ANALYST VIEW

Why is innovation important today?

in association with

Everest Group
From **insight** to ***action***.

Rohitashwa Aggarwal and **Parul Jain** of Everest Group explain that for innovation to be meaningful and beneficial it needs to run through the heart of an organization

In an age in which sustainable advantage is increasingly transient, organizations need to adapt endlessly – to the point of embedding innovation in their business DNA. Consequently, the historically predominant CXO "delivery" mindset is shifting to a "business outcome" mindset. Firms that fail to adapt to rapid technological advances, constantly evolving customer expectations and intensifying global competition may find themselves unable to compete.

Take Blockbuster Video, for example, once the leader in the video rental business. Blockbuster failed to keep up with streaming services technologies and lost most of its customers to Netflix. Or Kodak, which had more than 80% of camera sales in the 1970s but failed to take advantage of its early innovation in digital cameras, fearing it would cannibalize its own business, and eventually went bankrupt.

Defining innovation: what it is and isn't

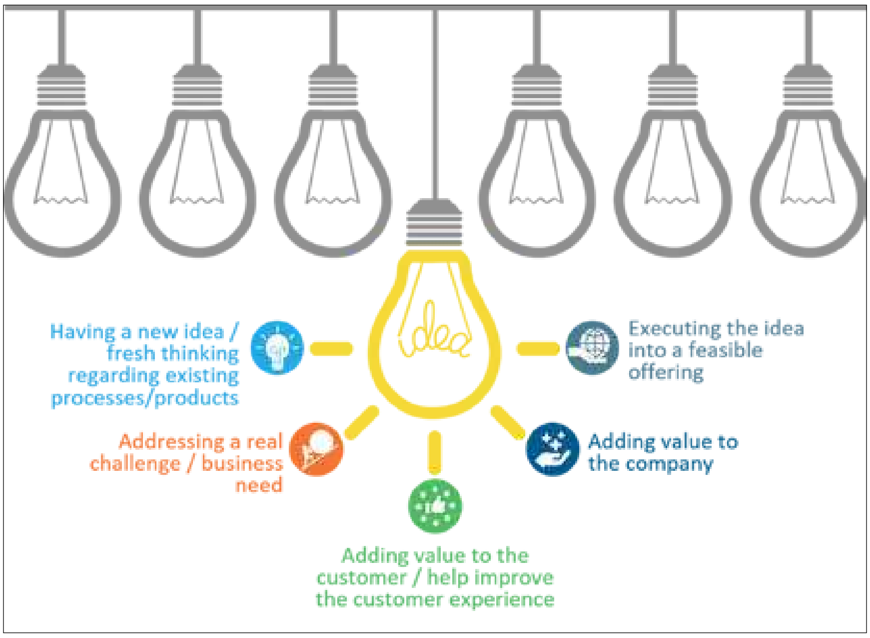
The Merriam Webster Dictionary defines innovation as "a new idea, method, or device",but innovation in business is not limited to these three alone. Innovation is also the process of uncovering new ways to do things – modifying business models and adapting to changes to achieve better products, services and outcomes. While there are many definitions of innovation, we believe there are five essential criteria, as described in Figure 1.

Leveraging shared services centres to drive innovation

To accelerate their journeys and complement their efforts in building truly disruptive innovative capabilities, leading enterprises are leveraging their shared services or global in-house centres (GICs), including such well-known examples as Amazon, Goldman Sachs, HSBC, Robert Bosch, Royal Dutch Shell, Target and Tesco. Organizations are turning to their GICs because they have a strong, established foundation in service delivery, deep domain skills and a clear understanding of the business' needs, all of which enables them to leverage their expertise and accelerate organization-wide innovation. Unlike third-party providers, GICs are closely intertwined with the core business functions and can leverage their unique positions to integrate multiple delivery capabilities and yield synergies for their parent enterprises.

At a broad level, enterprises leverage

Figure 1: Five essential criteria for innovation



their GICs for three types of innovation: data and analytics, technology/process innovation and product innovation. The extent of adoption in GICs varies by type of innovation; data and analytics has the highest adoption and product innovation the lowest.

Case study 1: A leading European bank's GIC helped to automate the bank's know your customer (KYC) remediation process to better serve its 2.7m clients. The innovation lab in the India GIC developed a product to standardize the onboarding/remediation process across the bank. The GIC led the ideation phase, in which it created a proof of concept (PoC) and ran multiple pilots at the headquarters. The GIC then collaborated with the parent company during the production stage, given constraints around sharing data outside Europe. The India GIC is now handling PoCs for some of the bank's other entities across Serbia and Russia.

