



Roger Skinner is Chief Executive of the Maxxia Group. He has more than 30 years' experience in a number of Financial Services leadership roles both in the UK and Internationally. Roger is a Fellow of the Chartered Institute of Bankers and a Founding Fellow of the Leasing Foundation.

Andrew Suckling is Group Executive - Innovation for McMillan Shakespeare Group. Andrew has held Executive roles across Insurance and Financial Services organisations in Australia. Andrew is a graduate of the Harvard Business School.

INNOVATION IN FINANCING

INNOVATION, INNOVATION, INNOVATION **ROGER SKINNER & ANDREW SUCKLING**

Re-capturing the entrepreneurial spirit with a framework to institutionalize innovation.

In March 2014, at the first meeting of the Catalysts, we were looking at the vexed question of how to stimulate innovation in the global asset finance and leasing industry.

Andrew Denton started the debate with the observation:

“Leasing is an industry that is famous for its innovation - yet there is not at present a framework within the industry to create innovation. Has the time come to take the first steps towards a restructure that enables innovation in asset finance?”

The purpose of this paper is to provide some insights into innovation, why it is necessary, and the models for innovation that companies may wish to adopt going forward. I am also sharing the process for Innovation that our Australian Joint Venture Partner – McMillan Shakespeare has deployed throughout the Group with the Group Executive - Innovation, Andrew Suckling.

What is innovation?

The challenge for Banks and the Asset Finance and Leasing Industry is not only to understand the necessity for innovation, but also to invest in innovation using a structured process that is committed to by leaders throughout the organisation.

Innovation comes in many forms, across all sectors of industry and commerce and from people with entirely different backgrounds. Regardless of the sector we play in we are all relentlessly focused on solving problems and creating a better world than the one that exists today.

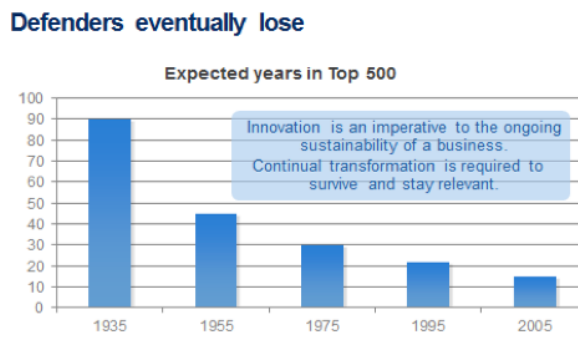
But it is perhaps still not clear what is meant by *innovation*, so as we start our journey it may be helpful if we take a look at the different forms of innovation:

- A big change or a small one
- Technology based or not
- Process focused
- Product development
- Market development
- Customer focused
- Business model focused
- Horizontal or vertical integration in the value chain

This list is not exhaustive, but a simple definition for Innovation is ‘any change that adds value.’

Why is innovation a strategic imperative?

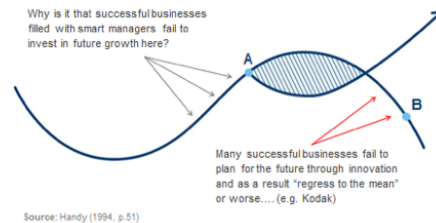
Companies used to be able to establish sustainable competitive advantage, as evidenced by the Dow Jones Top 500 information below. Companies in the Top 500 now stay there (on average) for less than 10 years, when once it was close to a century.



Innovation is the new normal: where once innovation was solely viewed as a process to develop competitive advantage, it is now a requirement for a business merely to compete. Many established and successful businesses fail to recognise that all products eventually become commoditised and fail to develop other emerging revenue streams to replace the declining core revenue stream. In short if a business is successful serving the existing market why seek out new ones?

The risks and potential investments required in seeking out new revenue streams may conflict with the views of those in the capital markets where sustainable income growth is easier to chart thus reinforcing the focus on the core business rather than exploiting new opportunities.

Why do existing businesses have difficulty innovating?



