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# The value of innovation management in digital transformation

January 2017

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## Top takeaways

# 1

### The digital transformation imperative

Digital transformation holds out the promise of making your organisation more able to deal with new competitive threats, more agile in the face of change, more able to deliver new products and services and more able to provide great, modern customer experiences. Key to all these opportunities, though, is that digital transformation isn't just about adopting new digital technologies: it's also about using digital technologies to change the way you actually deliver change in your organisation.

Being serious about digital transformation means being serious about more open, more collaborative, iterative change – powered by new technologies, yes, but also powered by effective engagement and the fostering of the right organisational culture.

# 2

### Innovation management enables open, collaborative, iterative change

The need to enable open, collaborative, iterative change is where innovation management tools and practices come in. Innovation management can help your organisation to engage your internal and external communities to adapt and accelerate the way you drive innovation, applying this to various aspects of your business model, its processes, products and services, to develop a more open, innovative organisational culture.

By shifting from a traditional, top-down approach to innovation, business development and operational improvement to an inclusive approach where everyone is involved and shares responsibility for the definition and achievement of the business's goals, your organisation can become more agile, responsive and disruptive, embracing the changes that digital transformation brings and making them part and parcel of what defines your culture.

## Digital transformation: a business imperative

Digital transformation is a subject on every executive's lips – no matter what industry they're in. Organisations from sectors as diverse as financial services, retail, utilities and logistics see the threats posed by both new digital natives entering their marketplaces, by more traditional competitors stealing a march on them with new digitally-powered services and experiences, and even by out-of-sector players using digital channels to launch competitive products and services.

Digital technologies hold out the promise of giving you ways to protect against these threats – while at the same time improving the experiences you deliver to customers, improving your operational efficiency and agility, and driving more innovation into your products and services.

However, even though a great many executives consider digital transformation to be a top priority, in our research work we've found very little real agreement between executives – even between executives in the same organisation – about what 'Digital transformation' actually means.

### Four different perspectives on digital technology

In understanding the ways in which perspectives on digital technologies differ, the first thing to understand is that despite differing perspectives, digital technologies all share one common kind of business value:

*Digital technologies are important because in combination, they can be used to co-ordinate resources (people, plant, machinery, infrastructure, market information, goods, materials, knowledge) more efficiently.*

The common different kinds of perspectives on the role and value of digital technology differ because they have differing kinds of resources at their heart. Figure 1 below lays this out: the horizontal axis segments the universe of 'business resources' into internal and external resources, while the vertical axis contrasts the resources that revolve principally around people and their knowledge with others that revolve principally around processes and 'things' (plant, machinery, infrastructure, materials, assets etc.).

**Figure 1** Four perspectives on digital technology



Source: MWD Advisors

Teams and leaders with particular kinds of roles tend to focus principally on the value of digital technologies in one of the four quadrants of figure 1:

- When **HR and Communications leaders** talk about 'doing digital', they're starting their exploration from the top-left quadrant of figure 1. They're talking about how social, mobile and cloud technologies in particular affect the workplace and the ways that employees engage with each other and with the broader organisation/corporation.
- When **Marketing leaders** talk about 'doing digital', they're starting their exploration from the top-right quadrant of figure 1. They're talking about how social, mobile, cloud, and analytics technologies are changing how the organisation needs to create experiences and engage differently with customers (other leaders may also be thinking about implications for partner and supplier engagement, too).
- When **Operational leaders** talk about 'doing digital', they're starting their exploration from the bottom-left quadrant of figure 1. They're thinking about how digital technologies can help the organisation co-ordinate internal processes and 'things' to create 'digital operations' capabilities.
- **Strategists** tend to start their work in the bottom-right quadrant of figure 1. They explore the realm of Uber, Airbnb, Upwork, Zopa, open innovation networks, and so on. These people are tasked with looking at digitally-powered strategies for new products and changes to business models.

## Digital technologies change the process of change itself

There's more to the story of digital transformation than the act of employing digital technologies to optimise the use of resources in *operational* business contexts, though. The more nuanced piece of the digital transformation story is how digital technologies, used intelligently, actually change the nature of business and technology change itself.

