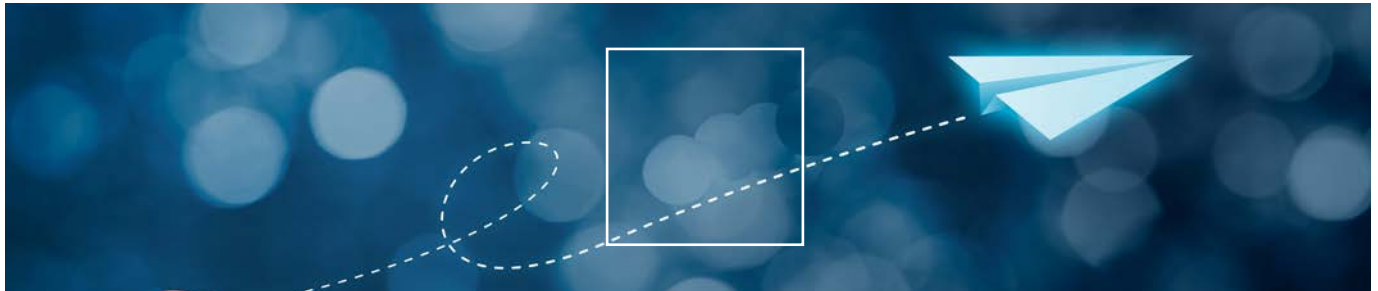# Arthur D Little

Dynamic innovation strategy

How to develop a strategy for innovation in the fast- moving digital world

Having a clear strategy for innovation seems like an obvious priority for any large company. However, the classical "top-down" analytical approach, which starts with business objectives and cascades down perfectly through to a series of narrowly defined innovation projects, is seen by many as too rigid for the post- digital "lean start-up" world. So has innovation strategy had its day? Should companies instead just focus on capturing new opportunities and working with start-ups? In this article we argue that there is still a place for innovation strategy, provided that it incorporates the right features to keep it dynamic.

The end of innovation strategy?

Digitalization is pervading almost every aspect of the business world, disrupting established business models and transforming the way companies operate. As technological clock speeds have increased, getting a new product to market fast and gaining rapid feedback may be more effective than spending a long time perfecting it in-house. And in an "open system" world, where customers, partners and the world at large can influence the course of innovation in often unpredictable ways, having a set of rigid strategic "rules" may not be helpful. In this environment, large corporates have needed to rethink how they go about innovation. What's the point of spending six months crafting a perfectly structured hierarchical innovation strategy, when by the time it's finished, it's already superseded? Isn't it better just to set up the best-possible way of scouting for opportunities, pick the best ones and get them to market as quickly as possible?

Why innovation strategy still has a place

Based on our work with many large companies, at ADL we believe that there is still a place for a formal innovation strategy. For example, in today's world, an effective innovation strategy can:

- Provide guiding principles to make the right decisions when the innovation landscape changes unexpectedly

- Put in place the means to anticipate disruptions and develop a suitable response in terms of exploitation or defense

- Enable the return-on-innovation investment to be properly managed and communicated

- Help to allocate valuable resources optimally across different innovation domains, and provide a framework of stability for longer-term innovation investments

- Define clear pathways for how to create business value from different types of innovation activities

In most companies of reasonable size and scale, the ability to do all these things has to be developed and maintained.

How to develop an effective innovation strategy in today's fast moving world

So what is the best way to approach innovation strategy? The key is to find the right balance between the "top down" aspects of aims, objectives and frameworks and the "bottom up" aspects of idea and opportunity capture. ADL's Dynamic Innovation Strategy hourglass model (below) aims to help companies put in place the right elements to find this balance.

