

Paul Hobcraft

Understanding the Three Horizons innovation framework

Speakers:

Nick Skillicorn – Innovation and Creativity Expert and Host of Innovation & Creativity Summit

Paul Hobcraft

Expert Interview transcript:

Nick Skillicorn: Hello everyone and welcome to another expert interview at the innovation and creativity summit 2017, very happy to have Paul Hobcraft who is a good friend and colleague of mine on the line today and Paul is the founder of agility innovation and an avid blogger on the subject of innovation and a specialist on what's called the three horizons innovation framework which we're going to talk about today Paul is wonderful having you here.

Paul Hobcraft: Thanks Nick for the introduction and welcome to everybody.

Nick Skillicorn: So for people who don't know you and what you do, can just give us a brief background as to how you got into innovation.

Paul Hobcraft: Yeah, It started nearly fifteen years ago I was based in Singapore and I was doing an M.B.A. and in the final year of the M.B.A. I had a choice of what subjects I wanted to finally study and innovation was one of those so I chose it I got utterly completely hooked on the subject and since then it's just driven the rest of my work so for fifteen years I've just progressively got more and more into the subject to be innovation. In recent years I've moved back into Switzerland I got more into Avid blogging as you said in the last few years because one of the things I found is as you study and get into innovation deeper and deeper, can go all over the place and I find that the blog gives me license to go everywhere else. I have a business that is a consulting advisory mentoring business which is the source of where I sort of try to drive my writing and also where obviously trying to bring in my clients and I've been doing that now progressive say so for the last six or seven years here and it's very much still a very much a great passion of mine as well as obviously the business that I am in.

Nick Skillicorn: Absolutely and very happy to have you again we've spoken previously on podcast but today I really want to get into detail on the three horizons framework and because it's unlike a lot of the other expert interviews we've done, the three horizons framework is quite visual in the way that you think through problems. so we've got a couple of slides we're going to bring up today and during

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that time is that you and I can continue having a chat but what I'm going to do now for all the viewers and listeners is to just bring up those slides so we can get into a bit more detail on the three horizons framework and what it actually is.

Paul Hobcraft: Do want to shoot off Nick or should I start going

Nick Skillicorn: You can go ahead

Paul Hobcraft: OK but I want to look at specifically the three horizons framework in innovation perspective. Three horizons being written by a lot of people but I focus on it very specifically within the innovation space. Before we get into this opening template which is in front of you I'd just like you to consider this, we very much are working in our business as usual environment, believe it or not there lies the seeds of destruction because if you think about it the present is always in decline. My second point is as a context about this in template is the future, it never stays the same it is always restless and it needs drawing out. The three horizons is a framework that allows you to draw out the future, we actually go about and subvert the future because we prolong the life of the existing and that come back through our business as usual. My fourth and final point here is innovation does get caught up in this whole subversion; we stay locked into a one dimensional mindset. What we're trying to do with this opening three horizons framework is to get people to be comfortable to think about it in a different way so. In this open in template you've got three horizons you've got horizon one which is you clarify how to identify the existing, the prevailing or the dominant system you're in from an innovation perspective and the challenges to sustainability into the future. It can be the restrictor to the future it can be the catalyst to the future, what you would see is a box below this which says the signals of horizon three which is the future are made up of very weak signals that currently are operating or around you in your current environment. It is these weak signals that you need to pick up on because they're the ones that are either going to disrupt your business or they're going to be the ones that you can design purposely to take forward so you better positioned in horizon three for that future because you have picked up and you've amplified those weak signals. What you tend to do is you look always within the three horizons as actually you go horizon one you go horizon three and then you go back to horizon two and I'll explain that of the bit more later. But horizon three is your future is where you think you want to go as an organization, it's the ideal place it's where you design it's the emerging options of how you go about in the future. so horizon one is very much today's business and what we do into business is we put an emphasis on the exploiting, what horizon three is really the exploring environment, it's the environment of the future so you have to go through a discovery and experiment in phase. Now we come into horizon two which is the one that you need to expand your capabilities you need to expand your understanding, its way you draw out the tensions and dilemmas between vision and reality. Reality is today vision is the tomorrow and you then determine a distinction between the two because what you're trying to do in this horizon two is begin to navigate your way through. So you see three lines here you see a green line you see a red line and a blue line. Go to one on the red line what that means is today's business where we are beginning to decline. The green line is then the future business which you're picking up some sort of signals that there's a change taking place is going to accelerate and is going to become your future business and the blue line is the navigation through

