

# Can innovation be professionalized?

## Views on startups and their odds of success

by Steffen Lentz

So 9 out of 10 startups fail. While everybody knows that, the more interesting fact is that nobody seems to be seriously bothered. The failure rate appears to be accepted like a law of nature.

Of course innovation comes with uncertainties. But still, why is nobody asking what can be done to improve this dreadful ratio?

The general strategy to deal with the issue seems to rather be increase the number of ventures, so that the absolute number of successes may also go up. This is somewhat cynic, or at least it is a sign of defeat.

When we look into the details of failed startups, the real extent tragedy becomes apparent. With every failed startup

- a possibly great idea is deprived of making an impact on the world
- investors lose money that could have made more impact elsewhere

And maybe the worst of all:

- teams of usually young, in any case smart and highly engaged people see high hopes being disappointed. And this—truth be told—often after they saw the decline coming months in advance, with a lot of what they consider as missed opportunities for remediation.

Imagine the impact of more startups being successful.

## Why statistics don't help

There are statistics and top lists as to why startups fail (e.g. <https://www.cbinsights.com/research/startup-failure-reasons-top/>). Reasons listed there include startups running out of money, missing the product/market fit, having management or team issues, and so forth.

Do these statistics really capture the root cause, or rather the symptoms of what went wrong? When you look into the reasons usually given, hardly any such misfortune can come upon a venture over night:

- No market need for your product? This may be a finding in an early stage, but shouldn't hit a startup with a substantial funding and team size. If it does, something else went wrong.
- Running out of funding? If you have funding, and miss the goal you were supposed to reach with it, the problem is not the funding. On the other side, if you have a product ready, and don't get funding, the problem is either the product or your sales skills.
- Not the right team? Building a productive team with the necessary skills is obviously a key factor for success. Neglecting this starts early, even though the effect is delayed.
- Issues with the product like getting outcompeted or price/cost issues, lack of UX...?

Well, you get the pattern.

## **In essence, startups fail because they make mistakes. Period.**

They make mistakes in very different areas, be it as to their product, strategic positioning, team building, leadership, cost base, or missing the timing. So there won't be a simple solution to all this.

However, the inconvenient truth is:

The vast majority of such issues can, if not be avoided outright, then at least be tackled early-on upon their appearance. Solutions may not always be easy, rather often they require hard work.

However, if there is a way to identify problems early-on, and proficient knowledge about how to tackle them is available, then action can be taken. And instead of meeting one's fate, one can grab the reins.

## **The key question to ask**

The key question about failing startups is not about what symptoms killed them.

The key question is: What can be done to identify issues early-on, and make sure they are addressed in a competent and effective way?

## **Why the problem is complex**

So is it that easy? Can you just look for issues, solve them somehow, and everything will improve?

Well, yes, to some extent certainly—solving issues never hurts.

The real question however is: How do you know which issues are critical, and how can you solve them in a sustainable and effective way? **We need impact, not another metric.**

When you have been inside a startup or other innovative venture, you have most likely experienced some sort of failure, be it large or small. And then you know that what leads to a failure is never a single reason—it is always a combination of things that don't get resolved in time before it is too late, and the overall situation eventually tips.

The quest for making a startup successful is not only about validating an idea. It is about turning an idea into a sellable product, plus building an organization delivering it and able to grow with the business.

This is asking for a lot. Really, a lot. It touches on strategy, sales, technology, organizational development, growing a culture and last but not least on delivery management. More than just being a complex matter, it involves very different disciplines that need to be linked and aligned in an effective manner.

What does that mean? Just some examples:

- Delivery management needs to be closely linked with the product strategy and roadmap. Product strategy feeds into development, and development (e.g. times needed for implementing something) need to feed back to product strategy.

- Technology is not only the enabler of a product, it also brings cost and risk. Speed of development, learning curves, cost of infrastructure - they all have big impact on the ability and the cost of delivering.
- A key productivity factor for innovative teams is to optimize their communication structure. For this, you need to understand the value streams.