Dynamic Innovation Strategy Model
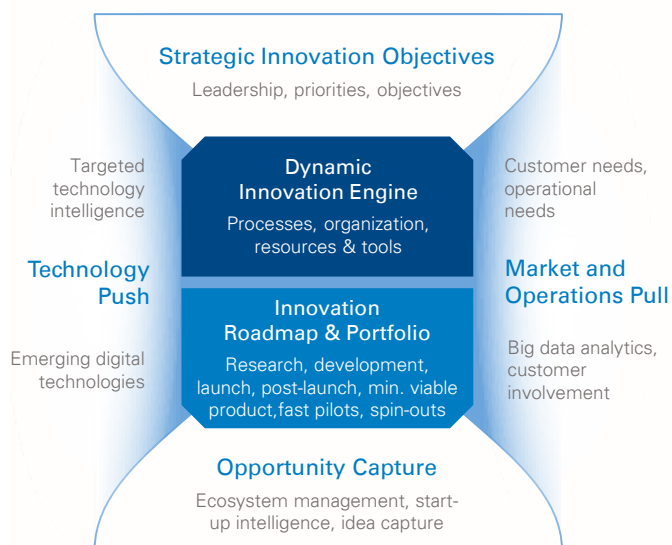
Source: Arthur D. Little

The model comprises:

- An Objective setting and leadership element

- A Dynamic Innovation Engine, comprising a set of processes, organizational arrangements, resources and management tools

- An Innovation Portfolio of activities, with roadmaps providing the link to markets, customers and operations

- A set of arrangements to capture Opportunities and manage the ecosystem

- An Intelligence capability that includes both Technology Push and Market & Operations Pull

Companies can use this model to help achieve a dynamic balance in their innovation efforts, both as a reference for diagnosing current gaps and weaknesses, and as a blueprint for developing improvements.

Based on this model we can identify six key success factors for developing an effective innovation strategy:

1. Articulate business objectives, principles and leadership arrangements clearly

2. Use the right processes and arrangements to enable a dynamic innovation engine

3. Structure and roadmap your activities

4. Nurture the ecosystem

5. Integrate digitalization into the innovation process

6. Use a flexible, user-adoption driven Innovation Management Solution to bring the strategy to life

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1. **Articulate business objectives, principles and leadership arrangements clearly**

Any innovation strategy needs to have clearly articulated objectives, preferably including quantification of the "innovation gap" to be overcome in terms of revenue growth and profitability gains. Being clear about the role of different types of innovation is important, for example distinguishing between Product/Service, Process and Business model innovation. The share of investment to be allocated to Core/Incremental vs Step-out/Breakthrough innovation is also important to clarify. Today, companies who consider themselves strong innovators tend to allocate some 15-30% of their innovation spend on Breakthrough innovation – and the trend is upwards[1]. Having a clear set of guiding principles for innovation – rather than rigid rules – helps to make decisions when conditions change. Finally, the Innovation Strategy needs to be clear about leadership and accountability for innovation delivery. A cross-functional governance team for innovation is preferable to a single function such as R&D or Technology.

