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# Optimize

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## Top-down Innovation

**CEOs say they want to lead the innovation charge, but they can't go it alone. Collaboration and help from IT are critical to putting intentions into action**



by Bob Violino  
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Art Credit: Medio Images

CEOs have another—and an increasingly urgent—assignment to add to their leadership portfolio: driving innovation and tearing down barriers that may prevent it.

To make this happen, they may have to tell shareholders to look beyond the next quarter's results, and they'll have to broaden their own thinking. But if they don't lead the way at their own business, competitors will gain ground.

A recent survey of 765 CEOs conducted by IBM's Business Consulting Services group found that two-thirds of the respondents expect their organizations to be inundated with change over the next two years. Most see themselves as the necessary catalyst to make it all go smoothly.

Their job won't be easy. Despite decades of emphasis on innovation at many companies, "what has yet to be demonstrated is a broad leadership commitment," says Thomas Koulopoulos, CEO and founder of Delphi Group. "It's a risky exercise that requires experimentation, trial and error, and investments that don't guarantee immediate payback."

And it's a tough climate for thinking out of the box, Koulopoulos adds. "The way the markets are assessing the value of companies is still a quarter-to-quarter focus on operational excellence," he says. "As a result, a lot of companies are spending precious resources on operational excellence in areas that are commodity and noncore."

Innovation has always been an important business goal, especially in industries where inventiveness is a key to survival. But in the next few years as organizations face global competition, rapid technological developments, and regulatory restraints, the imperative is even greater.

Companies say they can be innovative if the CEO sends the right signals. "Leadership around innovation must be modeled by the CEO," says Brian Gallagher, president and CEO of United Way of America, which has more than 1,300 local, independently governed chapters. Although he doesn't have shareholder pressure to contend with, Gallagher sees himself at the helm when it comes to innovation. "The CEO must set the example for what [the organization] hopes to achieve," he says.

Gallagher likens United Way's local entities to "laboratories continually experimenting" to meet their specific needs. Their innovations, or best practices, are shared across the nation and applied as appropriate. One such innovation is 2-1-1, a community-based program in which people call in and quickly obtain information and referrals on services such as food banks, shelters, and elder care.

As with other priorities, chief executives also must create a corporate culture that makes innovation everyone's goal. The CEO needs to create an atmosphere that rewards innovative approaches, says John McKenna, CEO of Siemens Business Services, a U.S. subsidiary of Siemens AG in Germany. "In broad terms, the CEO needs to champion the idea that innovations will generate value across the business."

Under McKenna's direction, a group called Innovation & Transformation was created. It was instrumental in developing the Customer Innovation Workshop, a series of client meetings that identify and create business value. Siemens' senior subject-matter experts work

collaboratively with customers, business, and IT stakeholders to develop road maps, a desired outcome, and deliverables that show the client how to implement a particular project. Through the workshop, Siemens helped one client design a virtual solution to lower its support costs.

### Taking down barriers

Without a supportive corporate culture, proper funding for investment, and a cooperative workforce, even the best plans for innovation will falter, the IBM survey says (see chart, below). These are potential problems that CEOs clearly need to counter. But they can't do it alone.

"You won't succeed unless every employee fosters that spirit," says Tony Arnold, president and CEO of Solae Co., a \$1 billion joint venture of DuPont and Bunge Ltd. that produces specialty-food ingredients. "Our employees are empowered to drive change in many ways, including through the development of new skills, abilities, and conceptual thinking." It takes a world-class workforce to achieve innovation, growth, and product differentiation, he says.

Arnold, who has a science background, says Solae's recent innovations include a program to replace natural gas with landfill gas at its Memphis, Tenn., operations plant. The project—the brainchild of an internal team—not only cut energy costs at the plant by 30%, but also helped the environment by reducing gas emissions.

Besides getting employees involved, CEOs say IT must play a huge role in forging organizational innovation efforts.

McKenna says he looks to the CIO for executive sponsorship. When it comes to identifying technologies that solve core business problems, he says, IT helps determine which hold the greatest value potential for the company.

