Making Innovation Work: Strategies from C-level Executives

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Bio

Dr. Donald L. Amoroso is:

• Lowder-Weil Endowed Chair of Innovation and Strategy and Professor of Information Systems at Auburn University Montgomery

• CEO of Axcell LLC Consulting

• Research Fellow at Asian Institute of Management in Philippines

• Visiting Professor at Tsukuba University in Tokyo

• Senior Director for Enterprise Solutions at GE Capital

• Dr. Amoroso received his MBA and Ph.D. from the University of Georgia in 1984 and 1986, respectively
Bio

Researches in innovation, leadership, creativity, mobile adoption, and consumer innovativeness using technology in the Philippines, Japan, and China.

Authors 72 refereed articles and proceedings, written 5 books, presented at over 57 professional conferences and venues.

Consults with 32 organizations in the US, Japan, Mexico, Canada, and the Philippines working with CEOs and CIOs to develop and execute leadership and strategic planning efforts.

Coaches c-level executives in 8 corporations and government agencies.
Outline

1. Purpose of this talk
2. What is innovation?
3. Overview of the study
4. Outcomes of success
5. Top 7 key areas found from the c-level
Purpose
Purpose

• What is the nature of innovation?
• How can organizations adopt innovation processes?
• How can innovation change the competitive playing field for organizations?
• How can organizations align competitive strategies and core competencies associated through innovation?
Definition of Innovation
What is Innovation?

Innovation is defined as a new way of doing something, referred to by a continuum of gradual to radical change.
What is Innovation?

Innovation can be a product or a process.

Innovation must have the following elements:

- Creativity
- Uniqueness
- Change
The innovation pipeline starts from innovation creation through innovation adoption.
Innovation Tool Framework

- Visioning
- Feedback
- Analysis
- Change

Creativity Techniques
Data Analysis Techniques
Modifying Techniques
Process Reengineering Techniques
Definitions

• *Change* can be measured by increased value-add, profitability, customer loyalty, market share and other organizational actions.

• *Information technology* can be a powerful innovation tool used to provide competitive advantage for organizations.

• *Portfolios* are the way organizations manage innovations, from the idea generation to development and contain value and risk measures.
Overview of the Study
Overview of the Study

- Two highly innovative organizations were chosen for analysis:
  - NTT DoCoMo – Japan
  - Globe - Philippines
Overview of the Study

- Interviews were undertaken with:
  - Senior VP for New Products (Natsuno) at NTT DoCoMo, Japan
  - CEO (Cu) for Globe Telecom, Philippines
- Further interviews (21) were conducted with the c-level in both organizations, over the last 5 year period.
Natsuno came to DoCoMo in 1997 initially tasked with trying to figure out how to turn mobile phones into mobile wallets.

In 1999, DoCoMo launched i-Mode, the mobile web service had 25 million users in Japan each paying a $3 monthly subscription charge, plus data charges. DoCoMo was also getting a 9 percent cut in revenues from content providers (such as JR East). Japan was the first official mobile Internet country with near-field technologies.

Natsuno was feted as i-Mode's innovation high priest setting up key innovation centers in many Japanese universities.
NTT DoCoMo reports ¥456 billion net income in first half 2014, up by 87%, revenue ¥4.6 trillion ($46 billion)
Consolidated operating revenues ¥2,788.0 billion
- Mr. Ernest Lawrence L. Cu has been the Chief Executive Officer and President of Globe Telecom Inc. of Ayala Corp. since April 1, 2009.

- Mr. Cu was the President and Chief Executive Officer at SPi Technologies, Inc. since February 18, 1998.

- He was responsible for establishing SPI's marketing operations in the U.S. since 1997. In 2006, he spearheaded SPI's sale to ePLDT.

- In 2012, Cu hired three innovation spin-off company CEOs, outside of core business innovation centers.
Globe Telecom reports P6.8-billion net income in first half 2014, up by 385%, revenue P47.7 billion ($1.1 billion)
Outcomes of Success
Analysis

• The interviews were transcribed word for word
• Data was input into NVivo – a qualitative data analysis tool
• Using both content analysis and contextual analysis techniques – searched for patterns and key phrases
Success Outcomes

• Change in competitive advantage and differentiation
• First-mover benefits, with sustainability
• Process reengineering
• Substantial risk-taking
• Reshaping the organization’s industry and/or ecosystem
• Customer loyalty
1. Visioning
Factors of Innovation?

