Innovation management

Digitalization vs. innovation management

Digitalization is one of the most frequently used business terms these days. But where will it take the company? Will it be better off at some time in the future or is it a gamble with an unclear outcome? Given the hype around some developments in the digital space, it is worth revisiting some of the developments and calibrating the approach to digitalization.

Digitalization is a key area of focus in many companies. Indeed, the speed of technology development is enormous and every day new technology businesses enter the scene. Let´s take a break and revisit this evolution.

- **Importance of digital businesses created so far:** As of today, 4 of the top 5 global companies in terms of market cap are digital companies – Apple, Alphabet, Microsoft and Amazon. Together they have a market cap of USD 2,2 TR. On the 6th rank Facebook follows with a market cap of USD 397 BN (1 March 2017).
- **Investments into digitalization:** As of 2019 USD 2.1 TR will be invested into digitalization (IDC)

As digital company market values soar, corporations launch digitalization strategies and drive individual digitalization initiatives forward. Without any doubt, several of these programs will deliver what they were tasked to achieve. Even if this is the case and targets set by senior management will be achieved, will the company be better off afterwards?

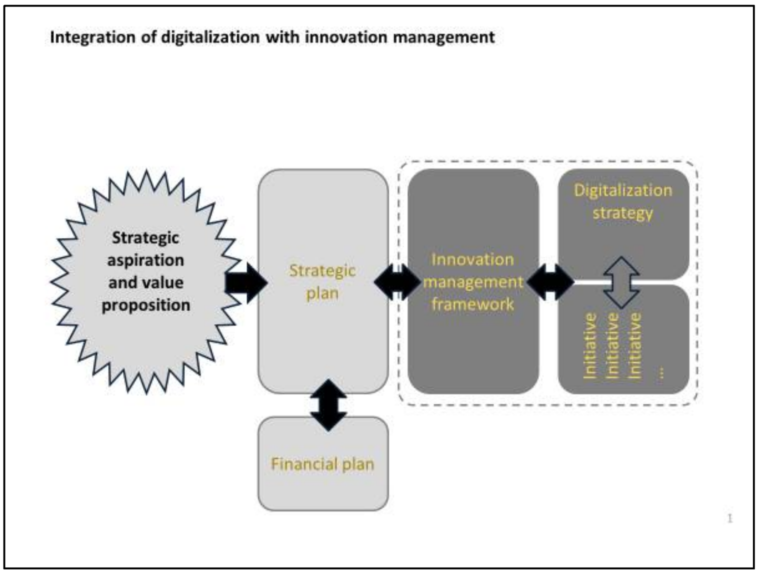
Some surveys draw the distinction between digital innovation leaders and their high profitability and digital laggards with low profitability. But how about the other companies which are neither leaders nor laggards but which try to identify their approach to digital which is best suited for them?

Digitalization is not a goal but an enabler to achieve goals

A significant part of the digitalization discussion is flawed. It is not a goal to be digital but it should be a result of achieving a better **value proposition for the customer** and as a consequence enterprise value. Hence, numerous digitalization discussions start from a wrong departure point.

More fundamentally what really matters is the companies´ approach to innovation management and the innovations. The stakeholders are

- **Customers:** How does the company ensure a better customer value proposition and customer experience. This can be further broken down into contributing items and measured accordingly e.g. relative price, product/service quality, response time, lead time to delivery, lifecycle costs.
- **Employees:** How can corporate innovations enable and support the individual as well as organisational units to better contribute to the customer value proposition and improve the efficiency and effectiveness of the operating model.



The solution to some of these challenges is not necessarily a digital approach but might be one. Additionally, a digital solution might even facilitate a step change making a conventional solution or approach redundant.

Innovating in a no-linear and non-deterministic market environment

It is important to understand that digital solutions need to be fit for purpose. These types of solutions will require iterations to have them established. Additional iterations are required to keep them up to date and in line with evolving requirements.

It would be a misconception to assume that senior management puts out an order and the organisation delivers.

On the other hand, there are companies which get involved with digital and which approach the topic very much with a linear top down thinking. What might be the setbacks? Initiatives might be created which can internally be sold as progress but which lack market traction as they miss out on an improved customer value proposition. What are examples of such programs?