CIOs agree. Technology plays a major role in helping Nielsen Media Research stay innovative, says Kim Ross, CIO at the New York-based subsidiary of the Dutch VNU N.V., which collects data on TV-viewing patterns. Nielsen looks for innovation in three key areas: staying relevant in a rapidly changing industry, offering better products for clients, and providing more efficient processes.

"Since our end-to-end business process is all about data collection, statistical analysis, and information products for decision support, each of these innovation imperatives is usually solved—in part or in whole—through innovation in IT," Ross says.

Many product and process innovations start with an idea from IT that yields business value through collaboration with the marketing or production organizations, Ross says. In other cases, the innovation comes from technology investments or external collaboration.

For example, Nielsen is using enterprise server technology and very large database engines to offer Internet-enabled decision support for customers. And the company is working with consumer-product suppliers such as TiVo to ensure that its personal video recording and playback systems are accounted for correctly in Nielsen's TV audience measurement process.

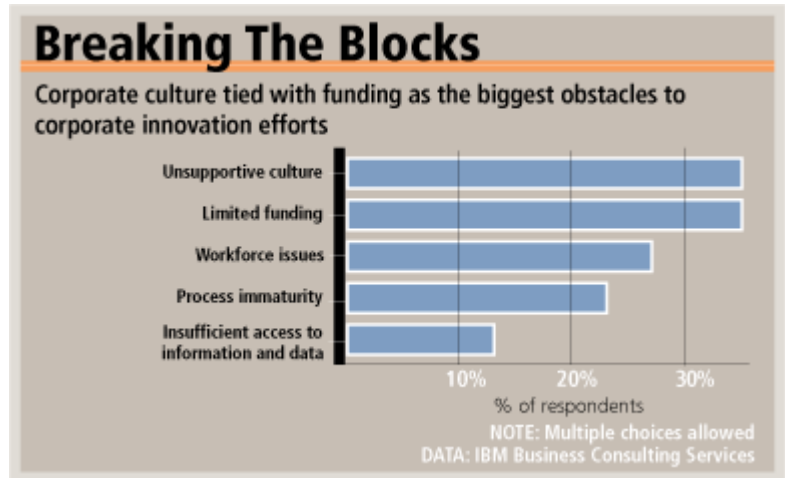
"As CIO, one of my key roles is making sure innovation is fostered and leveraged across the company," Ross says. "I also use Centers of Excellence to make sure innovation doesn't stay bottled up at the point of initial development and is used to reduce [time to market] across our business lines."

Although Ross officially reports to the general manager of operations, he sits in on the CEO's weekly staff meetings and attends all strategy sessions. "These are the forums where the top-level drivers for innovation are set before the company," he says. "In turn, I ensure that bottom-up innovation leads to support of these business goals."

At TransUnion, a consumer credit-reporting company, IT works with other departments to create processes and services. "The IT department can't stand alone," says CIO Len Lombardo. "We can't pretend to be innovative and ask the company to follow. We need to understand what [the business] goals are." Lombardo has worked with CEO Harry Gambill on the development of initiatives such as an enterprise sales force automation effort, which will tie the diverse sales units to a common platform.

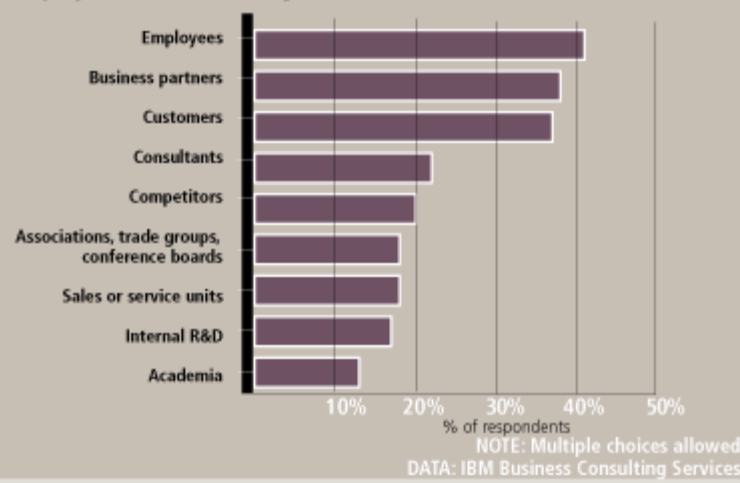
In another innovative effort, the IT department provided database access and other support to the TransUnion developers working on VantageScore, a new credit-scoring model created jointly with the company's two chief U.S. competitors. Introduced in March, VantageScore is the first to leverage a consistent scoring method across all three credit-reporting companies. It's designed to make it easier for financial institutions to evaluate loan applications.

