



## Cracking the IT Innovation Code

The Ultimate Guide to Innovation in  
Application Services

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## Introduction

*"Opportunity is missed by most people because it is dressed in overalls and looks like work."*

– Thomas Alva Edison

In an environment where "every business is a digital business", IT applications have become the lifeline of enterprise success. Unlike the past, where software applications were enablers for business efficiency, applications today are integral to a company's ability to ensure market relevance and drive competitive differentiation.

A challenge cited by an overwhelming majority of enterprises seeking to unlock breakthrough value from their IT applications is their inability to effectively harness the power of "innovation", especially in an outsourced environment. A common refrain from IT executives across industries is that "We do not get enough innovation from our service providers."

In an attempt to sort through the issues around innovation and understand why this notion of innovation is so elusive, we asked some basic questions:

- What is this "innovation" that clients want?
- Can there be a systematic process of innovation?
- Are some innovation processes more equal than others?
- How is the impact of innovation measured?
- Who funds innovation?
- What is the role of service providers in delivering innovation?
- Are some service providers better at innovating than others?

To move beyond the truisms related to innovation in technology services, and to establish a robust fact-base for an esoteric subject, Everest Group captured perspectives from over 100 senior IT executives across multiple industries in North America. The intent of the research was to capture the key innovation processes enterprises are leveraging, the outcomes they expect, and the role of service providers in their innovation journey.

The research revealed that 95% of enterprises consider innovation as important, and approximately 30% consider innovation to be critical for their survival and growth. As expected, only about 30% consider their current practices as innovative.

### Some noteworthy findings from the research

- While innovation outcomes are critical, the innovation approach is equally important to achieve success
- Continuous innovation, crowdsourcing of ideas, design thinking, and prototypes / minimally viable products are considered best-in-class approaches to maximize innovation outcomes
- Shared responsibility and co-funding are critical to the success of innovation programs
- IBM and Accenture are perceived as the two most innovative service providers across the two axes of innovation outcomes and innovation approach

### State of Innovation in Application Services

Fast evolution of Application Services (AS) from being enablers of efficiency (digitization) to being drivers of business (digitalization), is pushing enterprises to assess the impact of innovation on their business.

The current discourse on innovation by application service providers is offerings-oriented, defined by key innovation tenets. While these offerings (tenets) have helped demystify innovation into buckets of adoption, they have also led to uncertainty when it comes to evaluating the impact of innovation.

#### EXHIBIT 1

Enterprise conundrum: Evaluating the impact of innovation in application services

Source: Everest Group

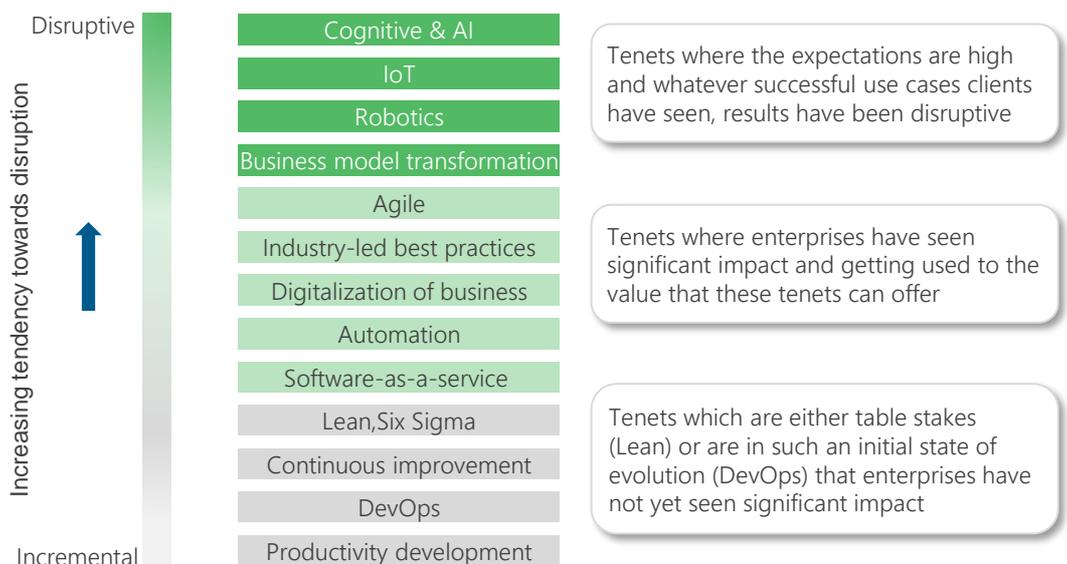
Application service towers	Quality of the idea	Quantification of impact	Realized benefits	Cost
Application development	Industry best-practice adoption		Digitalization of business	
Application maintenance	Lean, six sigma	Software as a service	Robotics	
Testing and quality assurance	Continuous innovation		Productivity developments	
Data management and analytics	Agile	Automation	Cognitive and AI	
Consulting & systems integration	DevOps	Business model transformation	Internet of things	

