Seeking Change from Innovation in 2016

HYPE Innovation Report

by Paul Hobcraft

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Paul researches across innovation, looking to develop novel innovation solutions and frameworks where appropriate.

His aim is to provide useful knowledge about innovation that builds understanding and supports individuals, teams and organizations in their innovation activity so as to apply what I have learnt to further develop the readers core innovation understanding.

Content

Introduction

In these early months of 2016, as in the final months of 2015, we have seen numerous reports raising many questions on innovation's future role. The disappointing return and contribution to growth and consultant reports have been outlining many of the present challenges yet to be overcome before innovation becomes truly 'core inside' and fully recognized as an essential organization management discipline. Innovation is being questioned at all levels, and nowhere more than within the boardroom, facing the challenge that it should be providing a large part of today's revenue. On innovation's shoulders hangs a heavy burden. We need to find solutions to the heavy lifting that is required and we need to make some hard choices.

It seems our boardrooms are struggling with all that surrounds innovation as much as the innovators themselves, who so often are not able to explore beyond their own comfort zones and existing responsibilities. In its present state, innovation suffers from many things, including a growing ignorance or narrow-mindedness, and many not deeply involved in innovation activities are not appreciating the organizational changes innovation requires, a greater boardroom representation being just one of them.

How can we achieve a greater engagement across an organization to 'push and learn', 'adapt and explore', 'experiment and exploit'? And how can we, through this continuous learning, replace and reframe many of today's innovation practices and establish broader engagement and corporate-wide practices? Innovators need to make their boards pay real attention to the value creation potential found in innovation, but to achieve this, we need to significantly improve our understanding and execution of innovation.

Confirming my impression with this recent outpouring of innovation reporting

In many of the reports I have read and reviewed, innovation does have a real identity issue at present. That is coming through significantly in what I'm reading: we have to learn from the past, and refresh the practices and requirements that innovation needs to deliver on its promise to be a growth driver and value creator that fuels sustainability within our organizations.

We still suffer from silos of knowledge, and they are presently hindering the 'greater good'. We do have sufficient analyses to help us identify the barriers and point ways at solutions, but who wants to listen and commit to a new innovation way?

We still fall far too often into the trap and get 'bounced around' by the latest fad – the wish to just jump on the latest practice and not truly determine our innovation personality and strategic need, our unique situation, and then structure the innovation capabilities and capacities to develop the real growth our businesses crave for. Today innovation is being held back due to a lack of confidence that it can deliver the results needed. Yet this reluctance to fund it, recognize its higher risk, unique time frames and levels of uncertainly impede innovation to fully deliver on its promise.

In many organizations we see the ones wanting to continue s to hold onto predictability and economic certainty, all nicely wrapped up in effective and efficient ways to handle this, while the world is becoming more volatile, with a growing uncertainty of where the next competitor will be coming from.

Innovation is caught in the middle, presently not able to flex its muscle as it is not fully formed. But solutions are emerging from the many research contributions about innovation today, and in the future.

The recent months of innovation reporting

This early mid-term 2016 report attempts to summarize some of the recent thinking and reporting that has been undertaken by different consulting or research institutes. There has been a continued momentum based on consultants' extensive reach within organizations.

We are seeing the consulting industry give innovation a much higher focus as they increasingly advise on disruption, as well as digital and technology changes, providing solutions to the changes needed with new business models. Innovation becomes increasingly central to all of these challenges. Trying to keep up to date with the present flow of reports on different aspects concerning innovation can be overwhelming. The ability to pull the different strands together into a cohesive whole is daunting, to say the least. This summary is only a snapshot of the ones I felt held a relevant message to innovation practitioners.

Providing a brief snapshot.

I have selectively pulled out eight related reports or focal areas that provide helpful insights and guidance to help shape the changes that need to take place in innovation.

There is a real depth within these reports, they are relevant to what I believe are your issues and needs. Bringing different strands of thinking together hopefully saves you time and gives you the option to investigate more, if needed.

One important goal was to contain the report to a certain size and provide a lot of visuals to speed up the understanding and absorption. You can then choose to take it deeper if you want, and work these ‘triggers of thoughts’ into your thinking to help and support your innovation work.

If you need help we are here to help

Of course, if there are areas of knowledge that need deepening and you feel you need to explore these further, HYPE and I are there to provide deeper connections and insights. This is part of my advisory bag, as well as HYPE's mission: to support you in your innovation advancement.

So what is in this reporting mix?

The first three reports are signaling some worrying issues surrounding the management of innovation. In dealing with growing turbulence, it does seem the choices being made are often cloudy, ignoring some of the basics and resulting in poor execution. The boardroom is as concerned about the future as the innovator is about providing the expected results.

You cannot escape the threat of disruption. Two reports provide really thoughtful thinking on the disruption phenomenon. Disruption today is innovation's opportunity and we need to master a deeper understanding to find the ways to be 'disruption ready'.

There are always countless suggestions on leading practices and ways to differentiate. I picked three reports that provide a stimulus to our need to constantly rethink our practice.

I simply hope you extract some value for your own innovation understanding and within these summaries you pick up on something that has the potential to change your innovation work, to place you in a better position, to keep that innovation charge well energized and which is targeted at your goals.

Enjoy the read and I can only apologize if a report you found in your own searches during the early part of this year has failed to make the cut here. No choice is perfect, these were my choices alone. I hope you find much to stimulate your thinking about innovation.

1. Dark Shadows Are Looming over Innovation - Three Worrying Reports

It just does not seem boards are confident in innovation or those practicing it at present, there is a restless dissatisfaction.

As the following three reports by Innosight, Accenture, and Deloitte are showing, innovation today is apparently still seen as too tentative, with the result that it gets narrowed down to fit existing business models or budgets. The problem is the poor understanding of innovation and its processes as an emerging management discipline. Its results seem to constantly disappoint. Somehow we need to break out of this innovation dilemma.

There seems to be a continued reluctance in wanting to take ownership for innovation at the top of our organizations, someone who is willing to invest more confidently in, e.g., a series of experiments, to evolve the future of their business in iterative, exploratory ways. It is not yet a core discipline or focal point; innovation continues to be left to others mostly outside the boardroom.

Growth stays morbid and companies resort to simply cutting costs and reducing choice, quality, and resources to handle this. The future is outsourced to others, who are more than ready to take it on and learn – and to take your place eventually, in this era of disruption. Innovation today calls for bolder leadership.

The growing risk is becoming one of the dark shadows entering the boardroom

Enter the Grim Reaper into our boardrooms, the black-cloaked, scythe-wielding personification of death. He comes for those that fail to understand innovation as a core need, as essential as understanding financials. Those that fail to see the opportunities and the chance to manage the business differently, in more agile, adaptive, and responsive ways.

We are simply letting down the communities, the stakeholders, our customers, and our futures by ignoring the discipline of innovation management, by not heeding all these warnings coming from countless messengers, telling us to "change or die", to embrace innovation fully and not in the current piecemeal fashion based on past management practice or limited understanding!

The Grim Reaper is starting to knock on many boardroom doors for those that fear bold innovation, those that kill innovative projects far too early because they can't guarantee the expected business returns based on established measuring practices. Let him cut away the dead wood and we can all move ahead.

Corporate Longevity: Turbulence Ahead for Large Organizations (Innosight)

This report provides a stark reminder that half of the S&P 500 companies are expected to be replaced over the next 10 years, and a new survey points to organizational inertia and lack of long-term vision. Executives say that growth strategy is being undermined by day-to-day decisions and that too many companies lack a coherent vision of the future.

The report suggests we're entering a period of heightened volatility for leading companies across a range of industries, with the next ten years shaping up to be potentially the most turbulent in modern history.

Table 1: S&P 500 Churn Over the Past Six Years
Sample companies that have exited and entered the index

EXITED THE S&P 500	ENTERED THE S&P 500
Family Dollar	Dollar General
Eastman Kodak	Facebook
Covidien	Regeneron
Computer Sciences Corp.	Accenture
Abercrombie & Fitch	Fossil Inc.
Sprint	Level 3 Communications
International Game Tech	Activision Blizzard
J.C. Penney	Trip Advisor
National Semiconductor	PayPal
Safeway	Universal Health Services
H.J. Heinz	Altera
US Steel	Under Armor
Radio Shack	Illumina
Dell Computer	Seagate Technology
Avon	NRG Energy
The New York Times	Netflix

There are a variety of reasons why companies drop off the list.

- *They can be overtaken by a more quickly growing company.*
- *They can shrink and fall below the size threshold (currently that amount is about $2.5 billion).*
- *Or they can enter a merger, acquisition or buyout deal with another firm.*

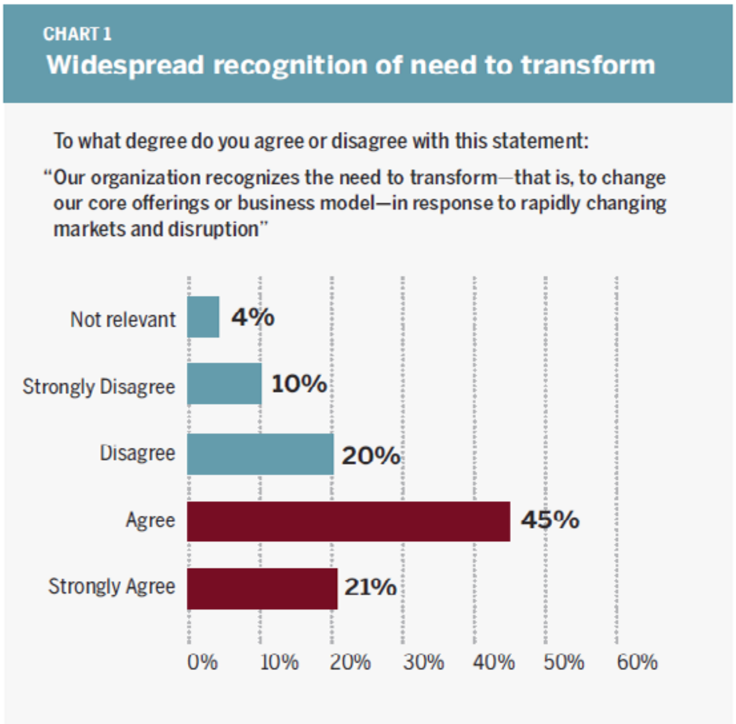
Another force that portends displacement in the near future is the rise of so many disruptive startups with multi-billion dollar private valuations. While some may stumble, unicorns such as Uber, Airbnb, Dropbox, Spotify, and Snapchat may stage IPOs in the near future. Some newer public firms like Tesla Motors easily meet the valuation threshold for inclusion and will be added to the S&P 500 once they meet certain liquidity benchmarks.

Detecting marketplace fault lines

This has implications for corporate leaders today – and tomorrow. No business survives over the long-term without reinventing itself. To improve the odds of corporate longevity, senior leaders must be vigilant for potential "fault lines" in their industry that may signal a weakness in tried-and-true business models, for example, or a shifting customer base.

How prepared are companies to respond to this increasing disruptive change?

Innosight asked respondents whether their organization needs to transform – that is, to change their core offerings or business model – in response to rapidly changing markets and disruption. (See chart 1.)



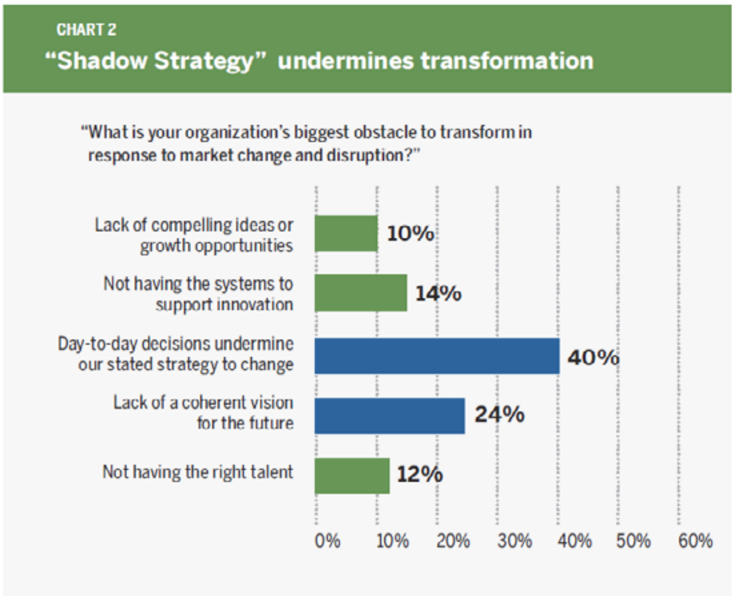
A full 66% agreed or strongly agreed with the transformation imperative.

At the same time, more than 37% of respondents said they were not confident that they could achieve a transformation over the next 5 to 10 years.

Only about 15% said they were "very confident."

What accounts for this confidence gap?

