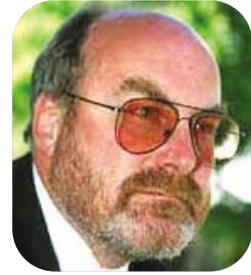


Facilitating innovation within the organisation



David Snowden is director of the Cynefin Centre for Organisational Complexity, and former director of the Institute for Knowledge Management.
E-mail: snowded@btinternet.com

In his May lecture **David Snowden**, a leading thinker in the knowledge management area, described the process by which finance can support innovation within the organisation. Faculty vice chairman Tony Powell reports Snowden's ideas.

Marcel Proust's view on innovation was that, 'The real voyage of discovery consists not of seeing new lands but in seeing with new eyes.' But what do accountants think? Indeed, can finance facilitate innovation? This was the topic when David Snowden, a leading practitioner on the application of complexity theory to business, spoke to Faculty members on 17 May.

Snowden has helped businesses and government to begin to address seemingly intractable problems by enabling them to see them from a different perspective. And in his view one of the key issues facing businesses – especially successful ones – is that they become

victims of their own success, failing to spot a disaster until it hits. He highlighted the problem with examples including IBM's flirtation with economic disaster in the 1980s and the Al-Qaeda attacks on 11 September.

This 'blindness', which is also a barrier to innovation, stems from:

- how people make decisions (not through rational analysis but by using first-fit pattern match – ie a 'top of mind' memory, then subsequently rationalising the decision);
- our tendency to think too soon that we have found the answer and stop exploring how an idea can be made

- bigger and better (called premature convergence); and
- the learned behaviour that avoidance of failure is a better success strategy than imitation of success – which tends to lead us to dismiss things that are new or outside our current experience. (Ever heard 'No-one got fired for buying IBM', or 'We've tried that before and it didn't work'?).

Snowden described ways of countering or suspending these factors and introducing innovation into the most resistant of organisations (if governments can innovate, then presumably so can we!). Whether this ends up being a one-off event or something that becomes part of the fabric of the organisation depends on the wishes of the management, the needs of the business and the clout put behind it.

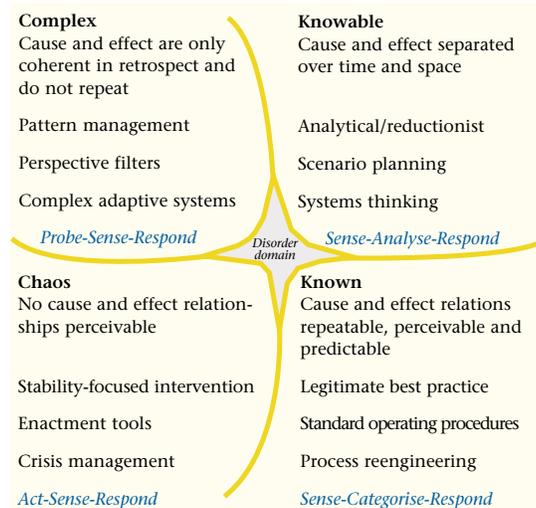
The first step is to introduce some form of 'disrupter' into the idea-generation process to break the entrenched patterns of thinking, then introduce ways of stopping premature convergence and finally set up the right environment so that the existing business and culture do not kill the fledgling ideas at birth.

So what's new? We've all been through brainstorming sessions to come up with ideas, flesh them out, critique them and then pick one or more to take forward. We've also all seen the situation where the initiatives have little impact or, worse still, sit on the shelf gathering dust waiting to be archived in the next office move.

The novelty of Snowden's approach lies in the Cynefin framework (see Figure 1, left) that he uses as a context for the process, and in the way that he

Figure 1

Cynefin domains



Explanation: the domains contain notes of features that are found in them. The last line in each zone shows the different ways that you need to respond to an issue falling into each of the zones. So for example in the 'known' domain the first thing to do is be clear on what is happening (sense) then match this situation with ones seen earlier (categorise) then based on this decide what to do (respond).

introduces tactics to promote rather than stifle innovation. However, in his experience, success also requires that the organisation and the individuals charged with the work face ‘starvation’, pressure and a different perspective. Without starvation (of resources – eg cash, time, market-share) there is no incentive to change or innovate. Without pressure, the incentive to act can be put off until tomorrow with no observable adverse consequences.