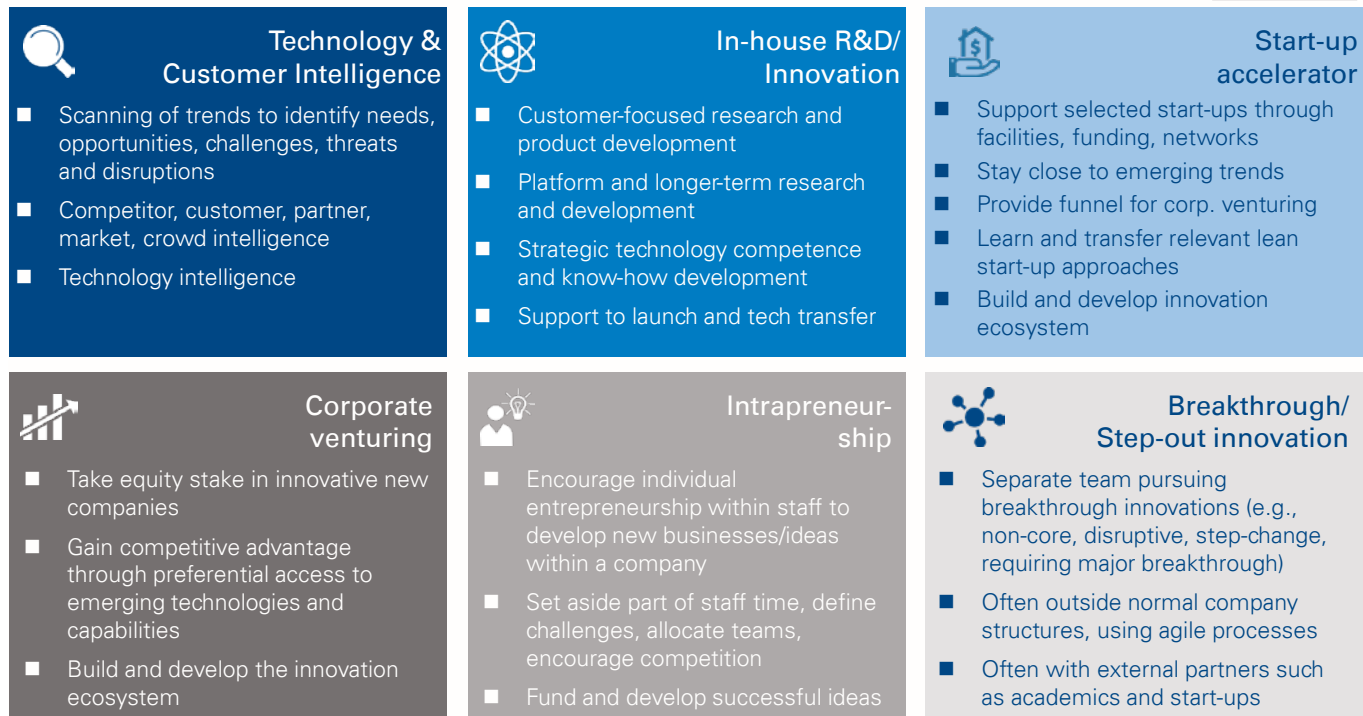2. **Use the right processes and arrangements to enable a dynamic innovation engine**

A dynamic innovation engine needs to have suitable processes to cover key building blocks such as intelligence, start-up incubation or acceleration, breakthrough innovation and intrapreneurship (i.e entrepreneurial programmes for staff), as shown in the figure on the next page. Many companies have also set up corporate venturing programmes primarily for gaining preferential access to emerging technologies. These elements are closely interlinked, and it is important to define their roles clearly to form an integrated and coherent innovation effort. Arthur D. Little has many best-practice models and examples for these key elements. For example, we have a powerful approach for breakthrough innovation – the Breakthrough Factory™ – which delivers game-changing prototypes in typically less than 12 months, orchestrating a bespoke ecosystem of academics and start-ups. Finally, the innovation engine needs to ensure that processes are sufficiently agile to meet the current "need for speed" in a world where not all operating dimensions can be controlled. Adopting an agile mindset can be very effective, even in non- digital industries. The following principles are a good starting point:

- Openness: Ensure accessible and available data, bring issues and risks to the surface transparently without blame

- Simplicity: Deploy just enough control and process, focus on delivered features and benefits

- Value-driven: Use evidence-based and value-driven investment decisions for solution implementation

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1   Arthur D. Little breakthrough innovation study

Arthur D Little

Innovation management building blocks – Roles

Technology & Customer Intelligence	In-house R&D/ Innovation	Start-up accelerator
■ Scanning of trends to identify needs, opportunities, challenges, threats and disruptions ■ Competitor, customer, partner, market, crowd intelligence ■ Technology intelligence	■ Customer-focused research and product development ■ Platform and longer-term research and development ■ Strategic technology competence and know-how development ■ Support to launch and tech transfer	■ Support selected start-ups through facilities, funding, networks ■ Stay close to emerging trends ■ Provide funnel for corp. venturing ■ Learn and transfer relevant lean start-up approaches ■ Build and develop innovation ecosystem
Corporate venturing	Intrapreneur-ship	Breakthrough/ Step-out innovation
■ Take equity stake in innovative new companies ■ Gain competitive advantage through preferential access to emerging technologies and capabilities ■ Build and develop the innovation ecosystem	■ Encourage individual entrepreneurship within staff to develop new businesses/ideas within a company ■ Set aside part of staff time, define challenges, allocate teams, encourage competition ■ Fund and develop successful ideas	■ Separate team pursuing breakthrough innovations (e.g., non-core, disruptive, step-change, requiring major breakthrough) ■ Often outside normal company structures, using agile processes ■ Often with external partners such as academics and start-ups

