Innovation Talent

Misunderstood

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From the outside looking in, the commercial real estate industry often faces the critique that it is conservative, traditional, and lagging. As with all industry stereotypes, this critique contains some degree of truth. At its core, real estate is evergreen. However, the way businesses and investors do business in real estate is already changing. Innovation and digital transformation are at the forefront of this change, which puts real estate in danger of becoming victim to its stereotype. Many of us understand this in theory, but in practice, innovation is often misunderstood. It is not an endpoint. It is both a process and an action.[1]

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Further, how innovation impacts organizations and investments is miscalculated. And, most importantly, the role that people and human capital broadly play in enabling innovation is gravely underestimated. So what are the common misconceptions about talent and innovation, and what can companies and investors do to harness the power of digital transformation?

Innovation requires an individual who can see the forest through the trees when it comes to strategic decision making, risk assessment, and idea socialization.

MISCONCEPTION 1
STEREOTYPES OF INNOVATORS ARE THE RULE

The assumptions many of us have when thinking of an ‘innovative person’ are fundamentally incorrect. We conjure mythologies of individuals such as Steve Jobs and Albert Einstein, who were otherwise known to be rebellious, socially disagreeable, and self-centered. In stark contrast, research suggests that most innovators rely on social capital to disseminate and implement their ideas.[2] In other words, without charisma, even the best idea is a non-starter.

Further, innovation is rooted in a set of behaviors that personality cannot fully predict. Necessary actions to transform a creative idea into innovation include empathy, idea integration, risk-taking, influencing, results seeking, steadfastness, and persistence in pursuing ideas.[3] Perseverance and tenacity are particularly crucial because they can dictate whether a creative idea dies on the vine or evolves into a solution.

Real estate companies and other large organizations often make the mistake of hiring irascible, highly unstructured, significantly countercultural executives to lead innovation and change management. Many executives lack the social skill to effect transformation. Further, owners and partners fall into the seductive trap of one executive’s big vision and charm as they make capital allocation decisions. (The classic cautionary tale here is WeWork.)

MISCONCEPTION 2
INNOVATION IS RISKY

Despite the marketing, most innovative ideas are not that risky, and most risky decisions are not that innovative. Contrary to popular belief, successful innovators tend to be more risk-averse than the general population.[4] Although it is essential to take risks when pursuing an innovative idea, successful innovations are born out of calculated risks, balancing detail orientation with a high-level view. Innovation requires an individual who can see the forest through the trees when it comes to strategic decision making, risk assessment, and idea socialization.

Moreover, there is a sliding scale of innovation, ranging anywhere from small, incremental improvements to radical changes. Historically, family offices and other privately held real estate investors, along with institutional investors who tend toward conservatism, find the most comfort with incremental innovation.[5] Radical innovations are the most disruptive but should not be conflated with the most successful. Consider the current trend which finds companies creating innovation labs or entire teams to fundamentally disrupt themselves from within. While correct in theory, pitfalls inevitably emerge in practice when the lab is charged with identifying the next radical shift, and small, incremental changes are largely dismissed.

MISCONCEPTION 3

ONE MUST BE CREATIVE TO BE INNOVATIVE

When organizations seek out talent, they frequently look for resumes laden with examples of a candidate's creativity and "out of the box" thinking. Having ideas can be a desirable characteristic, but it must not be confused with innovative behavior. Ideas must counterbalance with pragmatism and structure.

Due to this misconception, companies make the mistake of taking the expectation of "out of the box" thinking to the extreme. It is impractical to assume that to be competitive, one's entire workforce must be a creative-idea-generating-machine. Those who don't generate ideas are not only important, but they can be champions of innovation by helping to disseminate and implement the ideas that other members of the organization create.[6] At the executive level, leaders can increase the impact of innovative behavior by realizing their role in socializing ideas and creating buy-in across the enterprise.

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MISCONCEPTION 4

INVESTING IN PEOPLE AND THINGS CALLING THEMSELVES INNOVATIVE IS ENOUGH

Innovation is subject to a common cognitive bias. As humans, we tend to see behaviors first, and overestimate the importance of personality traits and characteristics, but underestimate the importance of the situation. For example, it would be a mistake to assume that simply because someone comes from a company known for taking a more innovative approach to capital raising through digital integration, that this person was personally responsible for the company's success. The more likely answer is there is something about the culture, how the organization is structured, and the team in which they operated, that contributes to the accomplishments on their resume. In this vein, innovation is a team sport. It is the byproduct of the right team coming together under the right conditions, rather than the product of individual contributors.

Likewise, labeling someone innovative does not mean they are. We see a trend in which investors deploy capital as an LP to a VC or PropTech fund and hope innovation will magically ensue. The key to success is that innovation is a mental investment, not merely a monetary investment. One must have the drive to be curious if one is to innovate. Instead of investing directly in platforms calling themselves innovative or disruptive, invest in individuals, teams, and companies that have a penchant for -insight-discovery, who are trying to solve problems facing the industry and customer's needs.

WHAT, THEN, IS AN INVESTOR TO DO?

There are a few key characteristics of sound investments that should also serve as the foundation of decisions companies and investors take as they navigate the complexities of digital transformation:

DON'T LET FEAR RULE THE DAY

Some of the worst decisions a company can make are those made from fear. Technology is and will continue to change how real estate operates. Already select investors are harnessing data to make decisions relative to the markets they should enter, down to the exact location of an asset in a given market. Data insights fundamentally challenge the long-held belief that a company must have "boots on the ground" to allocate capital. However, it would be a mistake to react to this potential disruption in a self-protective fashion out of obligation to "not be left behind." Instead, it is in investors' best interest to maintain curiosity. Harness curiosity to create a culture in which there is a plan to update technology, predict industry trends, and react appropriately.

At the same time, it does not serve to become dismissive of a changing industry. Innovation blindness is the resulting outcome in which companies do not adequately react to a disruptive threat—such as the hospitality industry and Airbnb.

KEEP YOUR POWDER DRY

Being curious requires positioning oneself to take advantage of market conditions. "Keeping your powder dry" allows you to mobilize quickly and address coming demands. Tech disrupting traditional real estate asset classes is no less immune when it comes to innovation transformation. An excellent example of this is VTS and Convene in the office asset class; Compass and Opendoor in the residential sector; and Amazon in retail, to name a few.

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Another critical source of "dry powder" is human capital. In building an innovative culture, workforce, and investment portfolios, it is vital to maintain a global lens. There is a worldwide race for talent that can progress a company's technology goals. The premium on talent represents the reality that innovation activities are at the core of a company's competitive advantage.[7] Further, in the US alone, there is a growing shortage of technical and scientific talent who can slot into such roles. Those who cast a global net in acquiring talent will have the upper hand for hiring much-needed expertise.

MOVE UP THE RISK SPECTRUM AS NEEDED

Any good investment requires some assumption of risk. When considering innovation in response to customer need and market demand, one will face one of two situations: First, competitors overreact to an event. Second, the innovative solution may be investing opportunistically, going where no one else is, and standing by that investment. A prime example of this is Sabey's move to expand their data center business when the .com bubble burst despite the droves of companies and investors who were swiftly pulling out of the industry. This opportunistic investment paid off well as Sabey grew to become one of the largest data center companies in the US.

While human capital is the most complex component of the innovation equation, companies should be cautioned against overcomplicating innovation talent acquisition and management. Ultimately, it is crucial for leaders seeking success in innovation to create a culture of calculated risk-taking, curiosity, collaboration, and scale.

NOTES

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