Organizational Transformation through Strategic Innovation

Joanne Hyland, President – rlnnovation Group, 11 March 2021
TOPIC: Organizational (or Digital) Transformation through Strategic Innovation

- DIA and Uncertainty Management Origins
- Strategic Innovation Capability. What is it? Why build it?
- The Innovative Organization Building Blocks
- Seven Principles for Organizational Success
- Building a Sustainable Capability. What does it take?
DIA and Uncertainty Management Origins

2000
Radical Innovation

2008
Grabbing Lightning

2018
Beyond the Champion

From Project to System with Practice to People
2013 Pivot
Insights from Research and Practice

▪ Rensselaer Polytechnic Institute (RPI) 25-year radical innovation research study
  ▪ 35 companies and 600+ interviews
  ▪ Origins of Discovery, Incubation and Acceleration (DIA) and Technical, Market, Resource and Organization (TMRO) Uncertainties

▪ The rlnnovation Group’s experience
  ▪ 30+ years working in/with global companies
  ▪ 20 years as strategic advisors to:
    • Develop innovation strategies
    • Design innovation management systems
    • Reduce opportunity uncertainty

▪ Founders of DIA+TMRO Methodology
Applied Across Diverse Industries

Value Drivers
✓ Proven method
✓ Learning speed
✓ Process effectiveness
✓ Revenue beyond core
✓ Market leadership
### Three Distinct Competencies

<table>
<thead>
<tr>
<th>Competency</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Discovery</strong></td>
<td>- Explore and conceptualize&lt;br&gt;- Identify different applications, business model options and associated uncertainties&lt;br&gt;- Think bigger in terms of platforms and new areas.&lt;br&gt;- Focus on future options that could bring significant value.</td>
</tr>
<tr>
<td><strong>Incubation</strong></td>
<td>- Experiment with options&lt;br&gt;- Reduce uncertainty via a learning plan.&lt;br&gt;- Maximize learning per money spent.&lt;br&gt;- Be guided by learning to avoid developing a solution too early.</td>
</tr>
<tr>
<td><strong>Acceleration</strong></td>
<td>- Develop, scale and launch&lt;br&gt;- Build from the entry application or business model(s) and follow on with other applications identified in Discovery and Incubation&lt;br&gt;- Systematically transition to the future home within the BU or beyond</td>
</tr>
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</table>

**Output of Discovery:** Business Concept  
**Output of Incubation:** Business Proposal  
**Output of Acceleration:** New Growth Platform
## Applying an Uncertainty Lens

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical</td>
<td>Understanding technology drivers, benefits and feasibility of technology</td>
</tr>
<tr>
<td>Market or Mission</td>
<td>Understanding market or mission drivers, value creation and business viability</td>
</tr>
<tr>
<td>Resource</td>
<td>Accessing money, people and capabilities internally and externally</td>
</tr>
<tr>
<td>Organization</td>
<td>Gaining and maintaining organizational support</td>
</tr>
</tbody>
</table>
Business Readiness Levels

Discovery
Early, mid, late

Incubation
Early, mid, late

Acceleration
Early, mid, late

Technical

Market or Mission

Resource

Organization

Progress through maturity levels

Manage across uncertainties
The ABCs and the Elephant (R&O Issues)

Admit what you don't know

Bring structure to chaos

Communicate, communicate, and communicate more.

…..or risk failing because we do not reduce uncertainty!
Strategic Innovation Management Capability

What is it?

Why build it?
Strategic Innovation Makes a Difference.

The most innovative global firms

Have seen +16% more revenue growth (over 3 years compared to least innovative global firms).

Aim for twice as many strategic innovations.

Expect to grow 3x faster (than least innovative global firms).

These get a head start as:

Only 35% of global firms bring strategic innovation to board priority.
47% of global firms lack insight and 46% lack governance structure to handle strategic innovation.

Sources: rInnovation Group, 2019, with data from PwC, 2013: "Breakthrough Innovation and Growth"; Deloitte, 2016: "Radical Innovation and Growth"
What is a Capability?

