

Learning Velocity in scale-ups:

Learning the smart way,
not the hard way



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ScaleUpNation

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Scale-ups are young innovative ventures that have moved beyond the start-up phase and now transformed into full-fledged enterprises. This requires learning - lots of it. The need to keep innovating your product and business is one big learning journey which also demands its management scaling to learn best practices about processes, capabilities and information.

Although the romantic image of entrepreneurs learning from failure prevails, this painful way of learning becomes too costly as more and more is at stake. Successful scaling calls for a high learning velocity through validation, and understanding what works versus what does not - learning the smart way, not the hard way.

In this article, we share with you the insights we have gained on learning the smart way in scale-ups from our research and practice at ScaleUp-Nation and ScaleUpLab.

First, as a scale-up CEO you want to have access to the best scaling practices specific to your industry and business model and adopt these as you see fit for your business. This requires you to clearly define what you do not know, undertake

focused deep dives to get to the right knowledge, quickly draw implications for your business, and pay serious attention to embed these learnings into your organization.

Moreover, you want to keep innovating your product and business. For this, you keep spending significant resources on R&D. You free up some of your own time as CEO to expose yourself to new ideas. You foster your curiosity by zooming out to a broad spectrum of inputs and you zoom in to a powerful, creative synthesis of what this means for your business. You leverage your committed customer base to reduce the risk of failure when launching the resulting new products and business concepts.

Scale-ups develop through continuous innovation as well as scaling best practices

Hardly any young, innovative venture survives the “second valley of death”: the scaling from a start-up to a full-fledged enterprise. One of the many challenges you face in order to scale is to keep innovating your product and business while at the same time mastering the scaling of your organization and activities. This we call *ambidexterity*: the ability to combine exploration and exploitation. Scale-ups strike this balance well, while stall-ups (those enterprises that after the start-up phase stop growing) do not. They either put too much emphasis on ongoing innovation and neglect the running business, or stop innovating after their first product has seen the light and end up polishing their business too much before it has reached a minimum critical scale.

There is a lot to learn both in creating new insights that trigger innovation and in discovering what is already known about the scaling of the enterprise. Ongoing *innovation* is an experimentation journey of product and business creation to trigger latent customer needs, to create and leverage technology progress and to keep differentiating from the competition. This is one big creative journey based on increased understanding of what works and killing initial false assumptions.

The *discovery* of how to manage your young innovative enterprise is fundamentally different: you need to adopt best practices that might be unclear to you but have already been practiced by thousands of management teams of successful scale-ups before you. Your role is not to single-handedly create these best practices but to discover them through training or infusing expertise and use them in the most fitting way.

Our research shows that scale-ups understand the importance of learning through creating new knowledge for innovation as well as learning through discovery of the latest insights developed by others about business practices. 85% of scale-ups versus 45% of stall-ups use specific metrics to measure the speed of improving the performance of their product and service.

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Learning from failure is unnecessarily painful

Start-ups need to fail fast. There is little to lose and a lot to gain by pivoting and starting again. But for scale-ups, this is different. Scale-ups have a commercial product. They have customers and are able to deliver their product at some scale. They have an operating business and a live-and-kicking organization. In this phase, failure comes at a real cost. Disappointed customers will give negative reviews; investors will lose faith. The confidence and momentum of the organization will be undermined.

Given the cost of failure, it is important to extract maximum learning from it if it still happens. You will want to properly reflect, understand what causes the failure so to translate this into a guiding principle that will help to avoid this from happening again.

However, as a scale-up you do not need to learn from failure. Your innovation can be based on the insights, goodwill, and commitment you have with your customer base that allow you to co-create new products and learn from validation, not from failure. To discover the best way to scale your enterprise, you can adopt validated best practices in your industry. Using these methods, you can learn the smart way instead of the hard way.

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Learning the best practices fast

Although your scale-up learning journey might feel like you have to create everything from scratch, there is actually a lot of knowledge ready for you to discover. For instance, as a scale-up CEO you do not want to reinvent the wheel when it comes to organizational processes, such as the process of rapid hiring and onboarding. Unless innovation in this area will help you stand out from the competition, you will be much better off learning from what is already known by others than by creating the solution yourself.

Dedicate yourself to learning

It all starts with dedication to learning by focusing on it, creating the mindspace for it and protecting the time you blocked for it. As a scale-up CEO, think critically about what you want to learn and sharpen your learning focus.

Do you want to better understand the new market you want to enter, or how to structure your contracts with suppliers, or how to instill a performance culture? What level of understanding is required for each of these? How much time do you have? Instead of picking the topic you like the most, prioritize learning what you know the least about and that which is critical for your success, and then work to figure it out as quickly as possible.