the pathway. So that's why it goes up and down is because as you learn about what it is you're trying to move towards as a future, you would obviously absorb you will you explore your old exploit and then obviously it was settled out into being far more of the way you are going to run your business going forward. So the opening template is explaining very much the three horizons and how that works. So exploit and extract is in horizon one expand and extend its horizon two explore and above is horizon three. Now the big idea about this whole thing is, it positions you for the future, it enables you to start walking through different patterns of activity that you need to consider, we so get engaged in our incremental innovation the business as usual we often ignore that future those weak signals so you are able through this three horizons to map out those shifts in those patterns in a way, so it becomes a portfolio planning, it becomes a sort of a way to structure your business going forward but for me the most important part of what we're going to be discussing in this session is the dialogue and framework and I will be spending this time on what I mean by dialogue and framework. So Nick if we move on, if you've got any point you would like to write

Nick Skillicorn: I just think it's been a perfect introduction just so people get the main crux of what the lines are trying to indicate here over time as you go from Horizon one into Horizon three via horizon two. The lines represents how strong a strategic fit for the company, the ideas and projects and products and all of those innovation things are at that moment in time so in the very near term, the horizon one projects are the best strategic fit and the third horizon ones are a bit of the way off but you need to be aware that in the future that those horizon ones are going to develop into the most important ones for the business and that's why the graph shows how they change over time.

Paul Hobcraft: Without a doubt and the other point is it also indicates the type of resource allocation you will be doing over time so majority of your resource today from an innovation perspective is to maintain the business, strengthen the call deliver shareholder return, hence why the red line is much higher but progressively as you focus out on the future and you change those resources and you change where your business is going the whole resource begins to move up into those horizon three. So yes it is a time one, it's also a resource one and it's a strategic one so that's reason why I don't put tags to both of those lines because it's the way you interpret the conversation you wish to have for people to recognize that horizon one's activity fade away, horizon threes come up and strengthen and horizons two supports the change and then obviously to settles down into the middle room.

Nick Skillicorn: Now Paul what do you mean by what's on screen now the dialogue framework and specifically these disruption points between the various horizons.

Paul Hobcraft: it comes back to we can either be disrupted all we go out there consciously to disrupt the market place ourselves and there are always point where this happens it could happen very quickly because a competitor comes into the market with a very different type of product offering and they then become the disruptor. So the first disruption point is when you need to sort of think

about well how am I going to counter that so the activity you do horizon two horizon three gets larger and more important because you've got to counter that disruption point. Further down the line you'll get different types of disruption you know you'll get emerging technology disruptions, you'll get market changes that take place. So all the way through as you talk and discuss three horizons and it's not a static discussion, it's a dynamic evolving discussion. You constantly look for where the possible disruption points are and I've just illustrated them here so the crossover points are you should be equipping yourself and getting ready for those disruption crossover points with the activity you are trying to build and do. So you horizon two activity and your horizon three activity should be being prepared to manage that disruption or being prepared to move quickly into that sort of disruption.

Nick Skillicorn: And I think that works perfectly in theory but at lot of companies if they try and implement this they going to face a few road blocks on the way and one of the things I'm keen to talk today is those road blocks one of them you already mentioned is the need for different voices and discussion frameworks to help you see things coming and to prepare of those.

Paul Hobcraft: Yes as I said today's reality session is all about voices mind traps and getting comfortable with this being a dialogue in framework not a portfolio structure framework or resource allocation or even a time framework. This is more to do with how do we get more comfortable with each other because when you get people around the table, if you get six people who are pure operators they're going to worry about what it is that affects them today in their operation environment, if you're trying to change the thinking and move it out into a more futuristic one, what you've got to try to do is allow for a greater diversity within the boardroom or within the discussions so you get different types of voices of people. So as you can see on this chart you've got three types, you've got the managerial voice of today, the operating voice the guy that focuses on saying I want to keep the lights on in the business, I need to focus on incremental, I need to keep my business profitable but he needs to be balanced off with the second horizon person which is the one who's far more entrepreneurial eager to make transitional steps ones that are willing to take on a high risk, ones that are willing to push where we are today as a business and push it out into the future and then you've got the third voice in the room that you need to find which is the inspirational voice, the visionary the one who wants to explore uncertainty and who is prepared to sort of say well we need to look at the future a lot harder because it's coming towards us. So if you don't get each of those voices within a room you're going to get trapped in a very specific way. so we need to pick up on what we see as signals by each of the types of voices in the room and then begin to get into this dialogue so these three distinct voices they bring together three what I call different modes of awareness into the conversation, they need to be treated equally and they need to be given equal time so you can balance them out. The important part is the person that is facilitating the discussion, needs to make sure they give all good opportunity that's a critical part of what it is, so you need to get those voices into the same room. Move on to the next slide or if you've got a comment Nick.