So there are several bridges to cross between business, technology, leadership (basically being a social science) and ankle-biting delivery management.

While this is already very challenging, there are two more things that make it particularly difficult:

1. There is currently no science and no education for building a productive company from scratch available. Universities create great subject matter experts, but crossing the chasms between STEM, social science and delivery management is an art taught nowhere.
2. Dealing with some of these topics requires also dealing with typical human biases. People do what they like to do, and try to escape all other things (even though they might be necessary). People have opinions influencing their decisions way more than reason or research. You won't make these biases go away, which is why you need an effective way to deal with them.

## Now what is the approach today?

So are startups today all left to their own devices? There are offers available that aim to mitigate some of the issues startups face.

For example, there are methods and practices, such as Lean Startup, Design Thinking, Scrum, Management 3.0 and the like. They are typically sold as books, trainings, certifications and consulting services.

They do contain a lot of useful ideas and concepts, somewhat helping to not re-invent the flat tire. However, there are two fundamental shortcomings:

1. They only look at a part of the picture, e.g. product development or the development process.

A productive organization however is about consistency and performance across many different fields and aspects that no single approach does or even could cover. (Please don't wait for a Great Unified Method („GUM“?)—it is pointless. Read why below).

2. Anything perceived as a ready-made solution allows people to stay in their comfort zone.

Building a productive company is a huge challenge with many unknowns. It needs to be understood as any startup's second product, no less important than the first one made for revenues. Everything is unique—the product, the people, and the context in which they operate. Getting things right and aligned does require hard work, and cannot be externalized. The work has to be done, like it or not.

While the development space is somewhat covered with some guidance, there is less available in other areas.

- Technology is typically taken to be an engineering science, and is thus left to the engineers.

The crucial connection of how exactly the chosen technology supports the business case may be made, or may be not be made. Though this is not a new topic, engineers often do not have it on their radar.

- It gets even more difficult when it comes to HR practices, such as compensation, performance management or defining lead roles.

There is an old world with practices from the last century (basically focussed on individual performance, suggesting a negative image of people). This has been clearly proven to be outdated by a lot of data and research. Yet it is still entrenched in people's subconscious, and a typical fallback when other ideas are lacking. For the new world with well-educated teams there are a lot of ideas and suggested principles around, but no ready-made concepts. So people are somewhat on their own figuring out what the right approach to compensation or performance management might be in their situation.

- How to define an organizational structure is a similar topic on which there is little expertise around.

The old world suggests functional silos, which can already show negative impact in a company as small as 20 or so people. For the new world, there are again ideas around (like a network organization or the setup used by Spotify), but finding the right solution in a specific case is more an art than a science.

- Culture is another topic hardly ever well-managed.

Typically, culture is understood as defining a list of desirable traits to be put on the wall („Let's all be nice and have transparency“).

Getting substance to culture means to understand how much impact it really has on productivity. **Culture is about identifying and living values being relevant for business.**

Example: „We value quality over time-to-market“. Such values have impact on the daily business by guiding people's decisions and are highly effective. Any attempt at culture while missing out on the link to business however is a waste of time and resources.

And missing the link between culture and execution is also deadly—transparency as a value, but secret bonuses to a selected few? All animals are equal, but some are more equal? After having failed, you'll find yourself in the „team issues“ category.

## A more effective approach

So building a productive company is about connecting many dots across a number of domains that appear alien to one another at first. While this is a topic that future education will have to address, we need an approach that works today.

Despite all uncertainty and complexity we need a way to professionalize how we run innovative ventures.

To be very clear: Professionalization can not mean repeatable blueprints. Innovation by definition is new and unique, there is very little repetition involved. What we need for professionalization is this:

1. A holistic concept about how affairs in an organization depend on and influence each other.
2. An effective system for quality feedback, allowing to either avoid or identify issues before it is too late. Issues may be raised by variety of sources (e.g. employee feedback), but one source should be an expert assessment against the agreed concept.
3. A way to ensure judgement and resolution of the issues found, overcoming human biases that may be involved

## The „North Star“ Concept

The concept suggested here is taking a fresh perspective. It aims at providing fundamental orientation by identifying focal points. Moreover, it presents a big picture about how the affairs in an organization depend on each other, and how they need to be aligned.