One major factor is what they call the "shadow strategy," when organizations default to standard operating procedures that perpetuate flawed models at the expense of new growth strategies. In response to the question, "what is your organization's biggest obstacle to transform in response to market change and disruption?", Innosight received the following responses:



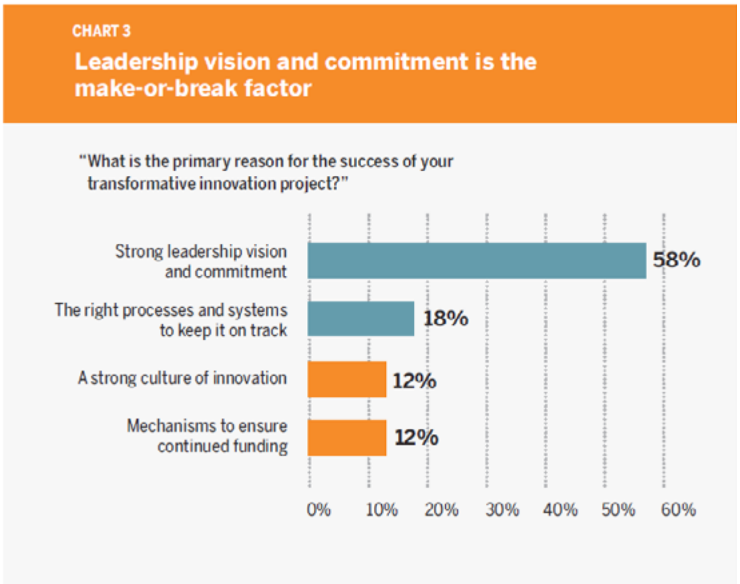
40% of survey respondents blamed day-to-day decisions that undermine the stated strategy to change

Lack of imagination stands out as another major culprit, as 24% said that a coherent vision for the future is what's missing most.

The question is, will it change?

Committing to long-term innovation

Yet some companies do manage to overcome those forces of inertia. On the positive side are the companies that say they are succeeding with long-term innovation. For the 50 large companies in the survey which report having launched a transformative innovation that was met with at least some success, strong leadership and commitment is a primary driver. (See chart 3.)



A solid majority of 58% of the executives cite committed leadership as the single biggest factor determining success in the marketplace.

Meanwhile, 18% cite strong processes and systems to keep it on track, 12% cite a strong culture of innovation.

And 12% cite mechanisms to ensure continued funding..

Yet, as they are suggesting in the report, the survey results strongly highlighted how difficult it is for leaders to break free of the organizational inertia of existing mindsets and processes in large organizations.

Innosight in this report has a great passage: "Viewed as a larger picture, the lifespan serves as a barometer for marketplace change. And the stakes couldn't be higher. Shrinking lifespans are in part driven by a complex combination of technology shifts and economic shocks, some of which are beyond the control of corporate leaders. But frequently, companies miss opportunities to adapt or take advantage of change. For example, they continue to apply existing business models to new markets, fail to respond to disruptive competitors in low-profit segments, or fail to adequately envision and invest in new growth areas, which in some cases take a decade to pay off."

So Innosight suggests: "Leaders have to confront what might be called tensions, balances, or, even in extreme circumstances, paradoxes. They must optimize today, and discover tomorrow. They must be decisive and bet on moonshots, and defer to experiments. They have to focus, and enable serendipity. They have to leverage the core, and break its constraints."

My take away from this report: It seems many companies do not have the appetite to grow when their own investment and return is tied mostly to the present. With such barriers and constraints in place, will we ever be able to break free?

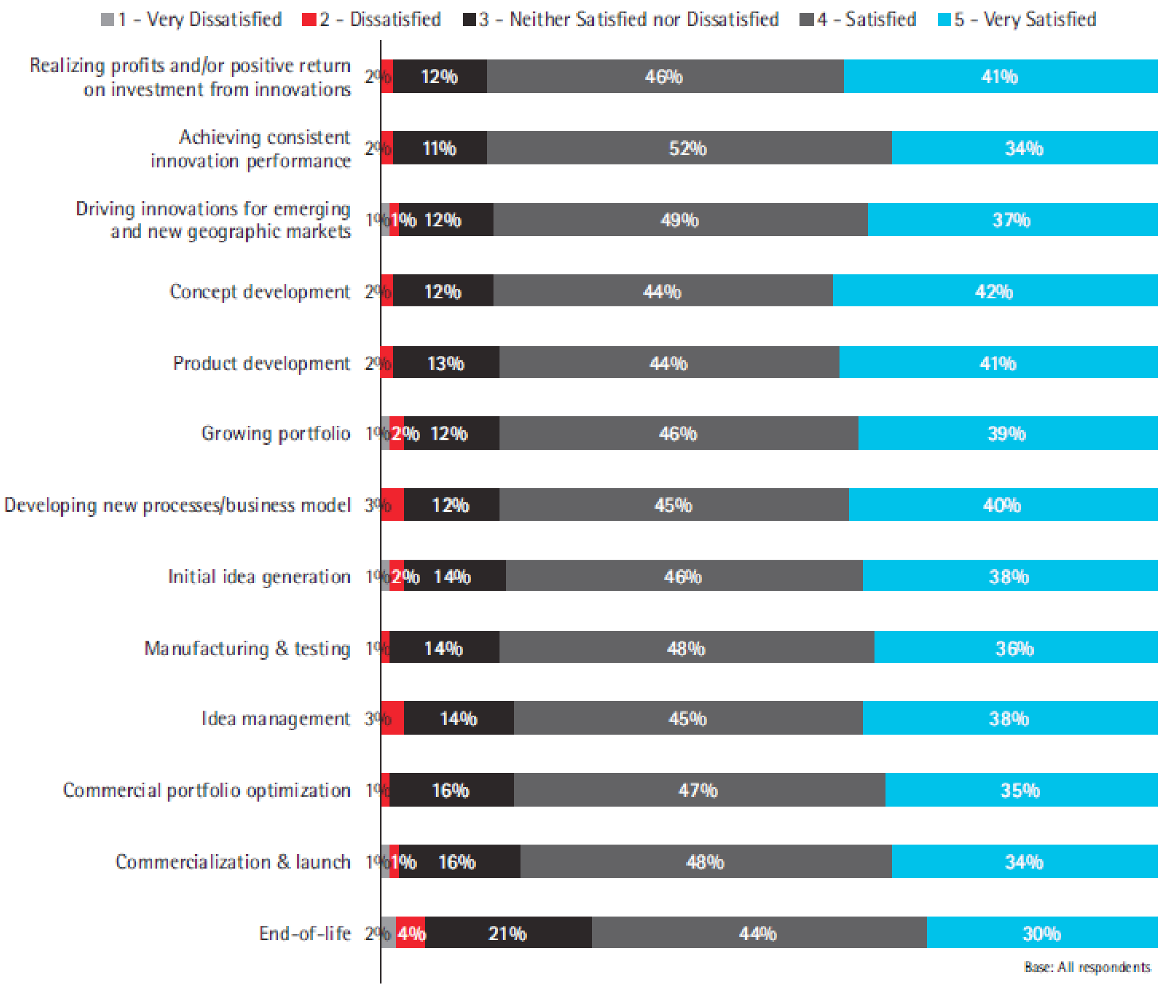
U.S Innovation Survey: Clear Vision, Cloudy Execution (Accenture)

A recent Accenture survey finds that U.S. companies are struggling with various innovation pursuits – a problem they have been grappling with for the past three years and in past survey reports.

The report claims executives refuse to learn from past mistakes, constantly miss opportunities to exploit big ideas, and remain risk adverse. Yet they are asking for breakthrough innovations as their solution and seem surprisingly confident they are on the right track.

Figure 3: Companies are generally satisfied with their performance as innovators.

How satisfied are you with your company's performance in the following innovation areas?



"A significant gap exists between what U.S. companies want to achieve in the innovation arena versus what they are able to do," said Adi Alon, managing director, Accenture Strategy.

"They want to innovate yet they need to take different and bolder actions to achieve transformational, major revenue-generating innovation".

"True innovation requires aggressive changes in technologies, operating models, and talent."

The high cost of missed opportunities

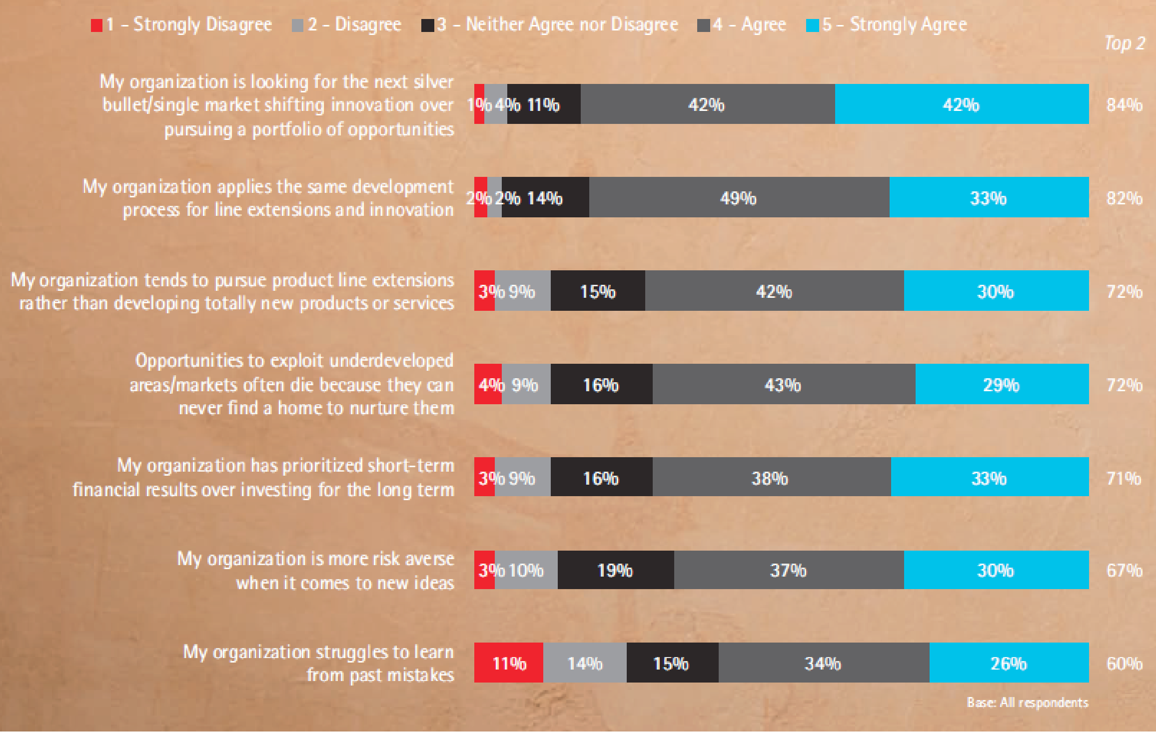
- 72 percent of companies often miss opportunities to exploit under-developed areas or markets (versus 53 percent in 2012)
- 60 percent admit their companies do not learn from past mistakes (versus 36 percent in 2012)
- 67 percent believe their organizations are more risk averse (versus 46 percent in 2012)

Nearly three-fourths (72 percent) indicate their firms often miss opportunities to exploit underdeveloped areas or markets versus 53 percent three years ago. And more than two-thirds (67 percent) believe their companies are risk averse, a large increase from 46 percent revealed in the previous survey.

The survey also shows that 82 percent admit they do not distinguish their innovation approaches between incremental versus large-scale transformational change – meaning they use a single "one-size-fits-all" approach to achieve different goals. Most respondents said they have "big" innovation ideas but are missing an organizational "home" within the company. So their ideas often go nowhere.

Figure 4: Companies do not execute line extensions and innovation differently.

Please indicate the extent to which you agree with the following statements regarding innovation in your organization.

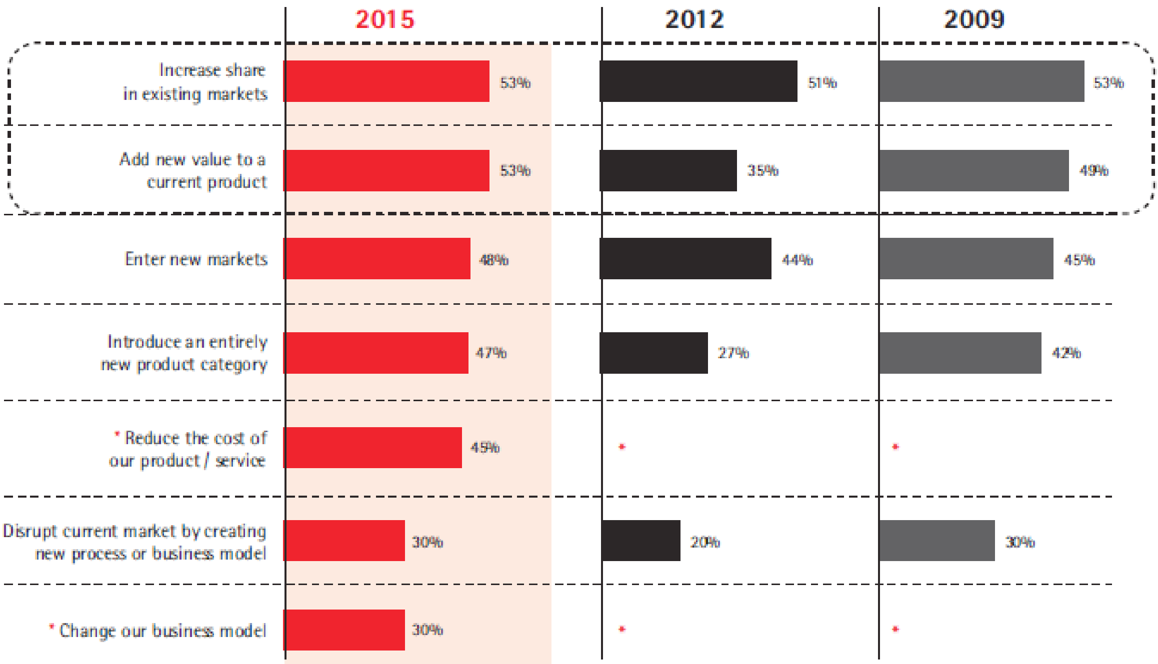


More bullish on disruptive innovation

Despite their companies' innovation shortcomings, respondents are more bullish on disruptive innovation than they were three years ago. For instance, 84 percent said they believe innovation is key for their long-term success compared with 67 percent three years ago.

