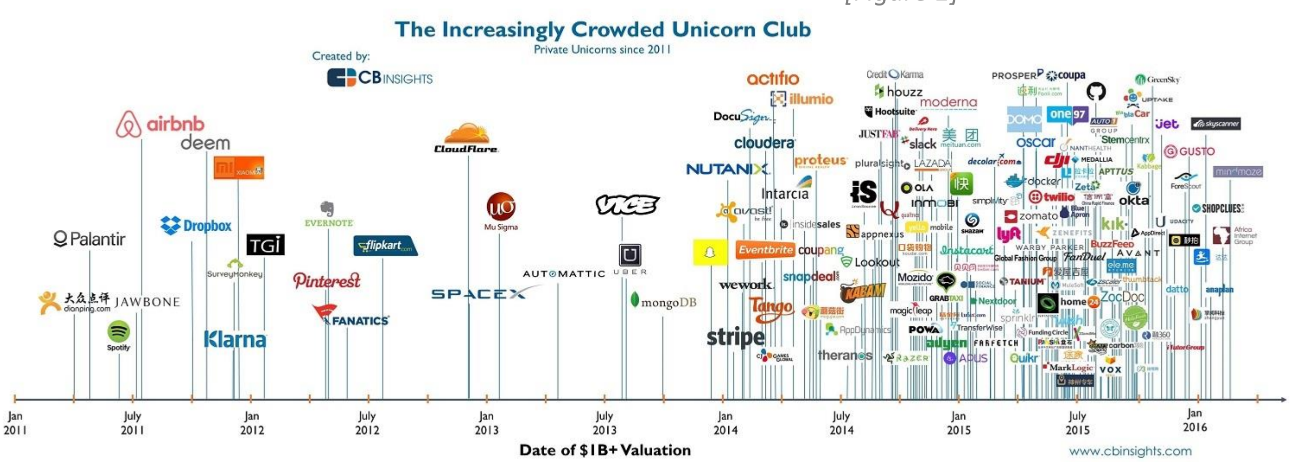
On your Mark…Get set…*Agile*: Winning the Innovation Race in today's Entrepreneurial Ecosystem

"Management is the new technology (rather than any specific new science or invention) that is making the American Economy into an entrepreneurial economy. It is also about to make America into an entrepreneurial ***society****." –* Peter F. Drucker (Innovation and Entrepreneurship, 1985) [1]

In the last few years we have experienced a revolution as courageous entrepreneurs have ventured to imagine the non-existent, create a new market, and provide a solution to a problem you and I never knew we had. In this essay, I want to share my personal thoughts and vision for where our society is headed in terms of the entrepreneurial landscape and highlight how savvy start-ups and large businesses are moving to a more reactive mode to avoid irrelevancy. I also want to foreshadow how we as people will respond to the radical shifts and changes we are unconsciously living. We have been volunteered to participate in a race we cannot afford to lose.

Recently, I was at my favorite café spot sipping on an iced vanilla latté while avoiding locking eyes with the pastry shelf. I wanted to finish the book one of my colleagues recommended to me called *The Lean Startup* [2] by Eric Ries. After reading a few chapters, my curious nature prompted me to surf the web to understand the latest news in the startup world. What I found was astonishing for someone who is a native of Silicon Valley (known to some as the birthplace of well-known startups): [3]

[Figure 1]



Startups are being created at an accelerated pace and I am beginning to lose track! Figure 1 above is proof of the unprecedented rate of innovation, and these are only the unicorns (startups valued at >$1Billion). "*So what*?" I thought. I am excited for the convenience many of these startups will bring to my life with ground-breaking products and thrilled that dreamers are getting the opportunity to showcase their abilities. However, I then thought of the bigger picture and how all of this noise fits into the entrepreneurial ecosystem. In this ecosystem, I am a little speck of dust among the other "movers" and "shakers." Some other questions that came to mind were:

- How are startups preventing the high-rate of failure?
- How are established, large businesses responding to the rapid rate of innovation?
- Will I and my skillset eventually become "disrupted" as well?

