

TO DRIVE INNOVATION, YOU MUST UNDERSTAND YOUR ECOSYSTEM

AN INNOVATION ECOSYSTEM'S MANY ELEMENTS MUST
WORK IN SYNC FOR GROWTH TO HAPPEN

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In 1878 Leo Tolstoy released what would become one of his most acclaimed works, the novel 'Anna Karenina'. The book started with a quote that over the centuries has transcended disciplines: 'Happy families are all alike; every unhappy family is unhappy in its own way'.

When taken literally, the quote is a good reflection on family life and family conduct. But as a metaphor, the quote has found application in different fields, from anthropology to ecology, and from philosophy now to business.

The quote became the Anna Karenina Principle, with its popularisation by Jared Diamond in his book 'Guns, Germs and Steel'. In the book, the principle illustrates why – throughout human history – so few wild animals have been successfully domesticated. A deficiency in any one of a high number of factors can render a species not able to be tamed. Therefore, all successfully domesticated species are not so because of a particular positive trait, but because of a lack of any number of possible negative characteristics. The Anna Karenina Principle can be summed up as: a deficiency in any one of several factors dooms an endeavour to failure – consequently, a successful effort (subject to this principle) is one where every possible deficiency has been avoided or overcome.

With more and more businesses understanding the importance of building innovation ecosystems to ensure sustainable future growth, the Anna Karenina Principle comes to the forefront again in the context of improving or changing these ecosystems.

An innovation ecosystem consists of many elements, all of which need to work in sync for growth to happen. Through our pioneering work around innovation maturity, we've concluded that when clustering the many ecosystem elements, you typically end up with five core pillars: strategy, leadership, management, culture and processes. Understanding if any of the components of these pillars is hindering the progress and outcome of the ecosystem becomes paramount when it comes to making improvements or changes. Think of the ecosystem improvement strategy in terms of a sat-nav system in a car. Sat-nav systems are great when they work, but there are times when the link is down, the signal fails, or the reading is off, and the journey can turn into a random game of mystery-road pinball. Or to put it another way, you know where you want to get to, but unless your starting point is clear then any proposed route and any stops along the way are simply guesswork, or in innovation parlance, unproven assumptions!

The same applies when it comes to improving an innovation ecosystem. Unless you are clear on your current starting point, then your roadmap to developing the organisation's innovation ecosystem and thus maturity will at best be packed with assumptions, and at worst will actively prevent further development.

To illustrate this point, imagine an ecosystem where individual intrapreneurs are too afraid to propose a new idea for fear of being punished by senior leaders. The result is a direct limit to the number of ideas submitted, which will impact the company's growth in the years to come. This is a clear cultural blocker that needs addressing before making any further investment. If this blocker is not flagged early on, any investment in capability development, for example, will be money poured down the drain. Or another example, if the C-level can't agree on a clear strategy, the investments are likely to be random. Again, this strategy blocker will have dire implications for the company's future. Therefore creating, for example, a corporate venture capital fund before developing a clear innovation strategy won't yield expected results as investments will not be deliberate acts or strategically aligned.

When it comes to improving an ecosystem, another critical aspect to understand is that just doubling down on something that's already working will not increase outcomes and, in certain situations, may even result in something to the contrary happening. Hence all elements of the ecosystem need to be not just in sync, but equally mature. For example, merely increasing the R&D budget won't pay off if another factor holds this variable back.

'There is no statistically significant relationship between how much a company spends on its innovation efforts and its sustained financial performance,' states a Price Waterhouse Cooper research paper. A testament to which is the discrepancy that's evident when you put Boston Consulting Group's list of the Top 50 Most Innovative Companies in the World next to Statista's Top 20 R&D Spenders in the World. Only three of the top ten spenders are in the top ten innovators.

To understand the maturity of each element making up an ecosystem, one first needs to understand the difference between attributes and outputs. For an analogy: should one be considered mature because they brush their teeth and look smart at work or because they are emotionally well developed and bring thoughtful and reasoned arguments to the benefit of the organisation, its people and customers? Outward appearances don't always reveal what is going on inside; so, measuring random 'things' rather than attributes won't help you unpack and define what is truly going on. When you take 'things' away, what remains is a complex interaction between the five pillars of the ecosystem. Drawing those strands together produces an innovation maturity dashboard that, used correctly, informs and guides the creation of an aligned roadmap of required interventions and hence, the progress of the organisation.

The maturity of an ecosystem can be divided into many levels, but from our experience, we've found that four levels work best.

Four levels of maturity

Novice	Just because an organisation is at the novice end of the spectrum doesn't mean that there is no innovation activity. On the contrary, there might be little spurts of ad-hoc activity in one or more departments and innovation may occasionally be discussed amongst the leadership team. But discussion is typically as far as it gets. With no leadership sponsorship and no innovation strategy, any positive outcomes are likely to be accidental rather than designed and generally low value.
Competent	This level requires not only cultural change but also a sea change in the leadership approach. At this level, leaders now recognise the need for innovation as a driver of required outcomes. To this end, they have likely developed a basic innovation strategy and are prepared to sponsor innovation, albeit at a limited level. Some innovation training has usually taken place, and the organisation will likely have looked to incorporate essential innovation tools into the mix. However, organisations at this level still typically focus on short-term outcomes, and there is a fair chance that the innovation strategy and corporate strategy remain misaligned. That's certainly not the case for the third level.
Expert	Attaining this new level of maturity sees a cultural and leadership shift from regarding innovation as an add-on to recognising it as an intrinsic driver of growth across the organisation. There is still some way to go, but at least innovation is now aligned to the core strategy with visible leadership sponsorship of innovation activity. At this level innovative ideas are starting to spread across the organisation, becoming embedded in product and process design as well as influencing and informing how teams and projects are managed. Admittedly the focus remains on mid-term goals, but on the positive side, a suite of innovation tools alongside defined metrics and KPIs is starting to enable activity across the innovation mix.
Leader	This fourth and highest level is achieved when preparation ends, and the full innovation journey begins. Innovation is no longer just aligned with the strategy. Instead, it is an intrinsic part of the strategy and fully embedded into organisational culture. Metrics and KPIs are fully integrated and deliver a realistic and rounded picture of organisational capability, thereby enabling product