Nick Skillicorn: I mean everything you taught out there makes perfect sense to me.

Paul Hobcraft: Moved on to the next slide the fusion doesn't stay the same, when you've got these three horizons horizon one, horizon two, horizon three, when you begin to move a business away from your known, your established procedures, your established innovation activities you get yourself more and more into the zone of what I call uncertainty and this is where you need quite a set of strong leadership. you need somebody who's going to be able to sort of recognize and facilitate people because risk is one of the greatest inhibitors to innovation and if we can encourage risk, if we can formulate around that zone that horizon two zone, that there is a need and a wish to go out there and to do some more experimentation, you can unleash a significant amount of change. so the dominant force you want to try and dampen down, you want to amplify this weaker signal and you want to go into the zone of uncertainty, now the best way to tackle that zone of uncertainty is to break it down actually into two parts, into an H2 minus and an H2 plus. An H 2 minus is, I'm sustaining and improving my existing business, I'm advancing it because I'm learning, I've got new methods so for instance I could be going very much into more and more customer dialoguing which I've not done in my existing business but in that zone I need to go there because customers are going to become increasingly more vocal and increasingly more in part important for my future because they're going to be giving me more feedback, they're going to be giving me more of what I need to understand and how to react. so I need to do some experiment and I need to do some sustaining some improving so I need to bring up my understanding of customer dialogue, I need to sort of just experiment them but then within that horizon two zone you've got what I call the H 2 plus. The H 2 plus is what is it I'm learning that's taking me into my transformation H 3 zone and I need to recognize both of them and I need to then bring them into clearly a comfort part for this. So it's an incredibly difficult one to manage and we must not apply zone two into the same metrics as zone one, it needs this new one. So for instance you could be stocking up on innovation lab you don't apply the same metrics as you would to somebody who is moving innovation through a well established system. So that's really where I want to go on this one is to make a great emphasis, it is the greatest zone of uncertainty you need a lot of leadership there, you need a lot of encouragement, you need people to really get comfortable experiment, pivot, dialogue and see that they are trying to support not only the existing business which supports people that are doubtful about the future but it also encourages that transformation. And the next slide, So the problem with this middle zone is you've got to get out of your existing thinking and the what I call the four devious mind traps here are we do as organizations see ourselves very much we get fixed in the status quo, we are comfortable in what we're doing and where we are, we think we understand the markets, we know our competitors and suddenly that can change. so status quo is a very very dangerous mind set to stay stuck into, the second one is much of our thinking does day short term because it dominates because of stakeholder return, shareholder returns, the fact we measure a company usually on a financial year so we're always looking for our innovations to be developed in a particular year's period, those a dangerous positions. so we need to try and open up our thinking as we go into that zone into saying there is a longer term we need to, we need to dampen down our short term thinking, we need to think and experiment a little bit more and that might be with a little bit more longer term thinking. It could well be that as we become more digital in the future this could be a two to three year journey so we need to get into a different type of thinking set. The third one is we do far too much incremental innovation, that's another mindset trap we don't want to explore radical information innovation, we don't want to explore distinctive innovations, we don't want to

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do transformation innovation because most of our companies rather discourage that or they put it into a smaller group of people that have got the responsibility for that, that is good in some respects but it limits people because if people aren't engaged in that radical transformational environment yet they are part of the discussions they will hold you back so you've got this third devious mindset trap. The fourth one is we sometimes have just a really ignorance of what it means in change, in its rate and its impact because we sometimes that survey enough our competitors, we don't scan the market enough we tend to sort of do a once a year annual review, we tend not to sort of then say well that's done let's not do it for the next twelve months, a lot can happen very very quickly and to some degree it is our ignorance of not being curious, not being sort of looking out to question where this might go, where it might take the market, where it might take us within the market, we then deny ourselves this opportunity to think and develop out more futuristic innovation activities. So there is a four devious mindset which we really need to be very very careful about.

