

## TEI 032: Creating a Corporate Culture for Design Thinking

Speakers:

Chad McAllister

Nathan Rosenberg

Chad: Hi everyone! My guest today is the person who executives turn to for advice. He has worked with more than 100 of the 1,000 largest companies in the world, and has been founder or CEO of five companies. As an example of his experience, he provided innovation consulting that led a well-known consumer goods company to add 200 million dollars in revenue in the first year of implementing his advice. His name is Nathan Rosenberg and he is the co-author of the chapter in PDMA's design and design-thinking book entitled, *Leading for a Corporate Culture of Design Thinking*. Nathan, thank you for discussing design-thinking with me and the everyday innovators who are listening.

Nathan: Chad, happy to be here and thanks to you for inviting me to do this with you.

Chad: Absolutely. Thanks for the contribution of PDMA's book. Design thinking is a topic that a lot of people are interested in and want to know more about. I'm curious about what led you and your co-author's writing about the corporate culture aspects of design thinking.

Nathan: Well. [Marie Carolene Chavez](#), who is one of my partners, is on the board of the PDMA and heard that the book was going to be published. She thought we might be able to make a contribution. We submitted a proposal and low and behold, we were one of the lucky ones to be selected to write a chapter. Marie Carolene, who is in our Paris office, [inaudible][00:01:49], who is in our east coast office, and I put the chapter together and turned out to be a great collaboration.

Chad: Very good. For listeners who may not know, for several years, PDMA had a series called "The Tool Book". There were a total of three. I also contributed a chapter to one of those. Now they are coming out with an "Essentials" series. I believe we are on book two of the "Essentials" Series. The first one was about open innovation and this second one focuses on design thinking which is a great time to be writing that book because a lot of us are interested in those topics.

Moving on, let's talk about the importance of culture. It's been getting a lot of attention in recent years and every now and then you come across an article title such as, "Culture Eats Strategy for Breakfast". Can you create a foundation for discussion for defining corporate culture and why that's important?

Nathan: Culture at its simplest level is whatever is enforced within the organization. A more complex but accurate definition would be the unwritten rules for success within the organization while still considering the level of behavior. It's about how they know they are doing well or succeeding. How do they know that they are doing the right things? The answer is because the culture tells you whether you are doing the right things or the wrong things.

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Chad: Right. Sometimes it comes back and bites you from behind.

Nathan: Right. When you're new to a company, you encounter a culture by bumping into it. It's like trying to walk through a glass door that you didn't see—it's shocking. I think that for a new employee within a company that violates the culture feels that experience of walking into something they didn't see or know that it was there.

Chad: Right, exactly. Unfortunately, during my college days and not under the influence of any substance, I was able to actually run through a glass door without just bouncing off.

Nathan: I understand.

Chad: Thankfully there were just a few scratches and a lot of broken glass. I do like that perspective of the unwritten rules. I've always thought of culture in terms of how work is done at any company and, like you said, how work is *not* done at any company.

Nathan: Yes, exactly.

Chad: So in your chapter, you write about four pillars for enabling design thinking. Those four pillars are the leadership mandate, dedicated infrastructure, proprietary process, and supportive culture. I'd like to talk through each one of those with you. Is the first one, leadership mandate, a good place to start?

Nathan: Yes. These were invented by my colleagues [Doug Bait](#) and [Rick Bob Johnston](#). Bob was both president and chairman of PDMA. He is actually the one who introduced me to PDMA. Most about what I know about innovation is what I learned from Bob and Doug. Therefore, the four pillars are their creation. I think it's no mistake that pillar number one is leadership mandate. It's critical that executive management make clear that the success of the company is based in innovation. It has to be written into the strategy. It has to be public in a publically traded company. You must talk to your analyst about it. In a privately owned company, you have to talk to your board about it. It has to be clear to the board as well as executive management that innovation is critical. Secondly, design thinking is going to get embedded in the way we work around any company. I remember [Randal Stevenson](#), the CEO of AT&T, and I are on the board of the Boy Scouts of America together a couple of years ago. During the break, we were talking and he asked me what I had been up to. I told him I had just gone to Stanford Design School and participated in a design thinking boot camp. He asked me design thinking was and I told him, "Randal, I think it's the next source of competitive advantage for companies." He said, "Wow. I have never heard about it." I actually gave him [Roger Martin's](#) book on design thinking and an article that I'd written in *Insigniam Quarterly* magazine. It's so antithetical, Chad. Design thinking is so antithetical to the normal engineering or linear driven ways that all of us have been educated to think and work at the executive level. I think a new

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way of thinking or a new way of approaching things can be a source of competitive advantage. As we say in the book, A.G. Lafley and Procter and Gamble was the guy to recognize this and you have to say that he created a mandate for it. I think most analysts would agree that a big part of the success that P&G has had in the last decade is the product of that mandate.