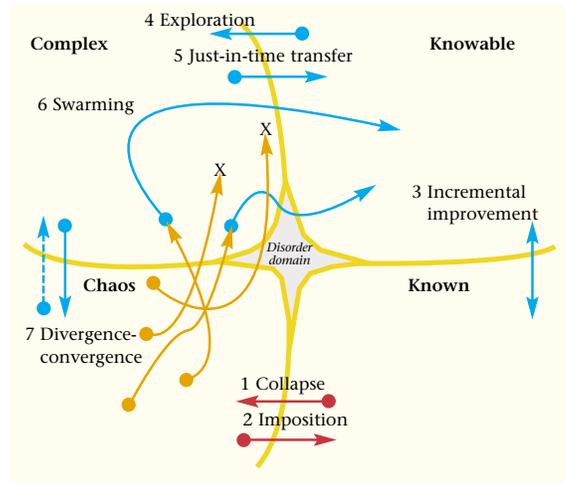
Finally, the different perspective is needed to see the opportunities that exist. Successful organisations tend to develop assumptions about the world that help drive that success. As the world changes they all too often find ways of fitting this evolving reality into their models rather than face up to the fact that the world is different and the models are outdated – this will lead to their downfall unless they adapt. IBM managed to recognise just in time the need to embrace the PC alongside mainframes. Others throughout history have not been so successful.

The processes that Snowden uses either build on the starvation, pressure and perspective shifts that are developing around the organisation – or he and his team engineer these conditions to create the disruption necessary for innovation to begin. The final element is his Cynefin framework. The framework shows four views of the world that he calls domains, plus a fifth domain for anything that does not fit into the other four:

- *known* – where cause and effect are known and predictable. This will be the domain of process (re)engineers and probably where many accountants live and work;
- *knowable* – where cause and effect may not be fully known or documented but can be, as expertise lies in the heads of those who are good at a particular activity. The domain of experimentation and analysis, this is where experts live and work;
- *complex* – the domain of emergent order. The number of agents and factors and their cause and effect relationships are so large that they defy categorisation. Patterns and order can be perceived after the event – what is called retrospective coherence – but the complexity of the relationships is such that if you put

Figure 2

Cynefin dynamics



Explanation: this map should be superimposed on the five domains found in Figure 1. The lines on the map show the typical transitions that take place between the zones and why they may be useful. Thus, if current performance is no longer competitive, the issue needs to be referred to a group of ‘experts’ who can suggest solutions, and codify how they should be applied (arrow 3). If the experts fail to come up with satisfactory workable solutions then the next step may be to move to the complex zone (arrow 4) to explore innovations that can then (arrow 5) be analysed and codified by the experts. The curved arrows illustrate that responses to chaos (eg when the rules of the game change) often involve a descent into disorder before moving into the complex domain to explore innovative solutions.

the same ingredients together again the result will probably be different. For example, if you organise two parties with the same people, food, drink, music, weather, will they have the same outcome? Probably not – or, if they do, people will say that it was for different reasons. This domain is ripe for innovation as it requires multiple perspectives to understand what is happening;

- *chaos* – the domain of crises where all the known responses to events no longer work, no matter how hard we try, or where there isn’t enough time to analyse what is happening and devise an appropriate response. It requires action to help stabilise the turbulence and move into one of the other three zones. Business life is littered with examples of how organisations have faced a crisis, responded and survived (IBM and the PC) failed (the integrated steel mills in the face of the mini-mills) and in some cases risen almost from the dead (the Swiss watch industry). These examples illustrate the role of starvation, pressure and the emergence of a different perspective. For this reason the chaos domain can be entered consciously to open up new possibil-

ities and to create the conditions for innovation; and, finally

- *disorder* – the fifth domain, the grey area in the centre, is known as the domain of disorder. It can be thought of as a parking lot for ideas or issues where there is no consensus about where in the other four domains ideas or issues should sit. It is likely that as different points of view on each issue are revealed, consensus will emerge so that this fifth domain shrinks.

