



# Three Keys to Delivering Digital Transformation

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Business leaders, industry strategists, academics, and policy makers are all scrambling to make sense of digital transformation and to define strategies for success in our increasingly digital economy.

In a series of 4 articles, [based on my latest book](#), I will look at the importance of the leader's role in delivering digital transformation in today's digital economy. I believe there are three keys to success: Agility, Innovation, and Disciplined Management.

## Part 3: Driving a More Open and Inclusive Approach to Innovation

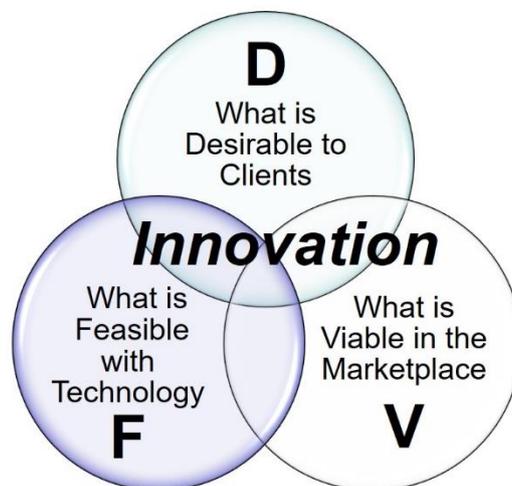
In this third article I look at context and challenges for organizations as they seek to accelerate innovation impact, include the views of a wide set of stakeholders, and broaden its impact across all aspects of the organization's activities.

Innovation is now considered a business priority essential for success. For businesses to have meaningful growth, the collaborative process from idea generation to solution delivery must be optimized. Innovation practices must be flexible and repeatable, and leaders must be willing and able to lead teams in an innovation-focused interactive environment. In the past innovation was slow and risky, and largely left to the experts in the R&D department. Today, tremendous importance is placed on "democratizing innovation" by establishing practices that increase innovation speed while decreasing risk. How is this achieved?

### Understanding Innovation

As a key concept that has received increasing attention in recent years, innovation is often narrowly defined in terms of technological invention or creation of new features in existing systems. In a digital economy a much broader perspective is essential, highlighting a view of "innovation in practice" as the alignment of three critical components:

- **Desirability.** Successful innovation solves a problem that matters to a customer. Whether these are internal or external customers, any innovation must address a problem that someone cares about and provide a solution that the customer can readily consume.
- **Viability.** Innovation must address a product or service need in a way that meets any constraints of the operating environment and market conditions in which it will be deployed. A myriad of issues must be considered including production cost, strategic fit, impact on market and ecosystem, sustainability and maintainability.
- **Feasibility.** A new idea must be able to be realized and maintained given current market and engineering constraints. Not only must it be practically possible to create, it must also generate value for potential customers and profit for those involved in its creation, management, and maintenance.



**Innovation: Desirability – Feasibility – Viability.**

### **The changing nature of innovation**

In fact, the nature of innovation itself has evolved quite dramatically over the years. Organizations no longer seek innovation by looking inwardly toward their own R&D teams that are tightly tied to five-year business plans. Rather, to reduce the risk of long-term programs unable to evolve in contexts of rapid change, they take a more expansive view of innovation through an active role in emerging ecosystems comprising diverse organizations with various viewpoints. This shifts the balance of effort and cost away from in-house R&D to externalized experimentation and scaling on stable technology platform.

Hence, for many organizations the nature of innovation is increasingly:

- **Open** to outside ideas, and actively seeks input from consumers, partners, academics, and the wider community.

- **Collaborative** across teams and individuals to allow ideas to be shared, co-developed, and jointly sourced.
- **Multi-disciplinary** to derive the best thinking from many domains, aligned toward common goals and themes.
- **Globally managed** to take advantage of the best skills wherever they reside, and **locally informed** to ensure that they are well matched to consumers' specific contexts.