Case study 2: A financial services GIC's innovation team developed smart contracts between oil corporations and banks (sellers and buyers) using blockchain technology. The GIC-based innovation team was responsible for managing the project end-to-end. The team's in-house blockchain experts collaborated with the IT and operations teams serving the partner entity for which the product was created.

Cracking the innovation code: essential, but not easy

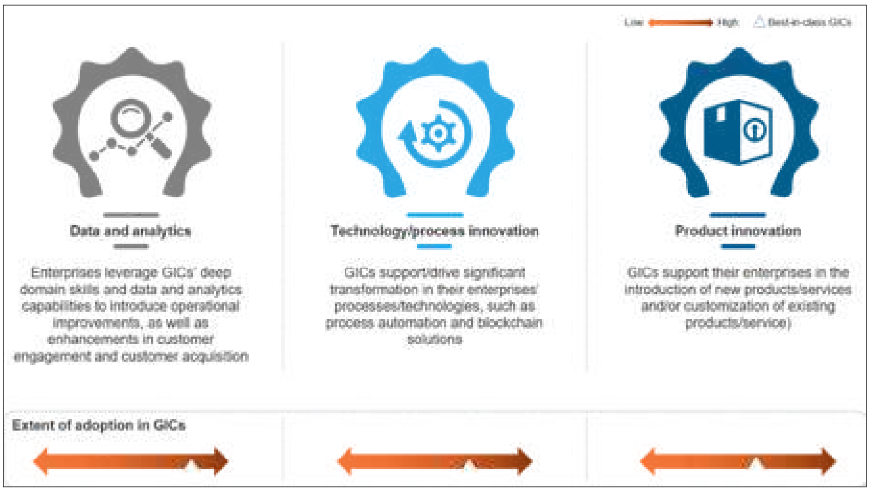
It is not easy to become a leading innovator, and harder still to maintain leader status. Successful innovation requires an organization to get the right team members in place, equip them with the right tools to drive agile decision-making, and (most difficult) reengineer the organization's cultural DNA to foster innovation, as depicted in Figure 3 (overleaf).

Process

The first element is development and implementation of the right tools to integrate innovation initiatives. Key to this element are mechanisms to generate and harness unique ideas from both internal (enterprise and shared services stakeholders) and external (such as startups, academia, and service providers/specialists) entities. A critical part of the process element is evaluating the strategic rationale for partnerships. While some firms partner with third-party providers and startups for talent augmentation and skill acquisition, others leverage these partnerships to develop domain expertise and/or increase the speed of innovation.

Another essential component, specifically from a shared services standpoint, is the right funding mechanism. While most shared services centres carve out a separate fund for innovation (generally part of the overall GIC CEO budget), we are increasingly seeing them advocate for a global/centralized fund where the innovation team within the centre operates as an extension of the global innovation team and is funded by a centralized global venture fund/pro- ▶

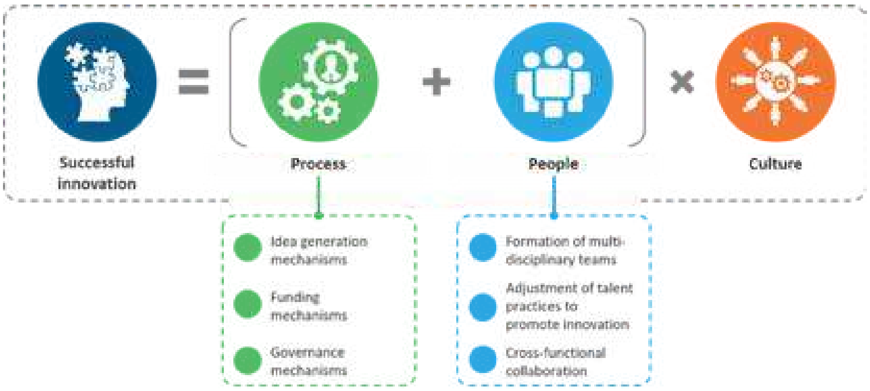
Figure 2: Enterprises leverage shared services centres for three types of innovation



gramme. For select initiatives, we also have seen firms securing funding from business units and driving project-based innovation initiatives.

