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# The innovation imperative

IBM Institute for Business Value

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# Is your enterprise ready for Innovation 2.0?

New seismic and disruptive events are upending the pace of innovation – and leading companies are jumping into the fray, trying to differentiate themselves through emerging business models. But here is the hard truth: Enterprises are wasting money, resources and time putting on a facade of innovation that falls short of customer and shareholder expectations. There is an inherent expectation that these incremental, and in many cases “siloed,” investments or initiatives will lead to sustained business impact. The time has come to move beyond “innovation theater” into a more mature adoption of innovation that drives measurable business results. Now is the time for Innovation 2.0.

## Riding the next wave in innovation

The lower barriers to change inherent in the digital business models of the past decade have led many global Fortune 500 leaders to embark on innovation journeys. Today’s focus is to fast-track growth agendas, identify new profit pools and address disruptive marketplace changes. In a recent IBM Institute for Business Value (IBV) survey, almost half of global CEOs surveyed said innovation will be the single most important activity for the success of their organizations in the future.<sup>1</sup>

As a result, there has been a proliferation of corporate venture capital funds, innovation labs, incubators, accelerators and co-working environments. These trends have led to a radical shift in the corporate status quo. Recently, organizations have made efforts to establish new sources of business value via alternative business models and ways of working within modern corporate environments. These efforts are meant to foster creative problem solving and accelerate ideation, helping ensure end-to-end scale for continuous growth. The anticipated result? A new corporate DNA, courageously

placing customers and employees at the center of organizational investment to garner more marketplace relevance.

While these initiatives help drive change within organizations, they often result in isolated

islands of innovation haves and have-nots, or “pet projects” far removed from the strategic foundation of the business. These efforts dictate a new way of looking at and acting upon innovation: a reboot in which innovation investments can scale change and growth (see Figure 1).

**Figure 1**

Organizations can take action to move to Innovation 2.0

Innovation 1.0 Siloed innovation	Innovation 2.0 Scaled for change and growth
Invests in areas conflicting with existing market positioning, thereby limiting the pace of initial initiatives as well as market receptivity	Understands and builds from core competencies – brand, customers, channels, offerings, capabilities – and market differentiators
Builds deep expertise in a specific solution area with limited “connecting of the dots” for the industry	Maintains a strategic perspective of the customer and evolving industry ecosystems
Focuses on brand-building efforts or moonshots with limited or lengthy financial payouts	Develops a portfolio of core, adjacent and disruptive growth investments as part of strategic planning cycles
Develops new offerings or capabilities in isolation or within a specific business unit with limited scalability or reuse	Executes enterprise models with rotating squads of core business and new partner or entrepreneurial talent that “go back home” after incubation
Delineates “new” versus “old” talent and skillsets with limited integration and eventual enterprise-wide rejection	Creates learning environments to share insights from initiatives, stimulating new thinking and incentivizing future skillsets
Targets internal R&D for proprietary solutions or closed-loop networks that limit or decelerate the pace of third-party collaboration	Constructs new open platforms that accelerate co-creation with partners and attract them as extensions of the company’s talent
Impedes project plans and decisions through overanalysis, then dedicates efforts to address gaps measures, value realization and sustained sponsorship	Manages risk, reducing time spent analyzing a situation, and empowering periodic “kill-switch” decisions to limit extended investments that go awry

Take for example a large global telecommunications company that initially invested substantially in developing new revenue sources outside of its core businesses. Through the stand-up of an isolated venture fund, the assistance of an incubator and the acquisition of multiple late-stage startups, the company made a substantial splash in the market.

Though heralded as forward-leaning, the changes in the company culture sometimes alienated the legacy workforce and confused customers being targeted by these various groups. Ultimately, the company could not deliver the strategic results it desired – development of a target customer base and a differentiated proposition for which the marketplace would pay.

To embrace Innovation 2.0, leaders must reject the inherent fallacy that innovation for change and growth can be achieved in isolation from the rest of the enterprise. While that concept initially seems credible, given perceptions of reduced bureaucracy and freedom from the corporate “leash,” innovation must ultimately be positioned

and respected as an investment that delivers new assets for the organizational good.

In fact, enterprises require a unifying framework for innovation that stems from existing strategic planning cycles free from bureaucracy of traditional processes: an innovation framework that empowers ventures and projects to incubate ideas, determining new capabilities, practices and lessons to be scaled across the rest of the company.

If properly designed, the programs can accelerate the shift to an organizational culture of innovation for change and growth. They can also offer broader acceptance of related initiatives at the executive and board levels. Ultimately, this acceptance can increase relevance and contribution to the overall portfolio or to profit and loss. To achieve this, enterprises can:

- **Make innovation an enterprise function** instead of a collection of uncoordinated efforts from various organizations within the business. Senior leadership must elevate the innovation agenda and put in place qualified,

high-apptitude leaders to pursue innovation in alignment with strategic planning processes. Forty-four percent of CEOs surveyed in a 2016 IBV C-suite study identified visionary leadership as the most important cultural attribute for innovation.<sup>2</sup>

- **Innovate from the outside in** because ecosystems matter. Seek to bring outside ideas into current plans by co-creating with traditional and new entrepreneurial and corporate partners, coalescing around mutually beneficial growth opportunities.
- **Quantify innovation**, factoring in customer insights, and measuring and tracking through rigorous key performance indicators (KPIs) common to one or many of a company’s business units. Use this information to accelerate return on investment and ongoing value creation. In a 2015 IBV innovation report, outperforming organizations – those with high revenue growth and profitability – were 35 percent more likely to explicitly measure the outcome of innovation initiatives and contribution to corporate growth and mindshare.<sup>3</sup>

### **Make innovation an enterprise function**

Innovation fails in a silo. CxOs know full well a world-class innovation management engine is a means to an end, not the destination itself. This is especially true in markets increasingly fueled by disruption from outside of traditional industry boundaries and new digitally born entrants. That's why an enterprise framework for innovation can steer investments to accelerate growth and systematic change across the organization.

