INNOVATION INSTITUTE REVIEW

A Different View on
Innovation and Creativity

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STRUCTURED **APPROACH** TO **INNOVATION**

Driving Innovation at Individual and Company Level

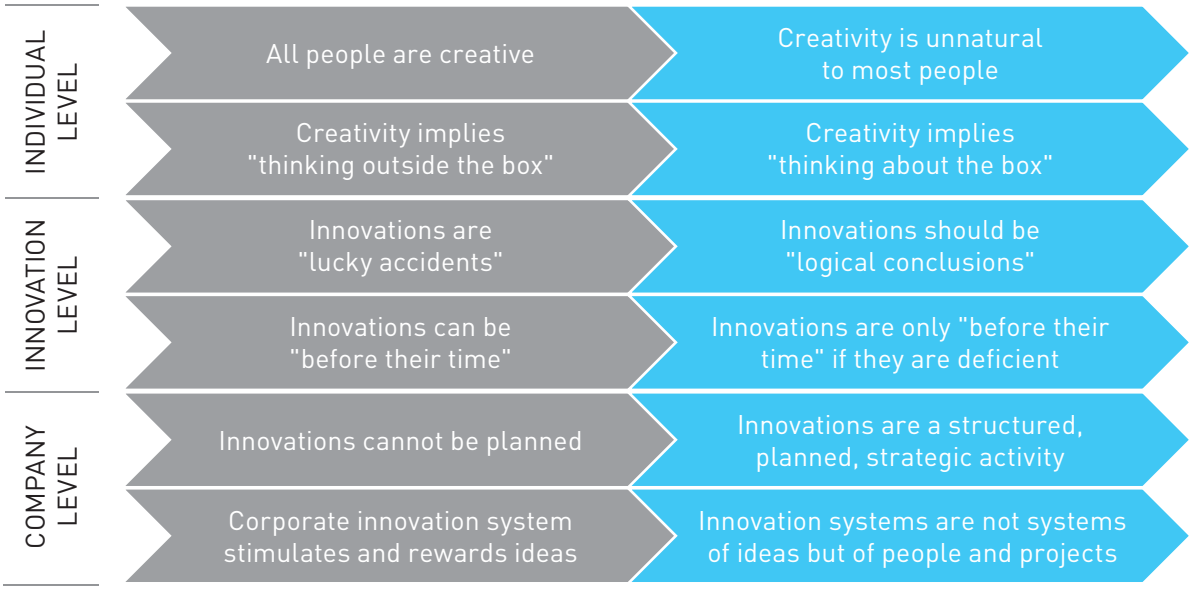
Led by the idea that "the only constant is change", concepts of innovation, creativity, and change have grown into mantras of today's business and life. Although we recognize the existence of permanent change, our nature is to fight it and favor the status quo – rather than embrace it and/or drive the change. It can be argued that challenges arise from innate limitations induced by biology of human mind, psychology of decision-making, sociology of human interactions and economics of efficiency vs. value-creation – which are especially pronounced in the contexts of innovation and change, which are inherently characterized by ambiguity and uncertainty. Such contexts challenge our understanding of planning and executing plans to deliver results. Such contexts require deep understanding of challenges and possible solutions for structured approach to change, at individual and organizational levels – in order to develop systems that can deliver creativity, innovation and change as logical conclusion of a well-defined process. That is why Innovation Institute proudly deliver key implications for driving innovation and creativity, arising from our research focused on understanding innate human limitations.

Story of innovation is not a story of "thinking outside the box"; it is not a story of great ideas. **Story of innovation is a story of mind and a heart**. Integrating insights from biology of human mind, psychology of decision-making, sociology of human interactions and economics, we argue that innovation and creativity require **brain which is guided in pursuit of innovation** and **heart which delivers energy** (as sugars and oxygen in blood) to diverse regions of the brain. Given that brain is inherently an optimizing mechanism (trying to deliver solutions using the least amount of energy derived from sugars and oxygen); Given that flow of blood to brain is hindered by gravity; Given that brain is a satisficing mechanism (aiming for minimum viable solution, not the most creative) – **passion** (and possibly frustration) is important to get the heart to pump more blood thus giving the brain energy to deliver creative solutions (getting more areas to activate and getting them to activate more intensely).