• Harvard study of CEOs (2006)
• Which factor was common in all innovative CEOs?
• How were CEOs able to vision?
• Personal – gender, children, age?
• Experience or education?
• Industry type or firm size?
**Visioning**

**Core Values**
- What we hold dear
- What we will not do
  - What compels us to our purpose

**Purpose**
- Why we exist
- What we envision for our future
- What we aspire to be
- Where we will compete

**Strategy**
- How we will compete
- How we will differentiate
- What specific value we will offer

**Goals**
- What the vision looks like in specific terms
- How we measure progress toward the vision
- How we connect operating plans to the vision

**Imposed Constraints**
- What we must return to shareowners
- What rules and regulations we must adhere to
Visioning

Key Activities

- Review mission statement
- Review strategic plan
- Develop purpose statement
- Define envisioned future
- Define stretch target
- Define opportunity space and scope of product offerings

- Define 3 options for differentiating strategies
- Collect internal and external assessment data
- Conduct analysis based on 5 perspectives (customers, competitors, capabilities, cost, culture)
- Present analysis and select differentiating strategy
- Define high level implications of selected strategy

- Identify key results required to fulfill vision
- Determine measurements and target performance levels
- Develop overall scorecard that measures progress toward the vision

- Assess existing organizational values
- Define foundational values
- Define strategy-driven values
- Collect behavioral examples of desired values
- Finalize core values definitions and examples
- Assess gap between current performance and desired values

- Document all aspects of the vision
- Determine communication approach
- Develop communication plan
- Develop communication presentation and material
- Roll out communication of new vision

Key Meetings

- Key stakeholder interviews
- Executive retreat to define purpose, envisioned future, stretch target, and opportunity space
- Strategy kick-off meeting
- Analysis teams work sessions
- Assessment “report out” and strategy selection meeting

- Goals kick-off meeting
- Goals team work sessions
- Scorecard presentation and approval meeting

- Core values kick-off meeting
- Focus groups and interviews
- Critical behavior meetings
- Core values team work sessions
- Core values presentation and approval meeting

- Communication kick-off meeting
- Communication team work sessions
- Review and sign-off on communication plan and presentation/materials
- Vision communication sessions

Key Outputs

- Documentation of purpose, envisioned future, stretch target and opportunity space
- Selection of differentiation strategy and description of high level implications
- Overall vision scorecard
- Definition of core values and accompanying behavioral examples
- Vision communication plan
Visioning

**Organizational Purpose**
- Prepare quantitative analysis (Analysis work team)
- Develop purpose statement (Executive team)
- Define envisioned future (Executive team)
- Establish stretch target(s) (Executive team)
- Document opportunity space guidelines (Executive team)
- Define purpose measures and scorecard (Senior staff)

**Differentiating Strategy**
- Develop alternative strategy options (Executive team)
- Conduct five lens analysis (Lens work teams - 5X)
- Select differentiating strategy (Management team)
- Document high level implications (Alignment work teams - ?X)
- Define strategy measures and scorecard (Alignment work team - ?X)

**Core Values**
- Evaluate existing personal values (Executive team)
- Evaluate existing company values (Values work team)
- Define strategy-driven values (Executive team)
- Finalize list of core values (Executive team)
- Define behavioral examples for values (Values work team)
- Define values measures and scorecard (Values work team)

**External Constraints**
- Define financial return thresholds (Executive team)
- Define desired partner/supplier performance (Executive team)
- Define key regulation constraints (Constraints work team)
- Define constraints measures and scorecard (Constraints work team)

**Vision Communication**
- Integrate measures into overall vision scorecard (Communication team)
- Develop vision communication plan (Communication team)
- Roll out vision communication (Management team)
- Develop workgroup measures to support the vision scorecard (Major workgroups)
- Define workgroup behaviors that support core values (Major workgroups)
2. Competitive Advantage / Differentiation
Competitive Advantage

Is the company’s products and/or services predominantly differentiated today?

Is the company’s products and/or services predominantly niche targeted today?

