

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 20, 2018
2:33 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Kevin Meyer, Vice Chair
Senator Gary Stevens
Senator Berta Gardner
Senator Peter Micciche

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

MANAGING INNOVATION BY FRANS JOHANSSON ~ THE MEDICI GROUP

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRANS JOHANSSON, Founder and Chief Executive Officer
The Medici Group
New York, New York

POSITION STATEMENT: Presented Managing Innovation.

ACTION NARRATIVE

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CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 2:33 p.m. Present at the call to order were Senators Meyer, Gardner, Stevens, Micciche, and Chair Costello.

Managing Innovation by Frans Johansson, The Medici Group

CHAIR COSTELLO announced the business before the committee was to hear about managing innovation from Frans Johansson of the Medici Group. She explained that every year the Juneau Economic Development Corporation holds an Innovation Summit. Individuals come together to talk about innovation and how it can grow an economy. She extended thanks to Brian Holst for allowing the guest speaker, Frans Johansson, to talk to the Senate's committee on the economy. She noted that the legislature also has an innovation caucus that is a bipartisan, bicameral group. She welcomed Mr. Johansson. He is a graduate of Brown University and Harvard and has authored several books including *The Medici Effect* and *The Click Moment: Seizing Opportunity in An Unpredictable World*. She welcomed Mr. Johansson to share his ideas about innovation and offer suggestions to the state.

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FRANS JOHANSSON, Founder and Chief Executive Officer, The Medici Group, New York, New York, said how and where he grew up helped inform how he got where he is today. His mother is American, Black, and Cherokee and his dad is Swedish. He grew up in Sweden at the intersection of different cultures, countries, and races. The only person like him in all of Sweden was his sister. What he sees highlighted from that experience was that as ideas come together from people of different backgrounds and perspectives, they have a better shot at being new and different. The diversity of perspectives, backgrounds, cultures, and countries adds to the innovative capacity of the individual. He saw that with his parents.

MR. JOHANSSON said he studied environmental science at Brown University. This interdisciplinary field brings together geology, biology, chemistry, and economics to help drive insight for the environment. He could see that breaking down those barriers provided a better shot at breaking new ground. He made the connection that he saw across cultures and countries and that he saw across fields and industries and disciplines. It's the same process.

MR. JOHANSSON said that after doing a couple of startup companies, one in health care and one in technology, he wrote *The Medici Effect*. It's an exploration of this intersection. He said he'd talk about that tomorrow at the summit. It is the cornerstone of all the work he's done since then. It has tremendous implications for economic development, which is what makes this so exciting. Yes, individuals can be seen applying it; organizations and corporations apply it. Most of their clients are corporations. But where the idea truly comes to life

is in a region, when people can be brought together on a grander scale.

MR. JOHANSSON shared that he chose to call it the Medici effect because it harkens back to the Renaissance. About 500 years ago in Florence, Italy, the Medici family was able to bring together people from different disciplines - architects and sculptors and philosophers - from all over Europe. And it was through this intermingling, through this combination of ideas and concepts that these people were able to create one of the most creative eras in history, the Renaissance. So, there's Leonardo da Vinci; there's Michelangelo; that's a city that was able to rise in just a brief period of time and basically dominate Europe. So, this effect is kind of a curious thing. That's what he wanted to study. That's what he wanted to research.

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MR. JOHANSSON said he would focus on three major themes for this opening discussion that have implications for how one could think about it from a government perspective. Because ultimately, economic development all flows back to government. It's what can a government, a local or regional government, do about it. The first theme is diversity drives innovation. That is the theme for the summit tomorrow and it is the most important part of these three themes, because it drives the other two. First, around the world today, no matter where, two trends are happening and accelerating. One is around innovation. It is true in the U.S.; it is true in Europe, Asia, everywhere. There is increased focus on innovative growth, new entrants, new companies, new industries are being born at an accelerated rate.

MR. JOHANSSON said that's on the one hand. On the other, there is an incredible increased focus on diversity. It's happening in the U.S., but it is true in Europe, Asia, Africa, Latin America, and Australia. It is a global trend. And it's not accidental. These two trends are connected and people are only going to see more discussion of this accelerate. The reason they're connected is because diversity drives innovation. So, if someone is focused on - it doesn't matter which side of the equation someone is coming at this from - if someone is focused on innovative growth that person is going to have to be thinking about diversity one way or the other. The convergence of industries, the convergence of cultures.

