

URBAN MARKETS INITIATIVE FORUM

INNOVATION PLENARY

10.19.07 REMARKS OF ROBERT WEISSBOURD

[INTRODUCTION]

Thank you, Norris, for the kind introduction, and thanks to Alyssa and UMI for organizing this event, and to all of you for coming. And thank you particularly for the opportunity to say a few words.

Norris referred to me as a “father” of UMI. I want to be clear – I do feel good about that, and I really appreciate the compliment. But the father part feels like both good news and bad news. The bad news is: it makes me feel old. On the other hand, the good news, at least for me, is that I think it gives me license to be a little bit “cranky.”

And I want to exercise that license – to try something a little different in this next 10 minutes. I hope to provoke you. Rather than showcase particular innovations – and, trust me, in the breakout session, we really have some fancy power point and some pretty great innovations – right now, what I want to do is talk more broadly about the nature of innovation – and particularly about some of the barriers to innovation in the field of economic development. I want to talk about why we’re not doing better.

[WHY INNOVATION – THE OPPORTUNITY]

First, why are we even talking about innovation?

As Paul Romer wrote, all economic growth is driven by innovation. So why the fad now? Because there is something new going on, that means we in particular have enormous opportunities.

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(1) First, over the past decade, the field of economic development has really come a long way. We have developed a more sophisticated understanding of market based approaches, and a more business-disciplined practice. As we understand more about the economics of economic development, we are learning how markets get extended to create wealth in poorer communities, and how to align business and development goals in ways which cause inclusive prosperity. We've only just begun to mine the opportunities for innovation revealed by this approach.

(2) Second, information resources and systems are reshaping the economy. This creates "continuous disequilibrium" – accompanied by unprecedented opportunities for continuous innovation. Information resources drive wealth creation – and we in this room specialize in information resources. We have barely begun to tap these opportunities;

(3) and Third, in the private sector, there have been major business innovations over the last decade that we can put to good use in the world of social enterprises. Indeed, the innovation process itself can be adapted from the business community.

But now for the cranky part -- Although We are in a moment where enormous opportunities lie before us, we're not yet seizing them and making enough difference in the real world.

Why isn't more innovation happening for urban markets?

[WHAT IS INNOVATION?]

In order to answer this question, we need to further define innovation. Drucker and others have described innovation as "the specific instrument of entrepreneurship... the act that endows resources with a new capacity to create wealth." And as "the process whereby ideas for new or improved products, processes or services are developed and commercialized in the marketplace."

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Note that innovation goes well beyond a new idea, or even an invention – it refers to converting the idea to an active product or service in the marketplace. Invention is the idea; innovation is carrying it out in practice.

In our field, we have great academics and researchers, and even think-tanks who develop critical new ideas, but who are rarely converting them to practical applied products – it's not their job. And we have great practitioners, with deep expertise in particular places or subjects, but rarely with the time, capacity or resources for this type of product development and deployment. We have an innovation gap.

Going further, in the business world, it is understood that an idea is not a product; and a product is not a market; and a market is not a business. We need more than good ideas – indeed, I'd submit we can't even really know if they are good ideas until we convert them to products and businesses – until we test them with customers and see if they can be sustained and scaled. Innovation is not just thinking something, it's doing something. In our field, it entails making a real difference in the world.

[BARRIERS TO INNOVATION]

This is easier said than done, particularly in the social change sector. Let's talk about some of the enemies of innovation.

1. First, Innovation is a business practice, not an academic endeavor. Years ago, I was in a meeting -- hosted by Brookings actually -- mostly of academics and researchers, and a very smart professor presented an extensive review of varied analyses on the likely effectiveness of a proposed new intervention and concluded that the evidence was positive but not definitive – so more study should occur before trying it. The very few practitioners and business people in the room were baffled – why not just try it and see if it works? There was just a total cultural mismatch. In the academic world, it's important to think it through to perfection – to figure out what's right, what's true. In the business world, it's important to efficiently figure out what works. You learn by doing – if you

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can get from 60% sure to 70%, that's a huge advantage, and you get in the marketplace and see what happens.

I've written – with others – lots of different types of business plans– from technology start-ups to regional development corporations – and no matter how much research and planning we did, even the best business plan is never right. That doesn't make the planning un-important, but it does mean that at some point – and not too far along – you have to accept some uncertainty and test the ideas. You have to have an entrepreneur who implements and learns on the ground. In fact, there are certain key things you simply cannot know until you try.

2. Leading me to a second barrier to innovation in the social change sector – it is very difficult to create a culture that rewards risk taking and creativity. It has to be OK to fail. Research produces a wide range of figures – from failure rates of 50%, to one in 3,000 products becoming successful in the marketplace. Whatever the number, in the innovation business, if you can't fail, you can't succeed.

Non-profit organizations, in particular, are often compelled to be risk averse. Funding streams often reward continuation of established programs. No-one – funder or fundee – wants to admit something didn't work.

