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THE ROLE OF IT IN DRIVING ENTERPRISE-WIDE INNOVATION STRATEGIES

An Executive Summary of the Innovation Series of Roundtables Held in New York, Boston and Dallas in December of 2011. The Series was Moderated by **CIO Magazine** and Sponsored by **Dell Services**.

The Role of IT in Driving Enterprise-Wide Innovation Strategies

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Introduction

It is difficult to find many organizations that have been sheltered from the volatility, complexity and uncertainty that continues to characterize today's global business environment. The pace at which markets are evolving has put a premium on the ability to adapt, change and exploit new opportunities while managing a new array of potential business risks. These circumstances have prompted executives in nearly every vertical industry to demand a capacity to innovate in order to survive and thrive. Nowhere have these demands been felt more forcefully than in information technology organizations. The reason is simple. The ability to effect change rapidly requires collaboration, coordination and communication. In other words, it requires a nimble, agile and creative IT team.

These are among the key observations expressed by senior IT executives who participated in a series of roundtable discussions held during December of 2011 on the topic of "Innovation." The roundtable meetings were held in New York City, Chicago and Dallas. The events were moderated by CIO magazine and underwritten by Dell Services. A broad cross section of industries (financial services, aviation, retail, manufacturing, healthcare, construction, technology, telecommunications and more) were represented among the over 60 roundtable participants who shared their views.

The conversations that took place reveal just how quickly and dramatically the role of IT organizations is changing in many sectors of the economy. Beyond providing communication links and computing power in support of new and established business processes, IT is playing a growing role in identifying, testing and then deploying innovation initiatives that significantly improve the competitive position of their organization. In this report we document some of the key points, action items, and areas of consensus that were captured during this series of discussions.

Strategic Considerations

- **What is innovation…and why is it important?** Innovation, it turns out, is a lot like beauty. It is in the eye of the beholder. For many, innovation was closely correlated with continuous improvement. For others, the objective was to identify a game-changing opportunity to achieve a competitive advantage in their operations. In between these extremes, participants in the roundtables sought ways to get higher levels of performance from new technology investments or apply technological solutions to create or improve business processes. In general, there was a consensus that executives wanted to see IT evolve beyond being a cost center that offers infrastructure services. Many CEOs are now expecting CIOs and their IT staffs to contribute directly to the achievement of mission critical objectives (i.e. sales growth, market share acquisition, competitive differentiation, etc.).

- **Distinctions were made between creativity and innovation.** While the two concepts are certainly related, there was general agreement that innovation must have clear practical and measurable outcomes for the organization.

- **Understand the life-cycle rhythm of the organization.** Several participants noted that different organizations have significantly different time-frames within which results of an initiative must be demonstrated. Organizations that have a quarterly focus can innovate…but is important that they pursue projects that can show a result within a three month period.

- **Further distinctions were made between long-term and short-term innovation initiatives.** Both were deemed to be important. Long-term innovation – that is initiatives that would take longer than a year to evaluate, but which might have bigger impact on the organization – were deemed as the most difficult and controversial initiatives to get funded. The point was often made that decisions around the length of innovation life-cycles must be understood by all of the key stakeholders (i.e. IT, line of business managers, finance and perhaps legal departments) in the context of organizational tolerances.

- **Who owns innovation?** Several participants were adamant that while IT is in a position to drive innovative processes and generate innovative outcomes, it should be profit and loss (P&L) managers who actually "own" the initiatives. In other words, it should be the P&L owns who request funding from CFOs because they are the most important beneficiaries of innovation.

- **Mature Inter-disciplinary relationships.** The capacity to innovate, it was noted, is often related to the level of maturity that exists in relationships between IT and line-of-business (LOB) management. The ability to jointly identify opportunities to innovate, and then to work together constructively to realize the full promise of the initiatives requires high levels of joint trust. This is ultimately what fuels the risk taking process necessary to achieve innovation. It is therefore important to establish key internal inter-disciplinary (IT, LOB, Finance, Legal, etc.) relationships to lay the foundation for innovation. One of the keys to success revolves around establishing informal conversational opportunities to kick around ideas which lead to a "let's try it" mentality.

- **Key strategic barriers** identified by the roundtable participants include:

- Siloed thinking; and
- Culture of complacency.

- **Personnel assessments.** While it is always important to have the right people in place to achieve strategic objectives, the imperative is even greater if innovation is the key to success. It is therefore critical to assess the extent to which existing staffs can be “re-tooled” to work in innovative environments and determine if it is necessary to invest in “new blood” that bring in new perspectives and energy.

    - Managers and staffers that are wedded to legacy processes can play unproductive roles in efforts to innovate.

    - Overarching incentives need to be evaluated in this context. Several participants noted that while innovation was stated as an important value in mission-statements, the compensation packages were not aligned with challenging existing assumptions or trying new approaches.