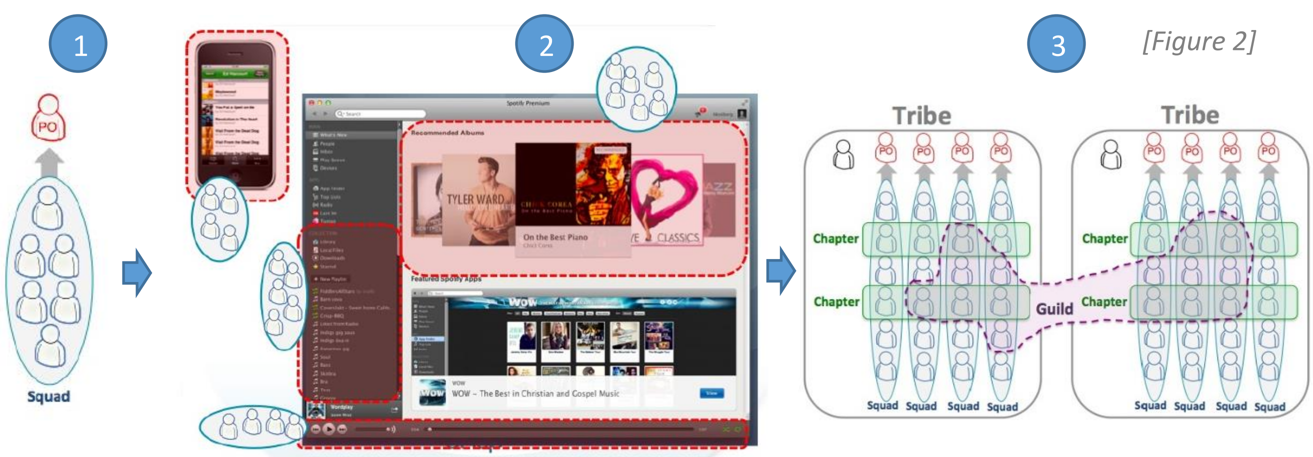
"*Entrepreneurs see change as the norm and as healthy. Usually, they do not bring about the change themselves. But – and this defines entrepreneurs and entrepreneurship – the entrepreneur always* ***searches*** *for change,* ***responds*** *to it, and* ***exploits*** *it as an opportunity."* – Peter F. Drucker (1985)

The Lean Startup

Most startups fail. There are plenty of reasons for a startup's downfall, but I like to blame human nature. Customers are volatile as our opinions and preferences change rapidly. The opportunity for startups however is that with our evolving needs and demands, our loyalties to established companies fly out the window. What this means for startups is that they have two main battles to fight. 1) Delivering a product or service a customer wants in a timely fashion 2) Keeping a customer engaged and interested by continuously exploiting opportunities. Time is of the essence in both of these cases.

Spotify has been capturing my attention recently. Founders Daniel Ek and Martin Lorentzon launched Spotify in 2008 with a mission to "give people access to all the music they want all the time - in a completely legal and accessible way." It was around this same time frame when I also remember people conversing about virus scares through peer-to-peer streaming services. Customers tuned into Spotify as it delivered a service they wanted and to top it all off it was FREE! Spotify won its first battle of delivering a product customers cared for. However this leg of the race is the easiest. Where most startups begin experiencing loss of customer interest and loss of revenues is the second leg of the race: Continuous Innovation

Ultimately what makes Spotify so special is that they operate using lean methodologies to stay agile and to combat a customer's shifting opinions and rapid preference changes. I see more startups becoming "lean" in the future to address the high-rate of failure. [4]



[Figure 2]

Spotify stays lean and agile by dividing its business into "squads" (1) which operate like mini-startups with a specific mission. Squads can then divide and take responsibility for improving different aspects of the Spotify user experience (2). To avoid duplicating efforts, the line of communication between squads is open through "chapters" and "guilds" (3) for knowledge sharing purposes. Squads are encouraged by management and leadership to be innovative and apply lean principles like quickly releasing new products into the market to gain insight early on.

