

## COMMERCIVITY

By Rod Fountain and Professor Peter Childs

We have invented the word Commercivity. The meaning we have given it is the ability to come up with very good ideas that can be exploited for sustainable commercial gain. It can apply to an individual or a department within an organisation or an entire company. It calls upon the language of creativity, innovation and commerce, yet it is more than the sum of these parts. It is about the spirit of adventure, practical endeavour, and the application of imagination. In our compliance-obsessed age these attributes are increasingly hidden from view as the burden of red tape weighs heavily upon us. Commercivity is about breaking the rules, making connections, dreaming on the job and getting to the insight that will have you making money over the long term.

We hope there will be much to inspire you in this book but if there is one key message to take away it is probably this: think differently about your business, your mission, and perhaps even your life. We recognise this is easier said than done. We are all immersed in the day-to-day stuff of life that tends to bind us to the past and the present. It is hard to pause and reflect, and even harder to dream. Most people and most organisations have their work cut out just fulfilling their current obligations tolerably well.

The authors share a passion for ideas, but we are bored with the rhetoric around creativity and innovation; the abuse of creativity for political ends. We are interested in the possible, the exciting, the clever, and the magical. And we are intrigued by why many great ideas go nowhere, and so many humdrum companies succeed. The authors came together by accident and decided to write this book. Peter Childs is a professor and head of engineering design at Imperial College London. Rod Fountain is a former journalist turned serial entrepreneur. So this book is a collision between what people and companies actually do and what research says they probably should do. It attempts to combine intellectual rigour with market place reality and in the process throws up many contradictions. It is these contradictions we have mined for the pure gold within: all hot air aside, how can we improve our ability to come up with winning ideas?

For the sake of clarity we should say at the outset this book is not about best practice. It is not a textbook or a learning programme. It is an expression of the possible, the likely and the actual. Just because big companies do certain things does not make their way the best way or the only way. Indeed, one of the provocations for writing this book is the success of Google and the fact it is becoming synonymous with innovation. Terrific though Google may be, it doesn't serve as a particularly useful example to most of us.

Our starting point is a recognition of the perceived importance of commercivity at the end of the first decade of the 21<sup>st</sup> Century. World leaders like Barak Obama have spoken of innovation as the “currency of the 21<sup>st</sup> Century”, and in Britain Gordon Brown commissioned an extravagant report into the nation's creativity and ability to innovate. We suspect even the Queen may have touched on it in passing. In short the message seems to be: if you are part of an organisation that does not have creativity embedded at the very heart of it..... well, it's not good news I'm afraid.

The truth is there is very little empirical evidence to prove that being creative is better for you than not being creative. What's wrong with just doing ordinary stuff quite well? The answer of course is there is nothing whatsoever wrong with this. You may be perfectly

happy and your business may be perfectly profitable doing no more than the necessary. If you are in this happy situation then this book is probably not for you!

In fact it could be argued that creativity does as much harm as good. It is both hero and villain, and in all cases it brings uncertainty and conflict. It lies at the heart of the global economic and political crisis we face, yet we would argue that commercivity may be the only route to our recovery and ultimate survival.

It's worth examining this in a little more detail. Commerce is the engine of capitalism - the trading of goods, services, information or money between people and organisations. In the beginning it was simple: if I have something you want, I will let you have it if you reward me with an appropriate amount of money or goods that I need. But over time the process has become considerably more sophisticated, driven by a growing and vital trend towards creativity.

For 20 years or more creativity has been rising up the league table of must-have assets for businesses. In the early part of this century it overtook globalisation, scale, working smart, leadership, and technology and began its assault on the seemingly unassailable - cash. When global recession brought cash crashing to its knees, there was only creativity to take its place. Even if a business had cash, without creativity it was doomed. Whereas creativity has no trouble finding ways round a lack of cash. Andy Warhol famously said "art is what you can get away with", and so, in a sense, is creativity in commerce.

Creativity is not the same as it used to be: it belongs to everyone now. Our interconnected-disconnected-interconnected world has seen to that. Modern companies hang together as a series of vaguely connected individuals strumming their own tune on the company's instruments. Managers are conductors; in tune with the character of their people, their culture, their strengths and weaknesses. They can't try to teach creativity as such, but they can try to encourage and provoke it. Chaos and crisis are good for this, but we also need encouragement and provocation at other times - at ALL other times in fact.

At the heart of creativity is the IDEA, and this is where the trouble starts. The idea - truly understanding what the idea is - is critically important to the value and power of creativity but it's importance is rarely fully understood by those in business seeking new opportunity. Ideas created the global crisis and ideas must now get us out of it.