Figure 2: Companies value innovation, but are not abandoning renovation.

What are the primary goals of your organization's innovation efforts? *Select all that apply*



Creating new products is a priority for almost half (47 percent) of respondents, an increase of 20 percentage points from three years ago. The same percentage of respondents – 84 percent – said they are looking for the "next silver bullet," meaning a market-defining innovation rather than incremental iterations of the same products.

This worries me: The reality is, we are living in a world of disruption and to be simply looking for that ‘silver bullet’ is not a winning position. It is very risky, a gamble we might as well lose. Is that how we need to organize around innovation, looking to stumble over the “silver bullet”?

Watch out, others are playing a different game

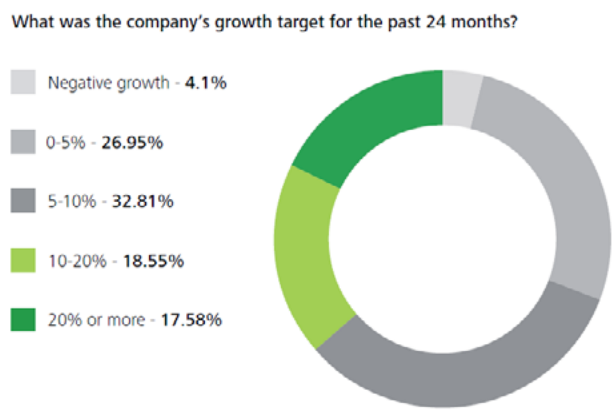
It is far more likely that many incumbents realize far too late that others, schooled in lean and agile thinking, searching for unmet needs or under-served opportunities, are about to disrupt them.

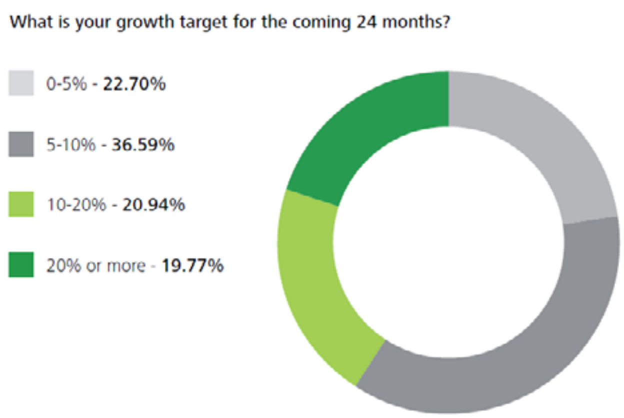
My major take away from this report: It still seems that many US executives are deluding themselves on their innovation competency. They still lack a real understanding of the complexity of proper innovation management. There is a need to put in place a dedicated structure, a well-resourced and competent team, backed by a comprehensive understanding of innovation and its management. That requires a deeper thinking than most have been prepared to invest in to date.

Radical Innovation & Growth- Global Board Survey 2016 (Delloite)

Deloitte Denmark teamed up and along with the Board Network, the danish professional directors association, jointly undertook a survey called "Radical Innovation and Growth: Global Board Survey 2016". It continued the story of how innovation is not really taking hold sufficiently in bigger companies. The top leaders are still failing to get their heads around the changes and the needs for managing innovation differently than what they have experienced in the past.

The report dug into the boards' appetite for growth. It looked at their risk profile and tolerance of failure. It examined the role of innovation in company strategies and its strategic importance on the boards' agenda. Is radical innovation a bulleted point at board meetings?





It just seems within our boardrooms they are ill-equipped for managing in today's world, grappling with the past, holding on to the present and certainly being unsure of the future.

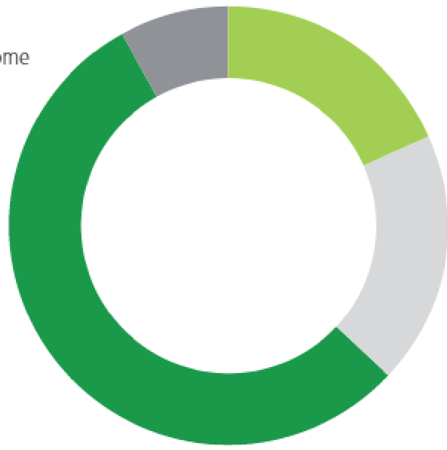
They are struggling to adjust to all that is entering their world.

What is/are in your view the largest barrier(s) at board level to addressing and working with radical innovation?

- Lack of time - **21.46%**
- Lack of insight - **46.72%**
- Presence of risk - **19.19%**
- Lack of organizational design to handle radical innovation - **46.46%**
- Other - **7.32%**

How is failure assessed and dealt with at board level?

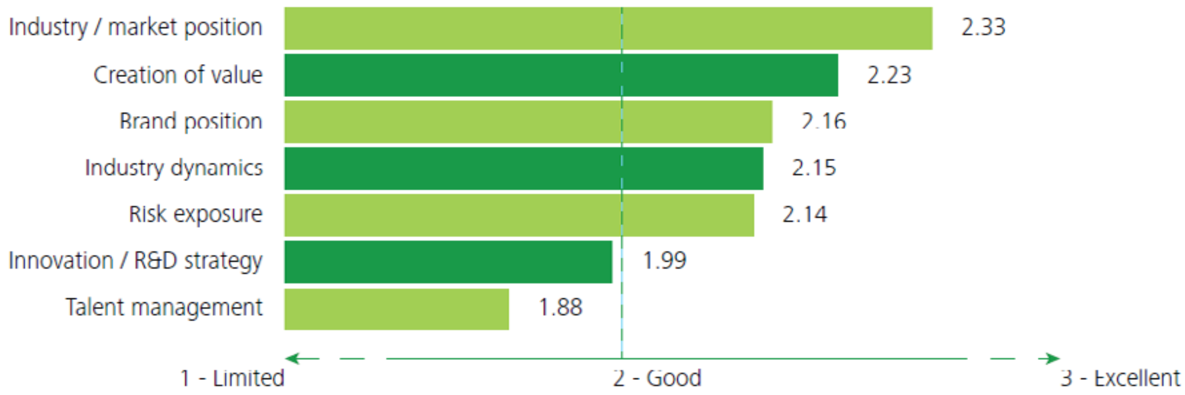
- We try to avoid failure in all our dealings - **18.46%**
- We learn from failure and try harder or smarter next time - **54.87%**
- We allow a small failure rate - **18.72%**
- We take chances and welcome failure - **7.95%**



The survey questioned whether there is a clear alignment of innovation and growth goals.

Do boards spend enough on new initiatives in terms of man hours, consultants, and other investments?

How would you rate the board's overall understanding of the company's strategy within the following areas?



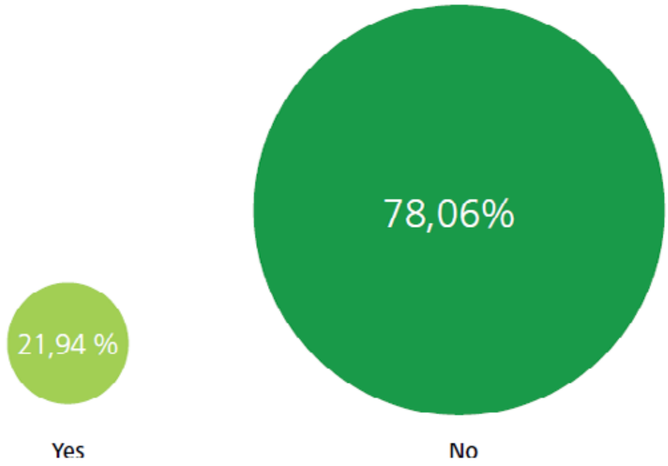
Do you think management invests enough to achieve your company's long-term growth goals?

- Innovation and growth goals are fully aligned - **52.14%**
- We invest too little to achieve our long-term growth goals - **43.38%**
- We invest too much given the output - **4.49%**

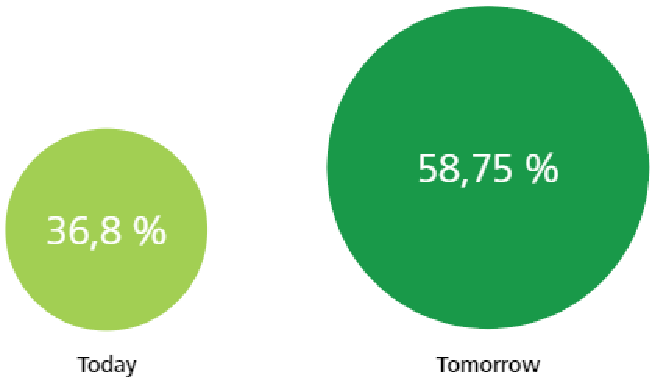
How would you characterize your board's risk appetite with regard to your innovation strategy?

- We try to avoid big financial risks - **33.77%**
- We are willing to take financial risks, given they are quantifiable - **35.71%**
- We are willing to take financial risks, given that the portfolio of innovation projects is well-balanced - **24.46%**
- We are willing to take big bets - **6.06%**

Does your company own a division X or the equivalent of one
(a division with the goal of finding radically new products or services)?



If you own a division X or the equivalent of one, to what extent do you think this particular division is successful in bringing innovative products or services to the company?



They asked if companies actually own a "division X" and if yes, to what extent they are successful.

The report also wanted to address the skill-set at board level to handle digital disruption and the urgency to act proactively. It set about the identifying of board barriers to handle radical innovation and finished with a set of recommendations based on their quantitative findings, topped with first-hand experience and opinions from a number of selected global board chairs.

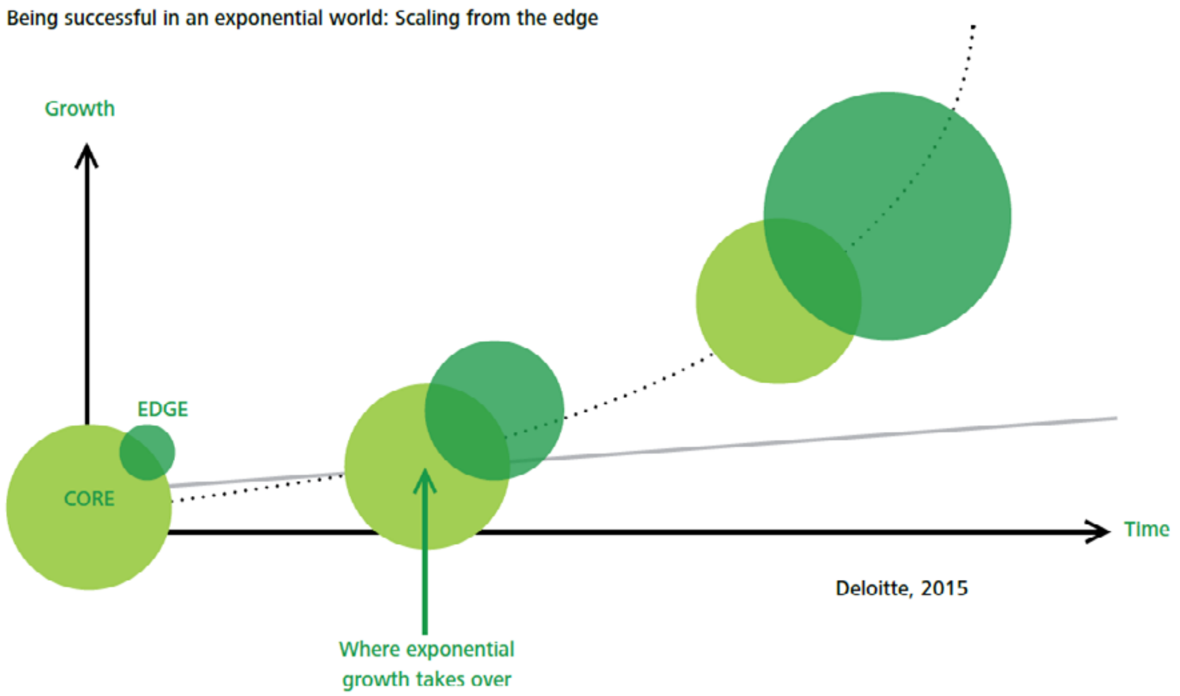
The respondents describe that competition and technology are among the four most important external challenges their companies are facing now. How are the boards taking on the challenging responsibility of overseeing their companies' radical innovation efforts?

The survey concludes: "At board level, what we are seeing is the beginning of a shift among board professionals' responsibility. As if oversight of company strategy, risk management, succession planning, budgeting and forecasting, sales and marketing, operations, auditing, IT, remuneration and tax was not already a fight.

Now corporate governance includes overseeing new business development with its itchy elements of experimentation, demand for scalability, risk of failure and navigation in a fully digitized and unpredictable new business world. On top of this new business today is developed at a pace that leaves little time for thorough analysis and precise risk mitigation"

The report suggests that, while global boards are taking action now, there is room for improvement. Especially when it comes to the need for greater insight into the area of innovative initiatives, grappling with organizational design, dealing with risk and failure, and sheer experience in working in the huge discomfort zone driven by accelerating technology.

