Minimizing the High Risk of Failure of Corporate Innovation

Much of today's new technology may not impact the organization's business directly, but it almost certainly will impact it indirectly. The Internet of Things (IoT), big data, artificial intelligence (AI), robotics, blockchain, cryptocurrency and virtual reality (VR), to name but a few, will make sure of that. There is also technology such as the Interplanetary File System (IPFS), a network protocol so significant it could completely reimagine interactions with the Internet, beginning with addressing the Internet's major privacy shortcomings.[1]

With the increasingly rapid rate of change in technology, key questions organizations face are how to make sense of it all, how to apply it practically and how to do these things before their competitors do. The innovation hub is a tool often used to achieve these objectives. An innovation hub is a department or business unit that typically considers technological innovations that can potentially benefit an organization's competitiveness. In some organizations, the function performing similar activities is called the research and development (R&D) department The problem is quite simply that most innovation hubs actually fail to meet their objectives. There is a difference between the failure of individual innovations and the failure of whole innovation hubs. This article addresses the latter.

It also introduces what the board can do to help mitigate the risk of failure for its innovation activities. Stated differently, it introduces a governance framework that helps ensure that organizational innovation activities produce the value expected of them.

Why Organizations Innovate

Some of the reasons organizations innovate are to stay on the offensive, to gain an edge and to enable entry into new markets faster and more cost effectively.[2] In this respect, innovation hubs primarily aim to increase digital innovation, rethink customer experience, improve operational efficiency and test new business models.[3]

Softer reasons for technology innovation include the fact that the ability to demonstrate technological proficiency is key to being perceived as being competent and capable, thus augmenting the organization's reputation and making people's heads turn.[4] The latter is particularly useful if the organization wants to attract the best talent.

Innovation's Two Focus Areas

Two focus areas in innovation thinking are the process of innovation and the content of innovation.[5] This article focuses on the process of innovation, because, with the right process and governance enablers, the content of innovation will have a greater likelihood of driving a return on the organization's overall investments in innovation.

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Structure for Innovation

Organizations are actively creating all manner of sandboxes, accelerators and innovation hubs to explore new technology, where teams of intrapreneurs try to understand and, hopefully, meaningfully apply the relevant new technology to their organizations. The often-implicit expectation is that this will ultimately help maintain or even grow the competitiveness of their organizations.[6]

As an example, the decentralized, distributed nature of blockchain technology has been particularly threatening for financial services and, in turn, has driven banks and other financial services organizations to explore blockchain technology for themselves, both independently and through consortia such as R3 CEV.

In particular, bitcoin and other major cryptocurrencies threaten to disrupt the payment system, thereby negatively impacting the revenue streams of established intermediaries such as banks and payment intermediaries (e.g., Visa and Paypal). Furthermore, Ripple, a blockchain-based technology focused on transfers of money between countries, threatens to disrupt SWIFT, currently the *de facto* protocol for transferring funds abroad.

Both of these examples offer lower costs, but Ripple's value proposition also includes multiple orders of magnitude faster processing times for international money transfers, from two or more days to three to six seconds as shown in **figure 1**.[7]

In the midst of innovation successes, however, 70 to 90 percent of intrapreneurship efforts fail[8] and there is no doubt that many of the blockchain-focused innovation hubs will follow suit. One of the ways some aim to reduce this rate of failure is for organizations to partner with financial technology (fintech) start-ups.[9] But even in this case, success is not a given. Indeed, there is a significant struggle to make these types of relationships work.[10]

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The Role of the Board in Ensuring Meaningful Innovation

While the relationship between corporate governance and innovation is a dilemma,[11] could suboptimal corporate governance be a key reason for the failure of innovation hubs?

Figure 1—Demonstrating the Benefits of the Ripple Innovation Over SWIFT

Minimum Processing Time
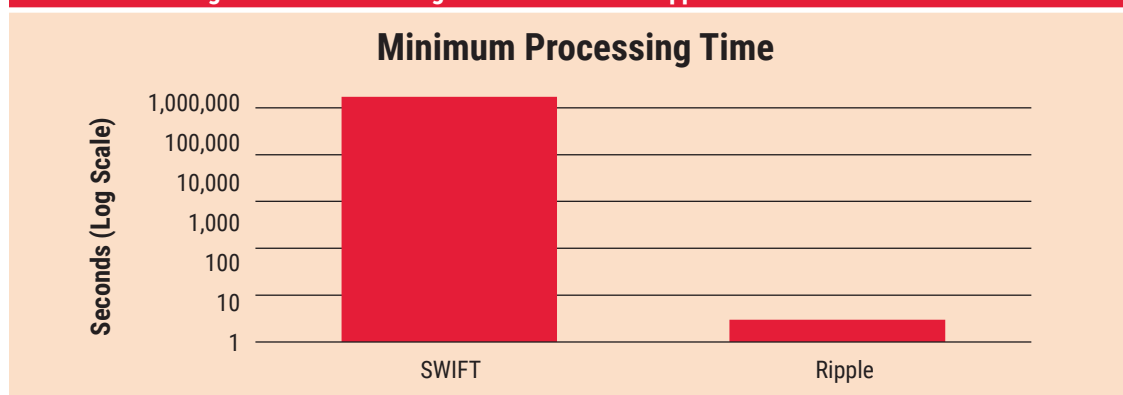
Based on data from: Olszewicz, J.; "Ripple Price Analysis—Trend Reversal Likely," Brave New Coin, 10 October 2017, *https://bravenewcoin.com/news/ripple-price-analysis-trend-reversal-likely/*

Many attempts at innovation fail because the tough questions about an idea are not asked at the outset.[12] Furthermore, there is also the problem of innovation operationalization. Within three years of a chief executive officer (CEO) announcing an innovation program, many of them will have failed due to poor operationalization. Indeed, Target, Alaska Airlines, Coca-Cola, *The New York Times* and Chubb are examples of organizational innovation failures.[13] Ensuring the tough questions are asked and enabling the requisite degree of operationalization are certainly the kinds of governance and operational risk management issues that deserve attention.