Very few companies have established the innovation disciplines and frameworks for:

- Selecting
- Experimenting
- Funding

and importantly

- Exiting innovation

Perhaps one of the most important areas for developing innovation within a business is 'culture'.

In many companies, innovation may be seen as a distraction from core activities – it is something that exists in the technology space but not necessarily common in Financial Services particularly as in the first stage of development the opportunity may appear to be small and the margins unimpressive.

Thus in a tug of war for resources, the core business dominates and perhaps strangles the innovation before it has time to gain momentum. This is why it is imperative that "innovation" is sponsored by the CEO focused on building competitive advantage by harnessing the knowledge and skills of people both within the organisation and externally and most importantly ensuring that you have the 'right culture' within the business for innovation.

Culture & Execution

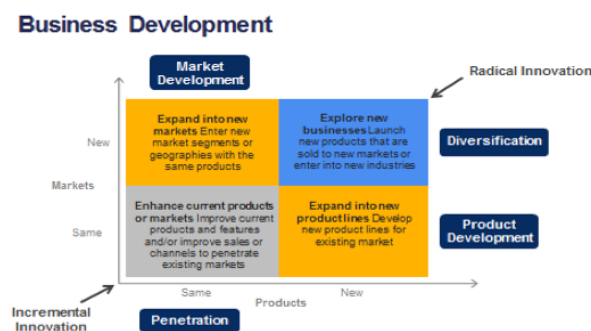


- Culture is the decisions people make and the actions they take when you're not around
- Competitive advantage comes from execution of the innovation activity system and not necessarily strategy as execution begins with culture

On this basis innovation is:

- Continuous Improvement: With a focus solely on exploiting the existing business, improving productivity, conversion rates, adding product features etc. This generally is classified as Incremental innovation.
- Market Development. Developing new markets involves taking an existing product line into a new segment or geography.
- Product Development. Involves expanding the product density in your core market segment.
- Diversification. Involves M&A activity, horizontal and vertical integration.

You will all be familiar with this business strategy :



However this model does not reflect the other critical areas and issues that need to be considered in pursuit of innovation across the business:

- Time Horizon
- Focus
- Profit Impact
- Key Challenge
- Type of people
- Measures
- Corporate Behaviours

One of the questions that an organisation is faced with is: *will incremental change enable the business to intercept the future and create a long term sustainable business or does it require investment in some form of 'breakthrough' or disruptive innovation?*

As part of the research to determine the approach to build an Innovation Model within the McMillan Shakespeare Group, a number of innovation models were uncovered that have been used successfully around the world. The right model for your organisation is largely dependant on the culture of your organisation and to a lesser extent your industry sector.

Here are some of the different models for Innovation:

- *Top down systems of innovation* are driven by senior management identifying strategic imperatives and thereby “pushing” the direction of the innovation. Companies that only push work improvements from above may only generate lukewarm front line enthusiasm for the change programme.
- *Bottom up innovation* models “pull” process improvement, ideas and solutions from all employees. Typically with a large focus on the contribution and buy in of front line staff (in terms of both the idea process and solution implementation). The engagement of the front line is seen as a critical component to improving the efficiency and performance of the existing operations.
- The *continuous improvement* approach the ‘Toyota Way’, where ongoing improvement is part of everyone's job description. Individuals/teams suggest local improvements and then with the support of management help to make to trail /implement the improvements. All staff suggestions go into ‘the Box’ and there is no separation of staff from management. Operational Excellence and process focus is often more incremental in its nature and the right processes will deliver the right results. The focus is often on Standardisation; Improve efficiency; Elimination of waste. The ideas/suggestions are reviewed by a circle of peers and then are approved by a manager. Upper managers review and assess the ideas and then take action. The business rewards the team. This is a bottom-up system pulling improvement from the front line is a critical component to improving operations. Companies that only push work improvements from then top usually generate lukewarm front line enthusiasm. Many organisations have struggled to digest this approach because workers are busy doing the day to day and managers are sceptical that the workers know what is best for the company. This is a cultural challenge for many organisations. Organisations without standardised documented and followed processes can also struggle with this approach.
- The *campaign based innovation* model has similarities to the bottom-up system. The process is conducted in a time limited campaign. Rather than open innovation any idea and / or any time the issue or opportunity is framed by senior management to provide the campaigns with a topic focus. Campaigns can be conducted as frequently as required by the organisation. Some organisations can support bi-monthly campaigns cycles while others conduct them annually. The framed opportunity is given to a pre-selected group of front line teams to explore; research; and develop a possible solution and then trial & test within a set short timeframe. Each team is led by a captain and guided by a senior mentor an event is held where teams present their research and results to each other and senior management. Seeking support and funding to accelerate and systemise the solution. Senior Managers review suggested innovations and then take action.
- We will have all seen the articles relating to *disruptive innovation*. This model is also often referred to as ‘skunkworks’ and was first associated with Lockheed Martin’s skunkworks project during WW2. A skunkworks project is developed by a small and loosely structured group of people who research and develop a project primarily for the sake of a breakthrough, radical and disruptive innovation. The team generally comprises a small group (of specialists) who are provided with resources and funding to design and develop an innovation. This is often a high priority strategic research and development project. The team

