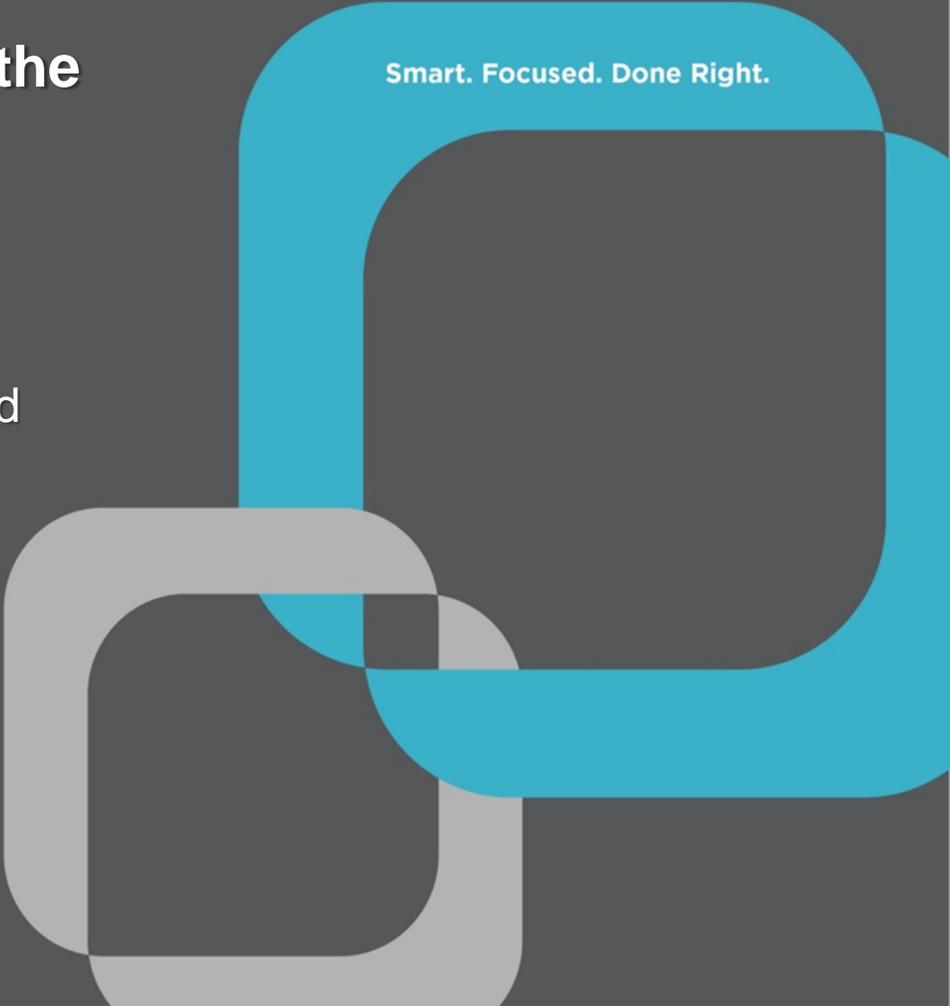


Positioning Digital Innovation Within the Enterprise

Engaging the Business in Innovation Planning and Execution



Smart. Focused. Done Right.

Engaging Business Leaders in IT Innovation

CIOs are often charged with driving innovation within the enterprise. But what if business units are not interested in innovating? IT leaders cannot compel business leadership to innovate in an environment where the status quo appears acceptable.

ScottMadden researched examples of successful innovation to identify how IT organizations can engage business leaders in IT-enabled, digital innovation efforts. Two patterns emerged:

- **Transformative Innovation** – Digital innovation engagement is initiated and directed by the executive team
 - A transformative vision is established by senior leadership
 - Why change?
 - How will the future be better?
 - What is the direction?
 - Supporting corporate governance processes direct and monitor progress
 - The organization is engaged on a large scale
- **Opportunistic Innovation** – An IT innovation team identifies and pursues innovation opportunities that the company would not ordinarily consider and provides leadership to improve business processes, products, and services—they engage the business by demonstrating value
 - An innovation team is formed with initial focus on creating a basic foundation and establishing a track record
 - An innovation team takes the lead in providing emerging technology leadership to the corporation
 - As an innovation team's processes mature, closer ties to the business are established
 - Innovation teams do not require an explicit vision for the future
 - Success is directly tied to innovation team success rather than executive mandate
 - Momentum must be created and successes delivered in order for innovation critical mass to be achieved and business units to engage
 - Change is typically incremental

Real progress comes to those organizations that are able to gain agreement on their objectives and pursue the appropriate innovation approach.



