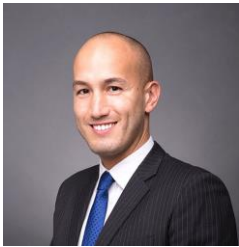




BEYOND THE BUZZ

DELIVERING ON INNOVATION IN THE DIGITAL AGE

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EXECUTIVE SUMMARY

If history has taught us one thing, it is that companies need to continuously innovate in order to survive.

In the past decade alone, the world has witnessed a number of household names, including the likes of Kodak, Nokia, Blockbuster, BlackBerry, and Myspace descend from global market dominance to economic irrelevance. Many of these firms fell victim to a wave of digital disruption, with rapid technological advancements in data generation, analysis, and communication leading to a fundamental rethink of business models. This includes the rise of the platform economy, where focus has shifted away from individual corporates (and their employees) to marketplaces (and their external contributors). Central to this model has been a much greater emphasis on stakeholder value and enhanced data utilisation.

Recognising the imminent threat of technological disruptors and rapidly evolving business models, management teams at many leading organisations understand the urgent need to digitally innovate. With the outbreak of COVID-19 leading to widespread lockdowns and work-from-home arrangements, this need to “go digital” has, literally overnight, shifted from being a strategic advantage to an operational imperative for companies both large and small.

In response to tectonic shifts in the global economic landscape, companies across the globe are doubling down on their digital transformation efforts. We estimate that corporates spent USD 514 billion on digital innovation initiatives in 2019 and forecast this number to reach USD 1.02 trillion by 2025. While we believe these investments are

warranted, we estimate that nearly two-thirds of total spend (~ USD 670 billion by 2025) will end up as money down the drain; not because it isn’t needed, but because the investments – and organisational ecosystem that drives innovation – are missing the mark.

While not an easy task, it has become abundantly clear that most large organisations are terrible at innovating. Given the many barriers to innovation, many companies simply resign themselves to a poorly defined strategy that is heavily reliant on marketing Innovation Labs and lavish Innovation Days, but short on genuine innovation itself. Although this is a logical tactic for maintaining brand reputation and espousing a company’s technological capabilities in the short-term, it is simply unsustainable in the long run.

In order for genuine innovation to take place, companies need to develop a robust innovation strategy, supported by sound processes for effective enablement and delivery. In the context of digital innovation, firms must also address specific internal and external considerations with respect to their resources, people, processes, and systems. One of the most important barriers to cross, especially for large organisations, is culture – in particular, a deeply ingrained internal resistance to change and failure, both of which are crucial parts of the innovation process.

For the many companies that continue to get their digital innovation strategy wrong, a painful wake-up call awaits. COVID-19 has merely accelerated the pace at which many firms will need to confront economic irrelevance. Faced with the world entering a new normal, we believe the time for experimenting is over – it’s time for companies to move beyond the buzz.

SECTION 1

INNOVATE OR DIE

THE FAILURE TO INNOVATE

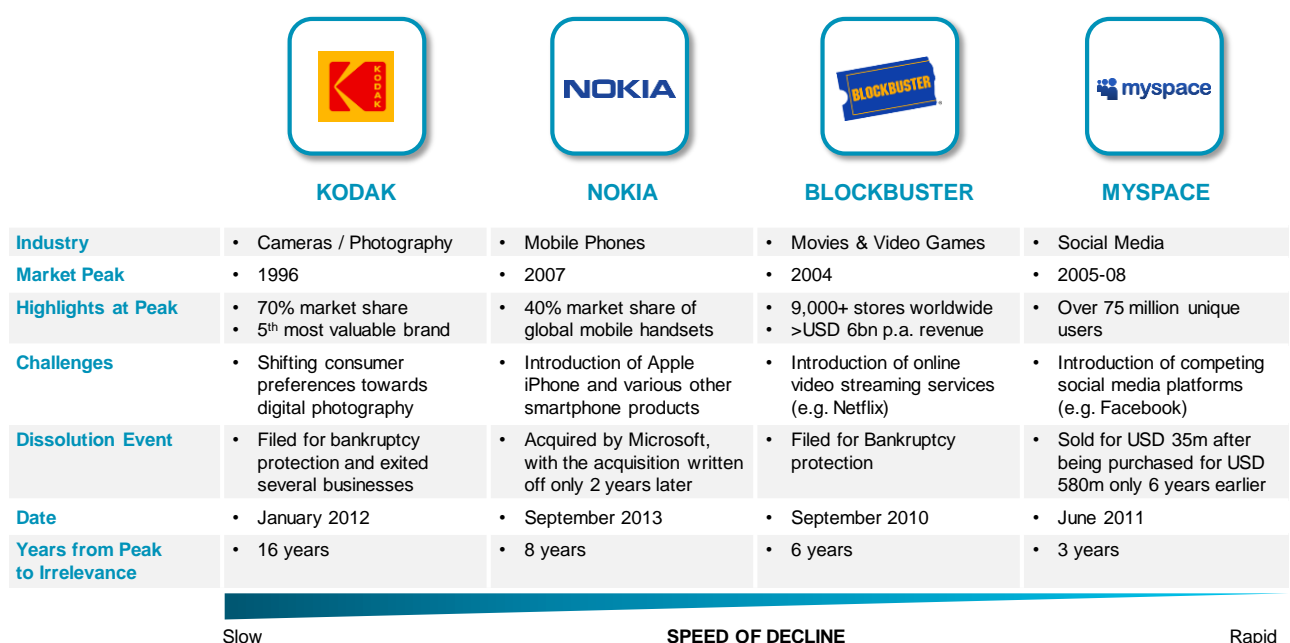
Every year, business schools across the world teach some variation of the “innovate or die” lesson. As part of these teachings, students are assigned with dozens of books and case studies identifying examples of companies that failed to innovate and no longer exist, as well as the numerous cases of innovation success stories in today’s market.

