# Managing Innovation - A Skill or an Impossibility?

The Foundation Forum
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'I've got a great new idea'. So exciting in isolation. But in an established organisation often the precursor to a lorry-load of 'buts'.

The fundamental battle lines are drawn in almost all organisations between reliable repeatability and bright new ideas.

Making smart fresh thinking happen is a tricky ball game because every business or charity or public body is designed to get something done at scale. And doing things at scale means making them easy to do over and over again. At its simplest level, making something repeatable is the enemy of making something new.

This Forum was about the process of managing innovation. We explored the challenge in three different sizes:

- What it looks like when you're a small unit with limited resources and big ideas
- What it looks like if you're working across multiple small units – how you improve the odds so more with merit succeed
- What it looks like if you're big – how you battle with your big-ness successfully

At each level the challenges are huge. But different. Well, superficially at least.

The people we found to help us out covered these three bases:

We had Stephen Bates, CEO at Rheon Labs, a fascinating business based in Battersea and built around a strange new material. This substance has some counterintuitive properties and is a bit like a rubbery version of cornflower in water. If you are gentle with it, it's soft. If you hit it hard, it's solid. In fact what feels solid is the very rapid absorption of energy, protecting what's behind it from harm. When, usually, it's soft it can also be comfy – think thin, flexible motorbike jackets, shin pads or crash helmet padding. Stephen has CEO'd a whole succession of these kinds of business and he knows the ropes of small boat, heavy sea, innovation paddling.

We had Professor Andy Neely who goes by the mouthful of a job title Pro-Vice-Chancellor for Enterprise and Business Relations at the University of Cambridge. He comes from the world of science and engineering but always in ways that mix leading edge academic thinking with commercial value. The role is one he's the first to hold and it's about steering, alongside many others, the whole area around Cambridge in a direction towards Silicon Valley-style success, albeit in a form relevant to the UK and the characteristics of a Silicon Fen.

And we had Nicholas Lovell, an author, consultant and digital games design leader who, amongst other things, helps large companies learn how to innovate, with digital technology always close to the scene of the incident. He has a wonderfully clear mental model that helps people in large corporations let go of their instincts to control and embrace doing something more useful to innovation instead

**So is managing innovation a skill or an impossibility? The evening's discussion in summed up form by Simon Caulkin**

What are companies for?

In an evolutionary or ecological perspective the answer is clear: companies are there to innovate, something that markets, not having intention, can't do, and individuals, in an age of advanced technology, can only do with difficulty and at limited scale.

Innovation, or solving problems, is what powers Schumpeter's creative destruction and moves the economy, and, with luck also society, forward. Yet that begs a question: given the time that companies have had to practice it, not to mention business academics to write about it, how come innovation remains so tantalisingly hard?

Exploring some of the reasons made for a fascinating May Foundation Forum. The reasons included psychology, cost, timing, even the laws of physics and economics. It becomes ever harder to replicate the 10-times improvements that steam power, train travel, cars and electric light represented over, respectively, watermills, canals, horses and gas mantles. The audience heard descriptions and prescriptions that included Ernest Hemingway's advice to 'write drunk, edit sober', a paraphrase of General Patton's blunt 'a good plan violently executed now is better than a perfect plan executed next week', and perhaps most aptly scriptwriter William Goldman's famous conclusion after 30 years observing movie making in Hollywood that 'nobody knows anything' about what works and what doesn't.

That may be only slightly an exaggeration – but fortunately it's not the whole story. Even if, as one of Nicholas Lovell's sources of learning put it, a start-up is a team that doesn't know what its product is, who its customers are, and how it's going to make money, that, paradoxically, is a liberating place to start: if you know you know nothing, there are no false certainties, all possibilities are equal, and innovation becomes a process of learning, uncovering answers to those questions as fast and cheaply as possible.

The truth is that most innovations and start-ups fail, which is why venture capitalists and Hollywood producers invest in portfolios of projects on the principle that over time one big hit and a couple of minor ones will more than pay for the failures.