**Strategic Innovation**
A systematic approach to navigate uncertainty through a portfolio options mindset

**Capability**
Organizational enabler for uncertainty reduction to deliver market & organizational value

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Types of Innovation Along the Uncertainty Continuum*

- **Low Uncertainty**
  - Incremental Innovation, New Product Development
  - Evolutionary, Platform, Adjacent Innovation

- **High Uncertainty**
  - Revolutionary, Breakthrough, Radical, Transformational Innovation

*Adapted from "Beyond the Champion: Institutionalizing Innovation Through People"
Why Build a Capability?

- Invest in processes or capabilities that leverage R&D.
  - Envision growth or business platforms.
  - Adopt learning approaches over phase gates.
  - Leverage internal competencies and fill gaps externally.

- Incubation holds the power to mitigate business risk, overcome ‘incrementalization’ and increase odds of success through*:
  - Strategic direction (or intent) to guide teams through ambiguity
  - Leadership committed to capability building and nurturing right talent
  - Holistic systems approach

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The Innovative Organization Building Blocks
## Enabling Transformation

<table>
<thead>
<tr>
<th>Common Language</th>
<th>Uncertainty Mindset</th>
<th>Strategic Intent</th>
<th>Right People and Set-up</th>
<th>Leadership Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be on same page.</td>
<td>Embrace change.</td>
<td>Create future distinct from current strategy.</td>
<td>Bridge cultures of operational and innovation excellence.</td>
<td>Build a sustainable innovation capability.</td>
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### Making Room for Co-existing Cultures

- **Incrementalization = Loss of potential.** Efficient operational systems dominant over entrepreneurial ones.

<table>
<thead>
<tr>
<th>Strategy and Type of Innovation</th>
<th>Core Business Drivers</th>
<th>Innovation Culture Drivers</th>
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<tbody>
<tr>
<td>Existing Strategy</td>
<td>[---------]</td>
<td>Strategic Intent</td>
</tr>
<tr>
<td>Incremental Innovation</td>
<td></td>
<td>Beyond Incremental Innovation</td>
</tr>
<tr>
<td>Sustain and Extend</td>
<td></td>
<td>Grow and Renew</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Culture</th>
<th>[---------]</th>
<th>[---------]</th>
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</thead>
<tbody>
<tr>
<td>Operational Excellence</td>
<td></td>
<td>Cultivation</td>
</tr>
<tr>
<td>Customer Driven</td>
<td></td>
<td>Market Driven</td>
</tr>
<tr>
<td>Execution Skills</td>
<td></td>
<td>New Business Creation Skills</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Profile</th>
<th>[---------]</th>
<th>Navigating Uncertainty</th>
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<tbody>
<tr>
<td>Risk Averse</td>
<td></td>
<td>Directed Learning</td>
</tr>
<tr>
<td>System Efficiency and Operations</td>
<td></td>
<td>Strategic Partnerships</td>
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<table>
<thead>
<tr>
<th>Investment Timing and Revenue Focus</th>
<th>[---------]</th>
<th>Longer Term:</th>
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<tbody>
<tr>
<td>Shorter Term: Key Performance Indicators (KPIs)</td>
<td></td>
<td>Key Achievement Indicators (KAI)</td>
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</table>
Valuing Different Skillsets Equally

- Technical, Business and Strategic Know-How

<table>
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<tr>
<th>Development Teams:</th>
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<tbody>
<tr>
<td>Composed of cross-functional areas</td>
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<tr>
<td>Qualities</td>
</tr>
<tr>
<td>- Predictability</td>
</tr>
<tr>
<td>- Technical expertise</td>
</tr>
<tr>
<td>- Functional depth</td>
</tr>
<tr>
<td>- Attention to detail</td>
</tr>
<tr>
<td>- Operational efficiencies</td>
</tr>
<tr>
<td>- Process driven, pre-determined gates</td>
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</table>