Source: Arthur D. Little

■ Decisiveness: Ensure clear governance and courage to take 'Invest/Pivot/Stop' decisions

■ Empowerment: Deploy empowered teams with clear goals

3. Structure and roadmap your activities

The core of any innovation strategy is a portfolio of innovation activities. A common problem large companies encounter is that innovation and R&D activities across different businesses are hard to prioritize and align to business goals. This is sometimes a result of historical acquisitions and lack of a suitable cross-cutting governance approach. The strategy should include a set of clear themes and challenges derived from business goals, wih innovation roadmaps to help achieve alignment with customer/market/operating trends. Today there are digital tools available to support effective roadmapping and enhance its effectiveness as a 'living' tool to enable 'real-time' collaborative decision-making across regions, functions and business lines.

Structuring the activities into objective-based programmes with goals and timeframes helps to ensure that never-ending R&D projects are avoided. Empowering cross-functional Programme Managers to lead R&D and innovation programmes also helps to ensure effectiveness, especially as a multidisciplinary approach is often needed to meet a set of customer or operational needs, drawing on internal and external resources from the ecosystem.

4. Nurture the ecosystem

A key aspect of a Dynamic Innovation Strategy is how to nurture the ecosystem to capture and co-develop opportunities,

especially with start-ups. The dynamic innovator realizes that success comes not just from working together with partners but rather adopting a truly outside-in philosophy at all levels. There is growing evidence that breakthrough innovations are more likely when "less obvious" partners get together. Key success factors include the following:

■ Establishing a clear vision and sense of purpose that is robust to rapid changes

■ Developing a strategy that considers first how the ecosystem can maximize value, and then the part which should be yours

■ Maintaining an effective navigation system to monitor opportunities using the best digital tools available

■ Using the right techniques to engage and attract diverse partners, with clear IP frameworks that encourage win-win, and an emphasis on shared values and mutual trust

■ Transforming the company mindset towards true ecosystem thinking rather just than partnering

5. Integrate digitalization into the innovation process

Today's innovation strategies need to consider explicitly how digital aspects will be integrated. One of the main challenges is to coordinate and clarify roles and responsibilities between Innovation, Digital Transformation and IT functions. Whilst there is no one-size-fits-all solution, we typically recommend an approach whereby the Innovation function retains the

responsibility for *developing new digital technology applications*, with the Digital function *owning digital business models and integrating technologies* into the business. Key success factors include:

- Clarifying and ensuring the complementarity of the respective roles of relevant functions, e.g IT vs. Digital Transformation vs Digital Innovation

- Avoiding exclusive ownership of digitalization by the corporate IT function

- Ensuring a suitable means of coordination (such as a committee) to ensure a coherent digital strategy and roadmap

6. Use a flexible, user-adoption driven Innovation Management Solution to bring the strategy to life

Strategies often fail due to poor implementation, and for any large organization, suitable tools need to be adopted to manage key innovation processes such as ideation, phase-gates, portfolio management, project management and resource management. There is no shortage of tools and solutions on the market, ranging from cheap or free apps to full scale integrated solutions with extensive built-in innovation management functionality. The most sophisticated of these can be effective in helping to ensure consistency of approach, but they can be costly to run and, although configurable, can be complex to use. In today's digital world where people are used to intuitive, accessible solutions, complexity quickly leads to lack of user adoption. It is increasingly important for companies to adopt a flexible and user-centric approach for innovation management tools. Arthur D. Little has good experience in developing and implementing flexible tailored solutions that will increase user adoption.

These solutions can provide significant benefits, for example:

- Greater flexibility to suit different user personas and required levels of standardization across often diverse businesses

- Increased user adoption

- Lower overall cost by ~15-25%

Conclusion

Despite the need for speed and agility, a formal innovation strategy still has an important role for most large companies – provided that it remains dynamic and flexible. Arthur D. Little's Dynamic Innovation Strategy model shows how this can be achieved as long as a number of key success factors are carefully taken into account. Above all, the strategy should ensure a good balance between top-down guidelines and bottom-up opportunity capture, and between market/operations pull and new technology push.

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Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

For further information, please visit **www.adlittle.com**

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