MR. JOHANSSON said he is going to give them a sense of what the basic concept is. There's a hospital in Cambridge in the U.K. that had a particular problem. When they were transferring

patients from the surgical unit to the intensive care unit, they would have errors because two separate teams were dealing with the patient. They have to coordinate and figure out what is required. Because these are two separate teams they could have a lack of coordination, they could have failures, and those failures and errors could be fatal. This happens in hospitals all over the world. The obvious solution would be to look at how other hospitals solve the problem. But they didn't. Instead, they looked at how a Formula 1 pit stop crew solved the problem of coordination. Through those lessons, the hospital was able to decrease their error rates. The idea here is that if people look for concepts or insights outside of their field or discipline or culture, they have a better shot of breaking new ground. That is essentially what the Medicis did during the Renaissance. That has huge implications for a region.

MR. JOHANSSON asked what happens when people who are different are brought together, when a platform, opening, or space is provided for people to combine ideas that are not obvious, that are unexpected. That is the most exciting part of the Medici effect, the idea that diversity drives innovation. It is this notion that people are seeking insights in places different from their own, their own expertise, their own background. That is fascinating to see in the real world. He gives many examples in his book, like the Cambridge hospital example.

MR. JOHANSSON said occasionally he gets to hear how his ideas have influenced a region. Many years ago, he gave a talk in Lincoln, Nebraska for the Rural Futures Conference. They have similar issues to Alaska, a fairly dispersed population, only two major cities. A few years after that talk, he read a story about how one person at the conference, Vishal Singh, was inspired by this message. His background was not in agriculture; he had studied visual arts. He founded a company called Quantified Ag, a high-tech company that improves the detection of sick cattle. Cattle find ways to mask illness. He realized that an innovator does not have to be a traditional expert. All someone needs to do is make a connection. He teamed up with someone and created essentially a Fitbit for cattle. Cattle and their health can be tracked through a mixture of sensors and drones. He did not have an agricultural background and was not into drones. By seeing things differently and being encouraged to reach out to someone from a different background, he made a difference and began a successful company.

MR. JOHANSSON said that this suggests for government, that to the degree that one can encourage people from different

backgrounds, different industries or fields, different cultures and countries, whatever gives people a different perspective, to come together, the better. In a place like Alaska, there is a role to facilitate, to enable, anyone who wants to bring people together, and not just the obvious suspects. Many times the same people show up. They all know each other. He encourages bringing diverse perspectives to get unexpected ideas. He gave an example of working with groups in Rhode Island to innovate around the food business. They brought in lots of parties, but not just people interested in food. When working in Trinidad and Tobago in their work to diversify the economy beyond natural gas and oil, they encouraged them to bring the tech sector, research and development science sector, the international trade sector, and through these interactions, foster the environment for diverse connections to happen. So, that is the first point.

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MR. JOHANSSON said he is often asked what type of diversity, what combination, is the best one. His second theme is that it's not that easy to predict what is going to be a success when it comes to innovation. Companies that spend millions and billions get it wrong all the time. All the ideas today that seem so obvious usually came from something very unexpected. Today it seems obvious that a site like YouTube should exist, but YouTube started as a dating site, which was a failure. And out of that came YouTube. This is the nature of innovation. It is unexpected. It is difficult to predict. The implication for government is huge.

MR. JOHANSSON said he often finds himself in situations where people are trying to pick the winner. The likelihood of picking the winner is very low. Instead, to the degree possible, encourage lots and lots of different types of bets to happen. He gave an example of what that would look like. A place in northern Sweden, Jukkasjärvi, used to be a mining town. A man there tried to sell summer activities. Summer is three months, but winter is much longer. He created the original ice hotel. At the time, perhaps, it did not sound like a good idea, but the question he asked is how he can sell the winter. He tried various ideas until he landed on the ice hotel. The ability to decide what is going to work only works after the fact.

MR. JOHANSSON said create the environment to bring lots of diverse people together and allow the ideas to spring to life and avoid the siren call of immediately pinpointing which one will be successful. That is hard for organizations to do because everyone wants to get to success right away. Successful

organizations avoid that. Amazon constantly launched all kinds of new products and was agnostic which ones were going to work.