> "43% of board professionals think their managements invest too little to achieve the long-term growth goals"
>
> Deloitte & Board Network,
> The Danish professional Directors Association

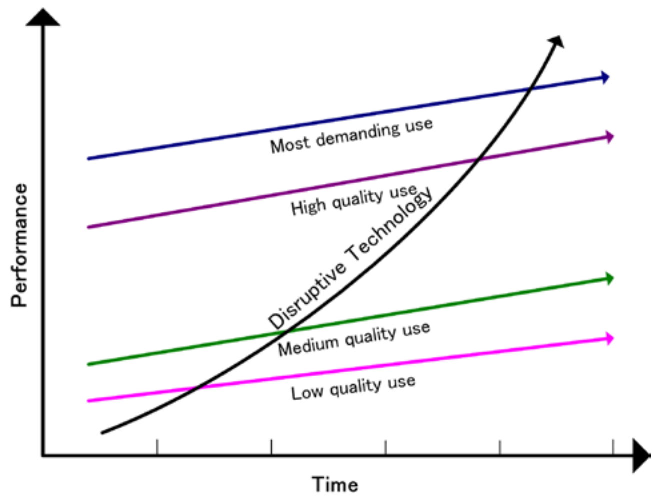


If work has become steadily more demanding for the global board member recently, at least there was a predictability associated with that work. But it is all about to change.

Now, in light of massive technological disruption, the new workload for a board professional revolves around a risky, failure-prone, and unknown innovation territory as they can start seeing themselves as largely inexperienced new business development leaders.

My view: A fresh look at board responsibilities and how it is grappling to understand and manage innovation. The work ahead is going to be tough without real deep engagement – a really good reference and an easy but informative read.

2. Disruption: Nowhere to Hide



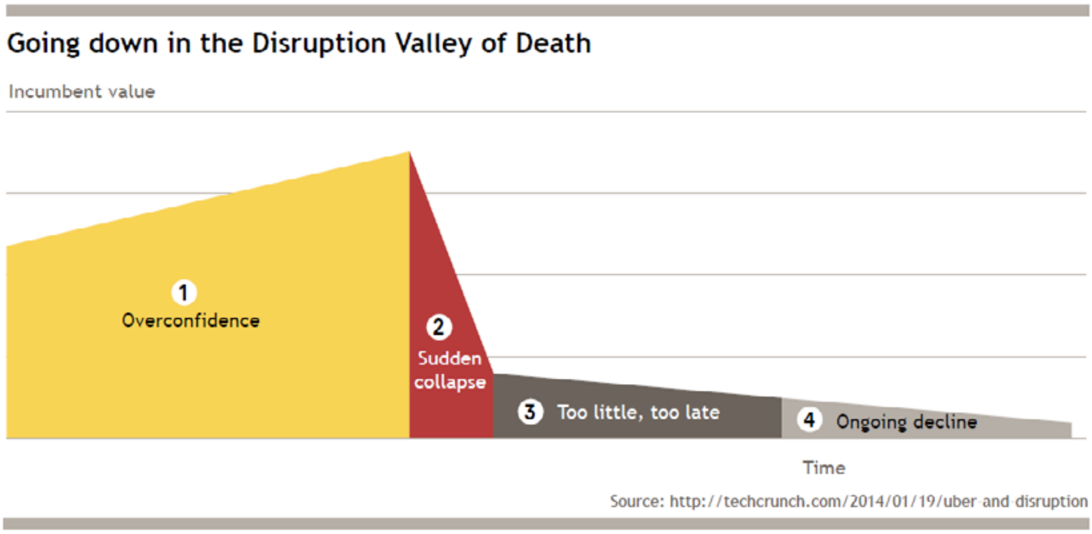
Are we engaging in structured conversations to determine clearer positions to be ready and disrupt ourselves?

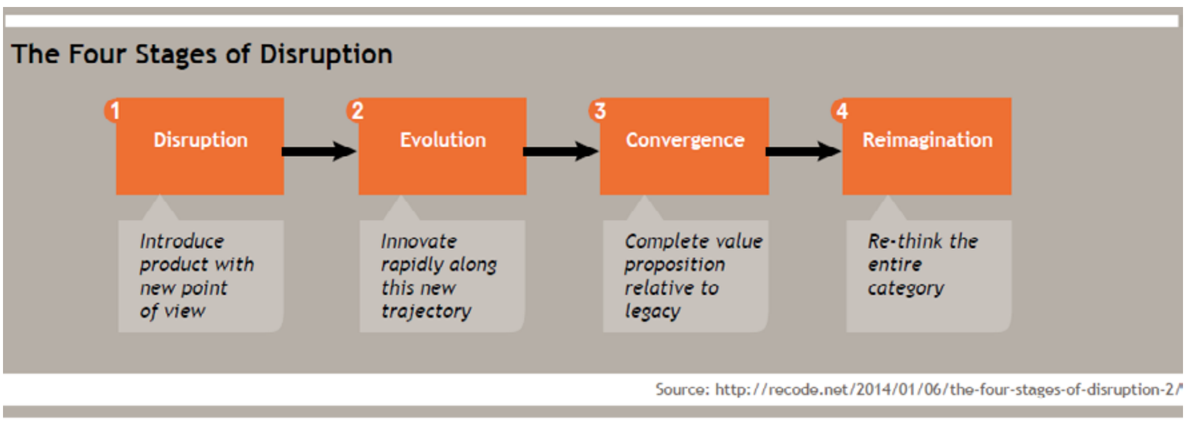
“Disruption is the New Normal.” This is the key message from the executive introduction to this series of reports. Four connected reports offering pieces of a complex, transforming puzzle.

This is a series that you need to take your time to read through and understand. Digital disruption and its proper management comes with a variety of implications for innovation management – and technology holds the key.

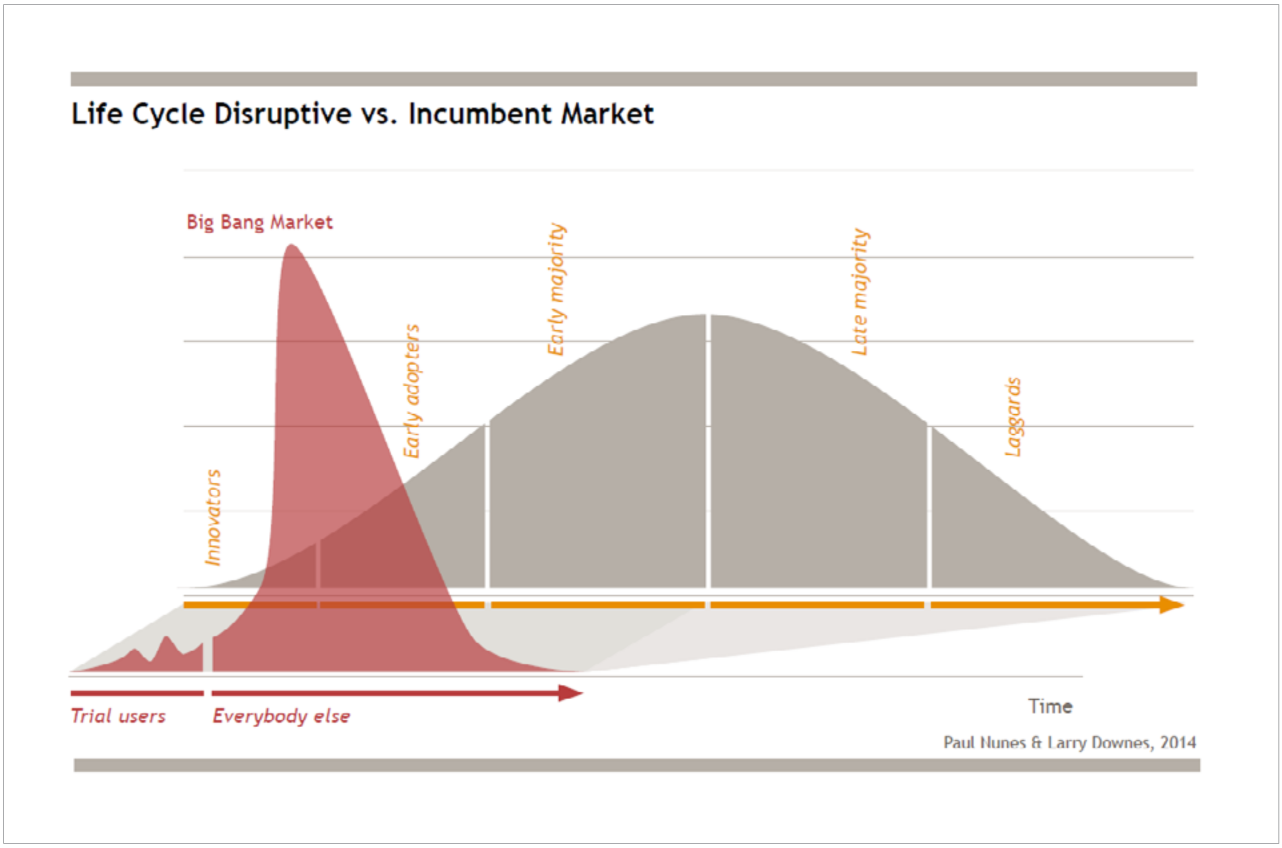
Design to Disrupt – Series of Four Reports (Sogeti/Cap Gemini)

In the first report addresses the need to discover and execute on digital opportunities. Startups are keen to attack the markets, challenging the establishment. At the same time, the speed with which innovations prove to be successful in the market is increasing. This expansion is set off by the slow reaction of organizations that are unable to keep pace with the digital wave.



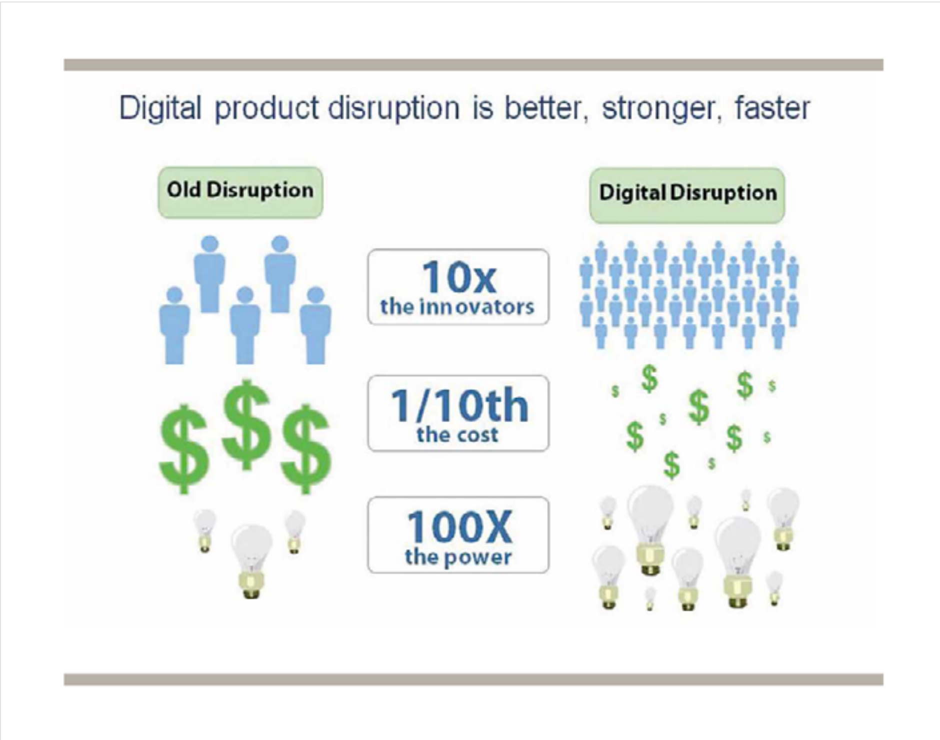


The second report, "Design to Disrupt: New digital competition", focused on the challengers. Few established organizations recognize them at an early stage, as they usually come from outside these organizations' industries and are not taken seriously at first. Their allegedly inferior propositions confuse prominent players, who should actually be the very first to be open to disruptive innovation. This innovator's dilemma brings us back to the major question of this Design to Disrupt project: how can you, as an organization, design your own disruptive market possibilities?



The third report is devoted to an entirely new design principle. It outlines the potential impact of blockchain, a new way of organizing trust when facing unreliable parties. It owes its current fame to currency, the bitcoin, in particular. But the cryptographic capacity of the network can be deployed in a variety of other ways. It is a special kind of platform, which in its turn is a basis for numerous other platforms – in other words, a platform for platforms.

In their final *Design to Disrupt* report, they present this perspective on digital disruption: a different way of managing (management innovation), implemented with the help of the discipline employed by most startups: DevOps. This is how you compete with startups, no matter how old or slow your organization may be today.



Imagine knowing upfront that your new digital product or service is going to be a guaranteed success, simply because customers were involved from the very moment the idea was born. An innovation backed by a multidisciplinary team is ready to help those customers to solve any problems; and fullfill additional wishes in no time. A team just as engaged and motivated as the staff of a startup. And because it is your company which is responsible for the development and functionality of the services, blaming each other when things go wrong will be a shadow of the past.

Let’s take this a step further. Imagine spending fewer hours on ‘management hassle’, because the people doing the work organize their own collaboration. This is possible if the teams are self-organizing and any surplus management levels have been removed.