and process development to be focused on delivering innovation-led outcomes. There is also full leadership sponsorship alongside the development of a core innovation team. Together these help to transform business management, building innovation engagement and enabling people to innovate without fear of failure. This, in turn, moves the organisation's viewpoint away from short-termism and towards the attainment of long-term goals.

Leadership matters

A specific leadership culture is needed to achieve the fourth and highest level of innovation maturity. If we assume that innovation is baked into organisational culture, along with the tools of measurement to gauge its progress, the challenge of leading in that environment remains. In far too many instances, this is where efforts to build innovation ecosystems break down and fail to deliver on the innovation investment promise. Or, put another way, it is at this stage that many organisations put the wrong people into positions of leadership.

Innovation is still primarily viewed as a technical accomplishment that requires leaders with strong technical skills. And while that may be true – your leaders certainly need to know the nuts and bolts of any specific project – it is not enough on its own to deliver on the final vision. Effective leadership today requires an expert-level grasp of both hard and soft leadership skills.

What do we mean by soft skills? Increasingly, leadership development visionaries are pushing for a more holistic view of the skills necessary to motivate and engage employees, particularly when they are involved in a specific project with particular expectations and goals. Leading for innovation is about demonstrating a full range of skills that could be captured under the broad label of 'emotional intelligence' (EI), a hot commodity now among leadership development gurus.

EI has a broad and still evolving definition and can include everything from extensive and effective communication, cross-disciplinary collaboration and building a sense of community. However, there is a consensus around the need to develop more complex skills like empathy and compassion. Although they can be developed in most leaders, these are generally not included in the natural skill set of many strong technical leaders. The result is a significant gap between an organisation coming up with ideas (inventing) and executing and implementing those ideas (innovating). Bridging that gap is often the missing element in many promising projects that stumble before they come to fruition.

Applying liberal doses of empathy and compassion, even in the development of

a purely technical challenge, has many different benefits. First, it makes it much more likely that an innovation team will reach its goal and bridge the gap between idea and execution. Leaders able to apply high levels of EI to their project oversight usually find the right outcome arrives on-budget and on-time more often and with a much higher degree of buy-in from the team. EI-driven leaders are also more likely to assemble a team that operates by consensus and mutual support. However, organisations that instil EI across all leadership levels also benefit from much broader and deeper engagement and acceptance of innovation by employees, greatly reducing the possibility that new innovative ideas developed by one team are resisted by the rest of the organisation.

Gauging an ecosystem's maturity

The best way to gauge an ecosystem's maturity and needs is to apply a company-wide survey asking multiple-choice questions about every subsection of each of the five pillars. For example, questions around the ecosystem's leadership could be along the lines of:

- Our leadership team provides the right support and resources to deliver on our company's innovation goals and ambitions.
- Our leadership team is consistent in putting words into action around innovation.
- There is clear and visible leadership ownership and sponsorship for innovation.

For statistical accuracy, a review of this kind needs to be distributed both vertically and horizontally across the organisation. Note that to get a statistically accurate (within an agreed margin) high-resolution picture of what the ecosystem needs, the survey doesn't need to be taken by everyone in the company. As long as it gets to a cross-section of people both horizontally and vertically, there is usually no need to get participation from more than 10% of the ecosystem.

For increased accuracy, you can combine the survey data with an analysis of the ecosystem's outcomes. If the findings from the survey can explain the shortcomings in the outcomes, now the ecosystem's needs are clear.

In a nutshell if one wants to improve an existing ecosystem, a continuous improvement process is made up of the following five steps:

1. Assess the current state of the ecosystem using both the survey method and analysis of its outcomes.
2. Understand the limiting factors or blockers of the ecosystem – the things

that hinder the ecosystem's level of maturity and its outcomes.

3. Tackle the blockers with appropriate actions (e.g. leadership development, process improvement initiatives, cultural transformation)
4. Re-measure the ecosystem once the steps have been deployed to evaluate the level of expected change.
5. Re-do the loop every time the ecosystem needs improvement.

Successful innovation requires more than just process transformation; it calls for the entire ecosystem to have an innovative ethos and be equipped to tackle the challenges of today and the unfolding opportunities of tomorrow. This includes the need to have an appropriate HR strategy, a proper structure, demonstrable executive-level support, and a culture built around the pursuit of innovation. All this also built around a core purpose and a deep-rooted desire to pursue better. Action to improve any ecosystem shouldn't be taken until the current situation is fully understood. So, analysis of the ecosystem needs to have the full support of the executive team if it is to uncover the ecosystem blockers preventing the company from achieving its growth goals.

Making sure your family is a happy one is not a matter of luck nor will, but a matter of understanding the particular needs of your family. In the same way, developing your innovation ecosystem cannot be done by observing another company's innovation strategy, capability or culture. Assessing your ecosystem should be the first step before any improvement measures are taken as they need to be specific to your ecosystem and your ecosystem alone.

Read the published article at LSE Business Review

<https://blogs.lse.ac.uk/businessreview/2020/10/29/to-drive-innovation-you-must-understand-your-ecosystem/>