Nick Skillicorn: I think what I'm especially keen to talk about is incorporated in this next slide which is the concept of the three horizons it's going to be different for different types of companies and the way they approach innovation and the way they approach resource allocation and people allocation and time and all of those things it's not a sort of one size fits all solution, what's your view on that.

Paul Hobcraft: Yeah I mean you're right Nick what I try to do here is, each company that I've put down here actually has a very different understanding of what innovation means to them and it gets quite interesting so if you take company three for example it says my horizon one will be the incremental innovation and I'm doing my horizon two though is I'm going to be doing more platform innovation and horizon three I want to look for more breakthrough activity that's coming out of that platform activity. In Company three, we got I'm not so adventurous I'm incremental again but I'm pushing out, I want more substantial innovation as part of my growth strategy and I would like to get to a point that we start thinking about in Horizon three more transformation information but to get that I need to get more encouraged, I need to sort of you know get more comfortable measuring risk taking and if you look at maybe another one could be company nine here all I want to do with innovation is I want to keep or align it I want to align it align it align it to my strategic positioning. But I want to change that because I think I miss it out so my horizon two is I need to actually start developing some white space projects so that's what I'm going to do is my emphasis in horizon two and then in my third horizon which is the grey space the spaces that are in between the blacks of today the white spaces that I'm seeing the ones that might be a real opportunity spaces that become aligned to what I'm doing but also can put some shades of new color into my white space projects that I'm working on. so each person and each company can look at horizon frame working in a different way now to help them do that and to help them work through that you do need a common language and I would really urge people to look at my website here because there's a lot of thinking and writing I've done on the three horizons. So if you go into the insights and thinking page on pool4innovation.com and if you're either doing the search three horizons it would throw up all the papers or you go into the insights and thinking page that is in a tab above but there's a particular document I would draw people's attention which is providing a common language in its innovation

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use, what I have really sat down and thought through is how we can get everybody these different voices from thinking in one way and to actually recognize a common language that they can talk as they talk in horizon one versus horizon two versus horizon three. Equally I've designed a common set of metrics that will give you an enormous starting point for seeing horizons one differently from horizon two and horizon three, so I would really recommend that is a key document that I think would give a very strong anchoring to what we've been discussing here.

Nick Skillicorn: Perfect, Paul I'm going to bring myself back up on screen now so can have more of a chat on some of the concepts we've talked about right. So hello again thanks so much for that insight I think a lot of people once they finally see the thoughts behind the street horizons and especially the visual aspects of the three lines changing over time, it makes a lot more sense about how you need to think of innovation in the long term because a lot of people they want tips about how you can innovate now with the problems you're currently facing and generate solutions to your current problems but it's just as important to think about well where is the business going to be in five years' time, where's the industry going to be in five years' time and I think that the fact that if you look at the graph and the third horizon at any moment in time when you look at it, it's going to be a very weak signal it's going to not be very clear about what exactly it means right now. When you actually get executives to think about the fact that yes it might be weak now but it's going to get more important in the future that can really shift a company's attitude towards how they think about innovation

Paul Hobcraft: Absolutely I mean you take digital activity taking place now the digital transformation we're all in, our organization is getting around a table and talking this out not only to what is doing to their current business which is where they spend an enormous amount of their money you know catching up and trying to get it correct or digitization But of course this pours in for a moment and saying well we need to do a lot more thinking of going forward about what this might imply and where it might take us .I do quite a lot of work on platform ecosystems so you could argue that today's discussions might be around how do we digitalize what we've got in product offering. The next horizon two discussion could be well how do we look around and say well what type of platform should we be on, what type of activity should we be doing that brings in more people into the conversation outside people more open innovation and through the technology ability that platforms give us and then in horizon three as we've got more and more comfortable with those new partnerships and those new collaborators we strengthen our whole ecosystem and we've drawn in the customer we've drawn in a whole host of different people that we never saw possible in horizon one are suddenly possibly emerging, now you can have that discussion around a table today but you've got to open up your thinking from the immediate keep ourselves with allies on worry about today's product we need to think about tomorrow so this horizon three gives you all sorts of opportunities, multiple opportunities so you could say I want to put all of my innovation now into a clear platform assigned to a clear portfolio I'm going to put that in a portfolio of these three time horizons. I need to through a three horizons assessment of my resources, are they capable of managing in those three different horizons. what am I missing what's the gap analysis can I take out my conversation into the company and how can I do that, I can do that through the three horizon