The list of organisations that failed to innovate – and subsequently collapsed – are plentiful. In the past decade alone, the world saw several household names, including the likes of Kodak, Nokia, Blockbuster, and Myspace, either declare bankruptcy or descend into economic irrelevance. And their falls from grace were nothing short of catastrophic, with each firm once being a global market leader within their

respective industry. Moreover, as the world moves into an increasingly digital age, the speed at which these organisations sunk from global market dominance to inconsequence accelerated at a rapid pace (see Figure 1).

With the onset of COVID-19, the speed at which we are likely to witness these corporate downfalls will only hasten, with companies across the world coming to the harsh realisation that digital enablement is no longer a strategic luxury, but more of an operational necessity. As more business activity is conducted online in response to rapidly changing consumer preferences, the need to digitally transact with suppliers and customers (as well as engage with employees) has become a pre-requisite for survival. This situation is not likely to change any time soon as the world enters a “new normal”.

FIGURE 1: CORPORATE INNOVATION FAILURES



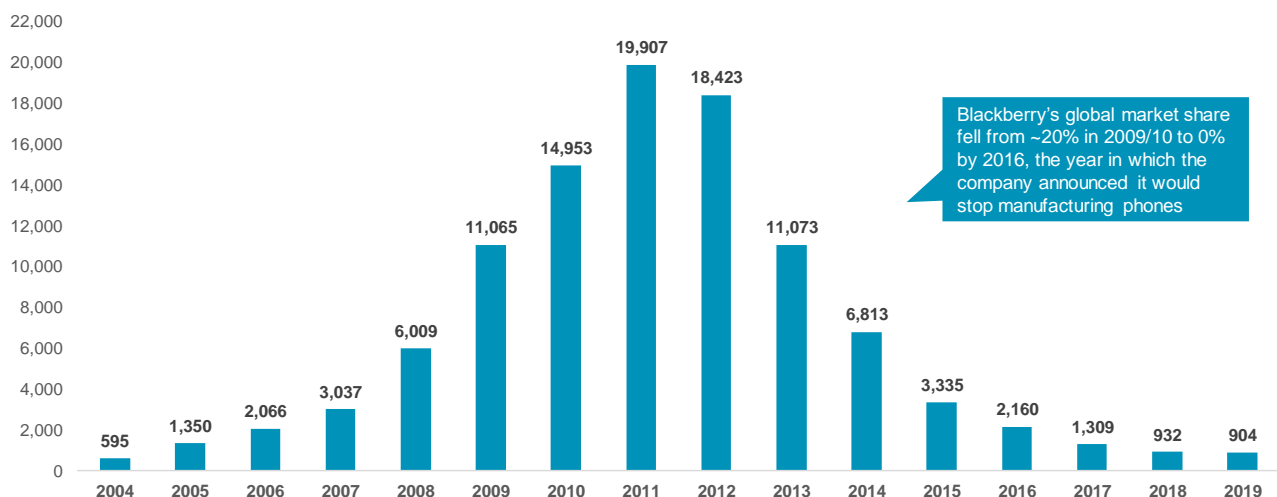
Note: “Market Peak” refers to the year in which global market share was at its highest
Source: various media, Quinlan & Associates analysis

Another famous case of a company that rapidly fell out of favour with their end customers due to a failure to innovate is Blackberry; the firm that created the IoT device that almost every white-collar executive across the world was using as their mobile communication instrument at the turn of the last decade.

Similar to Nokia, the arrival of Apple's iPhone fundamentally changed what users wanted to

see in their mobile devices. In fact, Blackberry's global sales revenue fell from USD 19.91 billion at its 2011 peak to just USD 904 million for its 2019 fiscal year, while its active subscribers fell from nearly 80 million at its peak to under 50,000 today (see Figure 2). Underpinning its downfall, like so many other companies in recent years, was a wave of digital disruption.