In which case, as all three presenters suggested in different ways, the process of innovation is about improving the odds in your favour at least as much as having a brilliant 'Eureka!' moment. This doesn't betoken caution or endless analysis – Patton's dictum applies – but it does mean making tough decisions at speed. Recall Steve Jobs' insistence that Apple's innovation success was due as much to brutal decisions about what not to invest in as much as the projects that did see the light of day.

Most companies aren't like Apple, however. Indeed, as first speaker Stephen Bates pointed out, idea infanticide is a big problem in many large companies, where even seriously promising projects often don't stand a chance against the short-term imperatives of finance and management preference for grooved routine over uncertainty – which is partly why he left Marks & Spencer to become a serial entrepreneur with a number of small businesses.

But as with their larger brethren, even the small company's most attractive strengths – a can-do culture, agility, and tight focus and lack of baggage – can all too easily morph into weaknesses if given over-free rein. Bates singled out several often neglected dangers for attention. One was the risk of botching implementation. Good implementation depended not only on a plan, which investors typically do subject to careful scrutiny, but equally on the people charged with delivering it, whom they mistakenly don't. He warned that 'People often miss the dimension [of implementation risk], but a lot of businesses wander around and that's what makes them fail'.

Emotion is another hidden peril. Although one of the most attractive things about start-ups, 'the trouble is that it very easily gets in the way of rational thought, and it's difficult for people, especially the ones that are attracted into the environment, to separate thought from feeling… "Am I thinking this, or am I feeling it?" It's a real challenge.'

But even if emotion is constructively channelled and the implementation test passed with flying colours, the best-laid plans, Bates pointed out, can be derailed at any moment by something quite out of a company's own control: luck.

The reverse is also true. Luck is almost always rationalised out of business success stories – but in many cases it's the deciding factor, particularly in the matter of timing: how many promising start-ups were wiped out by the financial crash through no fault of their own? And would some of today's meteors like Uber and AirBnB have thrived so mightily without the general tightening of purse strings that followed it? Even the biggest companies can't make a market receptive to an invention until the conditions are right – the same idea can win or lose depending on when it is introduced. How many ideas are withdrawn and then tried again, identically, a bit later on?

'You can't rely on luck,' Bates noted. 'You have to do as much due diligence as you can. But be aware of it, because sometimes you have to flex what's going on when you realise what the market really wants right now. Because you can't bend it. You have to lean into it'.

At the level of a wider ecosystem, luck can't be forced any more than it can at a small company. But it is possible to multiply chances for serendipity and they are an important and deliberate part of policy for generating and maintaining a climate of innovation at Cambridge, perhaps the major UK and European innovation hotbed. 'Silicon Fen' wasn't planned; it evolved, in the description of Andy Neely, the university's Pro Vice Chancellor for Enterprise and Business Relations. It has become a self-reinforcing system in which the 'knowledge energy' of the university research base, finance, space for start-up enterprises, business and technological skills, and thriving entrepreneurial networks and communities of interest, all feed into each other.

They fuel demand for new entities, as now for 'maker spaces' in manufacturing or even biology. 'So what's happened as a consequence of success around the entrepreneurial ecosystem is that in turn people are now finding ways to innovate around how you make the ecosystem better. And that, in itself, strengthens the ecosystem further,' Neely explained. All of these elements can be supported and encouraged – Neely's job – for example by attracting further capital, building science parks and developing specialised business courses. Together the environment generates the added advantage that, 'Cambridge becomes quite a safe place to fail, because the reality is that if you launch something and it doesn't work there are another four jobs to go to. So people are constantly launching things and willing to take a risk because they can always find something else to do'.

Not all the consequences are quite so benevolent (evolution, someone once said, is cleverer than you are). Cambridge is now the most unequal city in the country as the rising cost of living and especially housing squeezes out non-participants in the vibrant entrepreneurial economy. The university is therefore investing in housing for key workers; in the future, Neely foresees the need for 'innovation districts' within the wider ecosystem, co-locating larger firms with start-ups to further reinforce the university's mission to 'contribute to society at scale'.