CxOs must shed and cannibalize complete businesses to get ahead of disruption. An active C-suite team must also remove barriers while incentivizing collaboration across the workforce and the extended ecosystem. Just look at how leading financial institutions are growing new revenue that moves the innovative investment needle in areas such as blockchain and cross-border money movement.

Leaders need to venture beyond simply being enamored with innovation as a competitive differentiator. Rather, they need to lead and centralize direction and focus by instilling new approaches to strategic planning that anticipate potential obstacles: They need to assess and execute, avoiding overanalyzing and overthinking.

A reenergized, laser focus can help CxOs:

- Take an offensive/defensive posture regarding the company's changing competitive positioning by developing deep corporate knowledge of the evolving ecosystem
- Reduce an emphasis on value-restricted special projects by accelerating how to assess and identify opportunities, manage risk and monetize or "kill-switch" investments

- Diversify how the company uses and fosters talent from within, and leverages the partner ecosystem
- Introduce into the market products, services and businesses that stem from new business models
- Establish new measures and feedback loops to approximate the value delivered.

**Open your organization's ecosystems:  
Co-create from the outside in**

Innovation and disruption are happening fast. New entrants and ankle biters are likely to be disrupting your business – and they can do so faster than you can spin a new initiative. Why not accept that some of the best ideas are coming from entities outside your organization – innovators who can help drive change in your enterprise?

In the new digital economy, enterprises must look to complementary ecosystems to accelerate the rate and adoption of innovation. Forward-leaning leaders realize that smart, fast innovation comes from identifying new ecosystems. Skills and resources from these ecosystems can jump-start new growth investments, especially as businesses start to play with emerging and unproven technologies to enter and compete in new markets.

But as you move to an outside-in strategy, ask yourself this question: How does my organization incentivize all parties to play nicely

together in this innovation sandbox? Recognize that large enterprises may offer more scale while smaller enterprises may be more agile in targeting unique pain points. Accept the value each brings to the innovation framework.

Additionally, organizations that aim to build internal capability must articulate how the new corporate DNA empowers collaboration between today's engineers and data scientists and other functions in designing the next generation of products and services.

According to our CEO study, more than two-thirds of CEOs participants say traditional industry value chains are evolving into cross-industry ecosystems as well as actively pursuing opportunities to play a new or different role in ecosystems.<sup>4</sup> That is why many companies seeking to incorporate co-creation as a foundational tenet of their strategic direction rely on their ecosystems and new, more flexible ways of partnering.

**Quantify innovation: A framework for  
measurable success**

To fully embrace innovation and co-creation as critical contributors to business objectives, enterprises should move beyond the simple veneer of innovation to a more substantive and sustainable strategy. Many companies have used innovation to “gig up” the brand; in other words, modernize the way customers, potential employees or partners perceive the brand. This often is manifest in corporate sponsorships with limited follow-up, in workplace reconfigurations or in targeted human resources programs.



But early forms of innovation do not deliver the measurable outcomes critical to an enterprise's generating greater market share or new revenue streams. Innovation for the enterprise is a company-wide, management-led approach. To truly embrace Innovation 2.0 executives can:

- Foster a corporate culture of accountable business owners and risk takers
- Maintain rigorous, metrics-based KPIs
- Build from core competencies, leveraging market differentiators
- Construct a balanced portfolio of growth investments: core, adjacent and disruptive
- Praise as well as be open to failure by seeing innovation as part of the investment portfolio
- Trace and repeat actions to accelerate and scale innovation efforts.

### Jump start Innovation 2.0

Disruption stemming from new technologies and lower barriers of entry in the digital economy is likely to continue to blur competitive lines, causing organizations to frequently rethink their purposes. To that end, a new brand of innovation is required, one stemming from and reframing a company's core competencies and differentiators – sponsored from the top, inclusive of ever-changing ecosystem partners and directly tied to business success. Innovation in a silo is not sustainable, so frame your company's ambition, focus and corporate investments in a meaningful and deliberate way.

Remember, an enterprise-wide framework for innovation can help drive percentage gains, profitability savings and revenue uplift against capital invested. The result may be better ideation, incubation and commercialization resources to optimize measurable results.

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#### Notes and sources

- 1 2014 IBM Innovation Survey. IBM Institute for Business Value in collaboration with Economist Intelligence Unit.
- 2 "Redefining Competition: Insights from the Global C-suite Study – The CEO perspective." IBM Institute for Business Value. January 2016. <https://www-935.ibm.com/services/c-suite/study/studies/ceo-study/>
- 3 Ikeda, Kazuaki, Anthony Marshall and Abhijit Majumdar. "More than magic: How the most successful organizations innovate." IBM Institute for Business Value. October 2015. <https://www.ibm.com/services/us/gbs/thoughtleadership/morethanmagic/>
- 4 "Redefining Competition: Insights from the Global C-suite Study – The CEO perspective." IBM Institute for Business Value. January 2016. <https://www-935.ibm.com/services/c-suite/study/studies/ceo-study/>

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