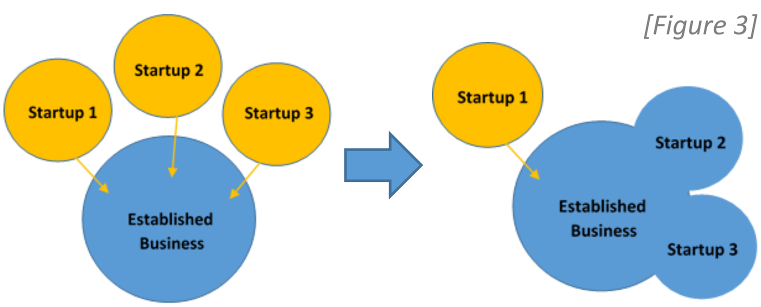
Gaining market insight early is pivotal for a startup to remain afloat especially when other startups and established businesses are trying to enter the same market. Spotify is very systematic in the way they operate by also letting go or repurposing certain squads when they realize a certain feature is not gaining traction within the market. As Jeff Sutherland from Scrum Inc. states, "[Spotify's] competition is Google, Amazon and Apple, any one of whom could crush them in a nanosecond, unless they're faster, better, cheaper. And they have to stay that way. They have to keep on running out ahead." [5] This is an example where Peter Drucker would applaud Spotify not for their technology, but for their management style. Not only does the company's management support and encourage innovative thinking, they also are in essence breeding internal entrepreneurs at their company. Spotify understands what it means to put humans at the center, which will allow the entrepreneurial ecosystem to flourish.

In the entrepreneurial ecosystem, startups play an essential role in fostering growth and pressuring large businesses to continuously innovate as well to mitigate the risk of disruption. However, at this rate of innovation, established companies are struggling to react in a timely manner resulting in their downfall. The future calls for more "agile" businesses to fend off and more importantly catch up to the "lean" startups.

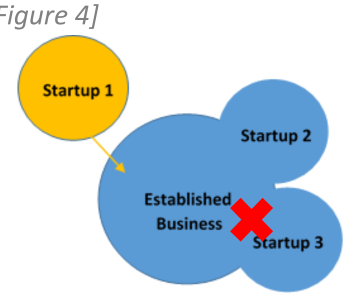
The Agile Business

*"Today's businesses, especially the large ones, simply will not survive in this period of rapid change and innovation unless they acquire **entrepreneurial competence**...some of the giants of today may well not survive the next twenty-five years."* – Peter F. Drucker (Innovation and Entrepreneurship, 1985)

Imagine your boss comes up to you and says, "I am afraid of my business being disrupted by startups in the near future. Can you do some research on how to prevent this? What can my company do?" My first response would be, how does one do research for a market that does not exist yet? Startups are detrimental to a large business' growth and lifespan because they are these nimble entities that can quickly enter the industry and steal market share. If a large business loses its customer base, they panic and tend to take drastic measures to regain customer engagement. One strategy that large businesses use is acquiring startups to eliminate competition.



[Figure 3]

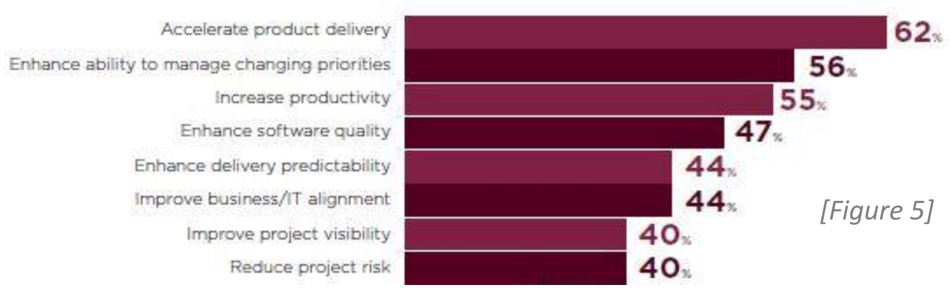


[Figure 4]

Figure 3 above shows how the established business cleared the competitive landscape by acquiring startup 2 and 3. However, there are several problems with this short-term strategic decision. Buying a company is extremely costly, with the rate of innovation being high nothing is stopping startup 4 and 5 of entering into the market, and if the synergy is off between the established business and the newly acquired startups, the risk of the company "dying" is even greater. I call this the Virus effect (Figure 4 – Startup 3 does not have synergies with established business which is costly especially during the integration phase).

What other option does the business have? They can acquire "entrepreneurial competence" like Peter Drucker stated by fostering in-house innovation and becoming "agile" to quickly and efficiently respond to changing consumer preferences.