FIGURE 2: THE RISE AND FALL OF BLACKBERRY (REVENUES, USD million)



Source: Statista, IDC, Gartner, Quinlan & Associates analysis

INNOVATION IN THE DIGITAL AGE

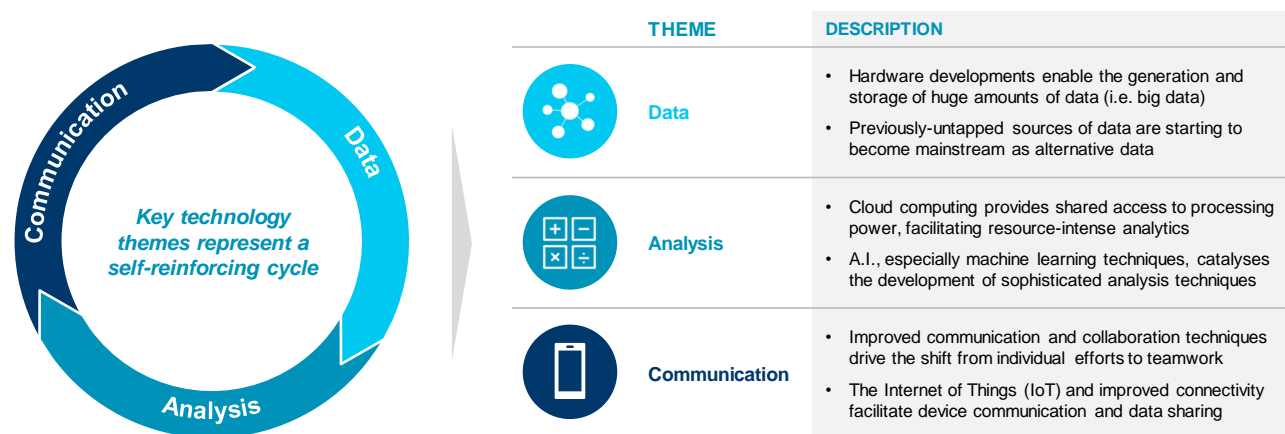
It is without question that rapid advancements in technology are fundamentally reshaping the way in which today's society operates. Underpinning this technological evolution are three key drivers (see Figure 3), being:

1. **Data:** vast new data sets can now be generated based on virtually all human behaviour and stored at scale with relative ease (i.e. big data)
2. **Analysis:** increased computer processing power, coupled with rapid advancements in artificial intelligence (A.I.), are enabling more sophisticated analysis techniques

3. **Communication:** the development of new communication platforms (e.g. social media) and the proliferation of devices (i.e. IoT) is driving improved global connectivity and data sharing

Especially important to note is the fact that these technology themes are self-reinforcing, with more data enabling improved analysis, which is then communicated to new devices, subsequently creating more data for further analysis and communication (see Figure 3).

FIGURE 3: KEY TECHNOLOGY THEMES



Source: Quinlan & Associates analysis

Not only have rapid technological advancements led to marked shifts in the way society operates, but they have also led to a fundamental rethink of business models.

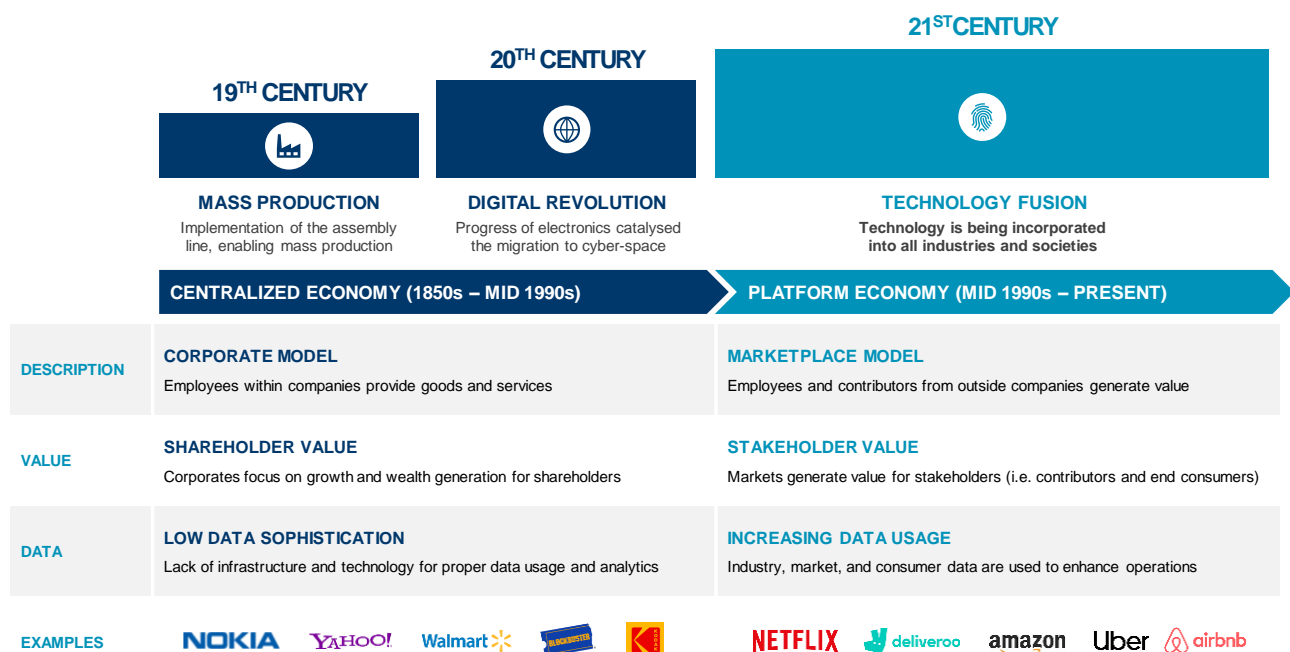
For nearly 150 years up until the mid-1990s, commerce has been conducted through a largely centralised, corporate-led model,