Recognizing the richness of this perspective, innovation approaches being adopted in most organizations include a wide variety of approaches aimed at rapid market-testing of new ideas in well-defined contexts. This is the essence of innovation in a digital economy.

### The Innovation Challenge in a Digital Economy

To improve their innovation practices, large organizations and SMEs need to pioneer a way of rapidly introducing ideas from concept through to deployment. By tapping into new methods of rapid pre-market testing, idea development, and intellectual property management, they can de-risk the introduction of new products and services. However, this reinvention of innovation for a digital economy must come to terms with several major trends that today's organizations face:

- **Removal of barriers to collaboration** across geographical boundaries, industry silos, and supply chain networks, due to easy availability of technologies for remote working.
- **Increased information transparency.** Competitors, consumers, and employees now have access to data of all forms, leading to more informed customers, greater scrutiny over operational practices, and narrower windows of opportunity to exploit market insights.
- **Shortening cycle from idea creation to market saturation.** In areas such as app development, the lifetime of new products and services can be measured in hours or days.
- **Huge penalties for getting to market late or missing deadlines.** Market and consumer expectations are such that failure to deliver new capabilities may quickly lead to mass migration of customers to new providers.
- **A more holistic view of products and service delivery.** Aligning the three elements of desirability, viability, and feasibility requires wider collaboration across disciplines and specialties within and across organizations.
- **Recognition that external expertise may be needed to solve problems and improve diversity in thinking.** The closed nature of many organizations can stifle new ideas. Increasing the range of ideas and encouraging new ways to approach problems often requires a more expansive view.
- **Leveraging ownership of ideas becoming more complex.** The concept of intellectual property is being re-examined in light of new media forms, open access to data, and shifting societal norms for sharing artifacts. Laws and regulations are not catching up with technology advances. This gap poses a challenge (and opportunity) in many sectors.

Consequently, many organizations are experimenting with different approaches to innovation. At the most fundamental level, they recognize its importance and are encouraging workers to seek out new ways of working that change the status quo by offering incentives tied to yearly objectives, enhancing public recognition of new ideas translated into practice, and introducing internal competitions for new thinking. A typical example is Adobe Kickbox, a broad internal program adopted at Adobe that encourages workers to investigate new ideas by offering them a small amount of money plus the time to investigate new ideas and their potential impact.

To innovate better, some organizations are also acting as Venture Capital (VC) groups investing in external ideas. This may be through setting up an innovation fund like Centrica’s \$100m investment fund that finds, supports and accelerates new technical innovations that can subsequently be embedded across the company. Extending this concept, some organizations have created incubation programs to support and grow new ideas through funding, guidance, and access to expertise. Telefonica’s Wayra incubator is a particularly interesting example; it is a program comprising a set of locations, educational activities, and mentors where entrepreneurs with new business ideas can be nurtured and supported through access to Telefonica’s extensive network of partners and customers.

### Driving Innovation in a New Direction

Each of these approaches can help create new practices and insights that encourage innovation across the organization, increase the pace at which new ideas are explored and rejected, and drive experimental learning in a digital environment characterized by tremendous instability and uncertainty. Consequently, innovation practices have evolved significantly in the past decade.

From	To
Invention	Innovation
Linear innovation model	Dynamic innovation mode
Build to forecasted demand	Sense and respond to demand
Independent	Interdependent
Single discipline	Multiple discipline
Product functions	Value to customer
Local R&D teams	Globalized open knowledge networks

**The Shifting Sands of Innovation in a Digital Economy.**

As summarized above, the stepwise activities that guided homegrown technology-based inventions from initial idea to product have been replaced with a more open, collaborative solution delivery that explores new approaches to solve client-facing problems. Building capabilities for delivering such changes is a differentiator for organizations adapting to business in a digital economy.

The remaining article in this series address the final key to delivering digital transformation: Disciplined Management.

For a deeper examination of the ideas raised in these articles, take a look at: "[Delivering Digital Transformation: A manager's guide to the digital revolution](#)".