

Gain from Losses

By Lanny Vincent

Innovators often lament the risk aversion of leaders in their organizations. They also lament that their customers are reluctant to try anything new. Perhaps innovators are more sensitive to risk aversion as a result of repeatedly hearing rejections of their own ideas.

The risk aversion of others — whether sponsors, peers or prospects — is one of the more predictable challenges for innovators in getting their ideas out of the lab and into the marketplace. The range of appetites for risk should not be surprising. What is surprising, however, is the persistent underestimation by innovators for how much resistance they and their innovations are likely to encounter in the process.

Author Warren Bennis said, “Innovation — any new idea — by definition will not be accepted at first. It takes repeated attempts, endless demonstrations, and monotonous rehearsals before innovation can be accepted and internalized by an organization. This requires courageous patience.” Albert Einstein said, “If an idea doesn’t seem at first absurd, then it is probably not worth pursuing.”

Risk aversion is a well-known part of any innovating landscape, and should be anticipated by every innovator. What is not so well known is *loss* aversion and how it affects the cognitive bias of innovators themselves.

Recently I finished reading *Thinking Fast and Slow* by Daniel Kahneman, who with his collaborator, the late Amos Tversky, won the Nobel Prize for Economics for what is called “prospect theory.” They observe that all of us have a “going-in” bias to risk: we would rather avoid losses than acquire gains. So I wonder if loss aversion is



perhaps a foe to innovators and innovating even more subtle and pervasive than risk aversion.

Loss aversion was first proposed in 1990 by Kahneman and Tversky as the underlying cause for what was called the “endowment effect,” the fact that people assign greater value to a good they already own than to an identical good that they don’t own.

This “endowment effect” shows up when innovators pitch an idea to potential funders or end-users. The originating innovators already “own” the idea, as they have been living with it, developing it, enacting and embodying it for some time. For those who don’t “own” the innovation, to whom it is brand new, the value of the innovation is less. At this point, innovators often think their audience is just not that well endowed, cognitively.

Innovators are no more immune to loss
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Grieving: An Overlooked Capability?

By Lanny Vincent

If “loss aversion” (*see companion article*) is an “enemy within” for innovators, then might the process of grieving represent a capability worth cultivating?

Don’t get me wrong. I am not inferring that we should seek losses. On the contrary, a basic requirement of having a complete and coherent idea, at least in a commercial context, is its profit potential. Potential gains are a fundamental requirement.

However, creating a pathway to those gains, particularly gains that are grounded on what is important to prospective users, may require losing or letting go of something we hold near and dear, like a familiar business model or approach (“we’ve always done it that way before”). As Will Rogers said, “It’s

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aversion than others. Their desire to avoid loss is more potent even than their desire for gain. Loss aversion is particularly vexing for commercial organizations in competitive contexts. Competing with others mitigates against even the slightest admission of loss. “Never show a vulnerability to a competitor.”

Enter the book *Theory U: Leading from the Future as It Emerges*, a profound, provocative and prophetic proposal by C. Otto Scharmer, a senior lecturer at MIT, who proposes that the path of discovering and inventing solutions to the deeper, tougher challenges organizations and societies face, leads us through the very losses we prefer to avoid.

According to the **U-shaped** path Scharmer describes, solutions to our deepest needs reside on the other side of loss. A first step

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on the path to discover and invent those solutions is to fully let go of the imperfect, partial and fractured solutions we have now and to which we are favorably biased (the “endowment effect”). Going on the downward trajectory of the U is the letting

go of what we know, and it is the only way to get to the upward trajectory of the other side of the U to what we don’t know yet, but can discover and invent: the “letting come” of the new, that which we didn’t think or believe was possible.

Harvard Professor Clayton Christensen observed that the intensity of competition often leads competitors to innovate right past customer satisfaction. When the motivation to innovate is driven more by the desire to be different from the competition than to make a difference to the customer, loss aversion intensifies. We end up investing more in being different, and less in making a difference.

So, are we satisfied with merely being different? Shouldn’t we rather be focused on making a difference? □

From Our Readers

Thanks to the response of veteran systems engineer Thomas Brezoczky regarding our May 2012 article, *Visionary vs. Competitive Innovation*. Thomas wrote “I am intrigued by the article differentiating innovation and creativity. I wonder if as a result of all the connectivity, the competitive aspects of innovation have increased infinitely because the social herd and feedback created jump on the same wind. It is not clear if this breeds better innovation or if it actually destroys it because there are more alike solutions versus innovative solutions. Regardless though, the result is that the race is much faster than ever before and the real innovative solutions never really get to mature. It’s like a boat racing season that never ends.” □

R. S. V. P.

Please send us your thoughts and opinions on this issue of *Innovating Perspectives*.

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not what you don’t know that can hurt you so much. It’s what you know for sure that just ain’t so.” Grieving takes time, it leaves the vacated space empty for a while, and requires a stillness on the part of innovator to fully absorb the loss.

Grieving is antithetical to the current obsession with speed. Grieving empties time rather than our prevailing preoccupation with filling time, and ending up not having enough. Grieving invites us to linger and wait in stillness and silence, which is contrary to our cultural appetite for mobility—mental and physical. While against the tide of the prevailing current, allowing time for grieving may be just what is required of innovators, if innovators are to understand more deeply what can make a real difference to those they seek to serve. □

How Engineers Get Lift for Innovating

Lanny Vincent announces the release of this new book, *Prisoners of Hope: How Engineers and Others Get Lift for Innovating*, which opens a unique window into the minds and hearts of engineers, revealing two characteristics that every successful innovator must have—faith and hope.

Writing from his 30 years’ experience as facilitator, coach, and “midwife” of corporate innovating, Lanny draws useful parallels between two seemingly different worlds of science and faith. Prior to working with companies like HP, Sony, BT, Rockwell, Weyerhaeuser and Whirlpool, Lanny was an ordained Presbyterian minister. Lanny saw familiar faith patterns among innovating scientists and engineers—studied in a completely different context years before.

Filled with firsthand accounts of what really happens in the messy, serendipitous process of innovation, *Prisoners of Hope* makes explicit what innovators do naturally to bring their vision to the marketplace and how how engineers use faith as their “silent partner.”

To see what others are saying about *Prisoners of Hope* and to order, please go to innovationsthatwork.com or Amazon.com. □