**Mindset:**
Follow process to consistently deliver quality

<table>
<thead>
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<th>Innovation Teams:</th>
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<tr>
<td>Composed of cross-functional individuals</td>
</tr>
<tr>
<td>Qualities</td>
</tr>
<tr>
<td>- Strategic perspective</td>
</tr>
<tr>
<td>- Passionate commitment</td>
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<tr>
<td>- Talent attraction and leadership</td>
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<tr>
<td>- Excellent communication skills</td>
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<tr>
<td>- Stakeholder analysis and management</td>
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<tr>
<td>- Learning driven, pivots towards end game</td>
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**Mindset:**
Embrace change to seek new opportunities
<table>
<thead>
<tr>
<th>#1</th>
<th>Differentiate risk and uncertainty.</th>
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</thead>
<tbody>
<tr>
<td>#2</td>
<td>Navigate uncertainty.</td>
</tr>
<tr>
<td>#3</td>
<td>Move beyond process to system view.</td>
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<tr>
<td>#4</td>
<td>Prioritize capability development.</td>
</tr>
<tr>
<td>#5</td>
<td>Adapt and change course through learning.</td>
</tr>
<tr>
<td>#6</td>
<td>Call for committed, agile leadership</td>
</tr>
<tr>
<td>#7</td>
<td>Create purpose and ambition via strategic intent.</td>
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</table>
#1: Differentiate risk and uncertainty.

**Risk World**

The end game is clear. What we know. Driven by requirements.

**Uncertainty World**

The end game is not clear. What we do not know yet. Driven by questions.

### Technical or Infrastructure Requirements
Technology or infrastructure exists. Specifications are defined to develop a solution.

### Market or Mission Requirements
Market or mission is familiar, already exists. Data is available to support the business case.

### Resource Requirements
People and money are assigned. Projects are prioritized through a portfolio process.

### Organization Requirements
Projects have a home or sponsor. Commitment comes from a clear strategy and metrics.

### Technical or Infrastructure Uncertainty
Is it even feasible? What could we leverage or create? How could this change the world, performance or costs?

### Market or Mission Uncertainty
How do we learn about unfamiliar or nonexistent markets? How do we test new applications and business models?

### Resource Uncertainty
How do we find the right people and get seed funding? How do we fill our knowledge gaps internally, externally?

### Organization Uncertainty
How does this fit with our strategic ambitions? How do we seek support with no credible business case?
#4: Prioritize capability development.

1. Clear Purpose, Direction and Scope (with Strategic Intent)
2. Supportive Leadership & Culture
3. Identifiable Organization Structure, Processes and Rich Interfaces
4. Governance and Decision Making at Opportunity, Portfolio and Strategic Levels
5. Requisite Skills Development and Talent Management
6. System Resources (With Capacity)
7. Appropriate Metrics and Reward Systems
#6: Call for committed, agile leadership.

Managing organizational dilemmas, often with conflicting objectives

1. Successful organizations excel at operations, incremental innovation and strategic innovation **simultaneously**.

2. Challenge of balancing important with urgent in the portfolio.
   - Urgent: Meet current business needs through operations and development/incremental innovation.
   - Important: Dedicate resources for strategic innovation capability building.
Building a Sustainable Capability

What does it take?
## Charting the Course

<table>
<thead>
<tr>
<th>The Right Opportunities</th>
<th>Follow a “portfolio of options” approach to allow for flexible team and funding allocation. Adopt an opportunity versus project mindset. Stay the course, pivot/redirect or stop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thinking Big Enough</td>
<td>Think of options in Discovery. Be careful of selecting one application, one business model option and one future home too soon.</td>
</tr>
<tr>
<td>Time for Experimentation</td>
<td>Allow time for experimentation in Incubation. Focus on speed of learning and learning per money spent. Do not transition to Acceleration too soon or too late.</td>
</tr>
<tr>
<td>The Right Setup</td>
<td>Clarifying structure, mandate, roles and responsibilities as well as funding model. A common language to be on the same page. Metrics to support opportunity progression.</td>
</tr>
<tr>
<td>The Right Teams</td>
<td>Discovery and Incubation skillsets are different from those required for Acceleration and development. Coaches are catalysts to enable the culture change.</td>
</tr>
</tbody>
</table>

**Failure happens when we get ahead of our learning and drive to a solution too quickly!**
What Is Your Capacity for Innovation?

- What is your appetite for moving beyond what you do today?
- What level of business risk can you take on?
- How could you create an innovation strategy to transform your company?
- What would be required in terms of talent and investment?
- How would you build your management capability to be successful with strategic innovation?

Capacity Defined as…

The context and conditions for innovation in the company at a given time.

The ability and will to resource and pace opportunities from incremental through to transformational innovation.
Unlock the possibilities ...
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