpool, I had been leading enterprise efforts, but nothing on this scale.

Dave’s bold notion was to include everyone—sixty thousand people—in a new innovation initiative. This meant embedding innovation into every system, process, strategy, meeting, metric, product, service, and person at Whirlpool. We would have to conceptualize the approach to innovation, prove the concept, scale the effort, and produce sustainable breakthrough results, all while building and adjusting the innovation machine to keep it on track.

That was in summer 1999, and as I walked out of Dave’s office, I felt as if a ton of bricks had fallen on me. Whirlpool was a ninety-year-old manufacturing company—a maker of reliable top-quality “white goods,” household appliances like washing machines and refrigerators. We were a mainstay in an industry not known for change or game-changing innovation. What’s more, previous attempts at transforming Whirlpool into an innovative, customer-focused company—once in the early 1990s and again in the mid-1990s—had not been successful.

But the need was clear. The appliance industry of the late 1990s was a study in the classic stalemate. A large percentage

of consumers could not tell you the brand of refrigerator in their home; the only time they were in the marketplace was when something broke, which could be ten to fifteen years after they purchased it. There was a saying in the industry that old refrigerators rarely die, they just move to the garage. And when consumers did come back to the marketplace, not much had changed—the products looked and worked the same, a sea of large white boxes without much brand differentiation. To add to the problem, women, who are major decision makers for home appliances, simply didn't find shopping for appliances appealing. As one woman told us, shopping for appliances was like "buying tires." Consequently, many consumers made their purchase decision on the basis of price.

The price of most major home appliances had not changed in two decades, yet quality, energy standards, and features had improved, making margins less and less profitable. It was clear to Whitwam and his team that to break the industry stalemate would require deep customer insights, strong brands, and innovation to create unique experiences at every customer touchpoint—from the purchase experience to usage to brand relationship. To get there, Whirlpool would have to transform itself to a consumer-focused company with innovation as a core competency.

Today, as I write this in late 2007, Whirlpool Corporation is a \$20 billion company with seventy-three thousand employees, on track to becoming a global powerhouse where innovative products and services make up 20 percent of revenue in 2007, up from 0 percent in 1999. Whirlpool markets its products and services under the Whirlpool, KitchenAid, Maytag, Jenn-Air, Amana, Brastemp, Consul, Bauknecht, and Gladiator brands. We market in 170 countries and are the leader in an \$80 billion global industry.

To put this into perspective, Whirlpool makes fifty million appliances per year, amounting to 1.5 appliances per second. Today almost one in four of these is meeting our stringent

definition of innovation. As a result, innovative products are driving additional value in most major product categories, and Whirlpool is on track to reach \$3.5 billion in innovation revenue for 2008, with superior margin lift from innovation. Such publications as *BusinessWeek*, *Fast Company*, and *InformationWeek* have taken notice. For example, Foley (2004) states, "One way to think of Whirlpool Corporation would be as an appliance company that's innovative. But a better characterization might be that Whirlpool has become an innovation center that makes appliances."

Further, Whirlpool is beginning to migrate the innovation capability from product design to new organizational areas encompassing services, business models, and execution. Most of Whirlpool's innovation to date has been in changing the perception and value proposition of existing products, but there have also been some game changers. Gladiator GarageWorks is a complete solution for the garage and living space that started in the innovation process and is now a rapidly growing new brand contributing to Whirlpool's profits. ("Gladiator" will be used interchangeably to denote the brand and the business unit.) In Brazil, an innovation called EcoHouse introduced safe, trusted drinking water to homes using a new business model that includes subscription services.

Innovation has also transformed our traditional products, such as washers and dryers. Whirlpool introduced the front-loader washing machine to the masses in the United States in 2000 and continues to offer customer innovations, including compelling design; several adjacencies, such as pedestals (the drawers a front-loader sits on); and a complete line of laundry accessories.

To find the business case for innovation, you need look no further than the story of the Duet front-loader washer and dryer. In 2000, all brands of washers and dryers were white square boxes undifferentiated across brands. When you went to a U.S. store (only after your washer broke), the likelihood that you

would also buy a dryer at the same time, known as the match rate, was only 15 percent. (Why bother? Your dryer was fine, and when you took the white-box washer home and placed it next to the white-box dryer, they looked perfect together.) By 2006, our match rate had increased to 96 percent. The styling and energy efficiency of the new front loader were so compelling that there was no way that a customer would not want to match the dryer—both for looks and cost savings. That 1980s square white dryer would take twice as long to dry a load as the new aspen green Duet front-load steam dryer with stainless steel features and high energy efficiency. Completing this case for innovation, the average sales price for a washer and dryer in 2000 was \$698, but by 2006, the average sales price was \$2,398, moving to \$3,000 in 2008. This is just one example of how innovation can add value both for the consumer and for Whirlpool.