Enterprises are still in the process of defining the impact of these tenets. Senior executives surveyed by Everest Group displayed a strong sense of perception in classifying the impact of these AS tenets on a spectrum of incremental to disruptive.

#### EXHIBIT 2

Senior IT executive perceptions about AS innovation tenets

Source: Everest Group



However, can we conclude from this finding that enterprises have cracked the innovation code and are truly efficient in adoption of innovation? Not really. Despite having articulated their understanding and need for innovation, enterprises actually struggle in unlocking the value from it. It is this paradox that defines the current state of innovation in the application services space.

### The Paradox of Innovation in Application Services

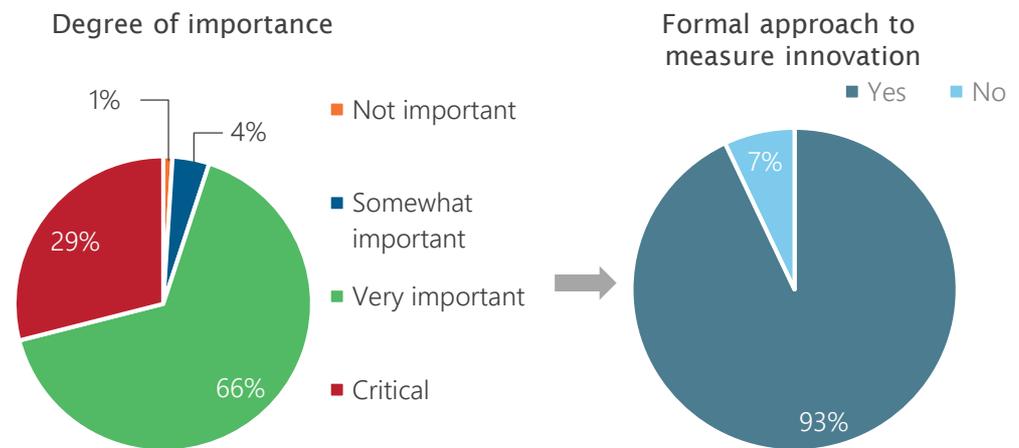
Enterprises realize that business applications give them the needed competitive advantage to grow and stay relevant. With rapid digital proliferation, the importance of applications to impact business has grown manifold.

Everest Group’s research confirms that about 95% of senior IT executives (focused on application services) consider innovation to be extremely important. About 93% of the enterprises even believe that they have the methods to measure the impact of innovation.

#### EXHIBIT 3

Understanding innovation: Degree of importance and formal approach to measure innovation

Source: Everest Group

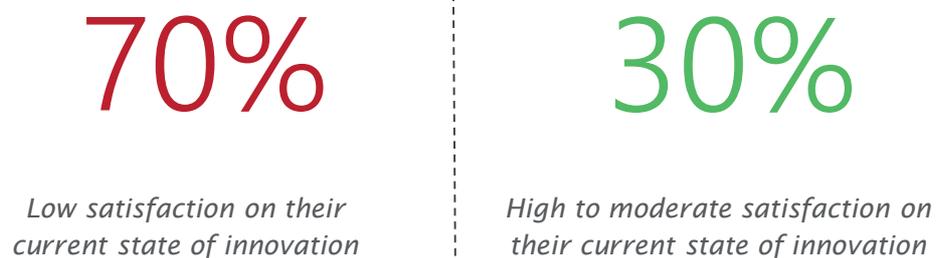


However, peeling the innovation onion provides contrasting insights. The research indicates that only 30% of enterprises consider their application services landscape to be innovative. This means that despite recognizing the value of innovation and applying a formal approach to measure it, 70% of enterprises are not realizing the true benefits from innovation.