The International Data Corporation (IDC) predicts that by 2018, 90% of projects will be rooted in the concepts of experimentation, speed, and quality. [6] VersionOne's State of Agile survey (Figure 5) results show reasons why businesses adopt agile practices. [7]



[Figure 5]

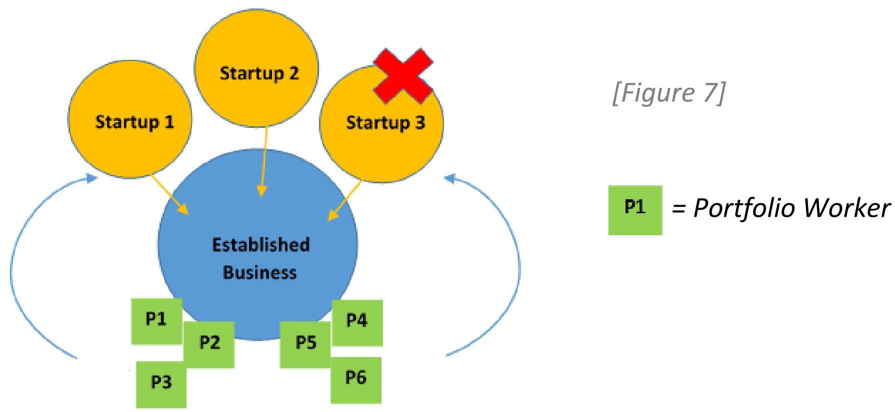
For a large company to survive in this ecosystem, it is crucial to embed agile methodologies into their operating model. However, there is a significant distinction between incorporating agile techniques versus actually making the organization agile. Figure 6 below are the leading causes of failed agile projects:

[Figure 6]

I believe that 6 out of 11 are failures that management could have prevented. This is the part where Peter Drucker would echo "People in any organization are always attached to the obsolete - the things that should have worked but did not, the things that once were productive and no longer are [8]. Management tends to make the executive decisions affecting company culture, implementing change, and the like. However, managers are so "attached" to legacy approaches and systems that trying to incorporate something new like "agile" methodologies in a company calls for disaster. There is simply not enough support. Going agile is more of a shift in management mindset than a shift in new technologies. I am curious to know the generational split of the survey respondents as I have a prediction for how millennial-managed (known to be more receptive to change) companies may move forward with tackling the rapid rate of innovation. I heard a Senior Manager at Accenture Strategy refer to it as the Hollywood model.

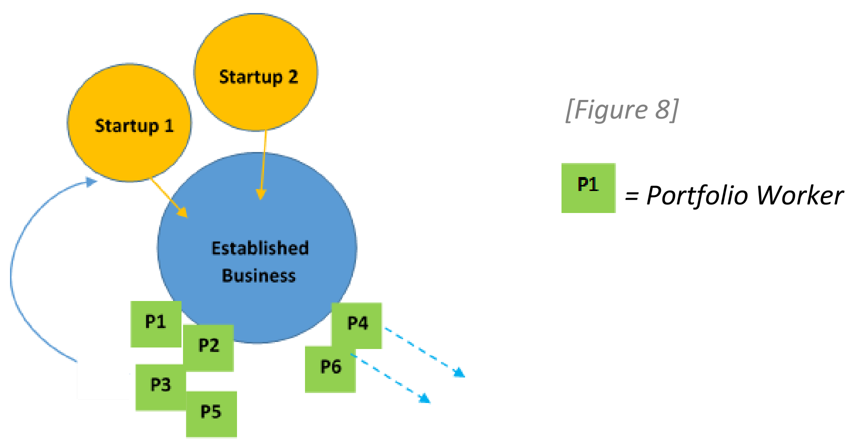
<u>The Hollywood Model & Portfolio Worker</u>

Casting directors, in my opinion, have the most grueling job in the entertainment industry. The movie director and screenwriters depend on them to find the right talent to deliver on the promises of a film. For example, if it is an action film, they need the right action actor, the right stunt-doubles, and the best special effects to captivate the audience. It would be strange to hire Adam Sandler (wildly known for comedy films) to play the next James Bond film right? His brand does not suit the classic, dark and suave typing that a Mr. Bond requires. To be brief, Hollywood films are very project specific. My vision for the entrepreneurial landscape is seeing large businesses adopt this liquid, "project-based" staffing model to react faster to changing consumer preferences.