Transformative Innovation



Executive Driven

Companies that have experienced successful, large-scale innovative digital transformations provide executive leadership and direction to drive digital investments:

- The executive team provides the vision that the IT team delivers against
 - Senior leadership is aware of the threats and opportunities that IT presents to the company
 - A vision is provided that demonstrates why change is necessary and how the future will be different
- Executives are engaged in the technology investment process—targeting appropriate areas and cutting investments in those areas that do not provide enterprise value
 - Strong enterprise-governance processes direct technology initiatives. This increases coordination across siloed initiatives
- A top-down approach to innovation allows the organization to be engaged “at scale”
 - Leaders use a variety of channels to communicate vision and expectations
 - Employees are encouraged to identify ideas to advance the vision
 - Necessary skills are identified throughout the organization
 - Gaps are filled through retraining, hiring, partnering, and even acquiring new companies
 - Progress toward the vision is monitored to build and sustain momentum



Requirements: Leadership and Investment

The companies that are most successful with digital transformation provide both executive leadership and necessary investment.

Corporate financial performance was evaluated¹ by the *intensity* of both technology leadership capabilities and digital investments:

- **Transformation Management Intensity** – magnitude of leadership efforts driving digital transformation in the organization
 - Leadership capabilities include:
 - Vision
 - Governance
 - Business Engagement
 - IT Business Relationships
- **Digital Intensity** – magnitude of investment in technology-enabled initiatives to change how the company operates
 - Technology investments target:
 - Customer-facing processes
 - Operational processes

Relationship Between Digital and Management Intensity and Financial Performance

Digital Intensity	Revenue Generation	6%	Revenue Generation	9%
	Profitability	-11%	Profitability	26%
	Market Valuation	-12%	Market Valuation	12%
	Revenue Generation	-4%	Revenue Generation	-10%
	Profitability	-24%	Profitability	9%
	Market Valuation	-7%	Market Valuation	7%

Transformation Management Intensity

- Companies with higher digital intensity—the extent they are investing in new digital technologies—generate more revenue from their assets
- Companies with higher transformation management intensity—the extent they have implemented the mechanisms necessary to manage digital investments—are more profitable and achieve higher market valuations

Companies that have made significant digital innovation investments and have implemented transformation leadership capabilities have experienced the most success.

Case Study: Codelco²

Background

- Owned by the Chilean State
- World's largest copper producer
- Operates internationally and employs more than 18,000 people
- Faces increasing challenges around workers' security, environment, and productivity
- Envisioned what the future of mining could be:
 - Automated mining operations
 - Shifting from a physical-intensive model to a knowledge and technology-intensive one

Vision

- *Seeing Codelco in the future through the prism of Information Technology, Telecommunications, and Automation (ITC&A)*

We do not see a truck...we see always a connected digital system, equipped with autonomy, in an integrated mine, in a digital world...

Approach

- The vision was integrated into the company business plans:
 - Drove end-to-end processes definition
 - Encouraged the management of digitized information as a critical asset
 - Developed a supporting culture to promote the adoption of the ITC&A
 - Created a homogeneous technological architecture
 - Saw the ITC&A as a motor of innovation in mining
 - Aligned technology with the needs of business and created value
- Codelco Digital was created
 - It has both operational and strategic objectives:
 - Drive initiatives in mining automation
 - Support the CEO in developing, evolving, and communicating a digital vision
- A supporting technology plan was created:
The Business and Development Plan (BDP) was based on mutually exclusive scenarios concerning mineral resources, technology, infrastructure, market conditions, and legal and regulatory framework. The BDP contained revenue, spending, investment, and financing estimates that would help exploit the mineral resources and reserves that sustained the business

Case Study: USAA³

Background

- Diversified financial services firm serving the U.S. military
- Long recognized for outstanding customer service
- Does not operate branches—provides services through remote channels
- Wants customers to be able to access their services any way they like
- Recognized that serving customers remotely meant responding to the rapid introduction of mobile consumer devices
- To ensure constant innovation and integrated customer services, USAA transformed its operating model and promoted innovation across the enterprise

Whatever devices the members have, we need to be there. It doesn't matter if it's only a small portion of our membership. We're going to be there for them.