#### EXHIBIT 4

Understanding innovation: Enterprises’ degree of satisfaction in their current state of innovation

Source: Everest Group



This is this paradox that keeps enterprises from realizing the true benefits from application services innovation

**EXHIBIT 5**

The paradox of innovation

Source: Everest Group



This innovation paradox of senior IT leaders stems from a mixed bag of factors such as a lack of clarity on what components exactly constitute innovation, what path(s) or process will lead them to innovation, and what are the end-results to be achieved through the multiple innovation paths.

Everest Group's research indicates that this paradox is best addressed by enterprises who place as much emphasis on the approach and process of innovation, as the desired outcomes.

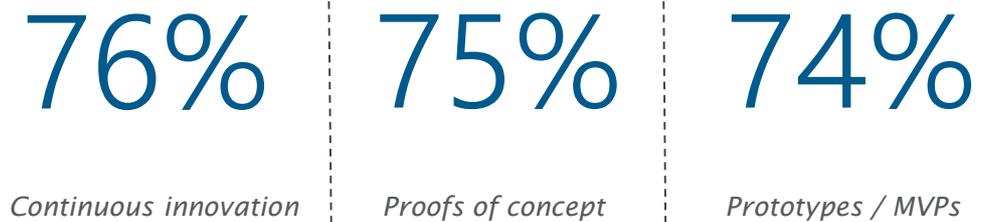
### Process of Innovation Decides the Success

Enterprises define innovation processes as methods and mechanisms that they or their service providers introduce to achieve desired outcomes. Enterprises emphasize the need to leverage a combination of existing and new approaches to maximize the desired innovation outcomes. Continuous innovation, Proof of Concepts (PoCs), and prototypes / Minimal Viable Products (MVPs) emerged as the top three approaches for enterprises seeking to maximize innovation outcomes.

#### EXHIBIT 6

Percentage of IT executives rating the desired innovation process as essential to innovation outcomes

Source: Everest Group



It is interesting to note that while enterprises consider the above innovation processes as important, they may not necessarily be adopting them.

When Everest Group compared the current state of adoption of innovation processes, organizations with low satisfaction in their state of innovation (70%; refer to exhibit 4) appeared to have different preferences compared to organizations with high satisfaction (30%; exhibit 4).

#### EXHIBIT 7

Innovation process: Typical vs. best-in-class

Source: Everest Group

#### What enterprises typically do? (70%)

- Innovation as a project or a CoE
- Centralized innovation
- Periodic or trigger-based innovation
- Fuzzy concept-driven innovation



#### What best-in-class enterprises do? (30%)

- Continuous innovation
- Crowdsourced innovation
- PoCs / Minimal Viable Products
- Design thinking-led ideation

Also, it is interesting to note that of all the enterprises surveyed, less than 60% preferred crowdsourcing of innovation by their service providers. Such enterprises are ignoring the power of crowd at their own peril. Given the rapid disruption and democratization of technology, innovation in application services cannot be driven in a command center mode. It has to leverage ideation from diverse groups.

It is this disconnect, where enterprises discount the process of innovation (crowdsourcing and design thinking), that has led to value remaining locked-out of current innovation led initiatives.

### How are best-in-class enterprises addressing innovation?

Enterprises who have materially evolved their application landscape rely on innovation approaches that are **continuous** (“always switched on”). This innovation approach is embedded across the application services landscape (development, maintenance, QA, analytics, and consulting) and proactively addresses the need for innovation. These are not ad hoc innovation interventions that are “good to have” or brought in as contingencies.