Whirlpool in an Unlikely Space

If you look at any of the top companies in the popular innovation lists that business publications generate, you will see a pattern. First, most of the top companies are technology companies. You expect to see Microsoft and Google among the top innovative companies in the world. Second, many are younger companies—less than twenty years old. Finally, there are one-year wonders, companies that are a flash on the innovation front but not long-term contenders. You would be surprised to see a company like Whirlpool on this list.

Whirlpool is such an unlikely source as a thought leader in innovation that some people discount us before we get off the starting block. They immediately compare us to Google or Microsoft or even Procter & Gamble. They ask such questions as how many patents we receive a year, how much we spend on R&D as a percentage of sales, or how many disruptive innovations we have launched in the last year. All fine questions, but not the first questions you should ask Whirlpool. A larger group

of people realize that Whirlpool represents a different innovation story. They realize that the relevant questions are *How did you change a ninety-plus-year-old culture? What role did R&D play? How many incremental and game-changing innovations have come out of the approach?* And perhaps most important: *How have you made your innovation sustainable?*

Our transformation started with the reengineering of the company to create a slow but sustainable pattern of innovation that grew over a decade from 0 percent balance-to-sale to 20 percent. Along the way, we created a process for energizing an old-line manufacturing company to achieve levels of engagement and passion that are, to some, unimaginable.

Whirlpool today employs seventy-three thousand employees around the world in 170 countries. Our efficiency and productivity are unparalleled in any industry. We have forty-three high-tech manufacturing facilities and eighteen world-class technology centers with engineers designing in virtual teams from around the world. We produce a number of product lines, including washers, refrigerators, dishwashers, cooking products, and high-end small appliances such as the iconic KitchenAid mixer—and dozens of other new products are on the drawing board. Hundreds of innovators in all levels and types of jobs—sometimes where you might least expect them—are working to innovate across all customer touchpoints: the purchasing experience, service, communication, relationship building, and the product itself. Whirlpool is, in short, a company in an ongoing transformation.

How Embedded Innovation Makes Whirlpool Unique

Whereas other companies approach innovation by trying to foster more creativity, generate ideas, or screen ideas as though these were specific techniques, at Whirlpool we sought to infuse innovation into the very fabric of the organization. *Innovation is not “added on” at Whirlpool, but embedded.* Innovation can often amount to

unchecked chaos, but embedded innovation leads to systematic and organized chaos. Embedded innovation is the approach that Whirlpool pioneered to create innovation as a core competency. Embedded innovation creates sustainable and differentiated business results by embedding innovation into the rational framework (down to the day-to-day activities of each person) while creating an environment that sanctions and reclaims our emotional drivers unleashed by innovation. There are many approaches to innovation that companies can choose. What makes embedded innovation unique is that it builds a capability that is sustainable beyond any one person, team, or leader.

As you learn more about embedded innovation, you will see that every aspect of it is directed at developing a sustainable business system that creates a predictable cadence of innovation. Innovations can be incremental or breakthrough, but it is the ongoing ability to innovate and create value that distinguishes embedded innovation from other approaches. But focusing only on the business system that sustains innovation is a mistake. Embedding innovation in processes and procedures—creating the innovation machine—is only half the battle. Innovation is truly embedded only *when it lives in the hearts and minds of people*.

Whirlpool serves as one of the best examples of how to embed innovation as a capability in a large, global company. Although it took the visionary leadership of Dave Whitwam to launch embedded innovation, it has been the continued leadership of Jeff Fettig that has ensured that innovation continues to add value, learning, and results to the organization. From the time Fettig became CEO in 2004, his leadership has been to focus Whirlpool's energy to push innovations to extract their maximum value and migrate the innovation capacity to adjacent, business, and strategic initiatives. Under Fettig's guidance, innovation has become inextricably hardwired into the business.

As embedded innovation evolved at Whirlpool, it came to encompass a rational business-based framework *and* the emotional

needs in many of us to innovate and contribute to our workplace. The companies who come to benchmark innovation at Whirlpool ask all sorts of questions, but as we noted, their questions tend to focus on surface details: percentage of R&D sales, incentive plans, and the like. They focus on the innovation machine and neglect the flesh-and-blood people who make the machine run. To understand how innovation works, you need to look at the structures and the processes, *and* at what really makes innovation come to life in the people who actually do the innovating. You must look at the rational processes and procedures of innovation, but also uncover the deeper, less quantifiable emotional drivers that unleash the spirit of innovation in *people*.

The rational drivers include a business framework (resources, processes, systems, incentives, and more) that makes embedded innovation sustainable and often requires the reengineering of legacy management systems. The emotional drivers, in contrast, are not created by a company, but are resident in each of us as latent human factors that attract us to create and innovate. Management's task is to ensure that these emotional drivers are unleashed rather than thwarted. Although many other approaches to innovation use *some* of the rational drivers, it is the combination of the system of rational drivers and the emotional drivers that makes innovation "from everyone and everywhere" an exciting reality at Whirlpool.

