



The innovation imperative: Thrive or fall behind

In the digital era, it's essential for companies to anticipate and quickly exploit advances in technology and process innovation to remain competitive. This applies not only to leading-edge technology companies but increasingly to all companies that base their competition on innovation-led growth. Once primarily the domain of high-technology and Research and Development (R&D)-led fast-growing companies, innovation and growth are increasingly on the agenda of many corporate executives in the region.

The influx of new companies into the GCC region, both established and early-stage, has necessitated that businesses, whether large or small, traditional or part of the new economy, must strive to enhance their competitiveness to survive. They can achieve this goal by improving operational efficiency, boosting top-line growth, or employing a combination of both strategies.

Yet as GCC markets continue to grow, many corporate executives experience challenges in delivering on their growth agendas. Commonly cited reasons for companies' inability to grow include the following:

- "The market is saturated and there is no further room for growth."
- "We replicate well-defined products and services, we do not have the skills to develop our own."
- "Innovation is not what we do here."
- "The risk of failure is too high and our resources are committed to operations."

Moreover, companies perceive innovation as an expensive undertaking that warrants a separate department. While there may be some truth to these arguments, standing still and dismissing innovation as an obscure, risky, and unpredictable activity is not a viable option. This is particularly true today, given the abundance of tools and methods available to innovate and the fact that the "cost" of innovation has never been lower.

Scientist William Brody summarized it best: "What is the calculus of innovation? The calculus of innovation is really quite simple: Knowledge drives innovation, innovation drives productivity, productivity drives economic growth."

So, what is innovation?

There does not seem to be any common definition of innovation. If you were to ask executives, you would likely receive a variety of responses ranging from large-scale transformation to the automation of a business process, and in a way, they are all correct.

Distinct from invention, an innovation is any new method, process, or activity that provides a tangible or intangible benefit to a business. This could be a new product, service, business process, or even something as simple as a new email feedback channel.

Without a common understanding or definition, it is difficult for companies to acknowledge or accept innovation as a relevant business tool to drive positive change.

How can a company create innovative capabilities?

Rather than being an obscure, unstructured series of activities, innovation can be incorporated into company practices, objectively assessed and aligned with the practices of market leaders.

Much like a company's operating model and technological infrastructure, a company can be evaluated based on its innovation capabilities and level of maturity. Through a structured approach, it is possible to begin by conducting an assessment of a company's innovation orientation, capabilities, and performance track record, with the aim of making practical recommendations.

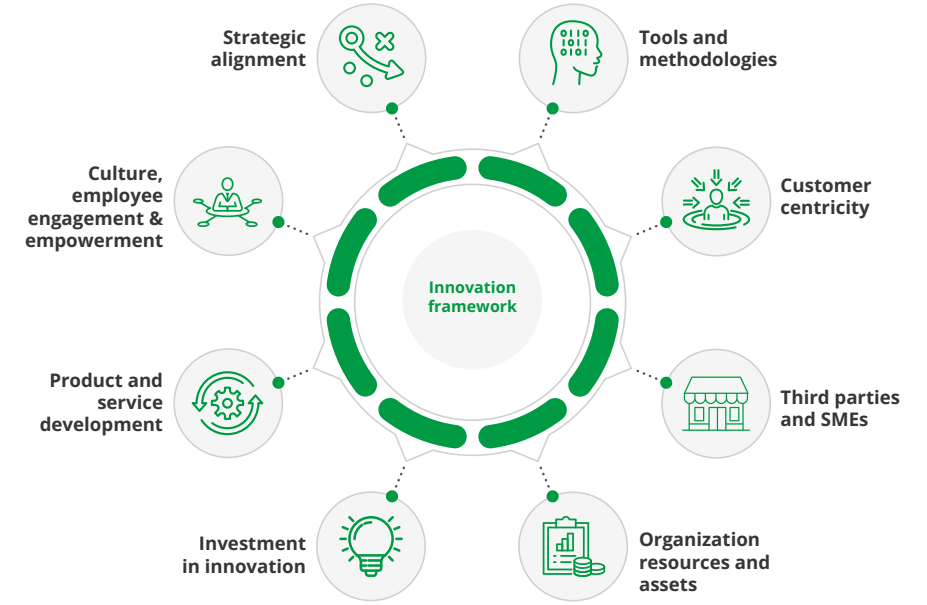
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So, what is involved in an innovation assessment?