Moreover, successful enterprises want their innovation to be tangible and visible. Innovation discussions need not always convert to executable ideas in the first take. This is where enterprises struggle and hence, require their service partners to bring in more **PoCs**. Not without reason, two of the top 3 preferred approaches to innovation were **PoCs** and **prototypes** (refer to exhibit 6)

Enterprises struggle when it comes to **collaboration** with service providers, especially on the issue of funding innovation. Contracting for innovation becomes a nightmare and then it results in adverse impact on the overall experience as well as the outcome.

Hence, if enterprises and service providers have to evolve from a perception-based approach to systematic adoption of innovation, they need to “systemize” and “drive” innovation by addressing key questions that determine its impact

### Adoption of Innovation: How to Systemize and Drive Innovation?

Achieving a truly innovative enterprise ecosystem requires enterprises to “systemize” and “drive” innovation with service providers. They need to address the following questions to set the ball rolling towards the evolution of their innovation process

#### EXHIBIT 8

Key innovation considerations for enterprises

Source: Everest Group

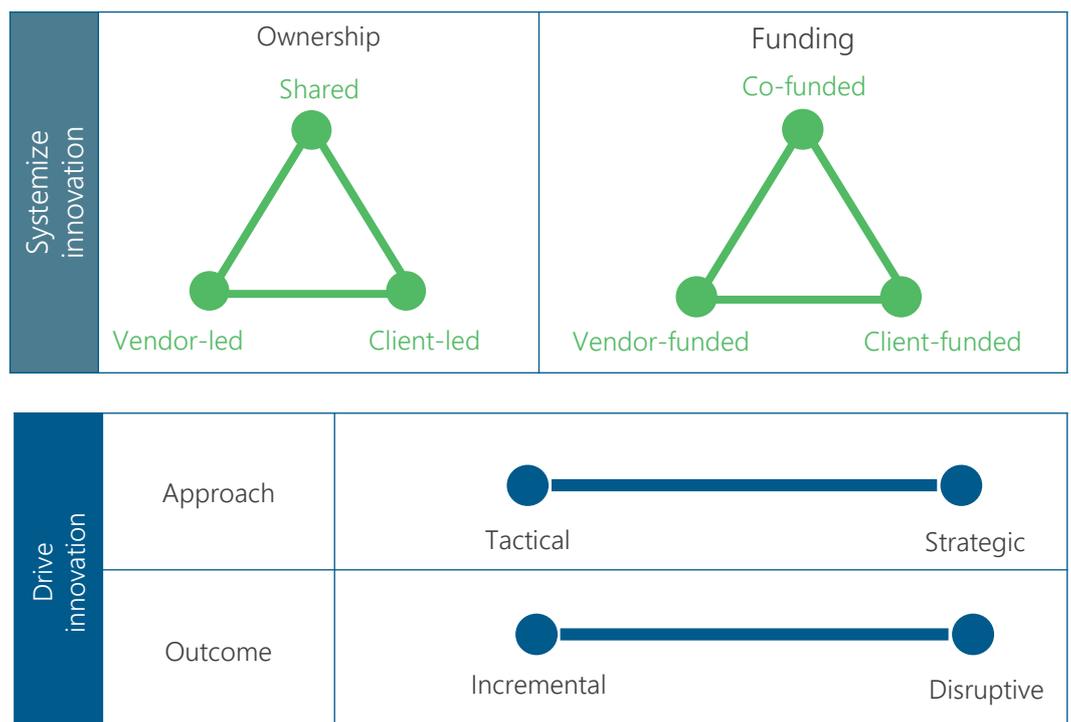
	Innovation considerations	Key questions enterprises need to ask
Systemize innovation	Ownership	Who owns the responsibility to innovate?
	Funding	Who will finance innovation?
Drive innovation	Approach	How to bring innovation into practice?
	Outcome	What determines the true value/outcome of innovation?

While ownership and funding determine the dynamics of how enterprises and vendors will engage contractually, approach (continuous innovation, design thinking, crowdsourcing, etc.) and outcome (cost, business model transformation, etc.) help enterprises optimally drive innovation leveraging service providers. Both aspects, systemizing and driving innovation, represent a spectrum of choices and approaches that enterprises and service providers can engage on.

#### EXHIBIT 9

Innovation adoption framework for enterprises

Source: Everest Group



Everest Group’s senior IT executive survey also focused on evaluating enterprise perception on the above considerations.