The abuse of creativity must be shocking to its modern day founders - Alex Osborn (brainstorming), Genrikh Altshuller (TRIZ - the theory of inventive problem solving), and Edward de Bono (lateral thinking) but they may not be surprised. After all, anything this powerful in the hands of the incompetent is liable to be dangerous. This is particularly true as complexity in the commercial world increases: it is harder than ever before in history for business managers to know what to do, when - and why.

The trouble starts when excitable managers, perhaps under great pressure, hunt for ideas as the panacea for the problems and challenges facing them, both real and imagined. They crave ideas because they know how valued ideas are by their bosses and by industry commentators. They believe the hype surrounding creativity - that we are all creative and everyone within the organisation can contribute to the creative process. They hunt for ideas and they do find some, but they have not understood the need for value and insight. Critically the ideas they have found are not really ideas at all; they are concepts, schemes

or products. They lack underlying value. There is no insight. They don't go more than skin deep. They are unlikely to come to much.

An idea is a notion or a thought, held in the mind, the result of reasoning, self-reflection, intuition, inspiration, intellect, and desire. One has an idea *of* or *on* or *about* or *for* something. An idea is a big simple thing, not cluttered by detail. You may have an idea of starting or doing something, but the actual starting or doing requires other stuff: what will you do *to start* or *to do*? A simple test of an idea is to ask "Do I believe in that idea?" Whether you do or don't is immaterial: is it possible even to answer the question?

So we have to be very careful in our analysis of creativity and its connection to business survival and success. There is a seemingly irresistible momentum building up for creativity in business and there are few dissenters.

In 2005 Sir George Cox, in his Review of Creativity in Business, repeated the often heard mantra about creativity, thus: "Creativity, properly employed, carefully evaluated, skilfully managed and soundly implemented, is a key to future business success – and to national prosperity."

More recently the Economist claimed innovation is "now recognised as the single most important ingredient in any modern economy".

David Kelley, chairman of global innovation and design consultancy IDEO, goes even further, proclaiming companies that want to succeed need innovation "at every point in the compass, in all aspects of the business and among every team member". In his 2006 book, *The Ten Faces of Innovation*, Kelley tries to provide methods and techniques "that infuse an enterprise with a continuous spirit of creative evolution. Successful businesses build fresh innovation strategies into the fabric of their operations. They do it year-round and in widely differing parts of their enterprises. When the team's creative engine is running at top speed, the momentum and synergy can keep a company ahead through bad times and good."

In their book *Radical Innovation Across Nations*, eminent authors Gerard J. Tellis, Jaideep C. Prabhu, and Rajesh K. Chandy talk of radical innovation as being crucial to the growth of firms and economies. "Firms at the leading edge of innovation tend to dominate world markets and promote the international competitiveness of their home economies. Thus, radical innovation simultaneously drives market growth, firms' success, and nations' economic growth."

Barack Obama got to be leader of the free world by harnessing the power of creativity.

But hang on. Creativity also got the world into its current ghastly mess. There have been many banking crises in the last 300 years – at least 60 in fact – leading to monumental losses and increasingly global hand-wringing by governments and regulators. But the most recent crash is different: it is the first of the age of creativity, when virtually anything can be imagined and accomplished.

Michael Lewis foresaw trouble ahead in his 1989 bestseller *Liars Poker* in which he marvelled at the willingness of Wall Street investment banks to pay young college graduates like himself hundreds of thousands of dollars to dispense investment advice to grown-ups with only the barest notion of what they were talking about. He had never taken an accounting course, never run a business, and never even had savings of his own.

Writing in Portfolio magazine in December 2008, Lewis says he has spent the past two decades waiting for the end of Wall Street. “The outrageous bonuses, the slender returns to shareholders, the never-ending scandals, the bursting of the internet bubble, the crisis following the collapse of Long-Term Capital Management: over and over again the big Wall Street investment banks would be, in some narrow way, discredited. Yet they just kept on growing, along with the sums of money that they doled out to 26-year-olds to perform tasks of no obvious social utility.”

Yet it could be argued this laissez-faire attitude with investors’ money was not what really brought Wall Street down. Creativity had a strong hand in it. Sub-prime mortgages started life as a creative idea in the late 1970s: the idea of allowing the poorer in society to own their own home. Very few banks or financial institutions in the US were interested in making such loans, because they couldn’t charge fees high enough to compensate for the risk. They preferred safer lending to the prime market. But changes in legislation in 1980 and 1986 gradually started to free-up financial institutions to see the possibility of making a decent return on sub-prime lending, and by the mid 1990s rising interest rates put sufficient pressure on the prime market for financial institutions to seek new ways of growing revenue from the mortgage sector.