To create time to learn, CEOs delegate the constant stream of daily issues to the team. We know this is easier said than done. CEOs that cannot yet delegate their daily issues can still block out time for learning away from the constant firefighting. After all, if that ends up being all you do every day you will surely end up a stall-up. As one scale-up CEO stated: *“Every Friday morning, I have an hour when nothing is planned, and I really try to reflect on what happened this week and what I learned from it. I do so while sitting in a cafeteria. The reason for not doing this in the office or at home is that I do not want to be found.”*

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Alternate between depth and implications

Learning starts with a question to which you do not have the answer. For instance, how to best incentivize your salesforce? You now start searching for answers. You call a friend and he says: it depends on your industry. You call an industry expert who points you to a research report on the topic. And so on, and so on... until at a certain moment, you have sufficiently specific details. Now it is time to zoom out again and ask yourself what are the implications of what you have just learned.

This process feels like the alternating movement of a dolphin: you do a deep dive and then you resurface. If you go too deep, you get lost in the details. This is called *paralysis by analysis*. If you do not dive deep enough, you are just scratching the surface. The muscle you develop is judging the optimal level of depth you need and then going deep fast and resurfacing fast. This is called *learning velocity*.

By diving deep, you tap into the accumulated knowledge in your industry. The last thing you want as a scale-up CEO is to exchange opinions with people who know as much as you. This is why peer-to-peer learning, although it gives a warm feeling, often has too little depth. Often one needs access to empirical research and real experts. This is also why the scale-up phase is a phase in the enterprise's development when the seniors, the experts, join the company.

When diving, scale-up CEOs need to sort through lots of information to quickly find exactly what they need. They acquaint themselves with the knowledge that is one well-chosen *Google* search away. Some CEOs will find the time to read through entire books or listen to these while commuting in the car, but most will depend on summaries, diagonal scanning of reports, and quick phone calls. For this, you can leverage your *LinkedIn* network and help each other by finding the one expert that can help you best.

Alternating between details and implications also implies iteration, so consecutive dives. This is required for two reasons: the first is because sometimes an 80/20 answer is just not good enough and you might need a second or third dive to really nail it. This is true for complex situations, where the first answer might be even directionally wrong. The second is that sometimes the picture keeps changing. As one scale-up leader put it: *“Understanding what the industry really looks like is quite difficult. I asked a lot of people, but nobody could give me a clear picture of what the ecosystem looked like. I try to have a lot of discussions with people, and after hundreds of conversations I complete a puzzle. I think I have a good map of the territory now, which I can work with. But it is a continuing discovery, because my industry is not static, it is constantly in flux...”*

Translate learning into embedded practices

You have resurfaced with the answer to your question. You now know how to best incentivize your sales force, how to create a performance culture, etc. But as you are leading an organization, it is all without value if you do not translate your findings into actions for *others* in your organization to take. To some degree, this is a leadership act: you paint a compelling vision and serve as the role model for the expected behavior. But even more importantly, it is a management act: you select the right people for the new job, inform and train them, define roles and responsibilities, incentivize and monitor their performance. If you pay these insufficient attention, your company will stall due to your inability to enable and empower others to do the right thing and it will become the constraining factor.

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Achieving a high innovation rate

To scale means to keep innovating your product. 80% of scales-ups make at least 35% of their total turnover from new-to-the-world or significantly improved products, versus 15% of stall-ups. 90% of scale-ups invest in R&D, on average about 30% of their total employee hours. 50% of scale-ups constantly expand their product service compared to 15% of stall-ups.

Expose yourself so the opportunity can find you

To innovate, you will need a good dose of serendipity - surprising insights into opportunities that set you on the path towards a new-to-the-world product. Although this cannot be forced, you can nurture the conditions for it. The analogy one scale-up CEO shared is that of surfing: catching a big wave is not something one can plan, but it does help to be on your board lying in the water near the beach when the weather conditions are right for those big ones rolling in.

R&D is exposing yourself to the chance of finding something unexpected that proves very valuable. We find it courageous that scale-ups keep spending significant share of their resources on R&D, even though they already have achieved product/market fit and business momentum. But it is also necessary.

Although serendipity cannot be forced, you can nurture the conditions for it.

Zoom out and zoom in

There is a lot that can be said and a lot that has been written about the process of innovation. It requires particular mindsets, skills, conditions, etc. It is also clearly not a well-structured path with a controlled outcome.

For scale-up CEOs with an entrepreneurial background and mindset, it feels as natural as breathing. You breathe in: all those inputs, ideas, insights you receive from constantly being in the market, talking to customers, chatting with your researchers, checking out the competition, going to conferences. Learning the unknown is about making new connections – in your brain, in your network, in your ecosystem. You bring yourself in unfamiliar situations to start making these connections. You engage in dialogue with people with different views, expertise and experience. You forge creative partnerships with others. This is the way to fully leverage your ecosystem and to out-innovate sometimes much larger, but much less connected competitors. And you breathe out: you articulate your conclusions on where you believe the next opportunity lies. As a scale-up CEO you have a well-developed muscle to translate what you learn into a

business opportunity. Ronald Heifetz and Marty Linsky [in their HBR article](#) use the example of getting off the dance floor and going to the balcony as the metaphor for the continuous process of alternating between being immersed in the activity and stepping back to get a perspective on what is really going on. Scale-up CEOs would add: and then go back on the dance floor to dance with a better partner.