Chad: Yeah. I think a lot of people that have been involved in product management recognized that when it comes to anything in regards to innovation in the organization, it really does start at the top. Anything else we do tends to fizzle out if it isn't well supported at the top. So I appreciate that leadership mandate is the place to start with and making sure leadership is supporting what is being done—in this case, supporting a design-thinking type of approach.

Nathan: Yeah.

Chad: Our next pillar for design thinking in an organization is dedicated infrastructure. What kind of infrastructure is needed?

Nathan: As my friends, Bob Johnston and Doug Bait say, there is this journey that everybody takes that starts at the realization that we need some innovation. Innovation, in this case, is an ad hawk thing that helps to increase revenue, improve our processes, when we need to get a new product or a new service. This is when people decide they need to innovate. To them, innovation is something that is central to their business and part of the DNA of how they want to operate and so they have R & D run innovation to the third stage where innovation is across the board. Innovation is no longer confined to R & D but rather everyone in the company is now dealing with it as well. To get to that third stage, you probably need resources for innovation. We have a debate in our firm about whether or not it is appropriate to have a Chief Innovation Officer. Is it appropriate to have an innovation department or an innovation function? I think we lean towards a yes. You probably do need an innovation function. Whether you need a Chief Innovation Officer or not. My argument is that the CEO is the Chief Innovation Officer just like I think the CEO is the Chief Quality Officer and Chief Customer Officer. There has to be resources, processes, and structures that are widely known in the company for those who have ideas for innovation and don't know how to move it forward.

Chad: Right.

Nathan: Who do they go to? Do they know that there is money in the budget that they can call on to spend on this at least to get to their first prototype? Who do they take the ide to? All that needs to be built in. When we talk about infrastructure, there is probably an office of innovation, there is a significant budget in that office where the money can be moved relatively easy into innovation ideas to take them into innovation projects. There must certainly be people trained in innovation and people who can train others in innovation as well as people

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who can coach others on how to innovate. These individuals are a very important element. Another thing that we have come up with that I think is fairly different is having a scoreboard. One of the things that is wrong with big corporations is the way bookkeeping is done. We understand why bookkeeping is done in a particular way and why accounting is done in its own particular way so that when you look at a financial statement, it's not different from another company's financial statement in terms of standards and rules. What does get lost in standard accounting principles is what the return is on the money invested on innovation. [Wayne Delcker](#) who was the head of R & D and then became the Chief Innovation Officer at Clorox, invented a metrics for what he called a 'return on innovation'. Just like you see metrics on return on capital utilized or invested capital, Wayne had a measure to show the contributions of new products and new services to Clorox's bottom line. You must have a scoreboard as part of this infrastructure in addition to the other more obvious aspects of the dedicated innovation design thinking infrastructure. Does that make sense?

Chad: Yeah, with the focus on the scoreboard, the metrics really help you evaluate whether you're being productive or not with your innovation efforts. Are there details of that in the book such as references that highlight and clarify?

Nathan: Yes, as a matter of fact. We actually lay out a five-step process that executive companies can take to make that journey from ad hawk innovation to innovation structured into the corporation.

Chad: Okay, very good. I know if we go down the path of talking about metrics, that could easily take up the rest of our time together and I want to make sure we uncover everything else. However, I asked that question to let our listeners know that they can go to the book and read up on the details of this if they are interested. Metrics is a hot topic and choosing the wrong metrics leads to the behaviors that you do not want. I also like the flexibility you described in the infrastructure and whether a Chief Innovation Officer is needed. The point is that if we say that innovation is everyone's job, it very often ends up being nobody's job.

Nathan: You're right.

Chad: Therefore, it is best to have a place to really facilitate making innovation everyone's job.

Nathan: That's it. That's exactly right.

