

# Digital Age Transformation through High-Performing Innovation Engines

## Abstract

In the Digital Age, it is imperative to adopt a systematic, enterprise-wide, and integrated approach to continuously generate and convert new ideas—ideas that will enable growth, profitability, and longevity—to meaningful business outcomes. Companies can transform their management practices to include always-on capabilities.

To achieve agility, organizations must understand what they seek to accomplish through innovation. They can then design the right 'people, processes, and technology' relative to a standard set of innovation lifecycle activities and capability enablers to deliver better, bigger, bolder, faster, and cheaper innovation.

## Building an Innovation Engine

Executives identify innovation as the primary instrument that keeps them relevant in dynamically changing markets. Innovation lets them meet growth imperatives and gain an edge over competitors. They recognize the need to build their own high-performing innovation engine: the capability to continuously generate and convert new and novel ideas to meaningful value.

## Challenges to Impactful Innovation

As numerous studies over the past decade confirm, the majority of organizations' innovation efforts have been suboptimal. A key reason for this shortcoming is that the same practices used to 'run the business' are used to 'change the business'. As a result, companies fail to swiftly monetize their unique concepts and maximize overall innovation-driven returns.<sup>1</sup>

A variety of factors adversely affect a company's performance in generating and converting innovative ideas—for products, services, business models, customer experiences, and business processes—to value:

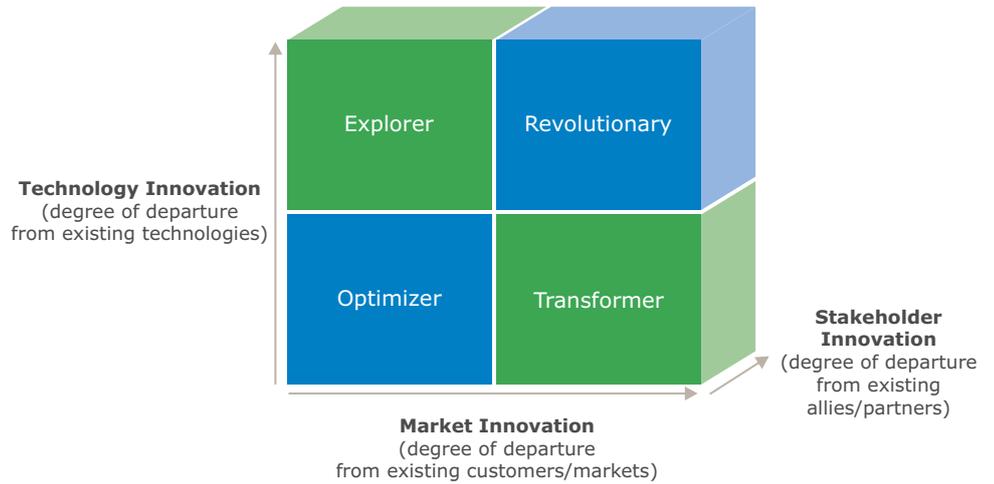
- Lack of an explicit innovation strategy
- Ineffective organizational structure
- Inconsistent organizational culture
- Disproportionate effort spent on 'ideation' versus 'conversion'
- Investing only in incrementally or derivatively innovative ideas
- Unwillingness to seek out and embrace the knowledge and assets of others
- Inappropriate mechanisms for monitoring innovation performance
- Sequential product-centric development vs. iterative user-centric design

Enterprises that benefit the most through pioneering transformation have mastered the discipline of innovation. They effectively manage the innovation lifecycle and efficiently scale their innovation capacity by institutionalizing a business outcome-oriented innovation management capability.

A study of 90 innovative companies across 14 countries shows that high-performing innovation-driven enterprises employ a self-reinforcing combination of strategy, culture, and operations.<sup>3</sup>

### Determining Your Innovation Strategy

An 'innovation strategy' outlines what the enterprise seeks to accomplish through innovation and how it plans to do so. Industry research indicates that simply replicating the practices of successful innovators is not sufficient.<sup>2</sup>



Archetypes for Innovation Strategy

	Optimizer	Explorer	Transformer	Revolutionary
Focus	Maintaining customer satisfaction and profitability by improving products, services, and business processes	Investing in new technologies to refresh products, services, and business capabilities	Reaching new customers and creating new markets	Displacing competitors in markets that are new to the enterprise or creating new industries
Innovation Bias	Derivative or incremental innovation in products, services, customer experiences, and business processes	Adjacent innovation in products, services, customer experiences, and business processes	Adjacent innovation in products, services, customer experiences, and business models.	Breakthrough/radical innovation in products, services, customer experiences, and business models
Technology Strategy	Using existing or improved technologies (knowledge, systems, capabilities)	Using radically new technologies (knowledge, systems, capabilities)	Using existing or improved technologies (knowledge, systems, capabilities)	Using radically new technologies (knowledge, systems, capabilities)
Market Interaction	Enterprise's employees interact with existing customers and markets.	Enterprise's employees are complemented by external innovation providers with existing customers and markets	Enterprise's employees are complemented by value chain partners with new customers and markets	Enterprise's employees are complemented by external innovation providers and supply chain partners with new customers and markets
Ecosystem Emphasis	Outside-in open innovation, licensing, and selective co-innovation with suppliers and strategic partners	Outside-in open innovation and co-innovation with research organizations and emerging technology companies.	Inside-out open innovation and co-innovation with customers, suppliers, partners, and companies in other industries.	Both outside-in and inside-out open innovation, co-innovation with customers, suppliers, competitors, companies in other industries, and start-ups

The 'FITME' framework helps select the innovation strategy archetype that best fits an enterprise's transformational aspirations and most appropriately jumpstarts the design of the right innovation management capability.