Timing is everything, also for innovation. Some opportunities are like financial options. They are not in the money yet, but need nurturing until the time comes, when the market or the organization is ready. For instance, it might make sense to launch the product as a service, but this might become feasible only once the installed base has reached a sufficient mass. Articulating the new product and new business opportunities includes being explicit about the optimal timing of each.

Move to rapid prototyping

The failure is not in having an ill-fated idea about a new product or business opportunity. It is in testing this idea in an all-or-nothing way or in never being able to launch. This is where scale-ups are much better positioned than either start-ups or large companies.

Start-ups do not have a customer base yet, but scale-ups do. They have a base of excited customers that they can leverage to co-create, get feedback from and try out their next product.

This vastly reduces the risk of launching new products. In software, it is called *launching beta versions* - i.e., versions that are not fully ready yet and where customers help in pointing out the bugs.

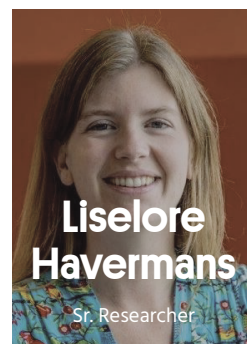
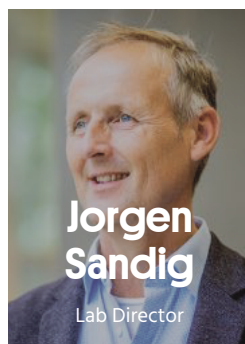
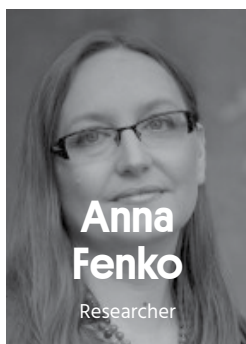
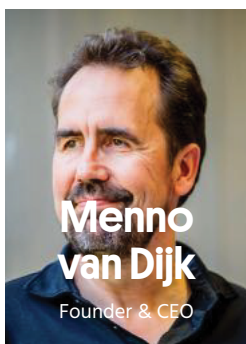
As one scale-up CEO put it: *'We did a design thinking session half a year ago with the customers to test our next product. We set up a prototype and asked our customers: 'What are you willing to pay for this?' Their feedback helped us to understand whether we could already develop the product or should wait for technology advances to make it cheaper. It gave us very clear targets to work towards.'*

At the same time, scale-ups hopefully do not yet have the antibodies in their organization that larger companies struggle with. In large organizations, it can be very difficult to launch an innovative new product because it is perceived as being cannibalistic to the existing products. However, for scale-ups the current business is still not large enough for this to be an obstacle, or the CEO can simply overrule it. As one scale-up CEO put it: *"I saw that my people were too much within their comfort zone. I wanted to pull them out of it because I did feel that they could step up to the challenge: to work with a new customer in a new market on a new product. At the end of that project, it was so great to see the customer and the project team sitting together, being so super proud that they did it! Everyone learned a lot from that. Sales actually went even faster than building up the competency."*

Next Steps

We hope this article helps you reflect on your current practices and triggers you to further improve these. You would help us by pointing out what you find missing or what you disagree with. We learn by you helping us get the bugs out of this beta launch.

The Authors



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This Research

This paper is written by Liselore Havermans, Menno van Dijk, Ji-ye Oh, Anna Fenko, and Jörgen Sandig. The research on learning velocity in scale-ups is conducted by ScaleUpLab and supported by the Goldschmeding Foundation and Europees Fonds voor Regionale Ontwikkeling (EFRO). This research has benefitted from valuable ongoing dialogue with many scale-up CEOs and external experts. We aim to learn the smart way about the process of scaling through our research and practice.

In our deep dives, we bring together a diversity of relevant perspectives on insights from literature review and the theme at hand: scale-up CEO's and other scale-up leaders, theme experts from practice and academia. We do this to discover and create knowledge together, because the process of scaling is too complex for any of us to fully grasp from our individual perspectives.

These deep dives revolve around reflexive dialogues in which all research participants collaboratively explore a theme together. First-

ly, we do this in a dialogue to discover what is already known in research and practice and to create new knowledge together. Secondly, we approach these dialogues reflexively to broaden our perspectives and develop new insights by challenging our own perspectives (reflexivity refers to reflecting upon our own reflections).

In these reflexive dialogues, we alternate between zooming in and out while keeping our focus on the core theme (in this case, learning velocity in scale-ups). We zoom in by asking ourselves what patterns we can distill from diving into the similarities and differences of our experiences. We zoom out by critically reflecting on insights from literature review and by asking ourselves why we see what we see and how else we could approach the problem.

We support the translation of our learning into innovation by sharing our emerging insights with the broader scale-up community, integrating them in our development programs for scale-ups, and developing tools to support scale-ups in their process of scaling.



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