On systemizing innovation, the research highlights only 40% of the enterprises embrace a philosophy that relies on equal innovation responsibility and collaborative funding mechanisms.

This statistic, while not surprising, in Everest Group’s opinion is one of the key reasons why a majority of enterprises feel dissatisfied with their innovation outcomes. A shared vision with a shared set of responsibilities, and establishing a co-funding model are key to success in innovation programs. This was further borne out by the fact that 65% of the enterprise executives that cited high satisfaction (exhibit 4) with their innovation programs believed in shared responsibilities and co-funding of the innovation program.

**EXHIBIT 10**

Innovation ownership and funding responsibility

Source: Everest Group

40%

*Enterprises support equal innovation responsibility*

39%

*Enterprises support collaborative innovation funding*

In summary, the research highlights the following key attributes of successful innovation programs:

**EXHIBIT 11**

Key attributes of successful innovation programs

Source: Everest Group



*The approach to innovation is as important as the outcome of innovation*



*Continuous innovation, crowdsourcing, design thinking, and MVPs are best-in-class approaches to maximize outcomes*



*Shared responsibility and co-funding are critical to the success of innovation programs*

### Service Providers' Innovation – Who Leads the Charge?

Service providers are key in creating an enterprise-wide innovation ecosystem and will help define the future path of enterprise innovation. This research involved evaluating enterprise perception about key service providers on the imperatives of innovation approach and outcome. This perception was further augmented by Everest Group's (EG) independent evaluation of these service providers' innovation approaches.

#### EXHIBIT 12

Parameters comprising innovation outcome and approach

Source: Everest Group

Innovation outcome	Innovation approach
Business model transformation	Continuous innovation
Better functionality	Design thinking-led ideation
Better user experience	Prototyping
Speed	Crowdsourcing of innovation
Cost	Formal innovation program
Business alignment	Peer networking
New functionality	Industry best-practice sharing
Incremental enhancement	Partnerships with startups ecosystem
Disruptive ideas	Demonstration
	Offerings-oriented innovation
	Innovation days/events
	Formal business review with vendors
	Idea of the month

#### Scoring

**Innovation approach** was evaluated both from enterprise perception scores (from the survey) and Everest Group's assessment (evaluation based on publicly available content).

**Innovation outcomes** scores were arrived at on the basis of the enterprise perception scores received from the survey

The innovation approach (X-axis) scores were plotted against innovation outcome (Y-axis) scores to build the Innovation Maturity Matrix for service providers. Innovation outcome scores were based on enterprise perceptions. Innovation approach scores were based on a composite assessment of enterprise perceptions (60% weightage) and Everest Group evaluation of innovation capabilities (40% weightage)

**EXHIBIT 13**

Service provider rating on innovation approach and outcome (3-point scale)

Source: Everest Group

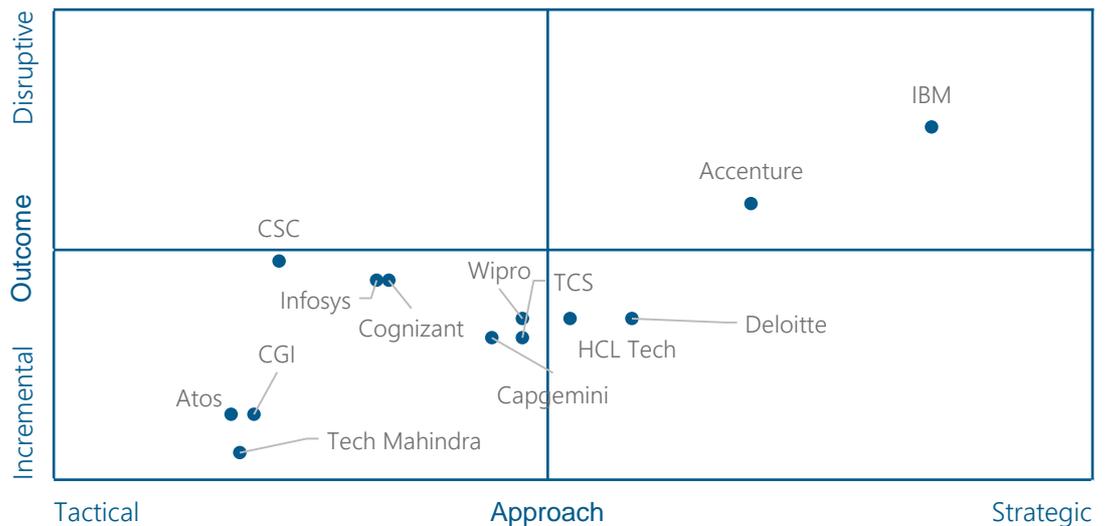
	Approach Enterprise perception + EG evaluation	Outcome Enterprise perception
IBM		
Accenture		
Deloitte		
HCL Tech		
TCS		
Wipro		
Capgemini		
Cognizant		
Infosys		
CSC		
CGI		
Tech Mahindra		
Atos		