Type of Advantage Sought

Lower Cost
- Overall Low-Cost Provider Strategy
- Focused Low-Cost Strategy

Differentiation
- Broad Differentiation Strategy
- Focused Differentiation Strategy

Best-Cost Provider Strategy

Market Target
- Broad Range of Buyers
- Narrow Buyer Segment or Niche
Competitive Advantage

Supplier Power
- Determination of inputs
- Switching costs of suppliers
- Presence of substitute inputs
- Supplier concentration
- Importance of volume to supplier
- Cost relative to total purchases
- Impact of inputs on cost
- Differentiation
- Threat of forward integration

Degree of Rivalry
- Industry growth
- Fixed (or storage) costs/value added
- Intermittent overcapacity
- Product differences
  - Brand identity ✔
  - Switching costs ✔
  - Concentration and balance ✔
  - Informational complexity
  - Diversity of competitors
  - Corporate stakeholders
  - Market positioning

Barriers to Entry
- Economies of scale
- Proprietary product differences
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Absolute cost advantages
- Government policy
- Expected retaliation

Buyer Power
- Bargaining leverage
  - Buyer concentration
  - Buyer volume
  - Buyer switching costs
- Ability to backward integrate
- Substitute products available
  - Pull-through
- Price sensitivity
  - Price total purchases
  - Product differences
  - Brand identity
  - Decision makers’ incentives
  - Impact on quality/performance

Threat of Substitutes
- Substitute products available
- Relative price performance of substitutes
- Switching costs
- Buyer propensity to substitute

Degree of Rivalry
- Same Goal
- Same Product
- Same Industry

Threat of Substitutes
- ✔ Same Goal
- ✔ Different Product
- ✔ Different Industry
3. Ecosystem Analysis
Philippine Mobile Ecosystem (Globe)

- **Handset Manufacturers**
  - Handset functionality
  - QR code readers
  - Gadget convergence
  - User interface friendliness
  - R&D

- **Consumers**
  - Consumer adoption
  - Consumer behavior
  - Trust
  - Loyalty / Inertia
  - Innovativeness

- **Carriers**
  - Business model
  - Investment
  - Value measurement
  - R&D

- **Infrastructure providers**
  - (cell towers, middleware)

- **Application developers**

- **E-Wallet / Payment systems**

- **Content providers**

- **Consumers**

- **Mobile Department Store Locator**
  - Upgraded texting program
  - Mobile Prayer Application
  - Mobile social media

- **Mobile monitoring**
  - Mobile Internet search
  - Location services

- **Programming environments for development**

- **Passaload management**
  - Online banking
  - Checking balances
  - Transferring money
Steps in Ecosystem Analysis

• Clearly agree on the firm’s altruistic goal, industry, and products/services
• Conduct the external strategic analysis
  o Know the gaps and where technology can play
  o Determine where the organization wants to go next
• Conduct the internal strategic analysis
  o Logically model all of the key processes in the organization
  o Determine which processes require reengineering and/or design
• Conduct a cultural analysis
  o What is some unique feature of a culture that identify it? (trains in Japan)
Steps in Ecosystem Analysis

• Understand all of the players in the ecosystem
  o Determine what the products from each of the players
  o Build a model showing relationships between the ecosystem players

• Develop relationships with one or more players
  o Build a strategy to co-create one or more products
  o Determine the business model for the innovation

• Build a prototype for demonstration
  o Develop a working prototype for discussion
  o Test the product with the consumer
Ecosystem: Mobile Innovation

- NTT DoCoMo, having successfully launched the i-Mode (first smartphone Internet connection) looked outward for an innovation.
- They developed a partnership with JR East to develop a joint mobile product set for applications that constituted an intersection between the two company industries.
- JR East passenger traffic:
  - Shinjuku Station – 3.6 million people per day
  - Ikebukuro Station – 2.7 million people per day
  - Shibuya Station – 2.4 million people per day
- Product set developed included:
  - Mobile train schedules
  - Suica e-wallet innovation
4. Blue Ocean Strategy
Blue Ocean Strategy

The alignment of value proposition, profit proposition and people proposition to create a new market space is called

Blue Ocean Strategy

To go where no one has gone before

Change the world

W. Chan Kim and Renee Mauborgne
Blue Ocean Strategy

Think Change
What seems like only a ripple today... Can become the wave of the future
## Blue Ocean Strategy

<table>
<thead>
<tr>
<th>Competitive-based strategy</th>
<th>Blue Ocean Strategy</th>
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<tbody>
<tr>
<td>• Compete in existing market space</td>
<td>• Create uncontested market space</td>
</tr>
<tr>
<td>• Beat the competition</td>
<td>• Make the competition irrelevant</td>
</tr>
<tr>
<td>• Exploit existing demand</td>
<td>• Create and capture new demand</td>
</tr>
<tr>
<td>• Make the value-cost trade-off</td>
<td>• Break the value-cost trade-off</td>
</tr>
<tr>
<td>• Align the whole system of a firm’s activities with its strategic choice of differentiation or low cost</td>
<td>• Align the whole system of a firm’s activities in pursuit of differentiation AND low cost</td>
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Blue Ocean Strategy