When we look at organisations that are aggressively embracing digital technologies and platforms, we find that they have a very specific attitude to change that's fundamentally different from how most organisations approached change in the past; this is because they understand how digital platforms enable new kinds of change techniques. Digital leaders see change as needing to be continuous, rather than periodic; and as a part of 'business as usual', rather than as being something managed separately. Change is not seen as something that's conducted by specialised teams; these organisations see change as part of everyone's responsibility. And change is not seen as something to be conducted in isolation from operations; change is driven by experimentation in real-world situations.

Early embracers of digital platforms evolve their businesses based on a virtuous cycle of instrumentation and optimisation. Digital platforms enable them to do three core things in parallel, in an integrated way:

- Build new capabilities quickly.
- Measure what works and doesn't work.
- Make changes quickly, based on measurement and feedback.

When you're building new capabilities in this digital world, you need to think right from the very start about how you're going to gather measurements and feedback about what's working and what's not working – and how you're going to use those data flows to improve.

The pace of change you'll need to enable means that you can't look at data gathering, measurement and analysis as activities that can be carried out in an organisational silo that's separate from the teams who build capabilities; you need to consider construction, measurement and change capabilities all as part of one integrated whole. However, just because these skills and capabilities need to be integrated, doesn't mean that one homogeneous set of super-powered individuals will be responsible for doing all the work. In almost all cases different people with different specialisations will need to work together.

If you're serious about embracing digital technologies and shifting to the new model of change that goes along with that, you need to use tools that enable you to manage capability delivery in an open, collaborative way – enabling change to be made at scale, with confidence.

## From scarcity to abundance

The experiment-driven, open, collaborative approaches to capability building and change that we see in forward-thinking organisations are made possible primarily by a mega-trend that doesn't get talked about enough: the shift in computing from a world of scarcity, to a world of abundance. Over the past two decades, we've moved from a situation where computing cycles, network bandwidth, memory and persistent storage were expensive; to a world, largely facilitated by global-scale cloud computing platforms, where the cost of accessing these resources is approaching free.

In a world where resource scarcity rules, the most important thing to do is to deliver outcomes with as frugal use of those expensive resources as possible. In a world where abundance rules, though, delivering outcomes through rapid experimentation becomes possible: and this creates new opportunities, but also new challenges.

On the upside, the ability to experiment rapidly and scale rapidly makes it possible to deliver outcomes in situations where requirements are hard to nail down precisely, and indeed may be changing fast. On the downside, ensuring that creativity doesn't lead to chaos means you need tools and techniques that bring all stakeholders together, and keep them together.

## Digital transformation upends working practices

The impact of digital technology on your organisation's working practices, business processes and information systems may be truly transformative, and this has two key implications: firstly, insight into opportunities for transformation are unlikely to come from just one 'top down' source; and secondly, people in your organisation working these practices and processes may find their jobs impacted significantly.