- **App creation:** This nicely paints a picture of an innovative organisation. It is mainly used for communication purposes (which could also be done through other channels) and does not leverage technology for customer engagement
- **Development of new proprietary technology environments:** A new technology environment is established and ideally additional partners are signed on. The main line of thought is that ´the winner will take it all´. The customer could not care less – his main problem is not a lack of technology environments but a lack of a common standard which jeopardizes the interoperability e.g. in IOT.
- **In-house developments:** In-house developments in a lot of cases take time and are costly. A `not invented-here syndrome´ is not uncommon. Being more pragmatic and rational to consider partnerships and acquisition to complement in-house initiatives would be a benefit for the innovation agenda.

Old-world linear top down thinking needs to be overcome. But how should that work?

Human interaction drives innovation

In order to innovate and potentially digitize and digitalize, (informal) human interaction is absolutely key. Solutions aspired are complex and cannot be fully specified upfront. But what are the ingredients for such a set up?

- **Decide on fit for purpose organisational structure –** Organisational structure and organisational conduct need to be determined up front. Is the innovation quite fundamental, a segregation from the legacy organisation should be contemplated. At a later stage, different organisational units could be integrated again. In case incremental or business process innovation is being pursued, this could take place in the legacy organisation.

- **Create an innovation friendly culture –** This is more easily said but much more difficult to achieve. Key is an interactive work environment and the ability to communicate freely vertically as well as horizontally.
- **Enable risk taking and allow failure –** Traditional organisations sanction failure and hence individual risk taking is undermined. To assume that innovation comes without risks and failure is another misconception. Failure needs to be possible. However, management obligation would be to establish a process which contains risk taking and defines an institutional approach how the organisation will learn from mistakes. In technology companies this is done through stage gating in R&D processes with clearly defined milestones linked to economic considerations.
- **Link innovation goals to strategic aims of the company –** Applying a lifecycle rationale to business activities allows to distinguish generically between three different type of businesses a) old contracting legacy business b) mature core business c) growing innovative business (with the expectation to significantly contribute to the future revenue stream). Especially b) and c) demand innovation. For a mature core business (b), process innovations are important to cash out over a long period of time. For a growing innovative business (c) a range of innovations is required – typically, product/ service innovation, manufacturing and production technology as well as go-to-market innovation and customer acquisition. In all these cases, digital solutions might help to improve on all the performance dimensions e.g. quality, costs and speed. For a growing innovative business, the degrees of freedom are significant and the opportunity exist to innovate the entire value chain.

Case example: Conflicts in innovation management and digitalization (B2B manufacturing company)

The company had established a digitalization department reporting into the CTO of the company. The department was tasked to drive digital business innovation. In the initiative, numerous new business models where identified. The company faced several conflicts: Business owners where not entirely aligned with initiatives developed by the digitalization team. Additionally, a fundamental conflict mounted. Digital business models where dependent on technology propositions and interfaces with the companies hardware. Some of them promised to generate value if they would be implemented quickly and build out over time. For the hardware, the company exhibited multiyear innovation cycles which conflicted with fast paced new business models. Additionally, some of the new business models also cut into the profit pools of the legacy businesses

Digitalization needs to be embedded into an innovation management approach

What are the learnings?

- **Innovation management is risk and opportunity management typically in a risk averse corporate environment:** As any other corporate activity, innovations need to take place in a given well defined budget framework. Within this budget, they need to deliver results. Earlier we discussed briefly how this is done by technology companies. In the start-up context Eric Ries (The Lean Startup) emphasises this aspect as well but uses a slightly different language. He talks about `innovation controlling` and the need to `pivot` once the innovation plan and innovation progress deviate. It means that new solutions need to be found to further progress the business and to avoid that the innovation and business building activity stalls.
- **Digitalization initiatives need to be embedded into an innovation management approach:** Digitalization is no substitute for a innovation management approach and vice versa. Digitalization should follow the innovation agenda which again is aligned with the strategic and financial plan. Additionally, digitalization is sometimes confused with digitization – both are quite similar terms but are not the same. Digitization stresses the technical aspects to move a business into the digital sphere, business dimensions are not really considered.
- **Digitalization requires creativity which needs to be governed through the innovation management agenda and framework:** Digitalization initiatives in some companies fall short of this requirement. Therefore, important aspects to make the digitalization initiative successful are not defined. Communication channels and cooperation models in the organisation are not defined. Conflicts of interest and incentives as set out in the performance management process prevail. This undermines human interaction which again is the basis for collaboration across organisational hurdles and fosters creativity.

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