From a governance perspective, the reasons organizations innovate can be aligned with the governance construct of "sustainability," and with the accounting construct of the "going concern."

Both of these constructs are about helping to ensure that the organization continually evolves to live a long and productive life.

Both of these constructs can be encapsulated within the contemporary governance term, "resilience," where resilience is defined as "an organization's capacity to anticipate and react to change, not only to survive, but also to evolve."[14] Technology is a major driver of change, so to ensure resilience, better ways of impacting technology as a driver of change need to be implemented if resilience is a desired outcome.

There are at least five governance constructs to consider in the context of the board's oversight of technological innovation, detailed in **figure 2**.

When the novelty of simply being involved in innovation wears off, the board should, ultimately,

Figure 2—Selected Imperatives in the Governance of Information and Technology	
Governance Imperative[15]	**Comments**
1. Identifying the planned areas of innovation focus and ensuring that the process of innovation is clear	This is a key construct in the governance of innovation and requires clarity around both the content and process of innovation.[16] Focusing on too many innovative technologies (width) can mean that no innovations are market ready. On the other hand, focusing too shallowly can result in outputs of little value, while focusing too deeply will, perhaps, mean that only one innovation can meaningfully be evaluated (depth). Being clear on the scope of innovation is, therefore, important.
2. Ensuring resilience	There must be alignment between decisions on the most relevant technologies to assess for the organization (point 1, previously) and the capability and capacity to properly operationalize them within the organization. Resilience does not benefit without the purposeful operationalization of innovation.
3. Managing the performance and risk of third-party and outsourced service providers	This is especially relevant in the partnership structure of a corporate innovation hub. Is the nature of the due diligence performed on prospective partners sufficient to mitigate the enterprise risk of those partnerships (e.g., cybersecurity risk)?
4. Assessing the value delivered to the organization, including evaluating technologies throughout their life cycles	Since value protection[17] is a key governance concern, innovation funding is going to be limited. However, it is important that the nature of the limit be communicated by senior management and understood by the innovation team in a two-way negotiation process in the interests of effectively operationalizing the innovation hub. The process of developing this shared understanding of value protection and value creation seems to be missing, though, because more than 80 percent of workers in innovation hubs say that there are resource constraints involved in bringing innovation projects to fruition.[18] The extent of this gap should be of concern to both senior management and the board.
5. Ensuring that the technology architecture supports the achievement of the organization's strategic and operational objectives	As new technologies are evaluated, especially by established organizations, there is a greater chance that the new technology will contrast with the technology legacy of the organization. In this case, what technology architecture decisions need to be made in the interest of resilience, and what are the implications for the integration of the innovation technology?

be able to see the fruits of the innovation and how these fruits help achieve organizational objectives such as resilience and aligning that innovation with organizational strategy. There should also be relevant oversight of the innovation to ensure that the organization's value is protected and that cash reserves are not wasted.

It is essential that the board ensures that appropriate resources are made available to effectively operationalize innovations that have the potential to increase the organization's resilience and its competitiveness.

Part of ensuring that the outcomes of the innovation hub contribute to the sustainability and growth of the organization includes defining and carefully articulating the scope of the innovation hub. The scope is referred to as its width and depth in **figure 2** and needs to help maintain the focus on the expected contribution of those innovation activities to the organization.

Furthermore, if a new technology that strongly contrasts with the existing organizational technology architecture is proposed by the innovation hub while simultaneously being more strongly aligned with the organization's strategy than alternative proposals, then the board's role is to ensure that the risk factors of potentially integrating the new technology into the organization are appropriately identified, assessed, mitigated and monitored.

Conclusion

Appropriate corporate governance can ensure that the challenges innovation hubs face in producing the value expected of them are addressed. In this respect, governance should ultimately serve to remove the roadblocks to successful corporate innovation.

The article highlights five important IT governance constructs that are key in an innovation management context:

1. Clarifying the scope of innovation to ensure its effectiveness: its width and depth

2. Ensuring a focus on resilience, thereby ensuring the sustainability and the growing concern of the organization

3. Understanding the implications and risk of the partnership model, the current preferred model for organizational innovation

4. Focusing on value, ensuring the right degree of financial resources are made available for effective operationalization and the innovation hub, in turn, creates measurable value for the organization

5. Ensuring not only that the new technology is able to be integrated into the organization, but also that the new technology is most effective compared to alternatives in supporting the organization's strategy

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In the midst of an increasing number of technological innovations, both innovation and innovation governance are must-do's for organizations today. Innovation finds ways that promising technologies can add value to the organization, while governance ensures that these innovation activities are focused on adding value and they contribute to the resilience of the organization, thereby ensuring that resources are not wasted or unnecessarily diverted.

It is evident that strong IT leadership and experience on the board is needed to ensure that the tough questions about innovation are asked up-front, which, in turn, actively enables an innovation hub to effectively contribute to the resilience, sustainability and competitiveness of the organization.

Endnotes

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