## Designing the Right Innovation Management Capability

Innovation management comprises a standard set of integrated innovation lifecycle activities and capability enabling components or 'Best practices':

### Innovation Lifecycle Activities

- Strategy formulation

Innovation strategy formulation (and periodic refreshment) is the first step and involves executive leadership articulating the innovation goals and 'guardrails'.

- Ideation

Ideation encompasses the generation of new insight and the creation, elaboration, and evaluation of novel ideas.

- Experimentation

Experimentation is a rapid, iterative process that uses solution prototyping, concept simulation, and testing to validate the worth of an innovative idea along multiple dimensions.

- Monetization

Monetization is the process of realizing the benefits expected of those ideas that successfully pass experimentation. Monetization may begin with a simple pilot and extend into a full launch with the possibility of further pivoting while scaling.

- Portfolio Management

Portfolio management optimizes the returns from the enterprise's innovation portfolio consistent with its defined innovation strategy. It involves balancing the mix of innovative ideas or initiatives in the portfolio from a risk and return perspective, along multiple horizons and through resource reallocation.

### Capability-Enabling Components

- Leadership and Governance

Strategy formulation needs to be complemented by a supportive leadership and efficient governance model. This allows the right distribution of responsibility and accountability, and ensures transparency in decision-making.

- Measurement and Tracking

Establishing a balanced scorecard that is consistent with the enterprise's innovation strategy is essential to building the right innovation management capability and delivering a continuous pipeline of advantages.

- Talent and Culture

Organizations must optimize competency development, rewards and recognition, and institutionalization of a 'culture of innovation.' They must establish a design thinking-based, collaborative working environment that operates within the context of economic ecosystems and promotes intrapreneurship and 'fail/learn fast and cheap' mentality.

- Allies and Partners

Digital technologies, including social collaboration platforms, have brought enterprises (leadership and employees) closer to their customers, value chain partners, and other allies (such as early stage companies and academic or research institutions). This has resulted in open innovation—co-creation, crowdsourcing, and startup incubation and acceleration—which complements 'inside-out' with 'outside-in' innovation.

- Enablers and Infrastructures

Collaborative innovation and innovation lifecycle management platforms like Brightidea, and innovation capability enhancement solutions such as Culturevate, allow organizations to systematize and ramp up their innovation engines at both the individual and collective level. Other solutions that support ideation and conversion activities include social listening platforms, sensors, Big Data analytics, and cognitive systems or AI.

## Bringing Innovation Management Capability to Life

In the three-dimensional innovation continuum, an enterprise's unique strategy may fall between two or more archetypes. Organizations should customize best practices from the relevant archetypes for their own high-performing innovation engine.

**Best Practice Illustrations: Optimizer**

Global fashion retailer Inditex invests a significant amount of resources in listening to its customers and analyzing market trends to develop new ideas.<sup>4</sup> They quickly prototype new products (approximately 18,000 new product designs every year),<sup>5</sup> test them in the market, and receive feedback from its customers usually within four weeks.

**Best Practice Illustrations: Explorer**

Amazon employs a centralized innovation approach focused on the long term and led by its CEO and top executives. Their significant outlays are part of the company's culture of 'customer obsession,'<sup>6,7,8</sup> which emphasizes satisfying all of its customers' demands, even those yet to be articulated.

**Best Practice Illustrations: Transformer**

P&G's 'Connect & Develop' program is an industry-recognized mechanism that successfully garners ideas from external sources.<sup>9</sup> To promote collaboration across business units, P&G has a formal corporate innovation fund that provides seed capital for new ventures.<sup>10</sup>

**Best Practice Illustrations: Revolutionary**

Uber's CEO and other top executives drive the company's innovation agenda and have established several innovation labs focused on developing and applying emerging or radically new technologies.<sup>11</sup> They gain insights through heavy investment in social listening, customer feedback gathering, and Big Data analytics.<sup>12</sup>

## Conclusion

To survive in the Digital Age, enterprises will have to constantly generate and convert new ideas for products, services, business and operating models, business processes, customer experiences, and channels into meaningful value for the enterprise and its ecosystem.

By determining what they seek to accomplish through innovation and then designing and institutionalizing the right innovation management capability inspired by relevant best practices, enterprises can realize the full benefits of a high-performing innovation engine.

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## About The Authors

### Courtney Wood

Courtney Wood leads the Innovation Management Services capability at TCS. Courtney has spent over 25 years in management consulting and banking, supporting both large and early stage enterprises in establishing high performing growth and profitability engines by developing the right business strategies as well as designing the right business capabilities and executional roadmaps.

### Soubhik Ghosh

Soubhik Ghosh is a Business Consultant in the Integrated Consulting Solutions group at TCS. He is engaged in research and development of asset-based consulting solutions to address emerging technology-led business transformation scenarios and areas such as Innovation Management and Mergers and Acquisitions.

### Gal Mordechai

Gal Mordechai is a Strategic Business Manager in the Innovation Management Services group at TCS. Gal supports organizations in developing business strategies as well as designing business capabilities and executional roadmaps to adapt to their constantly changing environments.

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