How would you use that extra time? Why not, for example, develop the discovery skills of your organization; there is so much to explore in the areas of Cloud, APIs, micro services, and the Internet of Things. You could do a better job pleasing your customers. Maybe you would actually like to develop your own platform and join the new ecosystems.

The startups figured it out a long time ago; they are so much faster and extremely wary of bureaucracy. Success is based on this new kind of management innovation. Imagine just ignoring the existing management dogmas, wouldn't that shed another light on your strife with the disruptive market players?

With building your own digital organization, at the same time you would also develop an "antifragile" organization that gains strength as the disruptions increase.

THE ANTIFRAGILE ORGANIZATION

MANAGEMENT INNOVATION	LEAN STARTUP	DEVOPS
Multiply funding for new initiatives	Implement experimentation systems	Continuous iterative innovation
Learn from the fringe	Experiment is a product	Embrace a culture of ‘Fail Fast’
Community over hierarchy	Instill entrepreneurship	Make DevOps teams responsible
Employees first	Customer first	Empower employees to put customers first
Ensure transparency in decision making	Validated learning	Short feedback loops & measure end-to-end
Kill bureaucracy	Minimum Viable Bureaucracy (MVB)/lean	System thinking, crossing silos
Think competencies and platforms	Think digital innovation	Innovate digitally and use cloud platforms
Honor Web-inspired value	Honor end customer value	Honor end customer value
Reinvent management	Self-management	Self-management
Speed	Pivot	Flow

Continuous Design is key in the digital era: the design of trust, the design of the ultimate customer experience, and the design of new service and business models. However, the danger of exploring any new method like Lean Startup or DevOps, for instance, is that it may easily swing in the direction of an ideology. In the report, they offer a helpful chart to think things through:

Point	Counter-point
CIOs should sustain the business. Efficiency, effectiveness and regulatory mastery are even more important now. CIOs should focus on sustaining innovations that address today's growing concerns.	**CIOs should lead disruption.** Social computing, mobility and the cloud aren't just changing society, they're disrupting business. Who's better positioned to help take advantage of these tools than the CIO?
Technology is the fuel, not the driver. Technology enables innovation, but the business should be doing the driving. The CIO should respond to the needs of the business, not the other way around.	**Technology can break constraints. That's where innovation happens.** The CIO is in a rare position to lead the creation of disruptive business models given technology's prominence across business.
Immediate returns come from driving down costs. IT is the largest capital expenditure in many companies. Keeping up with technology's declining cost curve is a full-time job with a high return on investment.	**You can't shrink your way to greatness.** It's worth the deliberate sacrifice of some efficiency gains to achieve the potential long-term advantages offered by disruptive innovations.
Chasing disruption is a crapshoot. Better to focus on incremental improvements that are more likely to pay off than risk limited resources on a long shot.	**The odds are better than you think.** Disruptive innovation is just as likely to pay off as sustaining efforts when pursued deliberately and consistently, with a strategy and operational metrics tuned to its specific needs.

Source: http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_consulting_MeasuredInnovationDebate_022312.pdf

A warning on taking this path: Purpose and means can get mixed up. 'A fool with a tool' probably sounds familiar, as well as 'good ideas in the hands of mediocre people'. The issues raised are not to be underestimated in their difficulty to implement.

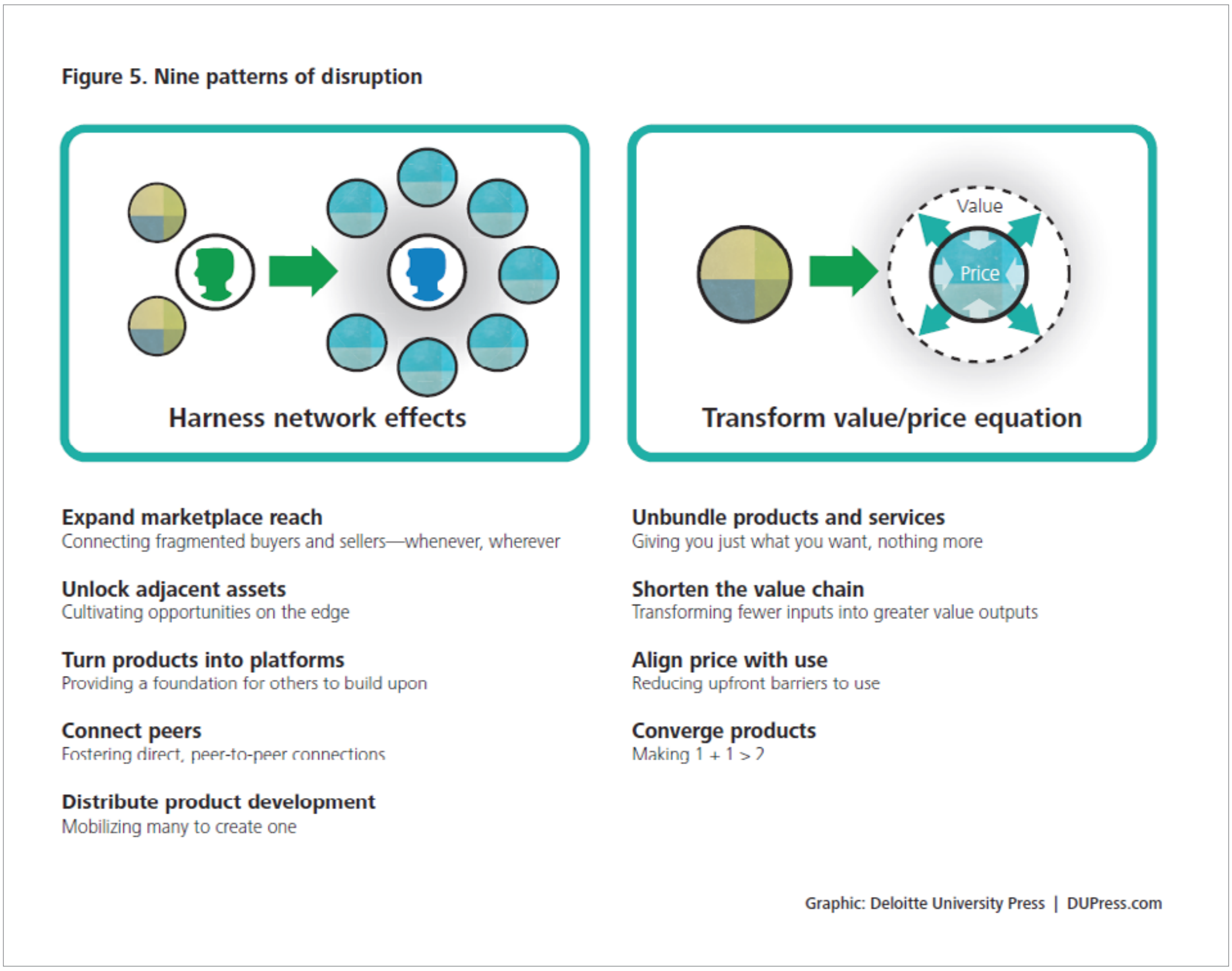
Patterns of Disruption- Anticipating disruptive strategies from Nine Patterns (Deloitte)

I see this set of extensive reports as a new framing of disruptive innovation. They were undertaken by Deloitte and provide a solid understanding in managing the threat of disruption. They allows us to engage and think around specific areas of disruptive opportunity, structured around "nine patterns of disruption". For each of these patterns, they provide detailed case studies.

I found these reports extremely useful and comparable with the pioneering work of Doblin and their ten types of innovation framework (summary by Tim Woods). It allowed us to visualize innovation completely differently in new combinations or ways, and beyond simple product innovations.

The ten types of innovation framework took us beyond a stereo-type view of innovation, it opened up our thinking. These nine patterns of disruption can potentially do the same for managing disruption, providing us with radically new opportunities for innovation to emerge.

The nine patterns of disruption:



In "Patterns of Disruption", Deloitte explored the disruptive forces at work with a series of extended articles, providing a case series on the nine patterns shown above. I really recommend anyone worried about or interested in disruption to read them, as a collection of excellent starting points to look, explore, and determine *your* possible opportunities for disruption.

Getting closer to understanding today's business disruption phenomena

To quote from Deloitte's here: "Unexpected, disruptive types of threats tend to be based in a new approach, a disruptive strategy that was not previously feasible or viable in a given market. Something changes in the larger environment – technology or customer preferences or supporting infrastructure/ecosystem – to make the new approach possible and profitable."

For example, the incumbent, preoccupied with the status quo, doesn't recognize that the ground beneath it is shifting. Hampered by the nature of the existing business, the incumbent struggles to respond effectively as the new entrant takes market share. The same aspects of the incumbent's business that made it successful also make a response difficult and tend to lead to ignorance, preventing the company from fully recognizing the threat when it is still on the horizon.

Figure 3. Representative market conditions

Product characteristics	Modularity Functionality Use Pricing and contracting Design and development
Demand characteristics	Demand profile Customer preferences Market composition
Industry structure	Value chain complexity Supply constraints Distribution constraints Asset structure Regulatory conditions

Graphic: Deloitte University Press | DUPress.com

These emerging patterns come from changing conditions and are more than “one-off” occurrences, but neither are they universal forces; they are disruptions that will likely occur in more than one market but not in all markets. Each delivers new value through a new approach, subject to a set of market conditions. Each brings its own challenges for the incumbent. The nine patterns can’t describe every possible challenge a business will encounter, but, individually and in tandem, they do help make sense of the changing environment and competitive dynamics that many companies are experiencing.

We must consider individual cases in light of evolving underlying technologies, shifting consumer dynamics, the rise of platforms, and other changes in the global environment that might inform our understanding of the nature of unexpected threats in the 21st century. Of course, the problem with disruption is that we tend not to recognize it for what it is until it’s too late.

Figure 1. Pattern snapshot

Expand market reach

Connecting fragmented buyers and sellers—whenever, wherever

Cases Amazon x Borders | Indie music x major music labels | Netflix x Blockbuster

Conditions Where is it playing out?	Catalysts When?	Challenges Why is it difficult to respond?

Markets with underserved customers and a wide range of hard-to-find, differentiated products that can be shipped to the customer

Enabling technology
Digital infrastructure providing richer connectivity

Access to sophisticated, affordable means of production

Customer mind-set shift
From standardized to personalized products

Platform
Scalable learning platforms reduce barriers to entry

Public policy
Changes in regulation let new markets develop

Cannibalizes core revenue streams
Competing in a digital marketplace requires lower profit margins and erodes revenues from physical channels

Renders significant assets obsolete
Significant investments in brick-and-mortar retail, manufacturing, and logistics facilities become less valuable

Challenges core assumptions
Changes assumptions about how much customers need physical facilities to make purchases

Arenas

Graphic: Deloitte University Press | DUPress.com

Using the pattern snapshot:

"By framing threats as patterns of approaches, catalysts, and conditions, along with clarifying the challenges it becomes easier to filter the noise and put it in context."

The nine patterns can act as a lens through which you can view your business, the market, and the surrounding landscape. They can provide incumbents' executives with a framework for their conversations about their businesses and the potential for disruptions in relevant markets, clarifying the conditions. This could radically alter the competitive landscape.

All the articles published under the "Patterns of Disruption" title are an essential read for the innovator.

THE "PATTERNS OF DISRUPTION" CASE SERIES

The pattern descriptions in this paper are summaries, intended as a basis for helping large organizations think about how their businesses may evolve. In the forthcoming "Patterns of disruption" case series, we will describe each of the nine patterns in detail and illustrate them with representative cases as well as with more speculative or emerging stories. In each instance, our intent is to provide a framework that generates the questions and conversations executives should be having about their businesses and the potential for disruptions in relevant markets. The format is designed to invite discussion and reflection on each of these categories within the unique context of a market or industry (figure 6).

My view: Learn the patterns of disruption. Be able to recognize them in your industry. And then learn to master them.

3. Leading or Breaking Practices

"Because the people who are crazy enough to think they can change the world are the ones who do."

Steve Jobs

The Most Innovative Companies – Four Factors That Differentiate Leaders (BCG)

This report makes the strong case that it is increasingly important for the foundations of innovation to enable four attributes that many executives identify as critical: an emphasis on speed, well-run (and very often lean) R&D processes, the use of technological platforms, and the systematic exploration of adjacent markets.

High-Impact Factors

The four attributes that fuel innovation are interrelated, of course, so it's hard to examine one in depth without running into another. We need to look for the cross-over points to compliment and strengthen each attribute's contribution.

Speed has long been a priority and is one of the major sources of differentiation for true breakthrough innovators. In fact, the percentage of respondents in 2015 citing the importance of quickly adopting new technologies jumped 22% over 2014.

Lean R&D processes have a major effect on speed – as well as on multiple other areas. Lean methodologies that were originally developed for manufacturing are now being applied in a sophisticated manner to R&D and new-product development, and they are having a big and growing impact in such industries as industrial goods, health care, and high tech.

In most companies, technology used to live in its own silo—the IT department. Today, digital, mobile, big data, and other technologies are used to support and enable innovation across the organization, from new-product development to manufacturing to go-to-market strategies in multiple industries.

Finally, many companies facing slow growth in their core businesses are looking to expand into adjacent markets. To do so, they frequently leverage existing capabilities in lean, speed, and technology platforms to enable innovations, whether next door or further afield.