- **Industry** (Being the Best - Rivalry)
- **Strategic Group** (Focused on Competition)
- **Buyer Group** (Purchaser, User, or Influencer)
- **Scope** (Maximise Products and Services)
- **Orientation** (Improve Price Performance Functional - Emotional orientation)
- **Time** (adapting to external trends as they occur)

**Six Paths Framework**

- **Path 1**: Looks across alternative industries
- **Path 2**: Looks across strategic groups within industry
- **Path 3**: Redefines the industry buyer group
- **Path 4**: Looks across complementary product and service offerings
- **Path 5**: Rethinks the functional - emotional orientation of its industry
- **Path 6**: Participates in shaping external trends over time

**Forum**
Blue Ocean Strategy

A New Value Curve

Reduce
Which factors should be reduced well below the industry’s standard?

Eliminate
Which factors should be eliminated that the industry takes for granted?

Create
Which factors should be created that the industry has never offered?

Raise
Which factors should be raised well above the industry’s standard?
Blue Ocean Strategy

Eliminate
Reduce
Raise
Create

Costs

Value

VI

Value Innovation
5. Innovation Portfolio Management
Innovation Portfolio Management

The centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing, and controlling innovation projects, programs, and other related work to achieve specific strategic goals and move the organization to a new competitive space.
Innovation Portfolio Management
Innovation Portfolio Management
6. Innovation Boards and Organizations
Innovation Governance Board

Definition

“The innovation governance board is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization’s innovation sustains and extends the organization’s strategies and objectives” (IT Governance Institute, 2003).
Innovation Governance Board

• Organizing the advisory board
  • Role of the governance board
  • Composition of the advisory board

• Management of advisory board members
  • Motivating the board
  • Communicating the results
Innovation Governance Board

Role of the governance board
- Getting buy-in from organizational c-level
- Making decisions about innovation projects
- Looking at corporate technology needs
- Mapping current project progress
- Formulating the future
Selection of Innovation Projects

• Building the road map
  • “As-is” – where we are now
  • “To-be” – where we want to be
  • Charting the location (which point in the future?)

• Assessing the gap
  • Determining how big is the gap
  • What resources will be needed to be getting there
  • Which innovation projects will be most beneficial
Innovation Governance Board

Stephen J. Andriole, 2009
7. Innovation Investment Models
Innovation Strategic Grid

- **factory**: reduce costs and improve performance of the core operations of an org
- **strategic**: firms that have moved into this quadrant have committed to use IT to enable both core operations and core strategy
- **support**: (low impact) local improvements and incremental cost savings
- **turnaround**: exploit emerging strategic opportunities from new IT

Impact on strategy vs. impact on business operations grid.
Innovation Benefit/Risk Model

Project Benefits

- New Core Value
- New Benefits
- Improved Benefits
- Variation

Breakthrough systems

New Platforms

Derivative systems

Project Risk

- Very High
- High
- Medium
- Low

○ = New Projects
○ = Ongoing Projects

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Lessons Learned from NTT DoCoMo

• One company has to take the main impetus for the success of the innovation in the ecosystem
  o Developing the innovation idea
  o Visioning the scope of the change
  o Making the partners key for integration
• Risk-taking is key to making the innovation work
  o Investment in development
  o Partnering with universities
• Managing the innovation portfolio
  o Portfolio management for all innovation projects
  o Building the components technically
  o Integrating the technical pieces of the product
Lessons Learned from NTT DoCoMo

United States – Pull Theory (Greatest Benefit for Corporate Profits)

Consumers → Mobile Device Innovation → Application Development Investment → Large Carrier Investment

Japan – Push Theory (Greatest Benefit for Society)

Large Carrier Investment → Mobile Device Innovation → Application Development Investment → Consumers

University Labs
Lessons Learned from Globe

• Creating the autonomous innovation organization
  • Different location from the headquarters

• Marketing the product
  o Creating marketing spots for the consumer
  o Managing the culture (“what is this”)

• Integrating the innovation into existing products
  o Pushing the innovation to the consumer

• Measuring the results
  o Learning from the consumer
Lessons Learned from the C-level

1. Visioning
2. Competitive strategy analysis
3. Ecosystem analysis
4. Blue ocean strategy
5. Innovation portfolio management
6. Innovation boards and organizations
7. Innovation investment and risk-taking