### Sharing is key



## Big Ideas

### Employees are the most significant source of innovative ideas



80%

of the CEOs in the IBM survey said business and technology integration are of great importance. The benefits are reduced costs, higher quality and customer satisfaction, increased revenue, and greater speed and flexibility.

With the encouragement of chairman, president, and CEO Robert Stevens, defense contractor Lockheed Martin has embarked on an "Innovate IT" initiative, in which IT professionals share knowledge and come up with cost-effective ways to improve the company's performance. The program focuses on ways to leverage and reuse innovations across the corporation and to identify experts who can share breakthrough advances, says Joseph Cleveland, CIO of Lockheed Martin and president of its Enterprise Information Systems. Cleveland is a member of Stevens' staff and meets with him weekly.

One recent effort to come out of the program is an architecture model that integrates network, server, and application components into a single interactive model, improving the performance of many IT and business functions, enhancing data analysis, and shortening response times. Another project, ResolveIT, is an online reference tool that lets the help desk resolve problems much more quickly.

CEOs are turning to a variety of sources for innovative ideas, according to the IBM survey (see chart, above). Chief among them are employees, followed by business partners and customers. Regardless of the type of innovation, more than 75% said collaboration and partnering were important.

"Collaboration is key to innovation, because bringing together creative experts in a variety of disciplines leads to synergies and, eventually, innovation," says Rick Kelly, president and CEO of Xcel Energy, a utility holding company in Minneapolis. External collaboration is still new and disruptive to many businesses, but Kelly says it's extremely important "because you need a fresh perspective at times to come up with creative solutions."

In January 2004, Xcel brought together its key IT vendors to create Utility Innovations, which culls the strengths of each hardware and software provider to develop applications for operations and customer service.

United Way also relies heavily on external sources for innovation, Gallagher says. His organization has long used individual and corporate contributors, human-services agencies, and volunteers. But "solving social problems in today's environment requires [finding] synergies in a variety of nontraditional places," he says—in his case, faith-based organizations, police departments, school systems, hospitals, technology companies, housing authorities, and local civic organizations.

CEOs are starting to put these ideas into practice. In the survey, they cited a variety of benefits from collaboration with outsiders, including cost reductions, higher quality/customer satisfaction, access to skills and products, increased revenue, access to markets and customers, and speed/strategic flexibility (see chart, right).

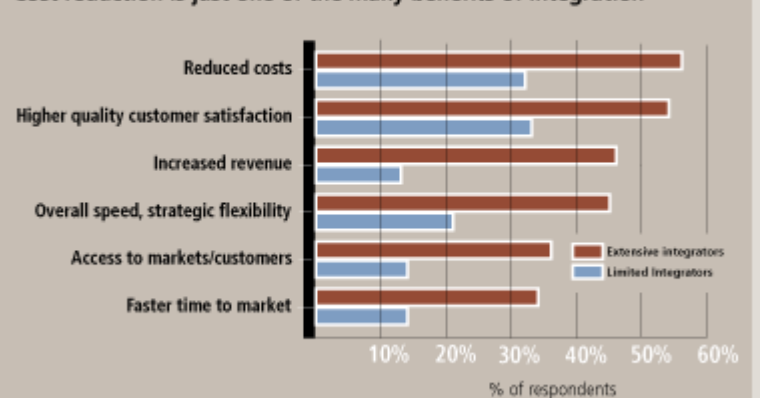
While there's an element of risk, external collaboration—even with competitors—is worth it, Koulopoulos says. "It's risky in that companies might be exposing elements of the organization to the marketplace that are competitive and sensitive," he says. But, he adds, ultimately, you get perspectives and ideas you just can't get internally.