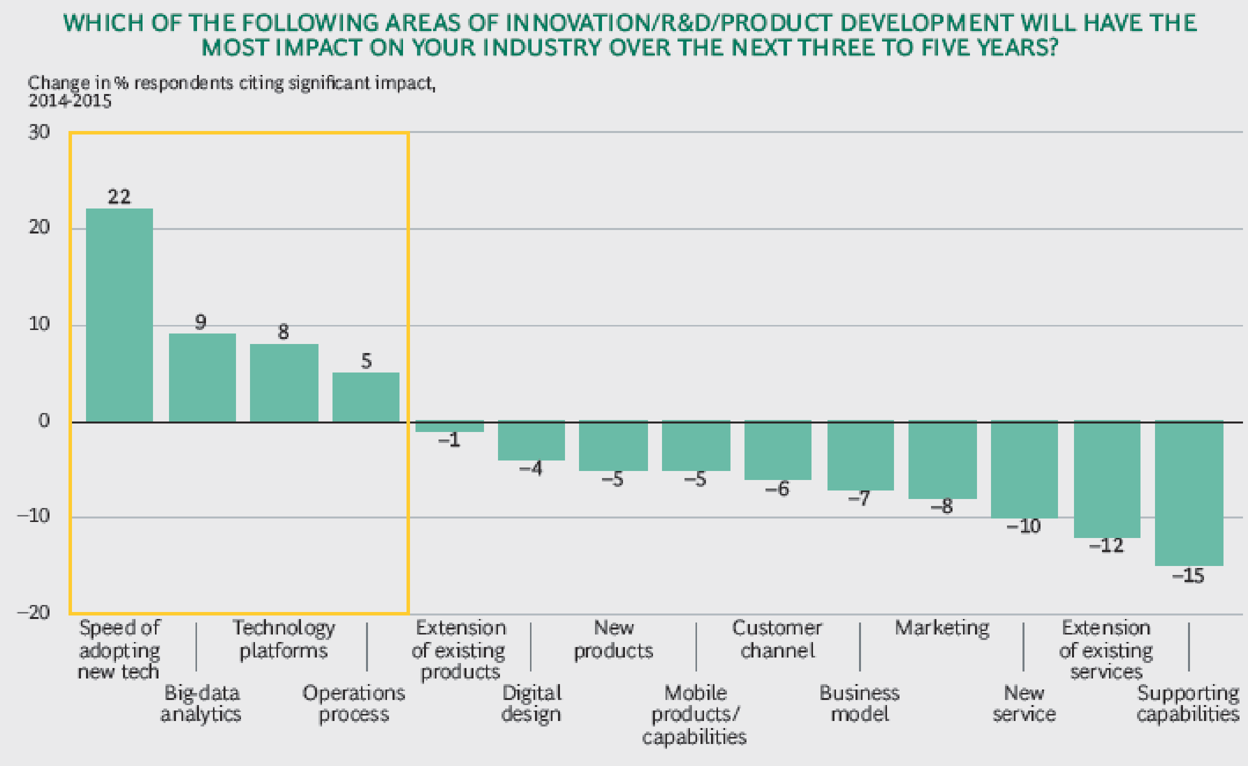
The report emphasises that innovation remains a top priority, and it doesn't get any easier. Taken together, these four capabilities provide a series of practical steps that any company can take if it wants to develop its innovation potential.

The Rising Need for Speed

"Size can give you scale, but for innovation, speed is more critical," says Rakesh Kapoor, CEO of Reckitt Benckiser.

Speed has long been seen as an important attribute of strong innovators. Speed enables companies to catch consumer trends as they emerge, leave competitors flat-footed, and even drive costs down and quality up.

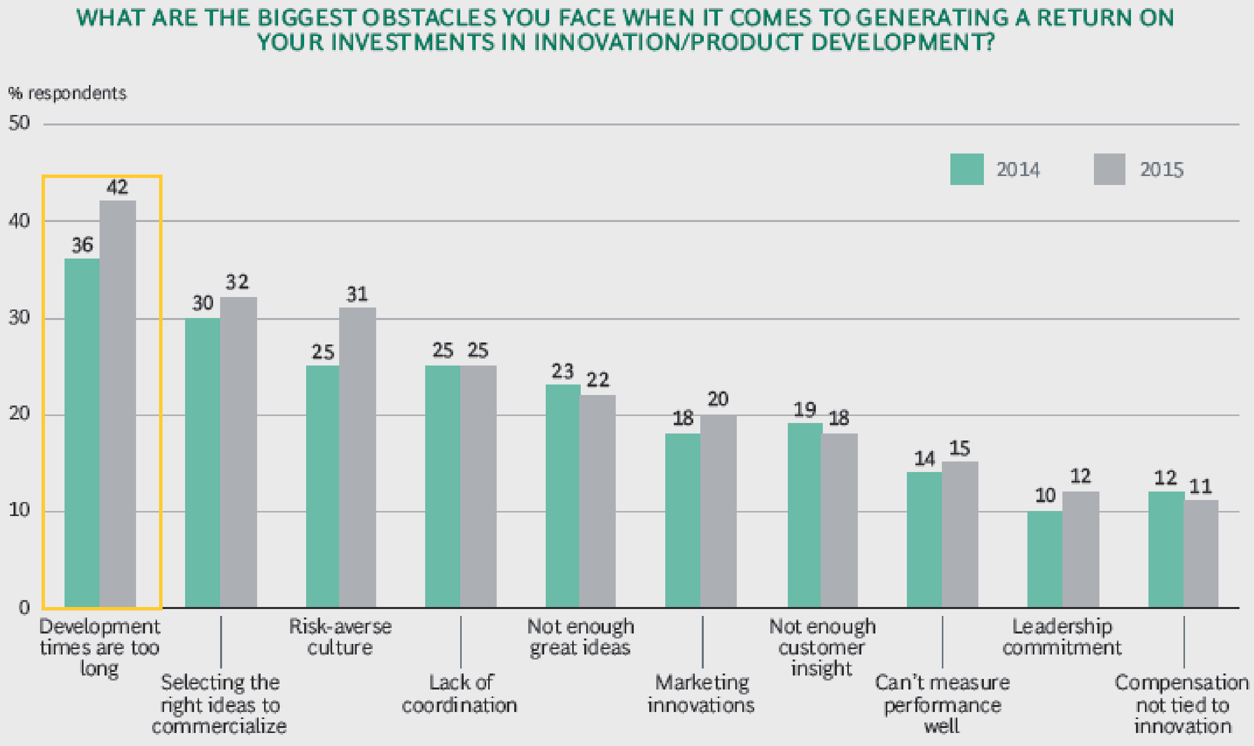
EXHIBIT 3 | Speed of Adoption Increased in Importance in 2015



Source: BCG Global Innovation Survey, 2014, 2015.

"In our 2015 survey, overly long development times were the most-cited obstacle to generating returns on innovation and product development; 42% of global innovation executives said development times are too long – a 6 percentage point increase over 2014."

EXHIBIT 4 | Long Development Times Remain the Biggest Obstacle to Returns on Innovation



Source: BCG Global Innovation Survey, 2014, 2015.

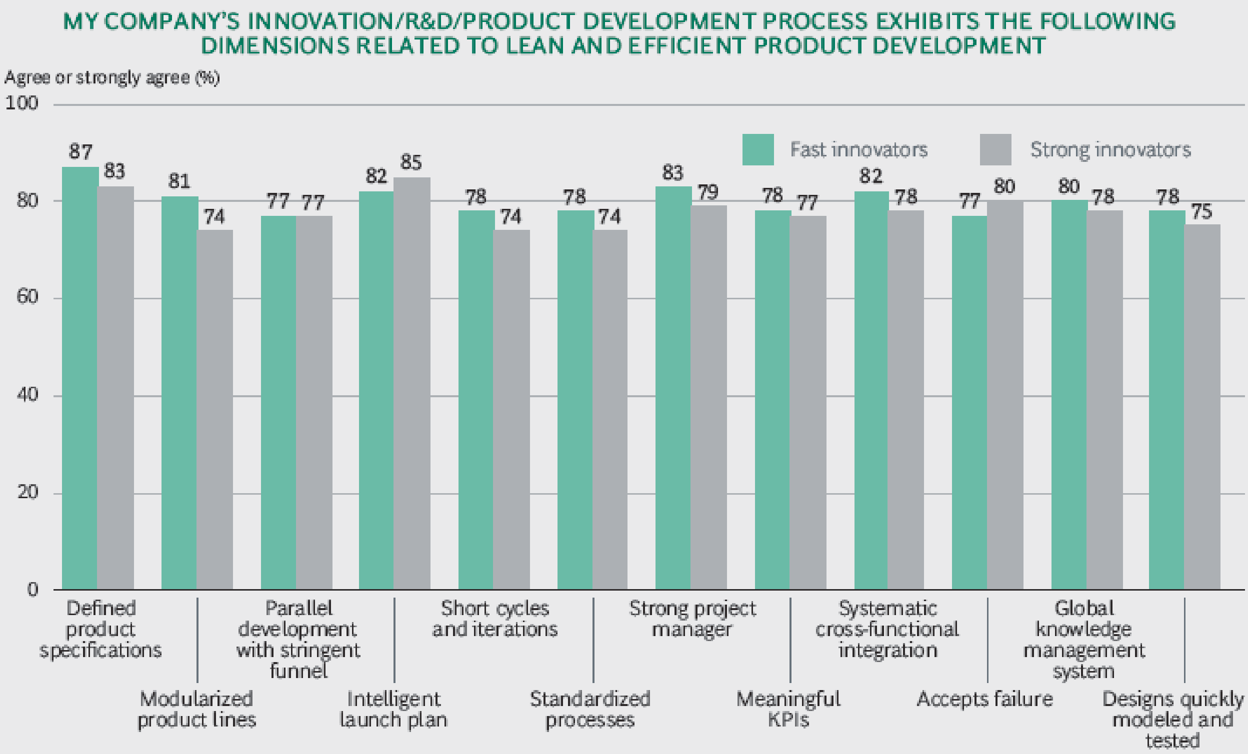
Designing the System for Speed

Companies that have designed their systems, organizations, processes, and cultures for speed in either context tend to have four things in common: they apply lean processes, prototype and iterate, have dedicated innovation staff, and follow the right metrics.

Strong Innovators Are Lean Innovators – Doing the Right Work and the Work Right

It is all about the process of execution, and it involves the same principles that are core to the lean approach in manufacturing and other domains: eliminating waste, reducing costs, shortening timelines, improving quality, and increasing efficiency.

Exhibit 5 | Fast Innovators Apply Lean Processes



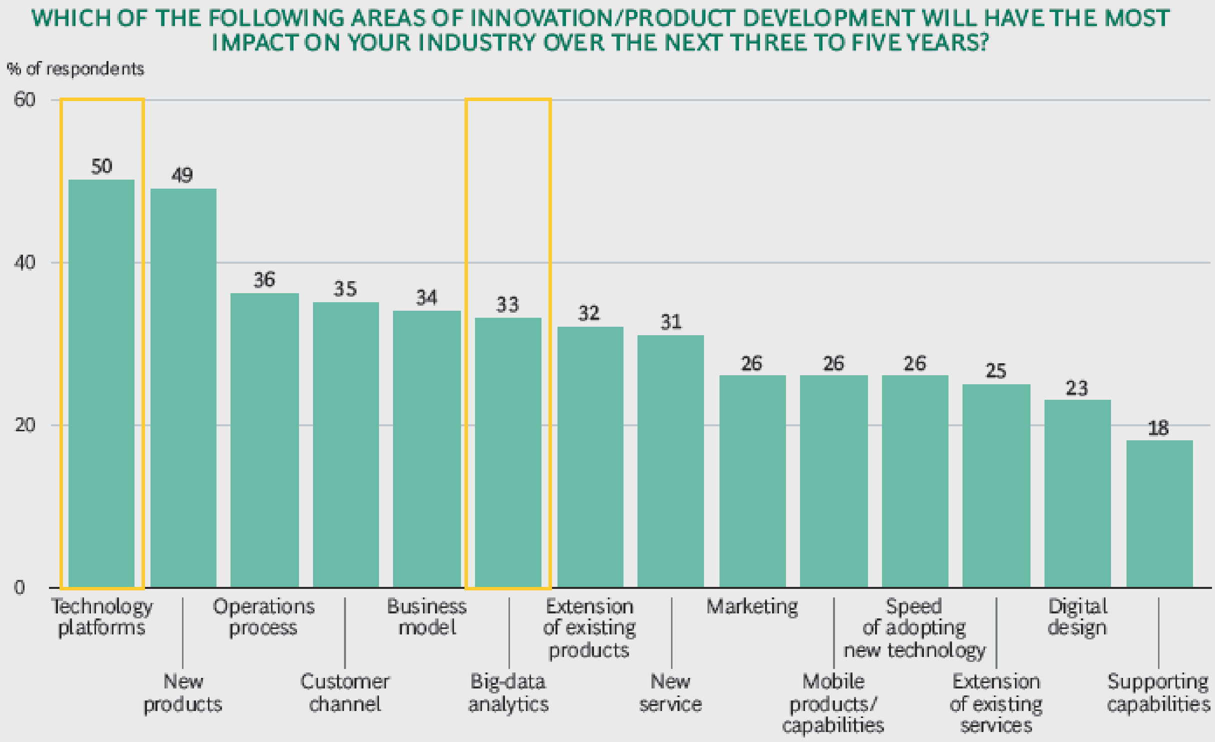
Source: BCG Global Innovation Survey, 2015.

The best companies focus as strongly on improving the process of decision-making to offset potential bias as they do on the process of execution.