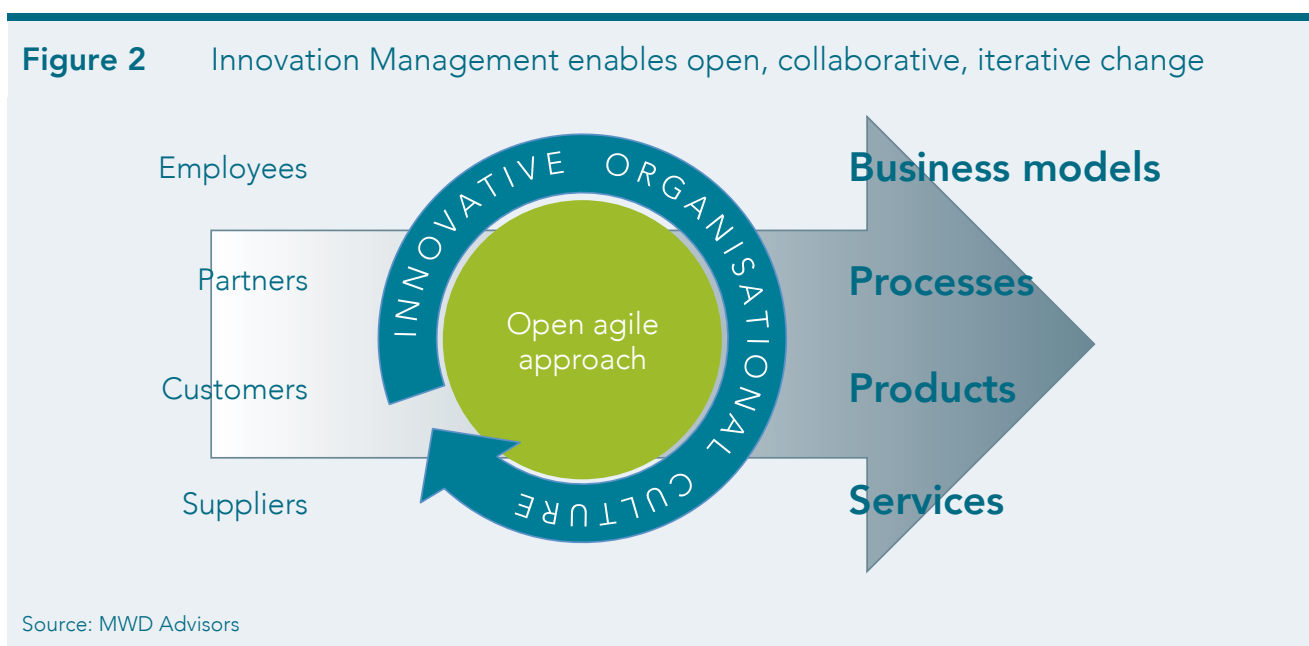
When organisations design or evolve their business practices, they may not know it – but they're doing so based on a set of constraints and assumptions about the ways that work can be done. Specifically, organisations commonly make very particular assumptions about:

- Who needs to do the work (in terms of roles and responsibilities).
- When that work needs to be done, and in what order individual tasks need to be done.
- Where people need to be when they're doing the work.
- How tasks need to be carried out (in terms of resources, tools and so on).

Today, most established organisations' work practices, business processes and supporting information systems are built on workplace assumptions that were valid in the 1980s and 1990s – but no longer. For example: the colossal growth in mobile data network availability and device usage means data, insights and systems can be at fieldworkers' fingertips, making "admin at the local office" an anachronism, and the capabilities of popular smartphones and tablets mean customers can directly participate in your business processes in new ways. In banking, it's now increasingly common for retail banks to provide mobile apps so customers can deposit cheques by taking pictures of them with their phones; in local government settings, citizens can engage directly in reporting service issues or environmental concerns by taking geo-encoded pictures on their phones and uploading them to a local government portal. In both these scenarios the 'who', 'when' and 'where' of work is fundamentally recast.

## Innovation management enables open, collaborative, iterative change

Faced with the need to challenge the very foundations of the way the business operates, and the way change itself is viewed, organisations need new approaches to identifying where the best opportunities for digital transformation lie, and a new, more open and agile approach to taking those opportunities from idea to reality. By providing a way to bring together diverse groups of stakeholders, and by enabling them to work collaboratively to understand the implications on working practices and business operations, innovation management tools and practices can help your organisation to engage your internal and external communities to adapt and accelerate the way you drive innovation and change, applying this to various aspects of the business model, its processes, products and services, to develop a more open, innovative organisational culture – see figure 2.



### Accelerating the pace of change

Traditional approaches to innovation and change are often owned and operated in a 'top-down' way, with a small group of executives or senior staff working in a largely isolated bubble to identify and then select innovation areas for further investment. This has many limitations, from the number of ideas that are available to be developed into concepts, to the breadth and range of focus of those ideas, given the limited expertise and capacity of those involved.

To address this, organisations are increasingly embracing crowdsourced innovation management techniques that transform the process into a communal activity that engages the whole organisation – as well as its customers, partners and other stakeholders. A major benefit of this new approach is one of scale; many heads are better than one, and opening up the idea capture ('ideation') process draws on a much richer, diverse set of skills, interests and expertise – based on individuals' experiences, both as employees and as consumers. This strength in numbers can also be applied to the development of ideas – as other members of the community have the opportunity to discuss, challenge and augment a suggestion – and additionally to the evaluation and progression of ideas further into the selection process, through manual and automated evaluation techniques that incorporate practicality, cost and potential value to the organisation.