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MR. JOHANSSON said his third point is that if something is working out, gaining traction, support it. Today more than ever is a winner-take-all world. Companies that are first and gain a critical mass early tend to get outsized returns. His favorite example of supporting a winning dynamic early is New Zealand around 1998. New Zealand made about 1.5 movies a year. If someone had told New Zealand that they would become a top center for making movies in the world, no one would have believed that, but that's what happened because of the Lord of the Rings movie. The government went all in to support the movie and the tourism industry that resulted. In Orlando, Florida, Tavistock Development Company's creation of Lake Nona Town Center was inspired by the Medici effect, the idea of bringing together different sectors, around the theme of health care. Early success is being built upon. Now it is a \$3 billion development and growing.

MR. JOHANSSON summed up his three themes. Diversity drives innovation. It is difficult to predict what will be successful. Double down when success appears because the market is more winner take all. From a government perspective, if they can encourage different ideas, encourage meetings to occur, not just the obvious ones, encourage lots of different ideas to take hold, even in small ways, and then encourage the ones that start to take off, then they can play into the true dynamics of innovation that have been going on since the Renaissance.

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CHAIR COSTELLO opened the discussion to questions.

SENATOR STEVENS asked how they educate and encourage students to be innovative.

MR. JOHANSSON said the discussion on education often bifurcates. People want to stay competitive. They say the country is falling behind in math. They look to see what Singapore is doing. When he met with teachers in Singapore, they asked him how to emulate the American school system. There is much Singapore is not trying to emulate, but they are looking at emulating creativity and innovation. This country needs to be better at math, but something is here already. That is his first point. Second, the country seems to be trying to get rid of that thing. The country is trying to make education as predictable as possible. He gave

the example of the concern of a student not being at an exact point at an exact grade level, yet innovation is increasingly very unpredictable. The future is unpredictable and the school system should reflect that by encouraging students to do what they're good at. That talent can be combined with something in another field, and it will drive creativity and innovation. The education system should be driven to the idea that virtually everyone has insightful knowledge. Today breakthroughs are coming from all kinds of people who were not experts in that field. The notion of expertise is being challenged. The education system should be designed to promote the pursuit of connections and the pursuit of what students are eager and passionate to do. Instead, it is being driven to the opposite, increased structure, increased predictability.

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SENATOR MICCICHE commented that throughout history some of the most innovative failed in the traditional education system. He said, "We still do that. We still punish those that think differently." He gave the example of the experiences of his four daughters. He asked how to adjust the educational model to develop individual learning plans when students are very young.

MR. JOHANSSON said it must be solved because the country is going to rely on talent and the question is how the talent is expressed. There are many different models trying to address Senator Micciche's point. Ultimately there is going to be acceptance of insights, skill, drive, that doesn't conform. If there is tolerance of difference, other pieces will fall into place. It is challenging because a factory model can't be used to push people through. He didn't mean to say that educational milestones at younger years do not matter. The point is that because someone may not have hit a bar at a particular time doesn't mean there is an issue. Teachers, parents, and the community at large should accept differences.

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SENATOR GARDNER said it's different kinds of intelligence. Kids who sit in rows in a classroom are evaluated on specific traits and specific kinds of intelligence. The system doesn't encourage or teach innovation, obviously, but also emotional intelligence and leadership. People bring all sorts of things to the table that are not identified in the same way.

MR. JOHANSSON agreed. Most schools are focused on satisfying the parents' needs to understand what is going on with their children, so lots of homework, for example, which may not be

designed to encourage creativity. It is challenging to know how to evaluate creativity. He asked what if something is created out of failure. Failure is a key piece of innovation. He heard from an Apple executive that when they design a new user feature, they create ten separate teams to create ten solutions. So, each team has a 90 percent chance of failure. But failure is necessary to drive new ideas, which is becoming increasingly necessary for economies. He would like homework to encourage that, but it's different so people are hesitant to enact it.

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CHAIR COSTELLO thanked Mr. Johansson for his thought-provoking comments. She said she's taught in a school setting with instruction that was driven by essential questions and multiage classrooms. Countries that have the most Nobel-prize winners have many afterschool clubs that are multiage. She assumes that interaction is diversity of age.

MR. JOHANSSON agreed.

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There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:19 pm.