Chad: Very cool. Your third pillar is a proprietary process. This one actually made me curious because design thinking has arguably been [audios](#) approach which they have written about a lot. There is nothing proprietary about that. What is the proprietary processes that you are suggesting?

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Nathan: Yeah. It's really the invention process that a company has from taking an idea. We might be referring to innovation in terms of products but innovation can actually be found in all aspects of an organization—finance, human resources, etc. When we talk about a creative process that is proprietary to the company, it's really about how we get ideas, how we take those ideas and get them to a prototype, how we take the prototype and turn it into either an investment or stranded innovation—something we're not going to invest in at the moment—how to have the investment take the idea and turn it into a first-stage product or a new process or structure, and finally how to get it implemented. I think that at [D-school](#) they teach you the five step process and, as Bernie Roth says in his new book, there are different words that different people use for those structures. Whether you use 'empathize', which is the word that I love, or whether you use 'observation' or 'interview' as the first word, nevertheless, that is where you will begin. You ultimately, need some meat on those bones, especially for big corporations. I cannot tell you how many people on the entry floor with entry-level jobs and great ideas but have no clue on how to move that idea forward or to whom to speak. That's part of this process. Innovation has to be a fit for the company and the company has to be a fit for innovations. That is why it is proprietary. Let's use three fast moving consumer companies as an example. What works at Proctor & Gamble, what works at Clorox, and what works at SC Johnson & Son are most likely three different processes because they have three distinct corporate cultures.

Chad: Right. Absolutely.

Nathan: Does that make sense?

Chad: It does.

Nathan: Great question, by the way!

Chad: Thank you. The need here is to align with the culture that you have.

Nathan: That's right.

Chad: It's a subtlety that I think a lot of our people can miss. I'm sure there are some people that are listening as we go through this list of the five stages for developing a product that might be thinking this as a phase gate type of approach and they might have an agile version of this. But the magic sauce that really comes and creates differentiation for different companies is how they align that process specifically with their culture.

Nathan: Right. Also, one of the points that we express all through the chapter is about applying design thinking to design thinking. Innovating your own innovation process is important. Creating your own innovation process is important because your relationship with it when it's

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your own process differs from your relationship with it when it's their process that you are applying for your company.

Chad: Right.

Nathan: Those pronouns are important.

Chad: Right. That is what separates companies.

Nathan: There you go.

Chad: We can all buy the same technology and try the same strategies, but culture is this very specific thing that develops within organizations over time.

Nathan: You got it.

Chad: It is like you said, it's how we get things done. Some companies just do things very differently. This actually leads us to your final pillar, which is supportive culture. We've talked about culture a bit throughout this interview but I would like to know if there is a type of culture that is needed to support the use of design thinking.

Nathan: Yes. Two companies that we talk about in the chapter are Southwest Airlines and Amazon. As a marker, one of the things that is special about both of those companies is their emphasis on the customer. I think it's important that that is an aspect of a culture that really supports innovation. That's an aspect of a culture that supports design thinking. The more sense of touch, taste, feel, and smell that the people of an organization have for their customer, the more that corporate culture is going to be supportive of design thinking. [The more a corporate culture pleases the executives the less that culture is going to support innovation and design thinking.](#)

Chad: Right. I guess this ties back to the leadership mandate too in the way of emphasizing what we reinforce. I want to share a quick example. I was at an organization where our little team was working really hard to go after this big customer. It was a proposal where we knew what work we would be doing and it involved tens of millions of dollars. For our company that was a big deal. We worked really hard on this for several weeks and ended up not being the winning team. What could senior leadership do at that point? They met up with us all together in a room and the person who led the entire effort was present as well. None of us knew what was going to happen at that meeting. We were all pretty nervous. But the meeting turned out to be positive. The person that led the effort received a reward for all the hard work. We all got a lot of recognition that day because they know that we all worked really hard on this. We didn't win but it was still a big cultural step that we progressed as a company and it reinforced our design thinking to continue taking big risks when trying something new.