**EXHIBIT 14**

Innovation Maturity Matrix: Application services

Outcome vs. approach

Source: Everest Group



## Conclusion: Key Highlights and Characteristics of Innovators

- Service providers that approach application services through a **pervasive culture of innovation** are able to deliver better innovation outcomes
- Enterprises value innovation at scale much more than it being sporadic. Hence, consistent and continuous innovation is valued more than episodic brilliance
- IBM and Accenture emerge as the stand-out leaders across the two dimensions of outcomes and approach
- On innovation outcomes, except for the top two, enterprise perception scores for all remaining service providers were in the incremental category. This finding re-emphasizes the fact around **value lockout** due to enterprise preference for conventional approaches that constrain innovation (refer to exhibit 6)
- Deloitte and HCL Technology were the other two service providers (apart from IBM, and Accenture) who featured in the strategic category on innovation approach
- **Technology product-oriented providers** (IBM and CSC) form two of the top three rated on innovation outcomes. This highlights the need for speed in innovation, which technology products are able to deliver through plug-and-play. Interestingly, as CSC combines forces with HPE, it will be interesting to watch their approach towards innovation

Hence, it is imperative to understand what top innovative service providers do to significantly differentiate themselves from the pack.

## Characteristics of the top innovative service providers' approach

### IBM

IBM ticked off most of the points considered critical when it comes to application innovation. In innovation approach aspects that were rated highly by enterprises as well as by Everest Group, IBM has relevant market offerings that directly address the need for innovation in this space:

- **Continuous Innovation Framework (CIF):** Through this framework, IBM offers a formal method of continuous innovation. This framework outlines a cycle of steps that formalizes their process of innovation for each initiative
- **IdeaStream:** This is a crowdsourcing-based collaboration platform that IBM offers to clients in partnership with Spigit. This platform focuses on enabling internal collaboration between client and service provider (IBM) staff on specific innovation initiatives
- **IBM Design Thinking:** This is IBM's third and final pillar in the innovation approach in the application services space. This aspect focuses on outcome-oriented approaches that drive collaboration and scalability of innovation for each initiative

### Accenture

Accenture highlights its innovation approach through five evolutionary concepts that it claims will disrupt application services. The aspects represent a mix of capabilities drawing from collaboration, MVP-oriented demonstration, systemic & continuous innovation, and ideation. Liquid workforce, which highlights an agile and fungible workforce, is the strongest suite in their messaging on innovation in the application services market, claiming to align with the changing dynamics of the business environment of their clients. Following is the list of five evolutionary concepts

- Intelligent automation
- Liquid workforce
- Platform economy
- Predictable disruption
- Digital trust

It was interesting to note that design thinking as an approach has become widely pervasive, which service providers such as Accenture, Capgemini, Cognizant, IBM, Deloitte, and Infosys are aggressively taking to the market. Even crowdsourcing as an approach is being seriously pursued by most service providers.

However, it remains to be seen how the adoption of these tenets will be influenced by the offerings being taken to the market by service providers. Net-net, setting up the contours of collaboration between service providers and enterprises, and systematically driving the approach and outcome will be critical to the future of innovation in application services.

## About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at [www.everestgrp.com](http://www.everestgrp.com).

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