Using the framework to identify where a problem lies can help in deciding on the right course of action to deal with it. If you have a complex problem, then trying to tackle it with a management process of aims, objectives, milestones etc that are born in the known domain is not only destined to fail but also to waste a large amount of money. Once you have decided where a problem sits you can map its route through to other zones. For example, faced with an innovation issue, which typically sits in the complex zone, the problem can be worked until order emerges. This solution can then be migrated into the knowable domain, if we think that the problem may recur and build-

ing a body of knowledge is a helpful thing to do. Ultimately it can move into the known domain if the solution is to become a mainstream part of the business where efficiency is critical.

The framework also helps in categorisation and in sense-making. Different people (indeed different disciplines) will view the same issue or problem differently, which can be a barrier to communication and to innovation. Using the framework to categorise then explore these different views is often the catalyst needed for innovation.

Finally, the framework also suggests what will happen if a problem is moved between zones (see Figure 2, opposite). Thus, for example, shuttling between the known and knowable domains will lead to incremental improvement, while exploration and just-in-time, the actions between the knowable and complex domains, help stimulate and crystallise new ideas.

After the workshop some delegates said they had liked everything. Others focused on one or two points, for example how their history stopped them picking up weak signals through the corporate noise or lamenting how business process reengineering (BPR) programmes had damaged their capacity to innovate by stripping so much out of their business. No-one said that they had left empty-handed.

Two final definitions

Why 'Cynefin'? As Snowden explained, "The word Cynefin goes back to my Welsh heritage and has no real translation into English. Literally its translation is habitat or place but what it really means is the place of your multiple belongings – the sense of being rooted in many different pasts that profoundly influence what you are but of which you can only ever be partially aware. It's therefore a good summary for managing the uncertainty in systems when you can never know the causal factors."

And his own description of innovation? "The process of creating novelty that has practical impact". That seems apt. **F&M**

* David Snowden has written extensively on the derivation, use and interpretation of the Cynefin framework. Some of his articles are on www.icaew.co.uk/fmfac.

Tax avoidance disclosure – the implications

The Chancellor has targeted the 'tax avoidance industry', bringing in new rules for much earlier disclosure of tax avoidance schemes to the tax authorities. **John Whiting** explains what it all means, and when the new rules kick in.

The March 2004 Budget contained, as Budgets have since time immemorial, measures blocking certain tax avoidance schemes. But this time there was something new. The chancellor gave a very clear signal that he felt it was time to take more concerted action against what he termed the 'tax avoidance industry' and announced that he would be bringing in new disclosure rules designed to provide the tax authorities with information about potential tax avoidance schemes much earlier than at present.

One theme was that this would introduce more transparency into the tax system. Of itself, that causes firms like PricewaterhouseCoopers no problem whatsoever – we and our clients have only ever operated on the basis of full disclosure to the tax authorities. But the difference foreshadowed by the chancellor's announcement was that disclosure would come earlier than had historically been the case.

At the time of writing, four months have passed since the Budget announcement, during which many meetings, seminars and discussions have taken place with the Inland Revenue (IR) and Customs & Excise (C&E) in an effort to understand and indeed define the new rules. The Finance Bill, containing the main framework of the provisions, has passed its main parliamentary stages; final regulations have now appeared with more details. Guidance on these rules is still awaited but it has become much clearer as to how this new regime will operate.

What is the target?

It needs to be said at the outset that this new regime does not in any way preclude taxpayers from undertaking tax planning. It is simply about earlier



John Whiting is a senior tax partner with PricewaterhouseCoopers, based in their London offices where his role includes dealing with tax policy issues.

*E-mail: john.whiting@uk.pwc.com
Further information on tax avoidance disclosure can be found at www.pwc.com/uk*

disclosure and therefore earlier counteraction if a scheme is discovered that the authorities don't like. At the same time, there is no clearance mechanism built into the disclosure system, so telling the IR or C&E that you are undertaking something does not lead to them confirming that the tax planning works. That has to await the usual submission of the tax return and appropriate challenges.

Nor is this disclosure regime purely targeted at the mass-marketed artificial schemes that arguably triggered the government's actions. The paymaster general did comment in the final Commons debate on the measures that "...we are talking about artificial and contrived schemes..." and "the Inland Revenue is working hard with tax advisers to ensure the rules catch only aggressive schemes". But at the same time, she made it clear that the trigger for something that had to be notified is not simply that it is marketed. Thus what is often termed 'bespoke' tax advice – arising from the normal client/adviser relationship and dealing