focused on the provision of specific goods and services by a company's employees with an overriding goal to maximise shareholder value. However, due to the siloed nature of each company and a lack of appropriate infrastructure (including technology), data capture (and usage) was relatively poor.

From the mid-1990s, the world saw the rise of an entirely new economic model: the platform economy, in which focus has shifted away from individual corporates (and their employees) to marketplaces (and their external contributors), with a greater emphasis on stakeholder value

and enhanced data utilisation. In more recent years, a number of these platforms have fundamentally disrupted their entire industries, including the likes of Amazon, Netflix, and Uber (see Figure 4).

FIGURE 4: RISE OF THE PLATFORM ECONOMY



Source: Quinlan & Associates analysis

Recognising the imminent threat of technological disruptors, management teams at many leading organisations understand the urgent need to digitally innovate. This impetus is not just limited to technology firms – from financial services, to consumer retail, to utilities, the need to digitalise is now more important than ever (see Figure 5). Moreover, with the

outbreak of COVID-19, the push to “go digital” has become non-negotiable; with widespread lockdowns in place and work-from-home arrangements being rolled out by companies en masse, billions of employees, suppliers, and consumers across the world have been forced, literally overnight, to shop, bank, work, learn, pay, and communicate online.

FIGURE 5: CORPORATE PERSPECTIVES ON INNOVATION



TECHNOLOGY FIRMS

"We're only at the very, very beginning of this next generation of computing and I think that every industry leader will be the ones that transforms first. I don't care what industry you're talking about."



Kim Stevenson
CIO

"The next 5 years will be more disruptive than the last 15. This is NOT business as usual. A lot of technology that came in three years ago doesn't work anymore."



Saul Berman
Chief Strategist

"At least 40% of all businesses will die in the next 10 years... If they don't figure out how to change their entire company to accommodate new technologies."



John Chambers
Executive Chairman

"There is no alternative to digital transformation. Visionary companies will carve out new strategic options for themselves — those that don't adapt, will fail."



Jeff Bezos
CEO

"Copying others can't make you great. So the key is how to localise a great idea and create domestic innovation."



Pony Ma
Founder

Source: various press



NON-TECHNOLOGY FIRMS

"Company CIOs that can't understand how to use technology to change their business models are going to find themselves somewhat out of jobs."



Jeff Immelt
CEO, GE

"The biggest part of our digital transformation is changing the way we think."



Simeon Preston
MD and Group COO, FWD Insurance

"You absolutely, positively have to innovate — if only to survive"



Fred Smith
CEO, FedEx

"You have a choice to either be the disruptor or the disrupted."



Steve Easterbrook
Ex-CEO, McDonalds

"[Silicon Valley startups] all want to eat our lunch, every single one of them is going to try"



Jamie Dimon
CEO, JPMorgan

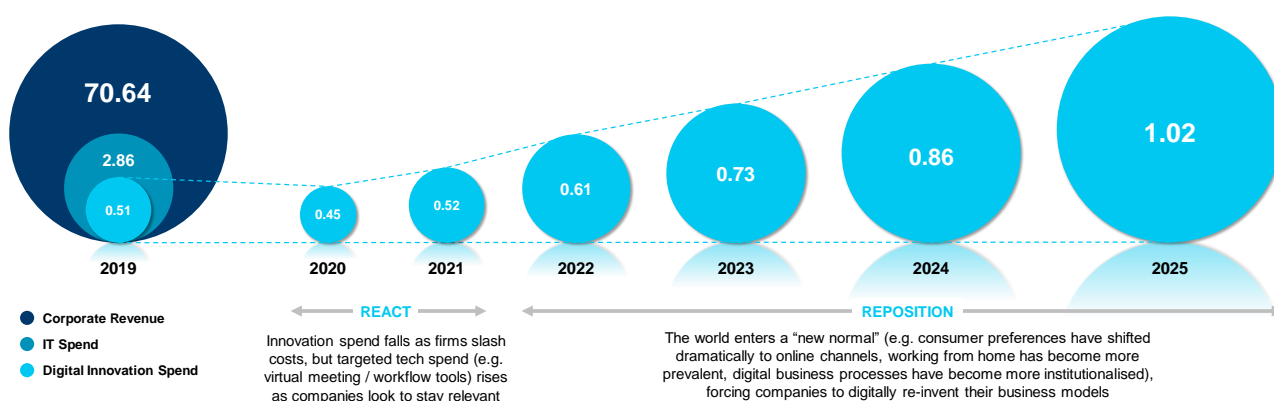
DIGITAL INNOVATION SPEND

In an effort to remain relevant in today's rapidly changing, technologically driven world, companies are doubling down on their digital innovation efforts.