Author, consultant and digital games design leader Nicholas Lovell, the third speaker, sought to demystify innovation at the human level by reframing it as being about people and learning.

He began by stressing the importance of knowing who you are – is your organisation a 'start-up' or a 'corporate'? The two require entirely different approaches and quite different types of people too.

Perhaps to his or her surprise, in this categorisation an independent plumber is a corporate: plumbing is a known quantity involving little innovation and a firm grows by doing it well and making incremental improvement, as corporates do.

A start-up on the other hand is a temporary team of people, independent or within a large organisation, who don't know very much, in circumstances of extreme uncertainty, in search of a scalable business model ('the biggest start-up in Britain: the Department for Exiting the European Union'). The priority for a start-up, then, is to learn what its product, customers and business model are, in double-quick time and as cheaply as possible, in order to get to a good answer before the financial (if you're independent) or political capital (if you're in a large organisation) run out.

It sounds good in theory but what does it look like? Lovell described putting an ad on his website inviting people to buy his book. When they clicked on the buy button, they saw a message saying, sorry, he hadn't written the book yet, but would do so if enough people wanted him to. After playing around with different descriptions of what it might be about, eventually around 150 did, so he wrote it (and harvested a commission from Penguin to write the next one). 'If you're in a start-up, go and spend £300 on an ad on Facebook,' he advised. 'If you can't find 10 people or 100 people to click on your ad using Facebook's shockingly invasive surveillance tools for targeting ads, your idea is probably rubbish. Kill it now because nobody wants it.'

If that's the case, the answer is to pivot to a different formula and learn about that all over again, or to go and do something else. However, Lovell had a sharp warning against the destructive Western tendency (he blamed the Cambridge tradition) to challenge new ideas by pulling them to pieces rather than letting them breathe, a process that simply discourages people from being creative.

Which (in case you were still wondering) is where Hemingway comes in.

'Write drunk, edit sober' was his shorthand edict for separating the creative work from the decision-making and encouraging a whole team to do the same.

He refers to "plusing" it, wondering how an idea could possibly work rather than why it can't.

Finally, he urged us in his summing up to 'remember that nobody knows anything. You're just trying to figure it out along with all the rest of us' – a conclusion that's also an appropriate starting point, since it puts everyone on an equal footing, in front of a blank sheet of paper. And a bottle of Scotch to kick things off, perhaps.

## The Foundation's view

At the end of the evening the answer felt at least a degree more clear. Managing innovation is not an impossibility, but it does require qualities that are ill-suited to the world of work we seem to have created in many places. The most useful headlines that stood out for us at The Foundation at the end of the discussion were these:

### 1 Skill is not enough – luck is crucial.

What a troubling announcement. As Stephen Bates set out his top six challenges in making a success of innovation for a start-up, this one landed with an especially loud clang. The implication is that no matter how great your genius, success is not self-made. As Stephen put it, no single organisation has the power to make a new market on its own. The conditions have to emerge and then the apparently overnight success takes off – so for example a recession might have come along at a good time for Uber and Airb'n'b. When you look at success backwards, writing the history of the winners, it can appear that a succession of skilled breakthroughs led inevitably to victory. But if you look the other way around, there were likely dozens of potential victors all working hard to make their mark. Some would have been too early, some too late, others affected by fate in ways other than pure timing – starting in the wrong country or city, not getting early coverage in some kind of influential media, not getting funding quickly enough or maybe getting it too soon. It means the best you can do as an innovating team in a small business is to narrow your odds. Which leads us to point number 2...