dialogue, I can explain that we're going to think about the future a lot more, here's some of our thinking, here is what I think can you contribute to this, how are you going to add to this. So there's a whole scope of ways we can use the three horizon framework. So that opening I understand a very simple diagram, it becomes very rich in what you can actually do with that possibility and it does move us from staying fixed in today's environment.

Nick Skillicorn: One question I have is if you're looking at these weak signals for what might be important strategically in the future, a lot of companies are very bad at predicting the future, in fact every company is bad at predicting the future otherwise those companies would be really in the world. So what advice do you have to companies who are basically afraid of investing in an innovation that they just don't know enough about but that might be important in the future in horizon three

Paul Hobcraft: I think where we seem to be going and that's encouraging is that innovation labs have become quite an important part going forward for a number of companies, they've recognized that they should get a team of people that are maybe a little bit more specialist, little bit more entrepreneurial and give them an encourage meant to go out there and to explore and experiment but to some degree wrap it around so it becomes a safer environment so it doesn't have immediate impact on what you're offering to the world or what the world can see you're working behind the scenes. I think more and more companies are finding a path to Silicon Valley so they can actually see why are entrepreneurs that are into whatever else and they're encouraging that entrepreneur environment, they're encouraging a lot more the prototyping, they are encouraging a lot more activities that gives great encouragement, it gives a greater given down to the person responsible an opportunity to explore and I think the advice I give is to recognize that if you can have the type of conversation where they recognize horizon two horizon three needs to be discussed you can actually start pushing forward tools and techniques. There are people that will say ok I'm comfortable with you to start exploring the horizon through two based on this idea because over time this might become amplified from that weak signal that something that we saw was there and recognized that actually is going to become very important to our business going forward like digital, like the food business the way that food tastes may change. so we could well be today's concern about obesity now that's not a weak signal that's a signal that we can see in front of our eyes but at the same time what we should be picking up is what is it that people are trying to do to reduce that and how can we bring that into our business activity so by looking out and saying we'll take a team like obesity which is going to signal to it but we're maybe not addressing as much as obesity today, how do we map that out for the future so it gives is greater opportunity in innovation through horizon two and horizon three.

Nick Skillicorn: Perfect Paul we are coming up to the end of the interview unfortunately but what I like to ask all the experts is if you've got one tip or actionable insights that people can try out either this afternoon or over the course of the next week to get some value out of the concepts we've talked about today what would you recommend they try out.

Paul Hobcraft: I would take one or two of those slides and just gather one or two people in the same room and actually work through it and then for them to be able to see how so much diversity comes out of you know surprisingly your colleagues because suddenly the colleagues feel more empowered to be able to talk about horizon two and talk about horizon three, they become the visionary, they become the entrepreneur, they become the voice that eventually most kept them so I would experiment within your own team, I will broaden it out progressively and I think you'll find that once you get comfortable with looking at that language, that recommend common language from those metrics, you can actually get really very comfortable to be able to take it out into a bigger audience beyond then your team into the new management team and then you know suddenly gets a whole new life that everybody else wants to start talking through horizons because they see the power behind it, it opens up the dialogue which is what I wanted to say you can begin to get conversation going and that's important.

Nick Skillicorn: Perfect, for people who want to find out more about you and the works that you do, we're going to have links to your resources on the screen you've mentioned pool4innovating.com already, are any links that we are going to talk to some people that you recommend they go and check out

Paul Hobcraft: yes I would like you to also go through two to three other links. I have a company website which is www.agilityinnovation.com, I have another company website which actually looks at everything around innovation, it doesn't look at the innovation service specifically it looks at creating the right environment and that's called www.akaconsulting.com I think if you go there on each of those sites it's got all the links anyway but I think if you go put those links up Nick I would appreciate that

Nick Skillicorn: Perfect, it's been wonderful having you here and I look forward to speaking again with you soon

Paul Hobcraft: Thanks Nick thanks for the time.