It is meant as

- an attempt to put different things going on in a company together in a meaningful context
- a thought model helping to discuss things
- a tool to eliminate some of the vacuum

Not more, not less.

It is not

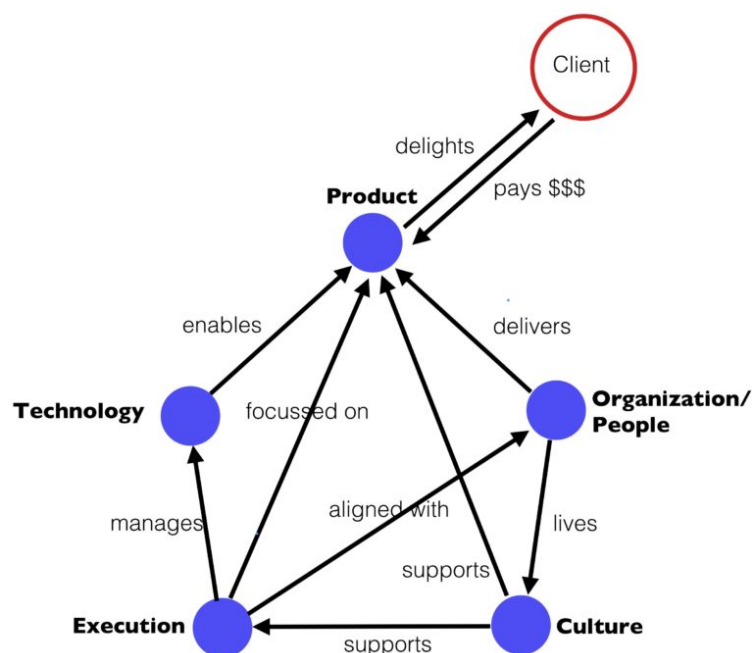
- a blueprint
- about functional silos or any other organizational structure
- something set in stone or sold as the universal truth

### Work on the outcome, and derive everything else from it

The concept can even be adjusted on a case-by-case basis - as said above, all ventures are unique. However, it is important to have a target defined, and this target needs to be explicitly derived from the value proposition of the company. As it is here, the principles how things are related to each other are based on extensive research combined with practical experience.

Developing the organization in terms of guiding its development is a leadership responsibility. Leaders can use the „North Star“ concept to sound their ideas and shape their decisions.

In this concept, the value proposition (product) of solving the clients' problem is the anchor and key driver for everything else, be it technology, organizational development, investment of resources, or delivery management.



---

## Product / Value Proposition

The biggest innovation risk in this space is to miss the product/market fit.

- It is therefore key to have a structured approach to turn the initial ideas into deliverable products with a pricing model and business case.
- Working on the product is a continuous process that (as it is the anchor) requires full attention (even though it's hard work), humility (assumptions can always be wrong) and creativeness (consciously leveraging diversity in the team).

### Things to consider:

- Personas
- Positioning—why are we here? What is the problem we solve for the client?
- Prioritization—in particular the 80/20 rule
- Cross-check pricing vs. required revenue vs. cost base
- be humble—only the client is right

### Things to avoid:

- never stop working on it
- methods like Lean Startup and Design Thinking bring valuable thoughts and tools. However, there is a risk they are used only superficially and within a confirmation bias. How many MVPs have you seen that led to more than some UX refinements? Use methods mindfully.

---

## Organizational Development

The fundamental principle to structure the organization is to identify value chains, i.e. ideally self-contained units that deliver value to the customer.