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Nathan: Yes. Your listeners might already be aware of this, but I felt it was a big eye-opener when I learned it in D-school at Stanford—the purpose of prototyping is to find out what’s wrong with your idea and not to validate your idea. That, for me, was almost like a slap in the face. Built into design thinking is the idea that you’re going to fail repeatedly until you decide to kill the idea or you work at it until you get it right. I think that most big company corporate cultures don’t allow for the experience that their employees. The people of a big organization would have been sitting in that meeting room wondering if they are going to get their pink slips out of this. To recognize effort and to recognize risk taking and then then go back to that effort through a proprietary process to try to debrief the effort is great. Ask questions such as, “What did we learn?” “What did we do that worked?” “What did we do that didn’t work?” “If we were to do this again, what will we do differently?” That needs to be built into the process. I remember when I worked for one of the large studios here in Southern California and I was working with the head of the studio. I suggested something to the Chairman. I told him, “What we should be doing is after every film, we should sit down and debrief and capture lessons learned.” That suggestion was antithetical to that corporate culture because if a movie fails, they don’t want to talk about it ever again.

Chad: Right. They want to move on to what could be the next success.

Nathan: Yes.

Chad: Really good example. Culture, therefore, is a key driver. It takes everything you are doing and makes it that much better if you have the right culture. In the book, you talk about ways to transform culture to enable design thinking. What are those stages that you talk about?

Nathan: We talk about 4 stages which we describe as a process, but I think of them more as a flow. It works well to explain them as a process. The first stage is to reveal the already existing culture. In Zen, there is a saying that there are three big mysteries in life—air to the birds, water to the fish, and human nature to human kind. We add a fourth one to that, which is corporate culture to the people in that corporation. One of the qualities of corporate culture is its transparency to the people that are a part of the corporate culture. That is just the way things work around here. You’ve got to first uncover the corporate culture and make it tangible. The way we do it is through a cultural assessment. We interview about a couple hundred people from every level of a fortune 500 company. We keenly listen to what they have to say so that we can then summarize everything into a description of that company’s corporate culture. The first step is to really look at what are the unwritten rules to success in this corporation? What type of work merits rewards? What type of work can cause termination? This is not in theory but in practice. That is critical. In the chapter, we give nine elements of corporate culture, which is a perfect framework that can reveal the corporate culture. Once you have it as palpable and

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real as you can, the executives can then unhook from that. This is to realize how their organization has been functioning and that it can function in many other ways as well. This is mainly for the company to see what it had done in the past that still have an effect on how the company functions now. The second step is to unhook from that and to see that the company has freedom. The company has the ability to let go of things that are not helping the organization as a whole.

Chad: Okay.

Nathan: It's like ripping the Teflon. You have to separate from that culture.

Chad: Which is a challenge.

Nathan: I think part of our secret sauce is this second stage of unhooking.

Chad: Changing into what you would like to be.

Nathan: Right. Unhooking will allow you the space to create. One creates from nothing. Nothing is never something you can find, so how do you start at nothing? You get nothing by unhooking. By doing this, you create possibilities. With these possibilities you invent a corporate culture—a way of working that can be wildly successful in the future. The problem with lot of change programs in companies is making changes to adapt to the market place in their current time. But in a fortune 500 company, no matter how fast you make those changes, by the time you implement those changes, the market will have already shifted once again. Another little piece of our secret sauce is not working to adapt to the marketplace. We invent the marketplace of the future, we invent the corporate culture that is going to give competitive advantage in that marketplace, and that is what gets implemented. That's the invention piece stage three. Stage four is about implementing that invention. Implementing consists of new conversations, new ways of interacting, and new ways of working, changing the processes of that company, changing the systems in the company, and changing the structures in the company. Without implementation, none of the first three steps will mean anything. It's critical that at the beginning when you think about making this change that you've also thought about how you're going to implement the change.

Chad: Right. There are efficiencies that you gain from this as well because in corporate culture, there are processes that take place within an organization that people still go through but are no longer needed in the company and can be discarded or changed. This process of identifying corporate culture addresses these processes. People might be wondering how we can actually change the culture, but it's the implementation that you assured. It's the processes that tell us what culture is. Those things we reward as well as penalize tell us what our culture is like. The stories that people within the organization tell will give you a real sense of the kind of culture

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they follow. If anyone knows anything about Southwest Airlines culture, it's probably because of these stories of their employees who went through heroic efforts for a customer.

Nathan: Exactly right.

Chad: So we have the four stages of how one can go about transforming a culture with a focus on design thinking and for other purposes as well. I think we've done a good job talking about how important culture and how it enables design thinking in making changes within an organization.