Enabling Technology-Backed Innovation

New tools can make a big difference, and across all industries, new technologies, especially digital and data-based technologies, are powerful tools. At leading companies, technology is evolving from a functional silo to a foundation for breakthrough innovation in products, services, and business models. More than half of those who see tech platforms and big data as having a big impact are actively pursuing them as avenues of innovation.

EXHIBIT 8 | High Expectations for Technology Platforms and Big Data



Source: BCG Global Innovation Survey, 2015.

Multipurpose Platforms

Technology-enabled innovation comes in many flavours. It can mean using advanced analytics to improve decision-making, employing digital technologies to retool manufacturing, and harnessing mobile capabilities to improve marketing, to name just a few. The crux in all cases is the creation of a platform that can be leveraged repeatedly to deliver impact.

Technology-driven innovation is hard. But the payoff is big – often extending well beyond a single new product to a platform or capability that can enable other innovations for years to come.

The Prerequisites of Profitable Adjacent Growth

Adjacent growth is a hallmark of innovation leaders. Adjacent growth is sound strategy, but there's a hitch: it's difficult for most mature companies to pull off. Big companies are often victims of their own success: they operate according to cultures and business systems that are set up to drive growth in the core. The key success factors for developing profitable new products in adjacent markets are often different.

There are five ways for companies to expand into adjacencies: by exploring demand-centric growth, by cultivating a new organization with new talent, by employing separate governance, by adopting an experimental approach, or by building the right cultural enablers.

It's Not All or Nothing

Plenty of companies are better placed than they think to explore adjacent innovation. As described in companion articles in this series, strong innovators have considerable assets that they can draw on in areas such as speed, lean processes, and the application of technology, and these often provide starting points to explore adjacencies. In parallel, a company thinking about adjacent growth should also determine where its gaps are vis-à-vis the five areas outlined above and develop a plan to address them. Once the internal house is in order, companies can begin to look around the neighbourhood for attractive opportunities for incremental profitable growth.

Why and How Businesses are investing in Innovation Centers (Cap Gemini)

To quote from this report: "We live in an era of digital Darwinism. The Wall Street Journal now tracks over 100 startups globally valued at US$1 billion or more, over ten of which are valued at more than US$10 billion. These high-value companies are, in many cases, not creating entirely new markets, but rapidly eating into traditional sectors using a combination of superior technology and a compelling customer experience".

Enter the Innovation Center

The weaknesses of traditional innovation approaches have led a number of ambitious organizations to explore different avenues and seek new inspiration. These organizations have launched innovation initiatives or full-blown innovation centers in major technology hubs with the explicit mandate to accelerate digital innovations.

The Anatomy of Innovation Centers

Digital innovation centers are teams of people and often physical sites that are set up by organizations in a global tech hub, with the goal of leveraging the ecosystem of startups, venture capitalists, accelerators, vendors, and academic institutions that these hubs provide.

The Anatomy of Innovation Centers

- Digital innovation centers are teams of people and often physical sites that are set up by organizations in a global tech hub, with the goal of leveraging the ecosystem of startups, venture capitalists, accelerators, vendors, and academic institutions that these hubs provide. According to the Vice President of a major fashion retailer: *"An innovation center is a team, a space and a mindset."*
- The primary objective of a digital innovation center is to accelerate digital innovation by rethinking the customer experience, improving operational efficiency and testing new business models through the use of digital technologies such as Big Data, the Internet of Things, Social Media, Mobile, Robotics, Augmented Reality and 3D Printing. As Ed McLaughlin, Chief Emerging Payments Officer, MasterCard says: *"I think the primary goal is to make sure that we can test, learn, experiment, access, incorporate, leverage all the changes that are happening out there in the industry. It gives us the ability to fail fast, to incubate things, to invest and engage with very early stage companies."*
- Innovation centers also help companies to stay abreast with the latest developments and upcoming technologies in the market. Karin Weining, Global Innovation Excellence Leader at Dupont, says: *"Our Innovation Center Leaders understand what's happening in the local marketplace and the capabilities there...they're focused on finding the trends and cross-business ideas that may not be captured by an individual business."*

The primary objective of a digital innovation center can certainly be to accelerate digital innovation, by investigating and rethinking the customer experience, improving operational efficiency through testing and piloting new business models. It can be the investigative point to explore the use of digital technologies such as Big Data, the Internet of Things, Social Media, Mobile, Robotics, Augmented Reality and 3D Printing in these safer environments.

The report explores each of the parts you can provide within innovation centers or labs in brief detail (omitted here):

- Developing New Products and Services or Proofs of Concept
- Designing New Business Models
- Connecting with Startups
- Identifying Potential Partners and Forging Strategic Relationships
- Developing an Innovation Culture within the Organization
- Incubate and Invest in Startups
- Understanding the Digital Customer
- Evaluating and Testing New Technologies
- Become a Recognized Part of Innovation Communities

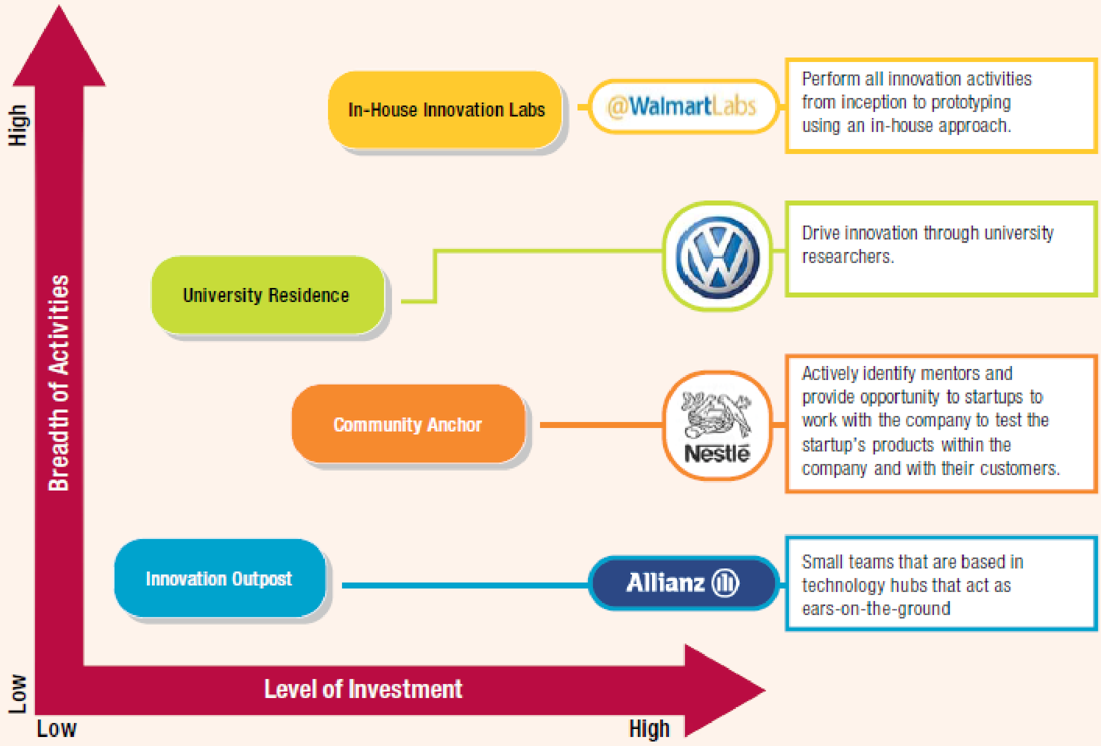
Innovation Centers: The Different Categories

The Cap Gemini research uncovered four broad categories of innovation center. Models include in-house innovation labs, university residences, community anchors, and innovation outposts. Each of these models differ in their goal and the amount of investment required.

Innovation Centers: The Different Categories

Our research has uncovered four broad categories of innovation center. Models include in-house innovation labs, university residences, community anchors, and innovation outposts. Each of these models differ in their goal and the amount of investment required (see Figure 2).

Figure 2: Types of Innovation Center



Source: Capgemini Consulting and Altimeter Analysis

- **In-house Innovation Labs** – The innovation engine for their companies, these centers perform all innovation activities from inception to prototyping using an in-house approach.
- **University Residence** – In this model, companies invest to set up a center at a university campus to drive innovation through university researchers.
- **Community Anchor** – These innovation centers actively identify mentors and provide opportunities to startups to work actively with the company to test the startup's products.
- **Innovation Outpost** – Innovation outposts are small teams that are based in technology hubs, typically Silicon Valley.

Who is Investing in Innovation Centers?

Many organizations are struggling to activate their research and innovation efforts, and only 38% of the leading 200 companies have set up innovation centers.

To sum up, innovation centers offer a range of benefits and can seek to achieve:

- Accelerate the speed of innovation
- Provide a fresh source of ideas
- Enhance risk-taking ability
- Attract talent
- Drive employee engagement
- Build a culture of innovation.

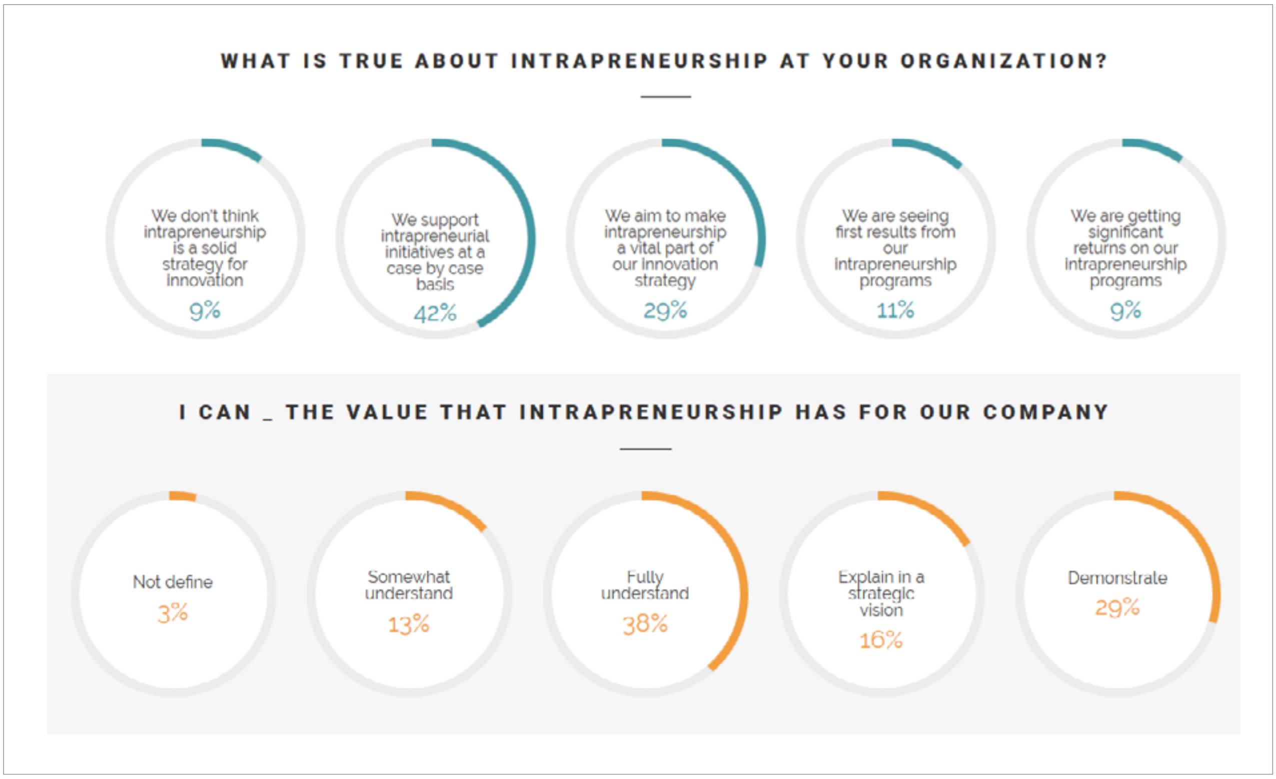
My view: There is a long way to go till innovation centers are a common practice, but it is still an important development in the innovation sector, close to the forefront of ‘breaking’ insights and leading edge discovery.