3. It gets worse. In the social change sector, we do not have conventional marketplaces to enter, test and reward or punish our ideas. We often lack direct user feedback. Instead, we often have third party payers, or even poorly designed subsidies that prevent market feedback. This isn't easy to fix, or ill-intentioned, but it has several nefarious effects.

4. It creates, like in the public sector, unaccountable, co-dependent institutions that have a stake in supporting each other, regardless of whether their work is creating real change in the world.

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I recently witnessed a particularly troubling, and ironic, manifestation of this. Realizing that we don't have good feedback systems, and haven't made as much difference as we should have, Foundations in particular have led a charge for more "impact analysis." Good problem identification, questionable solution.

Instead of creating some customer driven, more systemic way in which innovations can be tested in the real world, it has given rise to a burgeoning industry of impact analysts who work with foundations and their grantees – and are often designing impact analysis to make those two constituencies happy. What I witnessed was a presentation by a third party analyst who had manipulated the facts to tell the foundations and CDCs in the room what they wanted to hear. If there's an opposite of innovation – that's it.

5. The lack of a market-like system also means we lack what Joseph Schumpeter called "creative destruction." The flip side of our system's failure to reward risk taking, is that it also fails to eliminate bad products and organizations.

[6. In our defense, it's not our fault, and the social sector faces many other barriers. We generally have fewer, shorter term financial resources, more narrowly focused skills, and less product development expertise. The economic development field also suffers from fragmentation, in terms of both geography and subject matter, which makes innovation a greater challenge.]

7. And the phenomena of serving ourselves instead of our customers, of making preserving our status quo the highest goal, is much more widespread. There's a bigger cultural problem that forms the context for this discussion. We're living in an era where government and business have created an environment that elevates sound bites and self-promotion over substance – that is intellectually stultifying, that has corroded our ideals and sense of common purpose. It's an environment that justifiably breeds cynicism – talk to the 20-something generation – and erodes our political will to effect change. When my kids look back in 15 years, they are going to wonder: what the hell were we thinking when we did nothing about social security, or global warming?

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We can – and must – be better than this.

[NATURE OF INNOVATION]

Actually, considering all these barriers, it's a wonder we do anything – and in fact we do a great deal. What are the key practices that facilitate innovation in our field?

1. First, innovation is a collaborative process. We have this cultural icon of the lone inventor – get over it. Whether it's the light bulb or the computer, innovations have in fact come from aggregating, re-combining and building from existing ideas.

And the collaboration has to include the customer or intended beneficiary. More and more, innovations are co-created with the customer. Think web 2.0.

2. Second, as Drucker and Christiansen tell us, opportunities for innovation are highest in conditions of disequilibrium; discontinuity; and disintermediation. [Innovation opportunities arise from incongruities, disruptive events, unexpected successes or failures, changes in market structure and new knowledge.]

This is exactly what is happening in the global, knowledge economy. We are seeing accelerating change, more rapid diffusion of knowledge, more flexible business systems, much more extensive networks, all allowing more frequent, specialized recombining of the elements of the value chain – particularly people, capital and knowledge – for new products and services.

We need to find these leverage points and apply them to our development goals. Innovation is what enables markets to expand by increasing productivity or reducing exchange costs or deploying new assets.

Disruptive technologies create opportunities for making housing markets more efficient and affordable through new systems for land assembly; they make it possible to develop portable credentialing of the workforce to change the dynamics of the labor market; to

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link regional and neighborhood development; to deliver tailored savings products less expensively; to re-invent CDCS; and much more. The list of fruitful areas to explore for potential innovation in our field is enormous.

Innovation recognizes that the world is in flux, and thrives on the opportunities created by change.

[3. After opportunity identification, innovation requires applied research, design, prototyping, launch and scaling. Each of these steps needs to be tied to business systems for financing, structuring deals, finding entrepreneurs and engaging customers.

4. At the system level, innovation requires openness, a strong knowledge infrastructure, resources for investment in basic R&D, human capital, venture capital, and systems for testing and feedback.]

I just think we're in a very exciting time – but we have to seize the opportunity, including we have to be willing to talk back to those, including our colleagues – whether it's funders, governments, businesses or non-profits – who want to preserve their status quo.

We need to dare to be dumb at the front end, and we need to be disciplined and ruthless about what really works on the back end.

We need to invent – and to implement -- to innovate – for the social sphere, the equivalent of market systems to give us the feedback we need. I've always thought, for example, that many systems for labor force training, or for small business assistance, would work much better if the funders gave the money in vouchers to the unemployed and the struggling businesses – make them the real customer -- to be used with approved providers. This might make the providers more accountable, and help eliminate ineffective providers.

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[CONCLUSION]

As I warned at the outset – I don't know the answer. What I do believe, is that we can collectively figure it out. We need a collaborative, open process to undertake a system level innovation – to create a new product development capacity for the field, a new network for innovation. If we step up, working together in such an institution, we could seize the enormous opportunities for innovation; we could innovate at a qualitatively different pace; we could move markets and create new wealth. We could change the world.

Thank you for listening ... and for letting me be cranky.