Nathan: Yes, exactly. As you pointed out previously, it's a dance that occurs between an organization's existing culture and its acceptance of design thinking and modifying and shifting the transforming existing culture so that it's more accepting of design thinking. But also, thinking that you can jam design thinking into a company is a fool's errand.

Chad: Yeah. The company has to support it. The amazing thing about strong cultures is that they're very effective at killing off anything that doesn't fit.

Nathan: You got it. That's exactly right.

Chad: Okay. As my listeners know when we get to the end part of the interview, I like to ask my guests to share an innovation quote that they liked and to share why you chose that one.

Nathan: Chad, when I looked on your website, it was very clear to me that most quotes had the words "innovate" or "innovation" in them, but I chose a quote that doesn't have either of those words in it. But I think it is nevertheless a great innovation quote.

Chad: Excellent. We need to get out of that rut.

Nathan: Alright, good. This is from a book. You're a Colorado man and I used to go to school in Colorado and I used to mountain climb when I was much younger. I also enjoyed reading about mountain climbing. This quote is from a book called *The Scottish Himalayan Expedition*, which was published in 1951 and written by a member of the expedition, W.H. Murray. In the introduction to the book, there is this great quote that I'm going to read to you. It reads, "Until one is committed, there is hesitancy. The chance to draw back always in effectiveness. Concerning all acts of initiative and creation, there is one elementary truth; the ignorance of which kills countless ideas and splendid plans that the moment one definitely commits oneself, then Providence moves too. All sorts of things occur to help one that would never otherwise have occurred. A whole stream of events issues from the decision raising in one's favor all manner of unforeseen incidences and meanings, meetings and material assistance, which no man could have dreamt would have come his way. I have learned a deep respect for one of Goethe's couplets. Whatever you can do or dream you can, begin it. Boldness has genius,

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power, and magic in it.” I think that I a great quote. Just reading it to you gives me goosebumps and I get inspired. To me, it says a lot about what an innovator is up to. That is boldness and genius.

Chad: Nathan, it’s funny that you said that because I was getting goosebumps as you read it. It is a really powerful and motivating statement that says when you commit, you are in. Things will align and work towards your favor and goodness will come of it.

Nathan: Yeah, that’s right. In a breakfast of ham and eggs, the chicken supports and the pig is committed. The analogy that I use, is in Olympic board diving. They say a diver is committed when he or she can’t crawl back onto the board. It’s about making it happen because you’ve given your word to it and there’s no going back. That is what I think W.H. Murray is talking about when he speaks of commitment.

Chad: Yeah, and his context of doing expeditions in the Himalayans is a true example of real commitment.

Nathan: You got it.

Chad: Very good. I appreciate you sharing the content of the chapter that you wrote for the book and about design thinking and the culture to support that. Great information for those who are thinking about changing their culture outside of a design thinking context as well. Also, thank you for sharing that great quote. It is not one I was familiar with and I loved the power behind it.

Nathan: It’s great.

Chad: How can people follow your work and learn more about what you do?

Nathan: Before I say that, Chad, I want to thank you. Your two websites are a gift for those who either consider ourselves to be designers, inventors, and innovators, as well as people who have that as their online accountability. Thank you for the service that you provide. Secondly, thank you for being generous enough to contact me and giving us at Insigniam this opportunity to share the chapter with the folks that follow you. I consider that to be an active generosity on your part. If people do want to contact us, they can call me—my name is Nathan Rosenberg—at my office, (949) 494-4553. I’m in Southern California. They can also email me, although I am much better with the phone, as you have discovered, Chad. My email address is [nrosenberg@insigniam.com](mailto:nrosenberg@insigniam.com). Either of those ways would work great.

Chad: Very good.

Nathan: I’m on LinkedIn as well.

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Chad: Absolutely. LinkedIn is a great way to stay connected. The website itself for your company is?

Nathan: Insigniam.com. Latin for “I shall mark as extraordinary or I shall elevate”.

Chad: Ah. Deep meaning there.

Nathan: Deep meaning. Exactly.

Chad: That wasn't just any easy search to see what URL was available. Very good. Well, Nathan, thank you again. I appreciate your time. All the everyday innovators listening, thank you so much by doing so. Please help other product managers make it easy to discover this podcast. Share it with them. If you're listening on iTunes, I would appreciate you leaving a star rating, which is super easy. It will take you less than 10 seconds to click on stars. If you want to leave a review, all the better. Thanks everyone!