- **Innovation should be a requested service.** Successful enterprise wide adoption occurs when there is internal demand for new innovative capabilities. It is very difficult to impose innovation on organizations because of the embedded and natural resistance to change. However, envy can be a powerful motivator. Thus, if a showcased example of innovation is being employed by a P&L owner who is getting results (with the rewards that such results entail) then the prospects for institutionalizing an innovative initiative is greatly enhanced. In short, it is best to pursue a “pull-based” innovation adoption strategy rather that a “push-based” strategy.

- **Market innovation internally.** To achieve a pull-based (or demand-driven) innovation adoption strategy, it is critical to establish a disciplined and consistent methodology for communicating the status of various innovation initiatives that are at different points in the life-cycle. The objective should be to have key constituents request the capabilities that the innovation initiative creates.

Operational Implications

- **Avoid uncontrolled and unproductive innovation – or innovation sprawl.** The observation was made that in the rush to become agile and responsive, an undisciplined approach to innovation can create the illusion of positive movement, but in fact waste time, money and precious human resources. A good initial test for effective innovation will flow from the alignment of any given initiative with the mission objective of the enterprise or the department.

- **Determine key performance indicators (KPIs) for measuring the**

impact of innovation on your organization. As a corollary to avoiding innovation sprawl, participants agreed that it is important to explicitly list the variables that must move in a positive direction in order to gauge the success or failure of an initiative. In general, the KPIs should map to business objectives rather than technological performance.

- **Play the hand all the way through.** Organizations that are serious about the strategic role of innovation must allow each initiative to reach its logical conclusion and determine if it:
  - Worked and represents a good investment that should continue to be funded; or
  - Did not meet minimum expectations and should be immediately stopped.

  What should be avoided are projects that are abandoned in mid-stream. Abandonment is the ultimate waste of time.

- **Establish inter-disciplinary governance structures for innovation.** The focus of these structures should be on providing transparency and accountability. These structures should create the ability to engage in effective comparative analysis on the impact of different innovation initiatives on accomplishing organizational objectives. These governance structures should define the problem statements to be addressed by innovation in terms that can be understood by IT, business, finance and legal departments.

- **Establish an operational environment that encourages "fail fast and learn" as opposed to "build big and fail epically."** This is not to say that organizations should not make big bets. But participants seemed to agree that the portfolio of innovation initiatives should be balanced to reflect the overall risk tolerance of the organization.

- **Avoid justification processes that are more cumbersome than the potential benefits of innovation initiatives.** While governance that holds institutionalized innovation to transparent and accountable standards is important, the net effect of such structures should be to guide and focus innovation initiatives, not to discourage them.

Financial Justification

- **Engage business units and finance departments in creating an investment portfolio strategy for innovation.** Avoid the temptation to seek funding for innovative **IT projects** on a standalone basis. Shared investment portfolios are much more dynamic, and provide a higher level of transparency and accountability against which to assess the performance and the case for continued funding of an innovation initiative. Develop a portfolio that allocates innovation investments across large, medium and small bets. Develop clear "quick kill" standards for innovation projects that are not working. Ensure that at least some of the positive financial outcomes of innovation are harvested and reinvested into further innovation.

- **Create a Business Case Formula** for assessing the projected value of innovation based on mission alignment, potential impact and size of investment. Explore how this establishes a context for evaluating and managing a broad portfolio of innovation initiatives.

Technological Considerations

- **Leverage IT's Management Strengths.** For instance, establish pilot projects to test the viability of innovation initiatives. Apply the IT lessons learned in Agile/Scrum application development to innovation management.

- **Engage Tech Partners.** Look for opportunities to integrate technology partner perspectives and contributions into innovation initiatives.

- **Services vs. Servers.** Move the IT culture away from a server and technical performance orientation to a service and business process enhancement orientation. Not all innovation involves improvements in technical performance.

- **Leverage Consumerization Trend.** New devices and cloud resources provide an opportunity for IT to test existing business process assumptions. Harness social networking/media tools to tap into talent and foster ongoing dialog about mission-oriented innovation.

- **IT as innovation Drivers…NOT Owners.** IT leaders should position themselves as the lab scientists who develop and evaluate innovative "Proof of Concepts." This can be done by establishing standards and protocols to test the impact of innovation initiatives which leverage technology to accomplish enterprise objectives.

Conclusion

Innovation is one of the most subjective terms in the business world today. Like a Rorschach test, people often see what they want to see when it comes to analyzing the outcomes of an innovation initiative. A central conclusion from the roundtable series undertaken by Dell and CIO magazine is that that senior IT executive can stimulate practical, effective and measurable gains from innovation investments by removing some of this subjectivity.

Identifying key metrics, measuring them and then managing processes to achieve critical objectives is a core-competency of IT. Applying this competency in collaboration with other enterprise disciplines to realize the full promise of innovation represents a golden opportunity to further enhance the value that CIOs bring to their key stakeholders.

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