and the project is incubated this approach is often a top-down system of innovation, where the strategic direction or imperative is provided from above. Organisations often manage a portfolio of innovation projects which include skunkworks innovation in addition to more mainstream and visible innovation programmes which focus on more incremental, bottom-up innovation.

How is the McMillan Shakespeare Group (MMSG) is seeking to industrialise innovation and make innovation a competitive advantage?

Andrew Suckling, Group Executive - Innovation, developed a Collaborative Innovation Model after taking into account the following:

- MMSG Culture
- Which innovation models would work best
- What methods and tools the organisation should use

As a result MMS have three streams of innovation:

- *Strategic Disruptive*. This is top down, involving the Board and CEO. The Executive Innovation has a pre-allocated budget to explore and develop business cases. If the board like the idea they provide further capital and resource to implement the idea.
- *Campaign Based Innovation* (or Thought Bubble) this is a bottom up enterprise level model which involves everyone in the organisation.
- *Continuous Improvement*. This is known as ‘BAU innovation’ embedded in each business unit focused on core business improvements (usually productivity focused or small enhancements to product and service) .

The diagram below provides more information on the individual approaches and how they are deployed.



The role of Andrew Suckling in the Executive team is simple. It's to take people - particularly the other Executives - to places they don't want to go - the MMS CEO calls it being "appropriately unreasonable".

The key to creating meaningful change and innovation within an organization is a willingness to embrace diversity of thought and talent in the company's environment. Diversity means variety – a complete range of differences. Einstein put it this way: "We cannot solve a problem by using the same kind of thinking we used when we created them."

Diversity should not be an objective. It must be a belief system, a deliberate strategy and a commitment. We have to believe that our products, services, customers and culture will be better served with a diverse set of minds collaborating.

New thinking may require you to seek new brainpower from new people, and that may require a dose of uncomfortable humility on your part. To really commit to innovation and growth, you'll need to invite new perspectives to the table. But it's not enough to simply recruit diversity into your ranks. You must demand it from the talent you already have. Move the great minds you've already hired from their comfort zones into uncharted waters.

Steve Jobs said, "Innovation comes from people meeting up in the hallways or calling each other at 10:30 at night with a new idea." And when Eric Schmidt, executive chairman of Google, addressed the graduating class of Boston University, he said, "Innovation is disruptive. You know you are innovating when people are worried about you. Make people worry. Give them a shock. Try something new."

Look around your office. If everything and everyone looks familiar and feels comfortable, it may be time for some of that shock treatment. Your growth and your very survival may depend on it.

It is critical, that Innovation is never buried away in the business. It must be embraced by the CEO and the Board. If it isn't, the core business may drag it off into a dark alley and kill it. Innovation is both a threat and a distraction to the core business!