For technology-centric firms, the primary measurement of innovation has traditionally been a simple metric, such as number of patents or products released. In some industries, reliance on R&D expenditure or the size of the R&D department was also common. Historically, these measures of innovation were static and focused on only one aspect of business operations.

In contrast, an effective assessment of a firm's innovation should take a holistic view of the company's ability to innovate. This requires a consideration of strategy, operations, culture, organization, and finance. While conventional metrics outlined previously describe certain drivers of innovation, they fail to accurately depict a firm's overall capability to innovate.

The key elements in any practical evaluation of innovation should consider the following topics:



A broad view of innovation across these dimensions allows for a clearer identification of a firm's strengths and weaknesses concerning its ability to innovate, as well as highlighting potential areas for further development. ➔

Key areas of focus would include the following:

Topic	Key considerations
Strategic alignment	<ul style="list-style-type: none">• Is top management focused and committed to innovation?• How important is innovation to the company?• Does the company perceive itself as innovation-driven?
Product and service development	<ul style="list-style-type: none">• What types of innovations have been rolled out in the past? Sustaining innovation? Disruptive innovation?• What is the product/service development process?• What are the roles and responsibilities of the product managers?• How are new ideas developed, tested, and rolled out?
Tools and methodologies	<ul style="list-style-type: none">• Where applicable, which innovation tools, methods, and frameworks have been adopted?• How effective are these tools and do they support the product development process or operational improvements?
Culture, employee engagement, and empowerment	<ul style="list-style-type: none">• Does the firm’s culture encourage employees to see innovation as a core driver of growth?• Are employees empowered and encouraged to run innovation projects and experimentation?
Customer centricity	<ul style="list-style-type: none">• Are there communication channels between the company and its customers with regards to product or service experience?• Is customer feedback shared with product managers (or equivalent) for input into future releases?
Organization resources and assets	<ul style="list-style-type: none">• Which teams, groups, or divisions are dedicated or assigned to projects deemed as “innovation”?• How are they structured and how are mandates provided and evaluated?• Historically, how effective have the teams been in delivering on their mandates?
Third parties and small and midsize enterprises (SMEs)	<ul style="list-style-type: none">• To what degree are innovative processes, functions, and activities reliant on inputs from third parties or external SMEs?• What is the process of ideation and incorporation of new initiatives from these sources?
Investment in innovation	<ul style="list-style-type: none">• What is the annual budget given to “innovation” activities?• What does the current list of innovation projects look like? What is the split between focus on top-line growth versus operational improvements?• How do employees get rewarded for innovating?

Source: Deloitte analysis

While forward-thinking companies integrate strategies to foster innovation within their business models, many firms remain uncertain about which levers best facilitate corporate innovation. One way to address this issue is to provide a structured and proven framework (like the above) which assesses the impact of various levers that firms can use to harness innovation.

An innovation assessment, if conducted effectively, can identify the environmental, cultural, and operational factors that influence an organization’s ability to innovate. These factors are often useful predictors of a company’s future growth and its long-term likelihood of success. Leaders are ultimately accountable for growth and innovation; however, today’s businesses rely on empowerment and engagement across all levels of seniority. Therefore, any approach to driving innovation must consider the processes, structures, and methods available to foster ideation, concept generation, and product or service development. ●

“If you look at history, innovation doesn’t come just from giving people incentives; it comes from creating environments where their ideas can connect.”

- Steven Johnson

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