This book focuses on how Whirlpool uses both rational and emotional drivers to embed innovation as a core competency, infusing them into every aspect of the company—and into the hearts and minds of our people. In our previous book, *Strategic Innovation* (Snyder and Duarte, 2003), we explained how we began the process of embedding innovation at Whirlpool, along with all the ups and downs we faced on our journey. We also explained how Strategos, the innovation consulting firm founded by Gary Hamel, helped us get started. Since that book was published in 2003, Whirlpool's approach to innovation has continued to evolve, growing stronger and becoming more

deeply embedded into every aspect of the organization. This book does not continue the story from the first book; rather we focus on how Whirlpool's innovation machine works today. We focus not on how we got here and all the hard work it took, but on the results of that work: the practices, tools, structures, and concepts we use today to sustain innovation as a core competency. As the leading pioneer in innovation from everywhere and everywhere, Whirlpool represents, we believe, the state of the art of embedded innovation.

As noted, Whirlpool's approach to embedded innovation has evolved to focus on two key aspects of innovation: the rational drivers and the emotional drivers. In this book, we focus on all the specific elements of both sets of drivers, and show how to use them most effectively in fostering innovation. The rational framework includes the elements of strategic architecture (vision, goals, principles, approach, definitions); management systems (financial, strategic and operations, performance management, leadership, career, and learning and knowledge); the innovation pipeline; the innovators and I-mentors (highly trained innovation facilitators); and execution (metrics, sustaining mechanisms, and value extraction). The elements are interconnected to such an extent that addressing only one—the innovation pipeline, for example—without regard to the others suboptimizes innovation.

The emotional drivers are the personal drivers in all of us that represent an altogether different proposition. These are currents in the human experience that connect people to the ideals of innovation. Whirlpool was fortunate to tap into these currents with its vision of innovation from everywhere and everyone. Emotional drivers lie just under the surface and, when unleashed, speed up and energize innovation. When fulfilled, emotional drivers are self-reinforcing. They create energy and joy in day-to-day work. The emotional drivers are learning, creating, dreaming, the mythology of heroes, and the spirit of winning.

We did not start out to establish the emotional drivers of innovation that are identified in this book, but we did start

with a culture that supported them. Much of our insight into their importance comes in hindsight—after much trial and error and a great deal of reflection. However, we hope that the lessons we learned the hard way will help others move ahead in a way that avoids some of the stumbling blocks we encountered. Too often, companies start an innovation initiative that works against these currents of human spirit through misguided command-and-control innovation operatives. They can marginalize the emotional drivers by making hollow promises of enlightened innovation that do not come about. In the best case, well-meaning innovation hoopla without the corresponding framework that makes innovation work overshadows emotional drivers and becomes gimmicky. In the worst case, emotional drivers are snuffed out by limited innovation programs that bring in consultants or geniuses to do the innovation for you.

Testing Your Resolve

Embedded innovation infuses a company's DNA and culture. Changing the very nature of organizations is, of course, not an overnight feat. It takes years of steady and tenacious effort. It requires paradoxical approaches, such as a top-down direction and systems for bottom-up innovation. Top-down systems are paramount to driving innovation. Embedded innovation requires changing deeply ingrained business systems to create and reengineer systems that allow everyone to innovate. It also requires the top leader's involvement, commitment, and dedication for the long haul.

Many companies fail to reengineer the rational framework because they have a short-term mind-set, or because they try to bolt on a new element without seeing the framework as a total system. Another reason for failure is the sheer size of a decade-long job to embed innovation. This often results in program-of-the-month innovation or a slogan-based approach; innovation is on the letterhead, but no one believes it.

How do you move from very little innovation to innovation embedded as a core capability? This book presents Whirlpool's model of embedded innovation. It describes both the rational business framework the leadership has to put in place and the emotional drivers the people of your company will bring to the effort—if you let them—to help you get from A to B. Such a transformation is not easy; it takes more than a few quarters to implement and will test your resolve. It takes persistence. The lessons from the Whirlpool stories are applicable both to enterprise-wide innovation and to business unit innovation. Many people in the workplace today have a need and a desire to create and to make a difference. Embedded innovation enables them to realize that need and desire. Many books discuss innovation strategies, innovation architecture, or innovation pipelines, but rarely as part of an integrated approach. Our book is unique in that we look at these as parts of a comprehensive business framework, and we focus on the people side of the equation, offering equal time to the emotional drivers that unleash innovation from everyone and everywhere.

Whirlpool still has a long way to go to realize its full vision of innovation. As Jeff Fettig is fond of saying, “We are perpetually dissatisfied [because we know it can be better].” The more we experience innovation and deliver it to the marketplace, the more we learn about our shortcomings and where we need to focus. Whirlpool presents a balanced story of hits and misses in embarking on and charting a course to embed innovation as a core competency. It is a story about how much a company can do and should do to reengineer its management systems, how to develop an innovation pipeline, how to set the conditions for innovation, and how to train and support innovators. These are the rational drivers of innovation. However, it is also a story of trust in the people who work in organizations and the valuing of their innate needs and talents. It is this second aspect, the emotional drivers, that makes embedded innovation unique and compelling.

Unleashing Innovation