Approach

- Two shared services units were designed to enable enterprise-level innovation and integration: the Enterprise Strategy and Planning (ESP) unit and the IT unit
- ESP and IT worked together and partnered with every other part of the firm. They took on three leadership challenges:
 - Planning, prioritization, and funding of business change initiatives
 - Delivery and support of technology and systems
 - Design and implementation of business innovations

- At the highest level of USAA, the Executive Council (EC) takes responsibility for establishing business direction and strategic goals:
 - The EC does not make decisions on IT or business project priorities
 - The EC lays the groundwork for defining and prioritizing project investments by deciding what USAA needs to do to be competitive and how much it can afford to spend
- Responsibility for investments in new business capabilities is owned by the Enterprise Portfolio Governance committee (EPG)
 - Chaired by the CFO, includes the CAO, the head of ESP, the leaders of the three lines of business, the head of Member Experience, the CIO, and the Business Solutions lead within ESP
- A chief innovation officer position within the ESP was created to identify ideas and push them through the enterprise-project process

Opportunistic Innovation



Opportunistic Innovation

Innovation Teams

Companies whose culture is not historically innovative can find success through the use of innovation teams. These teams tackle problems and conduct research and experiments that the rest of the company would not typically consider. Business engagement in innovation efforts is earned over time through a track record of success. Research⁴ has identified six characteristics of innovation teams with sustainable success.

	Description	Benefit
Separate	Distinct team of full-time people	Leader can build the right culture and skills; a complete focus on innovation
Systematic	Clear but flexible criteria and methods to gather and filter ideas and plan and conduct experiments	Team improves its productivity and measurement; improves credibility to rest of the business
Small	Typically no more than six to eight people	Team is small—“fly under the radar”; forces a focus on delivery and “failing smart”
Sponsored	Strong executive (at any level) funds, protects, and promotes the team	Team can concentrate on innovating, not protecting its existence
Shared	Rest of business co-funds, co-staffs, provides sites for projects; not just providing ideas	Team promotes adoption and improves engagement; other business leaders promote innovation team
Seen	Regular self-promotion of process measures, stories, and innovations	Team helps build and sustain momentum; reduces dependence on sponsor

Teams start simple, but they must mature over time to create a sustainable capability. Within three years:

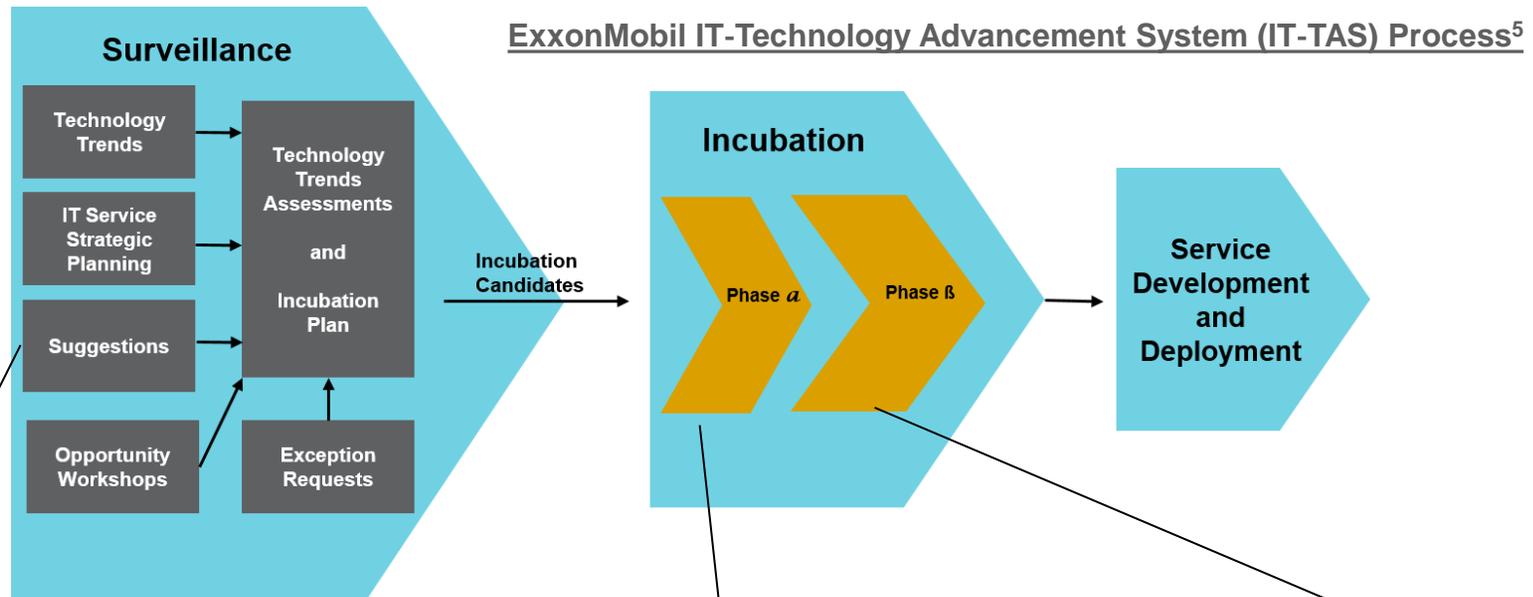
- Initial energy and enthusiasm must convert to mature systematic processes and relationships
- Business credibility and buy-in must be earned
- Successes must be delivered and publicized
- The innovation team should become the center of a corporate innovation network