We estimate that corporates worldwide spent USD 514 billion on digital innovation in 2019,

representing ~0.7% of their revenues. While we expect total spend to decline in 2020 as firms worldwide slash their costs in response to expectations of a global recession, we see a longer-term need for many companies to adapt their business models in response to the world entering a new normal, and forecast total digital innovation spend to reach USD 1.02 trillion by 2025. (see Figure 6).

FIGURE 6: CORPORATE DIGITAL INNOVATION SPEND (USD trillion)



Source: Quinlan & Associates estimates

Notwithstanding the vast – though unquestionably essential – investments being made by companies across the world in their digital innovation efforts, we believe much of it has gone to waste. In fact, we estimate that nearly two-thirds of total digital innovation investment spending, or roughly USD 670 billion p.a. by 2025, will end up as money down the drain; not because it isn't needed, but because it is being deployed in the wrong way. And ultimately, for the companies that get their digital innovation strategy wrong, a painful wake-up call awaits. COVID-19 has only accelerated the pace at which companies will need to confront economic irrelevance. The

time for "experimenting" is over – genuine action is needed, and it is needed now.

Despite the endless cautionary tales being taught at business schools worldwide about innovation failures and success stories, and the recognition by almost every organisation across the world that they need to digitally innovate, why do so many companies continue to struggle with their digital innovation efforts, and what are some of the common pitfalls?

This paper will seek to address these questions, while providing a blueprint for successful corporate innovation.

SECTION 2

COMMON CIRCUMSTANCES

Many of the household names we have come to know and love (or hate) were founded on the back of an innovative product, service, or business practice. However, as these companies grow, most struggle to maintain a culture of innovation. This struggle can be best illustrated with an example.

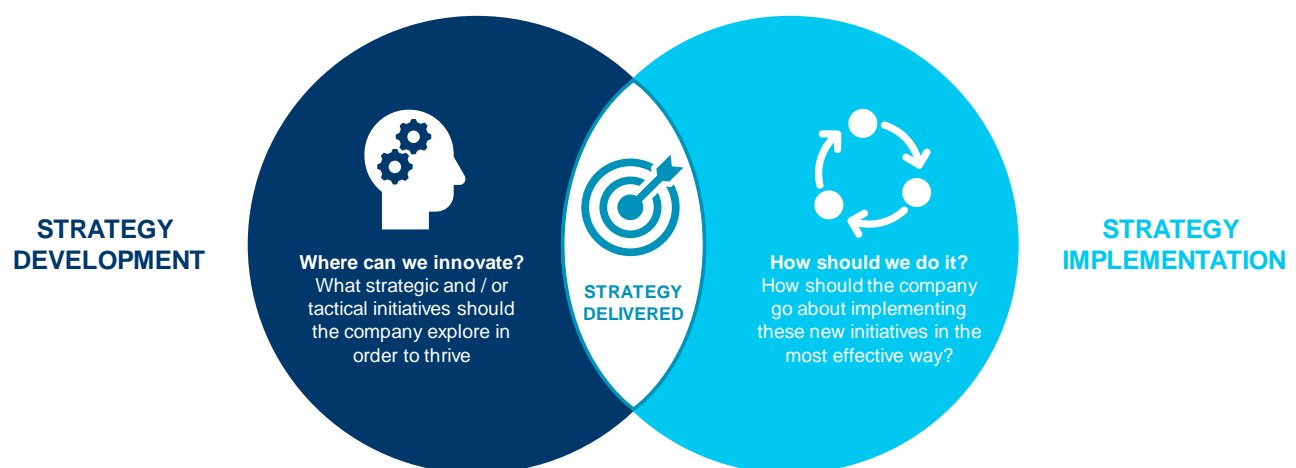
Let's look at the case of a 100+ year-old financial institution that is a dominant player in the global investment banking industry, touting a sizeable asset management division. The company was widely regarded as a global financial powerhouse in the 1980s and 1990s, but the 2000s and 2010s brought about a new set of challenges on multiple fronts.

Over the past decade, rapid economic growth in emerging and frontier markets, particularly in Asia, has opened up opportunities to invest in regions where the company lacks on-the-

ground know-how and local market expertise. Moreover, the rapid rise of FinTech companies has undercut the bank's lending business and squeezed asset management fees to virtually nothing. Even IPO revenue has dried up in recent years, with fewer companies listing to go public. And with so many asset managers indexing, research content becoming ubiquitous, and trading activity rapidly migrating to electronic channels, markets revenues are also under threat. Added to all of this is an operating environment characterised by intense global regulatory scrutiny, which is creating structural cost challenges and the constant threat of punitive fines.