[Figure 7]

Figure 7 above demonstrates my vision for how established businesses will shift to become more agile in avoiding startup disruption. Similar to how Spotify houses "squads," large businesses will hire specific talent (P4,P5,P6) with the required skillsets to innovate in-house and deliver a better product or service to disrupt the disruptor (Startup 3). Once the talent has performed its duties, they will either be asked to join another squad to tackle another task or asked to leave. This fluidity will be beneficial for the business in terms of cost purposes as well as the hired talent. Figure 8 below shows P5 being assigned to another group while P4 and P6 leave for their next role.



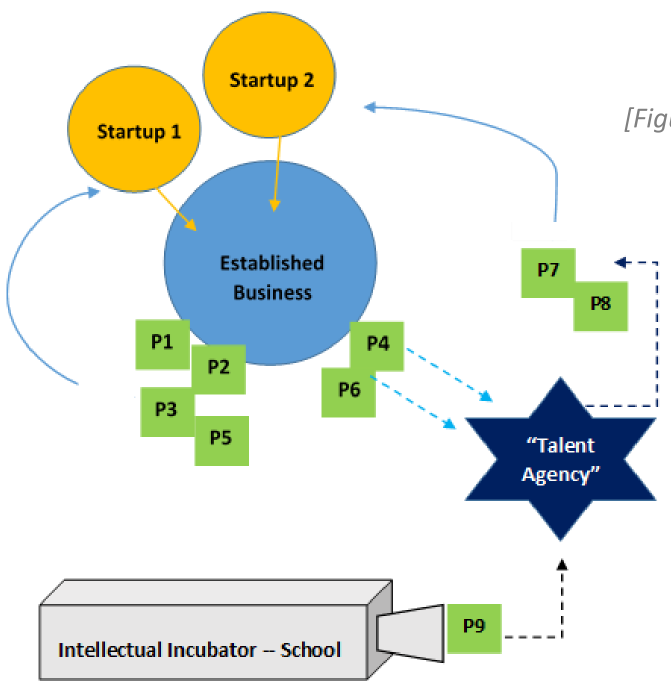
[Figure 8]

Millennials in my opinion thrive on change and short-term projects. This freelancing model will also allow millennials to gain new skillsets and avoid "disruption" by machines (automation). The short and fast-paced nature will keep talent engaged and the exposure to diverse jobs will allow talent to explore different fields and find their passions. This is the era of the portfolio worker.

So where are we now in terms of the innovation race? We are still years away from this dramatic model taking place but it is a perspective of mine that I hope will invite thought leaders, managers and even educational institutions to open their minds and share their visions.

Peter Drucker's teachings are more relevant than ever and the faster management realizes that our society is shifting to a more innovative, fast-paced and human-centered ecosystem, the quicker companies can begin shifting their mindset to change and begin leveraging human assets.

Like in Charles Handy's *The Second Curve,* I wanted to use current data and trends to glimpse into the future and share my thoughts on the rise of a new entrepreneurial society. [9] Entrepreneurship and innovation is now the norm and no company (startup or large business) is safe in this fast-paced ecosystem. Soon enough, there may be another sprinter entering this race. Handy may refer to this entity as the "storehouse of human intellectual property," but this player in the ecosystem along with the "talent agency" below (Figure 9) requires their own essay.



[Figure 9 – Future Ecosystem]

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(In order of appearance)

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[3] https://www.cbinsights.com/blog/increasingly-crowded-unicorn-club/

[4] https://techcrunch.com/2012/11/17/heres-how-spotify-scales-up-and-stays-agile-it-runs-squads-like-lean-startups/

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[6] IDC FutureScape: Worldwide CIO Agenda 2016 Predictions, IDC #259969, November 2015).

[7] VersionOne 10th Annual State of Agile Report (2015)

[8] https://www.goodreads.com/author/quotes/12008.Peter_F_Drucker

[9] Handy, Charles B. The Second Curve: Thoughts on Reinventing Society. London: Random House, 2015. Print.