### 2 Fear of failure is a fundamental human motivation – a safe place to fail is a good one for innovators.

Andy Neely described the way he came to understand why Cambridge as an area works well for innovators, and it is broadly about improving the odds. There are a set of conditions that work together leading to a much higher than average rate of success – constant invention from the university base, well established finance and IP protection resources, easy access to space of different kinds, relevant skills in sufficient supply, and a natural community of a size that means people bump into each other naturally and usefully. But it was one consequence of this thriving system above all others that stood out for us. He explained that there is such demand for talent and so many opportunities that if your venture doesn't take off you'll have three or four other jobs you can take to continue your career and replace your income. You don't lose your house and risk your family's future, you just move on to something else almost as good. That means the fear of the downside is low and so willingness try for the upside is high, meaning a lot more talented people will have a go. This increases the odds that successes will follow both by weight of numbers and by talent applied. Fear of failure is a bigger driver of what we do than we'd like to think – it's why we justify intuitive decisions with numbers or use big name consultants to confirm internally-drawn conclusions. Leading to our final favourite observation...

### 3 When you do innovative work, even in a large organisation, it is helpful to frame its purpose as being to learn not to succeed.

Nicholas Lovell framed the world of work by dividing all activities into two groups – corporate or start-up. He didn't mean these to be organisations – they are both things you do in large or small organisations. A corporate activity is one where you know how it works – you know who your customers are, what your offer is and how you make money. Your job is to repeat this and thereby to grow. A start-up activity is one where you don't know these things but you have an idea that might just work. This means all of your efforts are invested in learning whether and how you can answer the questions well enough to get something that works OR to decide that you won't, and you should stop and go and do something more productive instead. Your learning should be as swift and as inexpensive as possible because your runway is limited – in a small organisation by cash and in a large one by people's collective patience. What is so liberating about this conclusion is that 'learning' is a neutral idea. To learn well is in anyone's control, and it takes the eye away from success being good and failure being bad. In many large organisations the work of innovation is mainly hampered internally, and much of this comes from the assumption that a start-up activity can be managed like a corporate one – by setting specific targets for revenue for example, and judging what follows by its ability to comply. Success is hitting the numbers, failure, which is bad, is missing them. Nicholas reminded us that innovation is not a linear process like this – only scaling a proven model can be judged this way.

So... bringing the three points together, learning as an objective is armour-plating for an innovation team, reducing fear of failure and providing more time for the odds to work in their favour, for luck to kick in.

## About The Foundation

We are a management consultancy working with all kinds of organisations to achieve customer-led success. This means tackling big organic growth challenges; growing faster, growing into new markets or fending off threats to growth by starting with what matters to customers and then making it work for the business as well.

The aim is to influence customer behaviour, but this is inherently tough. Why? Because people in any organisation naturally see the world from the inside-out, with colleagues close and customers distant, and lots of assumptions about how things work that aren't challenged

We help clients look from the outside-in, re-connecting them with what customers really value (the problem they want to solve, not usually what the client sells), then finding new and better ways to create this value

This means working both as expert advisors and facilitators. The issue with simply gathering outside-in information is that it lacks impact to get senior teams to tackle inconvenient truths in what customers want, and to believe their own organisation can be different

By using 'Immersion', personal conversations with customers and leaders of organisations in other sectors who have tackled parts of their challenge, we help teams get around the natural and limiting inside-out beliefs that stand in their way. This helps them develop better answers for customers and new ways of achieving lasting success

We answer three sizes of question:
• Small – a new proposition or an improved customer experience
• Medium-size – growing value per customer or improving retention (a sub-set of the former)
• Large – creating customer-led business success, often by uncovering a true outward-looking purpose and the genuine belief needed for it to be acted on

Our clients include HSBC, the John Lewis Partnership, Sky, Vitality and Ebay, with achievements including helping create Plan A at M&S, adding £100m of value to a Travelex travel money proposition, and giving Morrisons a competitive direction contributing to their return to growth

Behind our work our most distinctive characteristic is our team and their outlook. Each individual is motivated to and experienced in crossing the border between the worlds of customers and business which often resist mixing well

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