The reality is the above circumstances are common to most financial institutions. Given the challenges at hand, there are two key questions the company needs to consider when it comes to innovation (see Figure 7).

FIGURE 7: FUNDAMENTAL INNOVATION QUESTIONS

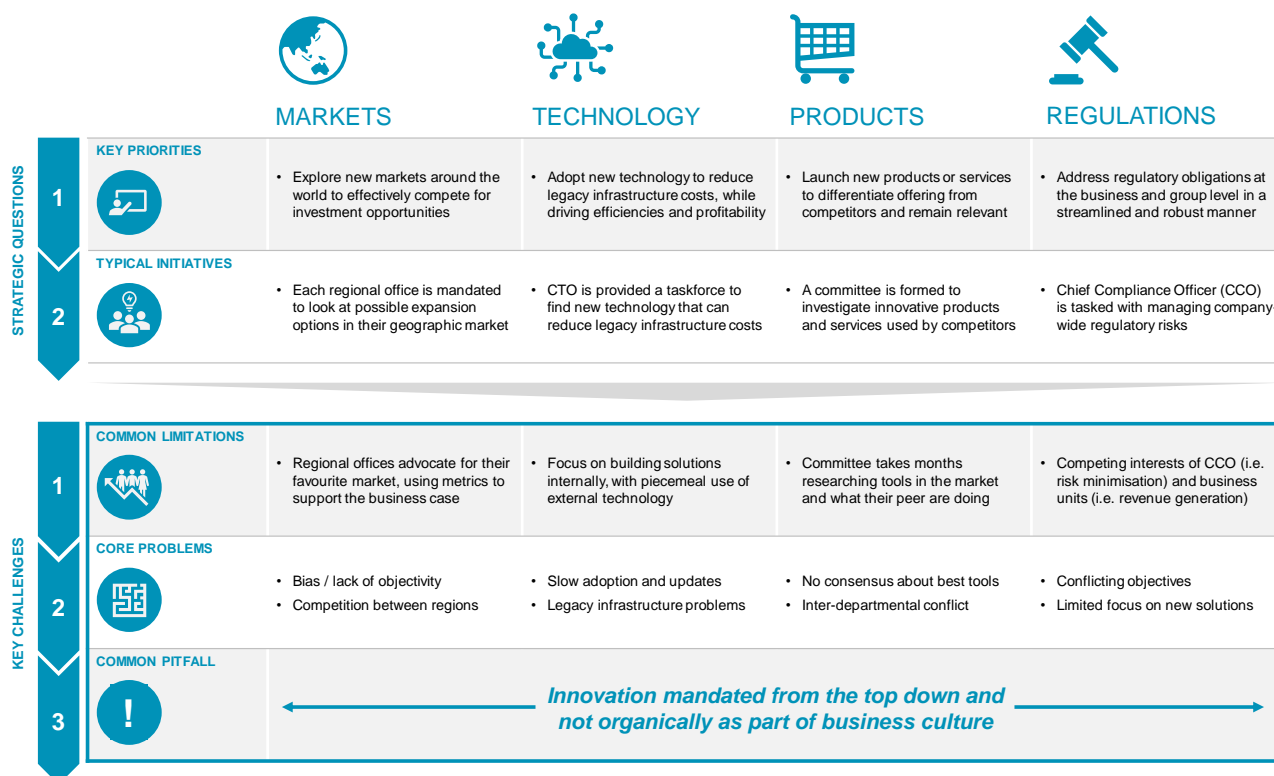


Source: Quinlan & Associates

Despite the logical nature of the first question (i.e. "what should we do to remain relevant?"), the implementation of solutions is often far less rational and mired by a plethora of all-too-familiar challenges that plague almost every large corporation. There is one key problem, in

particular, that pervades most organisations: innovation is mandated from the top down, often very loosely, and does not represent an organic part of everyday business culture (see Figure 8).

FIGURE 8: THE INNOVATION DILEMMA (ILLUSTRATIVE)



Source: Quinlan & Associates

In our experience working with numerous medium-sized and multinational organisations, we have found this top-down mandate is often ill-defined. Commonly, business units are instructed to find innovative technology solutions to broad-brush internal problems identified by senior management, rather than defining specific business problems that could be solved with innovative technologies, processes, and / or services. These broader innovation problems are often also a secondary priority and a “nice to have” for the business, given senior management teams tasked with solving these problems typically have no

specific KPIs tied to delivery. Moreover, investment hurdle rates for existing businesses are often applied to innovation projects, which is a serious mistake.

Some larger organisations have recognised the shortcomings of this practice. To address these internal coordination problems, many firms have chosen to create “Innovation Labs” in an effort to drive company-wide innovation efforts through a centralised hub. Although well meaning, we have found these innovation labs rarely succeed.

SECTION 3

SHORTFALLS IN INNOVATION FRAMEWORKS

BIRTH OF THE INNOVATION LAB

In the decade since the global financial crisis (GFC), many companies have sought novel ways to “think outside the box” in an effort to avoid groupthink and innovate faster than their competitors.