Under those assumptions, we can discuss some key deceitful assumptions about creativity and innovation we often consider true:

CREATIVITY IS UNNATURAL

While we tend to believe that all of us are creative, creativity is "unnatural" for most people. Evolution has favored survival of the fittest. Thus, it can be argued that **evolution has favored the brain that finds satisficing solutions the quickest, and uses the least amount of energy in the process**. It did not favor the survival of "the most creative". But it is not only the evolution that favors the survival



of the fittest, it is all daily social contexts that favor those who "fit" within existing dogmas, thus further strengthening the favoring of "non-creative brains". Those few who have been lucky to "escape" the perils of evolution and social systems, are important for general progress, as they naturally challenge the status quo and deliver innovation.

As innovation and creativity require activation of numerous networks of nodes, thus requiring significant amounts of energy, individuals can be creative only regarding the challenges they are passionate about. Challenges that are not relevant to the individual will not excite the heart to pump more blood thus limiting brain's ability to deliver novel insights as it will use only limited capacity.

CREATIVITY IMPLIES "THINKING ABOUT THE BOX" AND NOT "THINKING OUTSIDE THE BOX"

Second deceitful assumption often ascribed to creativity is that creativity implies "thinking outside the box". This has become one of the most used catchphrases on topics of creativity. However, creativity is not "thinking outside the box" but rather "thinking about the box". The key to creativity is in **clear identification of the box** (i.e. all the explicit/implicit assumptions that define the box) **and rethinking of its boundaries** (i.e. questioning all identified assumptions in a thought-experiment process). Once box is identified and redefined – it can generate an infinite amount of ideas. But, true innovation is in the redefinition of the box, and not the numerous ideas that can be easily derived from it.

INNOVATIONS SHOULD BE "LOGICAL CONCLUSIONS" AND NOT "LUCKY ACCIDENTS"

Third deceitful assumption is that innovations are "lucky accidents", i.e. random outcomes. As creativity is such a rare trait and innovation is hard, we tend to justify innovation failure as a "lack of luck" and ascribe significant role to luck in success/failure of (our and others') innovations. However, while luck does play a role, we often disregard the fact that innovation requires a well-defined process which minimizes constraints to creativity. As in the case of physical challenges, where training and having adequate tools significantly improves our physical ability (as Archimedes stated "Give me a place to stand and with a lever I will move the whole world"), similarly in the case of creativity – **providing the brain with the right training and tools can significantly enhance one's ability to deliver innovations** as they become "logical conclusions" of an adequately applied tool.

WELL-DEVELOPED INNOVATION CANNOT BE "BEFORE IT'S TIME"

Fourth deceitful assumption is a result of often used explanations for innovation failure – claiming that product/service was "before its time". However, this catchphrase generally does not imply the brilliance of innovation "being before its time" but rather its deficiency. Well-developed innovation requires development of the product/service, but also application of the right market strategy – **market strategy which will result in market creation and re-definition of consumer preferences**. By

implementing the right market strategy, product-market fit will evolve into new equilibria.