- People working within a value chain form cross-functional teams. They need an environment geared at close collaboration. For future growth, separating value chains will be the extension point for scaling the organization.
- The value chains need to be derived from the products and/or services, e.g. by product modules or value offered to a specific group of clients.
- Having teams take ownership of their value chain also empowers people and fosters self-organization as well as motivation. It helps to reduce complexity of the organization.

### Things to consider:

- (planned) sources of revenue
- expectations on client experience

Things to avoid:

- functional silos with private agendas

---

## Technology

In a variation of HP founder David Packard's quote on marketing, one could say that technology is too important to be left to the engineers.

- The choice of technology largely influences agility (how quickly something can be developed), cost (for both development and operations) and the chances of finding talent.
- A key question to ask is whether the chosen technology is a differentiator for the product, or rather a commodity. If it is a commodity, cost and efficiency are the driving factors. If it is a differentiator, the risk going along with it as an enabler for the product itself is something that needs to be closely managed.
- It is also important to find the right mix between delivering something quickly, and long-term sustainability (technical debt vs. over-engineering).

Things to consider:

- sizing of business case (how many users can be expected over time)
- key technical traits required by business case (e.g. security)
- learning curve for team
- maturity of selected tools

Things to avoid:

- an expensive hobby
- opinion-driven decisions

---

## Culture

Growing a culture is uncharted territory for most, making it often subject to wishful thinking about working hard while being nice to each other.

- The physics behind culture are actually quite simple though. Culture are the habits and values lived and shown everyday, by everyone. The key is to make them relevant and consistent
- Values need to be connected to the purpose of the venture to make them relevant. If you tell the cockpit crew of an airplane „We value safety over punctuality“, this does have impact on their decision making and behavior. Same goes for a software team being told „We value production stability over time-to-market“. What are the relevant values need to be derived from the value proposition of the company.

- It is a matter of sincerity and thoughtfulness to ensure consistency between things that are postulated („We want to be transparent!“) and actual actions taken (secret bonus given to a selected few).

Things to consider:

- What matters for business success?
- For generic values, how do we bring them to live?

Things to avoid:

- Inconsistencies between words and actions
- „wishful thinking“ values

---

## Resources (money, human beings on the team)

Money is a healthy constraint ensuring focus on what really matters.

- Overfunded startups are at a higher risk of losing productivity by taking on too many projects in parallel and hiring more people than there is space in the value chains.
- Investments in additional opportunities need to be made consciously and by judging the impact on everything else the company is already doing.
- Adding people at first always increases the entropy in a team. This is even more so if these people only have a vaguely defined role. Growing organically means to have the constraints in place that allow hires to become fully productive towards the company's value proposition.

Things to consider:

- value stream with proper capacity planning
- unlock funding stepwise when goals have been achieved
- scrutinize every position deemed open

Things to avoid:

- hiring for ideas instead of positions
- unclear responsibilities
- overspending



---

## Execution/Delivery Management

Effective execution is about getting things done within the constraints of a business reality. Here as well, hope is not a strategy. Instead, proper execution is about

- being religious about focus
- digging into relevant details and knowing what matters
- follow things through by creating accountability, team commitment and tangible feedback loops allowing for quick learning and adaptation.

### Things to consider:

- align planning and process with product strategy
- make use of organization setup to decouple streams and foster self-organization

### Things to avoid:

- vague deliverables
- no following-through

So this is might well be the first concept putting such different things as product, technology and culture on the same page.

## So can innovation be professionalized?

Essentially, professionalizing innovation is about implementing a system that helps your startup avoid mistakes.

How can this be done?

1. Give building the company and its leadership the same importance as building the product
2. Ensure strong, continuous quality feedback based on a holistic understanding, capable of closing the chasms between the expert silos
3. Establish a governance where this feedback is neutrally evaluated, and mitigative actions are defined, agreed and tracked to closure.

Rinse and repeat, and never slack off.

---

### Are you running a venture, and want to beat the statistics?

Get in touch to learn how we can help you with the Startup GPS Dashboard and our navigation services.

[steffen@startuppilot.io](mailto:steffen@startuppilot.io)

<https://www.startuppilot.io>