Many of these organisations studied the innovative culture of Silicon Valley technology companies in the 1990s and 2000s and concluded that adopting such a radical shift in culture across the organisation would be virtually impossible. In some cases, companies came to this conclusion due to very real regulatory barriers, while in other cases, leadership teams were simply complacent with their existing business models and did not see a need for such drastic change (and the inevitable ruffling of feathers that would come with it).

Setting aside the fact that companies who failed to culturally innovate appear to have struggled to employ top talent since the GFC, the next problem is how innovation “half-measures” have commonly been adopted. To be specific, many companies determined that if they can’t adopt an innovative culture across the organisation, they should create an innovation division that fits the mould.

To do this, company Boards and / or executive committees typically mandate the creation of an Innovation Lab. Before they even begin staffing the new lab, they hire a designer to decorate it with pastel colours, set up whiteboards, hang up thought-provoking posters plastered with inspirational quotes, and install the obligatory foosball table surrounded by bean bags, all of which is shrouded in modern steel and glass accents. They even offer free food and soft drinks to lab employees and, in some cases, have a PlayStation 4 hooked up to an oversized flat-screen TV. All of this, of course, is essential for innovation to take place.

Heading up the lab is an ex-Microsoft / Google engineer or the CTO of a startup who understands deep technology. Along with their technical expertise, they bring a considerable level of credibility from their days in the tech community. Armed with ripped jeans and a T-shirt, as well as a sizeable budget, this individual is tasked with recruiting new lab employees, including some of the brightest engineers in the market.

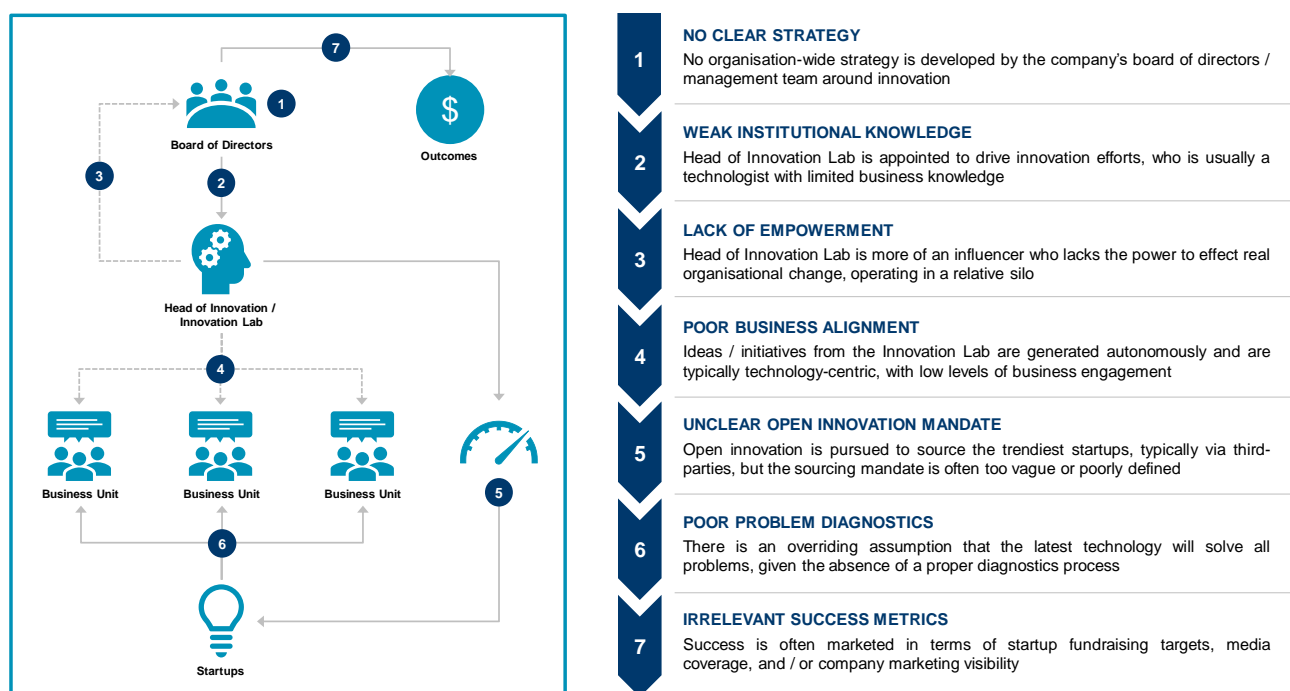
However, despite all the glitz, glam, and a bottomless chequebook, not a single product sourced or developed by the lab has yielded a cent of cost savings or a dollar of extra revenue for the company. So, what went wrong?

INNOVATION FAUX PAUS

There are a number of common flaws that besiege many of today's organisations when it

comes to getting digital innovation right, ranging from the absence of a clear strategy to poor business alignment and diagnostics processes (see Figure 9).