Emerging Technology Leadership

Innovation teams can systematically evaluate emerging technologies to provide technology leadership within the corporation:

We want to have a technology solution in hand before the business asks for it. We never want to be in a position where the business asks for a technology and we have to say “wait three months while we work up an answer.”



Scan internally and externally for appropriate emerging-technology opportunities

- Is there a clear performance increase?
- Will it differentiate the firm?
- Will it provide long-term advantage?
- Will it close a technology gap?
- Is it broadly applicable across the firm?

“Desk review” technology and conduct conversations with vendors and experts

- Is it mature enough for use?
- Does it fit with IT architecture?
- Can it be supported?

Lab testing and discussions with groups that will support and use the technology; activities get joint resourcing from other units

- Is there a clear business application?
- Does it interact safely with other parts of the architecture?
- Can it be rapidly deployed and used?
- What will be necessary to deploy and support it?

Case Study: BP⁶

Background

- BP established an innovation team at the direction of its CEO and CIO
- The company had a culture of business unit autonomy
- The CEO wanted to identify “intellectual economies of scale” whereby units could learn from each other
- A CTO was named and charged with leading a BP-wide digital innovation effort

Approach

- Six team members were recruited through a highly selective process
- A combination of strong IT knowledge and a deep understanding of the business areas was required
- Team started informally, relying on existing contacts and knowledge
 - Provided basic services:
 - Technology consulting to businesses
 - Technology scouting to identify relevant technology trends
 - Initiated relationship-building efforts with IT suppliers, research firms, consultants, academics, VCs, government agencies, industry groups, and major customers

- Team eventually became more systematic, concentrating on specific activities and improving clarity of roles, decision criteria, and performance metrics
 - Conducted executive events to educate business leaders about trends and encourage them to envision technology-based solutions to business problems
 - Added structure to the technology-transfer process by creating clearly defined criteria to manage risks in evaluating emerging technologies
 - Executed game changers—annual programs aimed at investigating sets of technologies that represented significant transformative potential for BP business
- Business unit engagement was formalized
 - Team would identify short list of high-potential technologies that addressed business leaders’ most pressing challenges, and business executive sponsors would select a handful of pilot projects and assist in creation of business cases
 - Each project had a business sponsor, staffing, and funding
 - Team members ran awareness workshops, sharing successes with BP businesses

Conclusion



Conclusion

Select the Appropriate Approach

- IT innovation business engagement is either mandated or earned
 - Mandated as part of corporate transformation driven by digital threats and opportunities
 - Earned by demonstrating consistent value
- Innovation objectives must be matched with the appropriate approach
 - Transformative game-changing digital innovation requires a top-down approach
 - “The higher the goal, the higher the role”⁷
 - Big changes require strategic decisions, adequate resources, and the sponsorship necessary to overcome resistance
 - Executive leadership needs to be all-in; participation is not discretionary
 - IT can be positioned to successfully facilitate and drive transformative innovation in this environment
 - Incremental innovation can be delivered opportunistically by innovation teams
 - Incremental innovation provides value by “keeping you in the game”
 - Early lifecycle business engagement can be driven by events (e.g., “executive events” and “game-changer events”)
 - Innovation teams can build a track record by creating wins for business units at the operating level
 - These are usually consensus driven—because they are not as risky (or rewarding) and operating management can provide the sponsorship necessary to execute successfully



Appendix

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