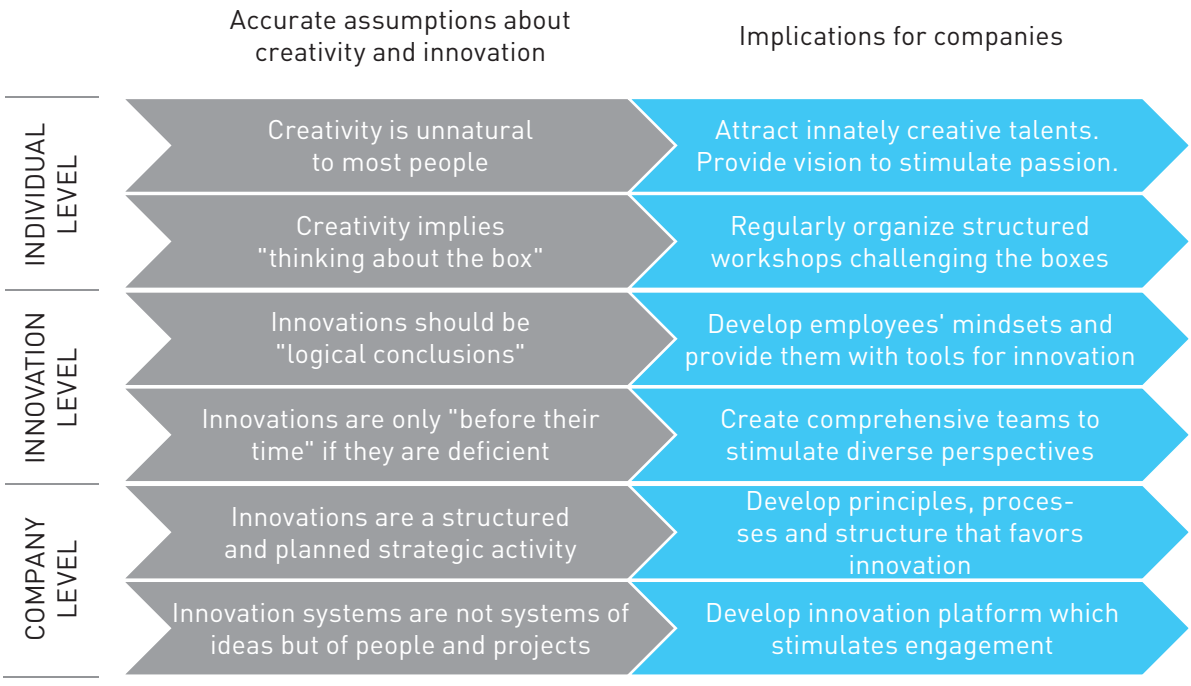
INNOVATIONS ARE STRUCTURED, PLANNED, STRATEGIC ACTIVITY

Fifth deceitful assumption implies that innovations cannot be planned. However, if innovations could not be planned, and company's future generally depends on innovations – then the whole future of the company would depend on random events, and even one could question the role of the top management team (which should be leading the company into the future). Everyday activities tend to distract individuals and organizations from strategic importance of innovations. While it is not expected for top management team to be the one which innovates, it is expected to set the strategic vision and create the system that will discover and deliver innovation. Such system should be characterized by a **set of principles** (i.e. shared values), **processes** (i.e. innovation development and execution processes) **and organizational structure** (i.e. positions, connections, measures of performance) **which favor desired innovation endeavors** (explorative vs. exploitative innovation, driven by market-pull or company-push).

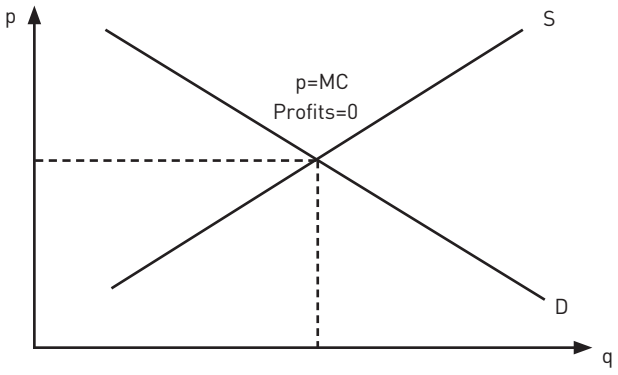
INNOVATION SYSTEMS ARE NOT SYSTEMS OF IDEAS BUT OF PEOPLE AND PROJECTS

Sixth deceitful assumption regarding creativity and innovation is that ideas are key to innovation. This assumption is increasingly challenged and today it is increasingly claimed that ideas have limited (or no) value. However, implications of this deceitful assumption are much more profound and belief in this assumption (i.e. that ideas are important) can be seen in numerous companies which create innovation systems as systems that stimulate idea sharing and reward ideas. Thus, while we recognize that ideas have little value for innovation, at the same time we build innovation systems as systems of ideas. Therefore, companies which want to base their future on innovation should develop **innovation system as system of people** (maximizing creativity of internal and external contributors to innovation) **and projects** (maximizing innovative potential using a structured approach to innovative project development – which differs significantly from projects focused on efficiencies).