So Wall Street firms began endorsing the securitisation of sub-prime loans – packaging the cashflow generated by the loans into assets and selling these packages to investors. In the process they were turning very risky loans into perfectly acceptable ones to the wider financial community, backed by credit derivatives and credit default swaps. Now it was possible for investors to short the market – in effect make side bets that the value of the underlying assets would fall. Big banks such as Deutsche Bank and Goldman Sachs were happy to take these bets, as the gambler’s stake helped cover the interest payments on the loan. As long as house prices kept rising this model might survive intact. But they didn’t.

There were some people who understood the inherent danger of what was happening, yet the positive creativity that led to millions of poor Americans owning their own posh homes was very hard to resist. And of course, betting that these subprime-backed bonds would one day be worthless was pretty much like taking candy from a baby for the investment houses that understood what was going to happen: they set out to find “the smelliest pile of loans they could”.

In 2008 the global nature of money dealing meant virtually every financial organisation in the world was impacted by America’s smelly pile of loans, although it took a year or more for many to realise the impact it was going to have on them. Many CEOs in Wall Street and the City of London probably did not fully understand the frantic innovation at work inside the financial system. In Britain the media began a witch hunt for the greedy bankers responsible for plunging the country into recession, choosing mainly to focus on the huge salaries, bonuses and lavish lifestyles of those at the top. While this was legitimate fare, it missed the real point: these businessmen did not understand the business they were in; they did not understand what the IDEA was; they did not know how to deal with creativity. It is hard to blame them. Throughout history boom times have created a great swell of idiots to the financial honey pot of booming equity and derivative markets. Nobody understood much, but who cared while the cash flowed?

Former McKinsey director turned author Richard Foster calls this process creative destruction. After every boom and bust politicians create new regulations in an effort to

prevent a repeat performance, and to good effect. Except that entrepreneurs are way ahead of politicians. “What do self-respecting entrepreneurs do when subjected to new regulations?” says Foster. “They learn the regulations backward and forward and then vow never to start another business that falls within the scope of those regulations. And so off the entrepreneur goes to find a new way. That’s one reason credit default swaps eventually took the form they did – the other options were regulated.”

The new ideas are quickly adopted, first by the “good guys” and then as success and popularity grow by less savoury figures – “charlatans who overmarket, cut corners, establish usurious contracts, and do other clever things to generate profit for themselves”. These people neither know nor care what the original idea was or what positive purpose it might have served, they just end up bringing the system down.

Mathematician Lionel Lopez is the former risk director at Barclays UK Retail Bank and before that at GE Money. At Barclays he was responsible for safeguarding £90 billion of assets. He says hyper creativity placed a severe burden on risk management. “People have been creative in terms of creating these products but they have been creative to the point where they didn’t understand any more what was in the products they were marketing. This is where the discipline was lost. The tracking system was missing. If you take many products and put them together, when you look at the final product you forget it was five products before. You have to track and control every part of the product mix. In the end it was difficult to see what risk you were bearing.” In other words, the maths was available to spot and prevent the problem but no one was interested in focusing on it. “I strongly believe we are more and more selfish and basically all the people to various degrees just care about themselves. What happened in the banking system was because people are selfish and greedy; it was the way people were managed [by others] not wanting to say anything because their bonus was going to be in danger.”

Commercivity is not about making a fast buck. We are interested in the kind of new thinking that is capable of creating longer term, sustainable ideas of value. You do not need to be a genius or especially talented to do this. History is full of examples of highly successful innovators with average IQs. Richard Feynman, the American physicist and Nobel prize winner, is reputed to have had an IQ of about 122 and is credited with being the last great American scientist of the 20<sup>th</sup> Century. Many people in the world by definition will have an IQ above 122, the average being 100 and exceptional IQs would tend to be considered those above 140. Feynman regularly used the approach of processing multiple problems simultaneously, expressing his thinking visually and producing as many alternatives as practicable. Some of his approaches can be easily taught and practised by anyone. Commercivity is available to all.

In the developed world we live in strange times: we have more information, more products, more technology and more wealth than ever before in history, yet we are as dissatisfied with life as ever. If anything, life’s abundance of everything has merely created many more things to complain about. We can see the need for further improvement in just about everything. As humans we are inquisitive and competitive. We want to rise above our station; we want to achieve more than our parents. With so many challenges, in business and in our personal lives, it is a job to know where to start. We hope that in this book you will find the motivation to start somewhere and perhaps some of the tools to help you do so to good effect.

To avoid the temptation to make this a text book we have chosen to write in an open dialogue style, using the opinions of business folk, creative types, and academics to weave our story. To provide some focus we have limited our use of creative techniques to just six, even though there are well over 400 other well documented techniques available. We don't say the six we have chosen are the best, but we know they work.