Fundamentally, the big picture for innovation management is about providing scale, structure and repeatability to the overall innovation process, to help organisations to plan, manage and monitor their innovation activities, tracking progress against an overall set of goals and objectives.

### Beyond new product development

As digital transformation has the potential to positively impact your business in multiple ways, so innovation management can be used to drive transformation in all four of the areas outlined in *Four different perspectives on digital technology* above. While innovation aspirations and goals often focus on the development of new products and services that will enable the business to remain ahead of the competition, for example, an innovation initiative organised around specific campaigns or challenges can address any number of problems or issues, from “how can we compete more effectively in this market?” to “how can we be more efficient in the way we do XYZ?” to “how can we better support our new joiners?”

An open approach that invites everyone in the organisation to participate – not just the individuals in the relevant part of the organisation – combines the knowledge and experience of those who are close to the issue in question, with the thoughts of those who bring a different perspective. Whether that comes from their experience with activities in another part of your business, with another business from your industry or beyond, or as a junior new joiner with no preconceptions at all, a fresh and unbiased view could be the catalyst for the development of a truly innovative opportunity.

Expanding the audience to include external participants offers even more possibilities. Open innovation programmes that engage customers, partners, investors and other external experts help to maximise the different ways of looking at a particular issue, overcoming the traps of bias by including outside-in views that may be influenced by what your competition is doing or – in the case of customers or partners – what’s on their own wish list. Investors can also bring market knowledge and broader business insight, while external experts in the same field can often provide insight relating to what has worked well (or not) in their areas. Although digital transformation can enable an organisation to find an edge over its competition, it’s also important to acknowledge that transformational change can have a positive impact on an industry as a whole, even where organisations are competing directly.

This open, community-driven style of innovation in turn ensures that you create a balanced approach to idea capture, development and prioritisation. What’s more, such an approach is a great way to build relationships with all these parties, for example engaging and nurturing brand advocates, and helping both customers and partners to feel more valued and part of your network, solution or service. Where those parties are included in the subsequent prototyping and launch phases, and so on, the relationship can be reinforced further, resulting in outcomes that potentially extend way beyond the original focus of the innovation campaign.

### Driving new approaches to change through innovation management

An innovation management initiative can also help to evolve the organisational mindset regarding the value of change; encouraging employees and leaders throughout the organisation to take a more active interest in what could be possible, and the role they can play in achieving those possibilities. For example, crowdsourced innovation is about more than simply expanding the net for capturing ideas; it enables the organisation to engage its whole community to inform and enrich the decision-making process, welcoming and encouraging people from various roles and backgrounds to collaboratively evaluate and prioritise the investments being made.

By providing a structured and scalable way for ideas to be rapidly prototyped, enabling and supporting experimentation in parallel, across the organisation, and by teams of people who have come together purely behind the strength of an idea they collectively support, the concept of change becomes a process that unites staff, customers, partners to improve the business, to accelerate its growth, or achieve whatever goals underpin its strategy.

This collaboration also provides balance: enabling good ideas to become the best they can through the complementary inputs of people from different parts of a business, with different levels of experience and expertise, but also enabling ideas that may be great but will not deliver value to be cost-effectively explored and then ruled out. The key is that the decision not to proceed becomes as valuable an outcome as the decision to develop the concept further. All input is welcomed and rewarded, with individuals encouraged to take pride and ownership in their participation and contribution.

By building an ongoing innovation programme that inspires ideas, supports the collaborative development and prototyping of new concepts and potential opportunities, and enables the community – be they employees, customers, partners or others – to see the impact of their participation, organisations can enable change to become an iterative and ongoing process, rather than a series of one-off projects, activities or events that inherently cause resistance, upheaval and, ultimately, fear – particularly among employees. Innovation and change can become part of the culture of the organisation, creating a virtuous circle whereby the transparency of the process and the results it achieves drives greater participation and the culture is reinforced. Individuals' contributions can be recognised, experts become known for their expertise, and emergent teams can develop, helping the organisation to break out of its traditional structures to identify, develop and realise new business opportunities.





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