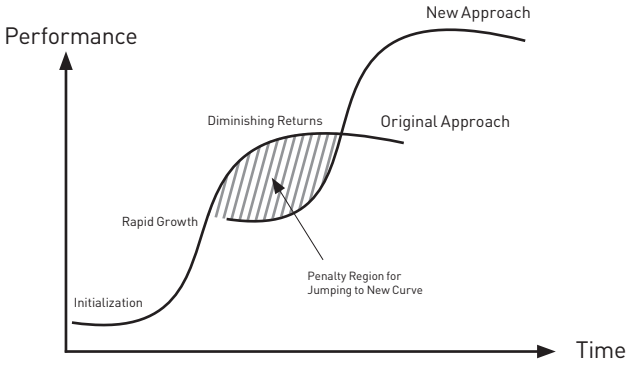
Considering underlying principles behind creativity lead to even broader implications – for **creation, evolution and demise of markets and industries**. Because our creativity is limited, we succumb to copying best practices leading to diminishing differentiation thus leading the market into competitive equilibrium where price is equal to marginal costs and profits are equal to zero. Fighting against this trend by excelling at what the company is doing, in short-run creates an illusion of success thus stimulating companies to push further. However, while highly important, this approach is not "strategy" but a compulsory



"cost of competing" which cannot be a source of sustainable competitive advantage. Such approach only speeds up the process of profit deterioration by increasing costs and boosting competition, thus having detrimental effects on company's future. In the long run, this "strategy" leads to increasing industry consolidation as economies of scale are driving competitiveness in such context with low (or no) differentiation. Therefore, many industries evolve into having only a limited (single-digit) number of players within a given regulatory system. In some industries (e.g. aps) such developments are even more devastating and not only do the profits plummet to zero, but the price of the product/service cannot take off in a "traditional business model" as marginal costs in such industries can be approximated to zero and aps themselves are easily substitutable.



Since companies' decisions lead to such equilibrium point, companies have only two options. First option is **being better and more efficient** and **delivering innovations along a known development trajectory**. These activities generally are short-term in nature, as they increase the marginal costs in an exhausting competitive game. While this seems an easier and "an obvious strategy", the winners of such competitive game are generally determined by size and financial resources. Therefore, while this strategy might work for global "big players" and "large economies", smaller companies and smaller economies are destined to fail. The other strategy focuses on **creating differentiated value** (innovating products/services and/or markets). Such approach is a much more complex strategy as the progress trajectories are not clearly identifiable. This strategic approach does not require financial resources but creativity and fundamental innovation of products/services and markets. As a result, company can charge higher prices thus driving profits. In the case of extreme differentiation, a new market can be created in consumers' minds – in which the company has a monopolistic position.



Having to deal with the within-category competition (i.e. competing against other players in the industry), leads companies to progress along the well-defined trajectories that entangle the faith of a product/service/company with the faith of the industry. In such context, companies are blinded by fierce competitive games within their industry that they become myopic to external shocks. However, over time the industry itself is often challenged by new industries that deliver significantly differentiated solutions for addressing the same customer problem. As the new solutions are evolving, successful industries (and leading companies in those industries) tend to overlook the potential disruptiveness of the newcomers. Blinded by their success, such companies/industries tend to procrastinate change – favoring the status quo and allowing newcomers to take them by surprise.

INNOVATION INSTITUTE

As innovation is becoming increasingly important for individual/team/project/company/industry success, Innovation Institute aims to be **at the forefront of multidisciplinary research aiming to understand principles of innovation** from perspectives of biology of human brain, psychology of human mind, sociology of human interactions and integrating it with the underlying principles of economics, business and leadership. By challenging the "box of innovation", **Innovation Institute has developed its proprietary approach to maximizing individual-level creativity and organizational-level innovativeness**.