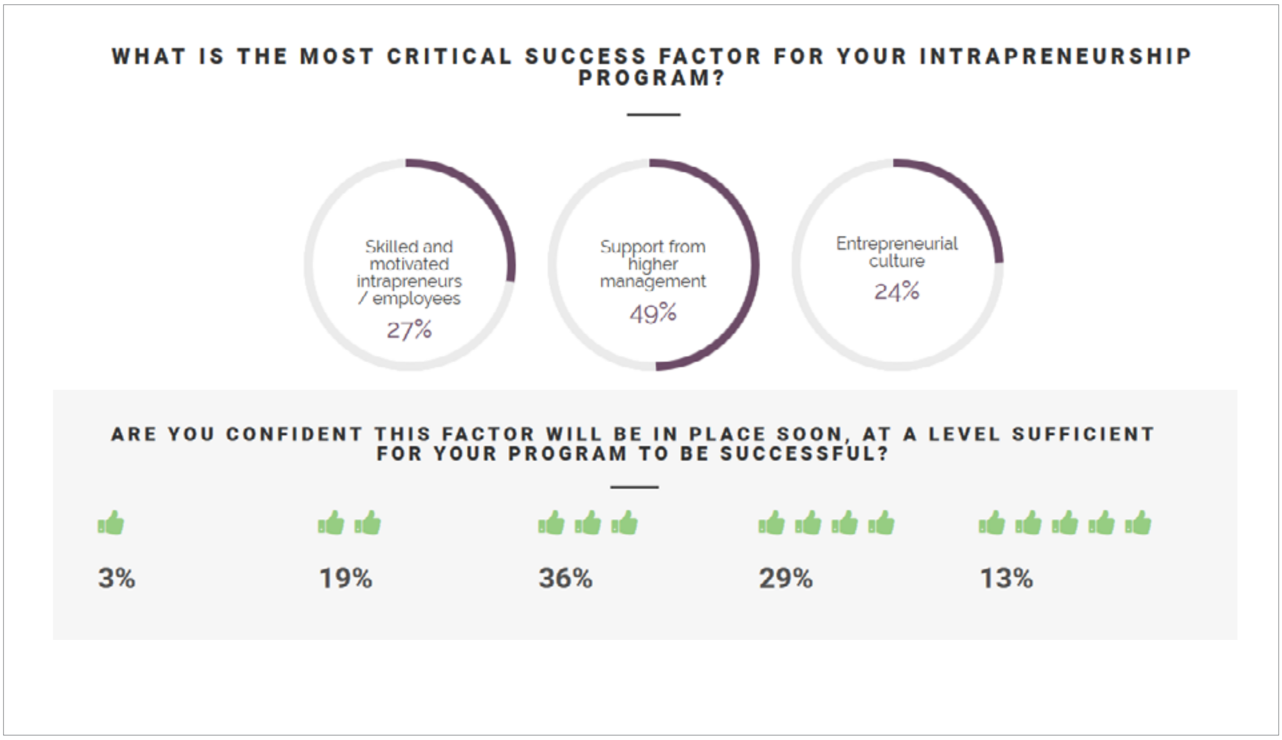
There will be an increasing pressure to perform and demonstrate real returns. These centers do offer real potential to feed the innovation pipeline without doubt.
They need great commitment, for structuring, measuring and setting milestones and results. Labs and innovation centers might become simply 'fads of the day', that spend their time and the precious resources building even more tweaks onto the existing business models and products and services, failing to be able to contribute into building new capabilities.

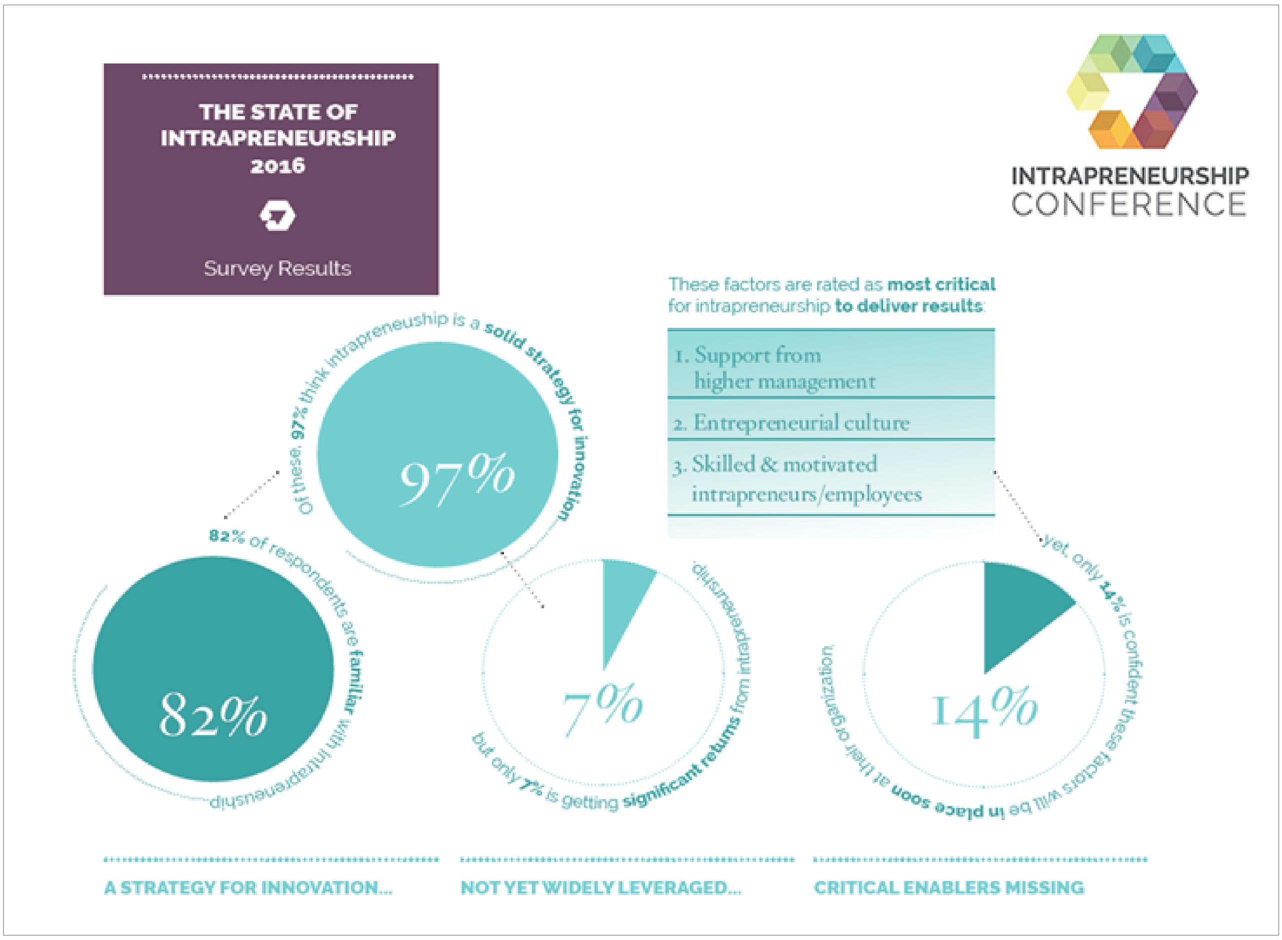
To make them work, they need to be thoroughly thought through, and they need top management commitment, as well as a decent budget. Innovation centers have the potential to change the future and should be treated as such. They provide a great potential to contribute to the design of a duality of mindsets needed in innovation: execution and exploration.

Intrapreneurship Conference 2016: A momentum is growing with the intrapreneurship inside our organizations

There is a real momentum growing behind the idea of intrapreneurship within our business organizations. The Intrepreneurship Conference has been leading in exploring this movement (images are extracted from the Interpreneurship Conference's website, see details in the appendix).




WHAT IS THE MOST CRITICAL SUCCESS FACTOR FOR YOUR INTRAPRENEURSHIP PROGRAM?
Skilled and motivated intrapreneurs / employees
27%
Support from higher management
49%
Entrepreneurial culture
24%
ARE YOU CONFIDENT THIS FACTOR WILL BE IN PLACE SOON, AT A LEVEL SUFFICIENT FOR YOUR PROGRAM TO BE SUCCESSFUL?
3%
19%
36%
29%
13%


THE STATE OF INTRAPRENEURSHIP 2016
Survey Results
INTRAPRENEURSHIP CONFERENCE
These factors are rated as most critical for intrapreneurship to deliver results:
1. Support from higher management
2. Entrepreneurial culture
3. Skilled & motivated intrapreneurs/employees
Of these, 97% think intrapreneurship is a solid strategy for innovation
97%
82% of respondents are familiar with intrapreneurship
82%
but only 7% is getting significant returns from intrapreneurship
7%
yet, only 14% is confident these factors will be in place soon at their organization
14%
A STRATEGY FOR INNOVATION...
NOT YET WIDELY LEVERAGED...
CRITICAL ENABLERS MISSING

Intrapreneurship Conference are exploring and leading in this area, highlighting emerging practices and concepts so these can considered, adopted, or adapted.

I found the following quote from Andrew Perkins, *the* Director of Leadership and Professional Development at Kaplan, quite remarkable. When asked, "What is the one thing killing intrapreneurial ventures," he said:

“Mature business systemic self-protecting process and organisational fear of the new, agile, risky and slightly disrespectful and disruptive start up."

My view: Intrapreneurship can be a powerful enabler within organizations. But will it get treated the same as design thinking, as nice to have, used only selectively? Or will this different entrepreneurial spirit eventually become fully integrated in the process of innovation? It would lead to a growing engagement and identification that is often missing. I believe there is a real growing momentum behind this "movement".

Most organizations at this stage only support intrapeneurial initiatives on a case-by-case basis, but as they explore they will learn and I think it has significant appeal at all levels within the organization to make intrapreneurship a vital part of the innovation strategy.

Let’s keep a close watch on how this evolves. It really can revolutionize engagement in innovation by developing intrapreneur champions to accelerate the process.

Final Remarks

From my personal perspective, I go into reports on innovation in depth to learn, to compare, to grow and to clarify. I chose these reports included here, as I felt they gave good insights into the current 'state of play' on innovation in early 2016. However, there are many others that contribute to our thinking and this is just a personal choice.

We do seem to be in a strong position to 'rethink' innovation practices, to provide a far more compelling justification on why the resourcing and funding for innovation should be given greater attention and backing by the board. We have yet to see how innovation is going to develop, but it will certainly be different from past practices.

Yet I find the real challenge to be the current disconnect that is occurring between the everyday innovation activity, the impact of the innovation programs out there and the lack of understanding at board level.

We do have multiple challenges to address, be these strategic, operational and tactical issues. The pace of disruption, of technological development, and social engagement seems relentless and innovation has to find its natural place within each and every discussion in the board room that is relating to growth.

The need for serious innovation and its value and impact needs to be restated, validated and proven continuously. It does not thrive for long if used in an ad-hoc fashion; to address an organization's ongoing performance, innovation needs to be seen as managing across the three horizons of the present, the immediate near term and the longer-term future.

Innovation has to support the present core business, shaping it towards the future. But it also has the critical role of creating the future through emerging opportunities, exploring, and exploiting new things and approaches.

To achieve this strategic task innovation needs time, and it needs to be clear that it lives in uncertainties, it cannot be compared or measured in what we know but in what we believe is possible.

Encouraging a different mindset is hard. As more and more reports come out pointing out weaknesses, faults, and examples of what went wrong, innovation practicioners must hold the faith and fight back by seeking out emerging practice, by experimenting, exploring, and exploiting.

I said it often. We need all the help we can get. We may feel we are blazing our own independent path and that is exhilarating but others need to be drawn in for the journey. Sharing insights, exchanging ideas, exploring different tools, methodologies and thinking is essential. We need to stay alert and open, as innovation moves very fast. And to be ready, really ready, you need all the help you can get.

Reports like these often can be long and tedious to read through, yet they do offer significant support. They can stimulate you, they can wake you up, but most importantly, they provide you with insights from the world around you.

We all are pressed by everyday duties, it's difficult to make time for yet another read. Understandable as this may be, no one forgives you if you miss something essential and you fail to respond with the appropriate solution. I trust this summary will help stimulate you to investigate these reports further.

Enjoy the remaining of 2016; plenty of innovating awaits… but so does the challenge to get innovation where it should be: a core discipline, highly valued and sought out by everyone in the organizations we work for and those we partner or collaborate with.

Just remember there is help beyond internal silos of knowledge, it is about sharing, valuing others opinions and being open to different perspectives.

Appendix

The reports referred too are (in order of appearance):

1. Dark shadows are looming over innovation - three worrying reports

Innosight
Corporate Longevity: Turbulence Ahead
http://www.innosight.com/innovation-resources/strategy-innovation/corporate-longevity-turbulence-ahead-for-large-organizations.cfm

Accenture
U.S Innovation Survey Clear Vision, Cloudy Execution
https://www.accenture.com/us-en/insight-innovation-survey-clear-vision-cloudy-execution

Deloitte
Radical Innovation and Growth- Global Board Survey 2016
https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/strategy/Radical-innovation-and-growth.pdf

2. Disruption: nowhere to hide

Cap Gemini / Sogeti:
Design to Disrupt Series
http://labs.sogeti.com/design-to-disrupt/
http://www.sogeti.ch/explore/reports/design-2-disrupt-4-infographic/

Deloitte
Patterns Of Disruption- Anticipating disruptive strategies from Nine Patterns
http://dupress.com/articles/anticipating-disruptive-strategy-of-market-entrants/
http://dupress.com/collection/disruptive-strategy-patterns-case-studies/

3. Leading or breaking practices

BCG
The Most Innovative Companies- Four factors that differentiate leaders
https://www.bcgperspectives.com/content/articles/growth-lean-manufacturing-innovation-in-2015/

Cap Gemini:
Why and How Businesses are investing in Innovation Centers
https://www.capgemini-consulting.com/the-innovation-game

Intrapreneurship
Links into the visuals and more in this emerging field.
http://www.intrapreneurshipconference.com/

About HYPE Innovation

HYPE Innovation is a global leader in full-lifecycle innovation management software. HYPE's powerful platform allows organizations to engage thousands of employees in idea generation and collaborative problem solving. We help you focus on measurable business outcomes that can be tracked through to execution. Companies work with HYPE for our flexible products, our deep expertise in innovation management, and our long history of success with some of the largest organizations in the world. Our client community includes global companies such as Siemens, Bosch, RWE, AkzoNobel, Bombardier, DHL, Roche, Nokia, Daimler, Airbus, Petronas, Saudi Aramco, Clorox, and many more.

Visit our website at **www.hypeinnovation.com** to learn how HYPE enables companies to transform their best assets – employees, customers, partners, and suppliers – into dynamic and engaged innovation communities.

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