While freedom to be creative and to discover the art-of-the-possible is important for innovation, ensuring discipline is equally crucial for innovation to flourish. Consequently, the third component is timely deployment of robust governance mechanisms. Organizations need to adopt a disciplined approach to rigorously track performance and continuously incorporate remedial feedback. Doing so not only helps to assess the effectiveness of activities, it also guides the allocation of resources and helps to assign accountability for actions/responsibilities.

Figure 3: The shared services innovation equation



People

Involving the right people in the right team structure is the second critical component. Leading innovators involve stakeholders from different parts of the organization – such as functional and business teams, central innovation groups, R&D departments and shared services teams – to invest time in exploring adjacent and transformational opportunities. Engaging people from across the organization helps cross-pollinate ideas and enables the accelerated development of a holistic solution. While we have seen varied designs for innovation teams based on organizational fit and business alignment, the common thread is a focused, top-driven approach to creating structural changes, supplemented by continuous support from middle management to ensure smooth implementation.

Another key initiative for leading innovators is the remodelling of existing talent practices. Firms are now shifting their focus from hiring for specific skills to hiring for learnability and/or thinking skills – the ability to innovate – and they are incentivizing innovation and providing special recognition for outside-the-box thinking. We are also seeing strong innovators recalibrate their existing performance measurement metrics to align with the impact generated against business objectives.

Culture

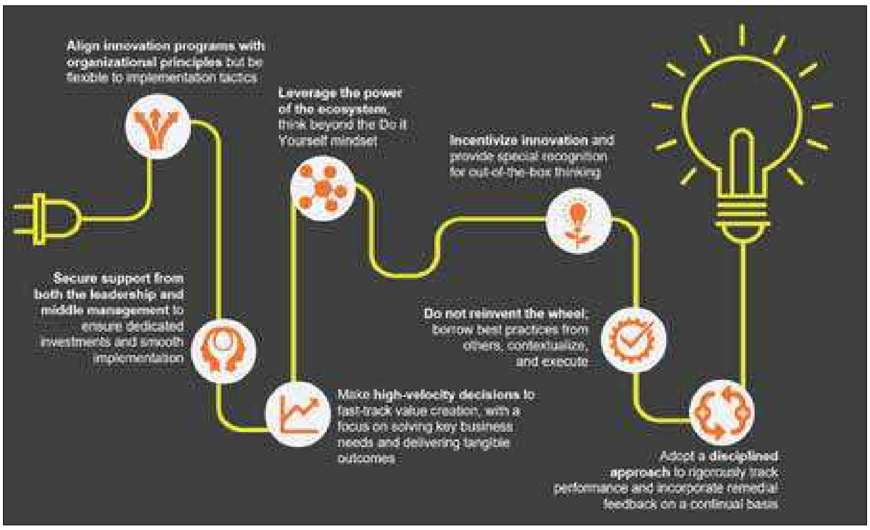
The third principal tenet to ensuring foundational success in innovation is dedicated investment in developing a customer-centric culture with active CXO-level participation. Firms are deploying multiple tools to reengineer their DNA and develop a culture that breeds innovation. The most successful examples include gamification of programmes and distinctive recognition for positive reinforcement, stimulation of an experimentation mindset and risk appetite, and adoption of flexible employment models, including remote working, crowdsourcing and open innovation.

Although new technologies are path-breaking, we believe that the key to success is incremental innovation. Firms should continually test small-scale PoCs to demonstrate end-client value and build credibility. Successful implementation of pilots helps instil confidence among senior stakeholders and ensure adequate support and funding for larger-scale initiatives. This process also presents an opportunity to correct your course early and drive enterprise-wide digital initiatives.

Best practices

While most well-established companies find it difficult to innovate like a startup, there are a few best practices that may help accelerate their efforts, as described in Figure 4.

Figure 4: Best practices in innovation and a call to action



Conclusion

Almost all organizations realize the importance of staying ahead of the curve and disrupting their business before others can do it for them.

However, taking action and dedicating resources to disruptive innovation initiatives in the face of considerable uncertainty is not easy, especially for large enterprises that are attuned to a more programmatic approach.

Ultimately, the difference between enterprises that innovate and those that stagnate is not the number of ideas generated or PoCs developed, but their likelihood of acting on the right ideas and equally importantly, acting on them at the right time.

"Enterprises that innovate are those that act at the right time."