### Model innovation

Although most business leaders still associate innovation

## Business, IT Collaboration

### Cost reduction is just one of the many benefits of integration



primarily with products, services, markets, and operations, business-model innovation is becoming a higher priority among CEOs, too. Collaboration is a type of business-model change, and CEOs generally are focusing nearly 30% of their innovation efforts on their business model, according to the survey (see chart, below).

"Traditional ways to innovate focus on new products and services; we've seen that for decades," says Marc Chapman, global leader of strategy and change consulting at IBM Business Consulting. We've also seen innovation around operations, he says. What's different is the addition of business-model innovation "if they're really going to separate themselves from competitors."

Xcel recently reorganized under a model of jurisdictional operating companies. "Each jurisdictional CEO must perform two tasks simultaneously—achieving long-term goals while staying flexible enough to respond to short-term events," says CEO Kelly.

At the same time, the company consolidated the key functions of customer service, human resources, and IT into one business unit that reports directly to Kelly. "In this way, we can leverage this group, which we call Customer & Enterprise Solutions, to serve the operating companies by helping to drive innovation," Kelly says.

Technology is playing a large part in new business models. Better global connectivity, made possible through new telecommunications technology, IT infrastructure, and open standards, is behind many new forms of collaboration, according to the IBM survey. Often, the business model must adapt to the technology.

Among the top benefits of having an innovative business model, according to more than half the CEOs polled: cost reduction and strategic flexibility. Other benefits are the ability to specialize and move more quickly to capitalize on emerging product and market opportunities.

*Bob Violino is a New York-based freelance writer.*

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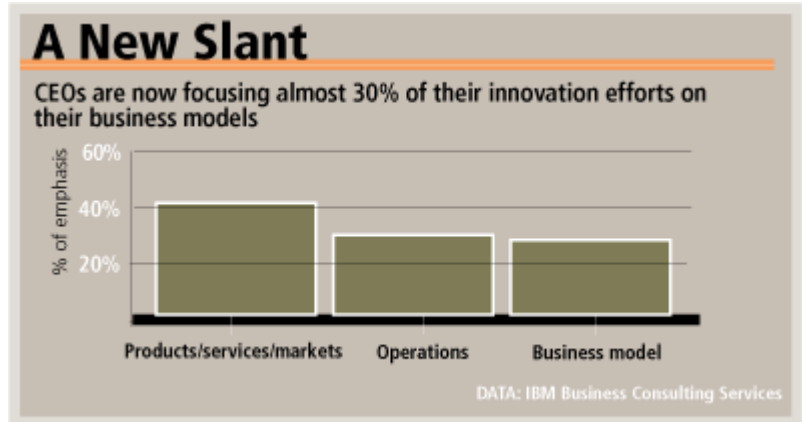
#### **Sidebar: Bigger Can Be Better When It Comes To Innovation**

Although they're more nimble and open to change, small and midsize companies find innovation especially difficult, according to the Center for Integrated Manufacturing Studies at the Rochester Institute of Technology. The center is conducting an extensive study of more than 1,600 mostly small manufacturing companies in upstate New York, where RIT is located.

Many barriers, such as lack of in-house technical skills, financial constraints, and a lack of market knowledge, may seem apparent given the type of industry surveyed and the location. But the findings can apply to companies nationwide in many different industries, says Nabil Nasr, director of the RIT center and leader of the study.

"One of the chief issues we identified was a deficiency in translating scientific innovation into commercial applications," Nasr says. "Companies often lack the resources, expertise, and infrastructure" to successfully implement or commercialize new technologies.

Smaller companies should collaborate with partners that have complementary resources, such as specialized technical knowledge and equipment, competitive intelligence insights, and investment capital, the study says.



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