FIGURE 9: COMMON APPROACHES TO CORPORATE INNOVATION



Source: Quinlan & Associates

1. NO CLEAR STRATEGY

We find company boards frequently mandate innovation (often referencing the latest technology buzzwords, including A.I. and blockchain) without a clear innovation strategy for the organisation. As a result, board mandates are often unclear, given a lack of deep understanding from senior management around the broader industry and competitive landscape as it relates to technological innovation, in particular. Moreover, many large companies fail to adequately evaluate their own internal capabilities, such that many digital innovation aspirations end up being quite unrealistic.

2. WEAK INSTITUTIONAL KNOWLEDGE

Beyond the fact that many Boards fail to define a clear innovation strategy for their organisations (and instead leave this to their Innovation Labs), many Innovation Lab heads typically have little-to-no institutional knowledge of the company's core businesses or why certain functions operate as they do, given they are often a technologist. Had the company staffed a few existing employees into new roles within the lab, this could have mitigated the problem, but it almost certainly would not have solved it.

3. LACK OF EMPOWERMENT

Most Innovation Lab heads are not part of the company's senior management team and rarely sit on the organisation's most senior executive committees. Similar to heads of strategy, transformation leads, and chief data officers, they usually have more of an "influencer" role and often lack the power to drive true organisational change.

4. POOR BUSINESS ALIGNMENT

When it comes to innovating, one of the biggest problems for many organisations is the directional arrow of innovation – in short, most companies assume that innovative ideas will be generated by the Innovation Lab to solve business problems. This results in the autonomous generation of ideas by an independent team is usually not well-versed in core business needs. Moreover, many of these labs run as a silo, both physically and operationally, resulting in a major disconnect from the businesses they are designed to support. This lack of business buy-in often proves fatal.

A key driver of this misalignment is the fact that many businesses have no clear incentive to innovate. Most importantly, "being innovative" is not expected as part of every employee's daily

workflow, nor does it make its way into their KPIs. Much of this stems from the fact that employees are frequently encouraged to not "rock the boat", given the huge risk of failure (e.g. losing their jobs) or the limited upside in finding an innovative solution (e.g. there is no clear link between developing innovative solutions and employee compensation at many firms). The fact is, failure is an inevitable part of innovation, but due to a company's core focus on achieving short-term financial targets, long-term investments – and the organisational change – needed to make innovation come to life are often overlooked.

5. UNCLEAR OPEN INNOVATION MANDATE

Many corporates recognise the need to look externally for innovative solutions by engaging with the latest technology startups. To address this, larger firms typically launch their innovation efforts by engaging with third parties, such as corporate accelerators, to source trendy – but largely irrelevant – startups for innovation events. Many – but not all – accelerators fail to work with their clients on developing a well-designed sourcing mandate focused on solving specific business problems. As a result, accelerator programmes frequently end up as a very costly marketing (and education) exercise for a firm's executives.

6. POOR PROBLEM DIAGNOSTICS

Finally, and very importantly, the story here presupposes that technology is always the type of innovation needed. After all, the Innovation Lab was set up and staffed to develop and source innovative technology. But at no point did the business stop and ask one simple question: “is the problem we are trying to fix technical in nature?”. The fact is, not all problems can or should be solved purely by technology. And the inability to recognise this reflects the widespread absence of proper diagnostics processes designed to identify the underlying problem(s) a company is trying to address. We have seen this countless times with many of the firms we have engaged with.

7. IRRELEVANT SUCCESS METRICS

Without the business being in the driver’s seat, many of the startups sourced by the Innovation Lab (or a third-party) end up being, in short, inappropriate. As a result, innovation “success metrics” are often linked to the startups (e.g. total funds raised following an accelerator day), which is of little-to-no value for the company trying (and paying) to innovate.

As seen with many of the organisations we consult, it is very difficult to successfully institute the Innovation Lab concept without also having a company-wide innovative culture. The next section will identify some of the barriers to innovation in an industry that has long struggled to remain innovative: financial services.

SECTION 4

EXAMPLES FROM THE FRONT LINES

When asked why he robbed banks, notorious bank robber Willy Horton reportedly replied, "because that is where the money is." In our experience, this is precisely how many startups feel when they attempt to engage in innovative business with incumbent financial services firms.

FinTech startups often see the finance sector as fertile ground because:

1. Highly compensated personnel will be open to technical solutions that improve their business by increasing profitability and / or reducing workloads.
2. Financial institutions will adhere to their publicly stated innovation goals, and thus allocate large sums of money to pursue new technologies.
3. Long sales cycles with large, highly regulated financial institutions will be worth tolerating because the size of each sale will make up for months (or even years) of sales efforts.

Unfortunately, these assumptions have proven false time and again for the vast majority of innovative startups attempting to grow by engaging the finance industry.

A LOOK AT CAPITAL MARKETS

In order to understand why so many innovative companies struggle to scale in capital markets, it is crucial to first understand how many of these firms – including investment banks, asset managers, and hedge funds – differ from each other, each with their own idiosyncrasies and incentive structures.

Investment banks, at their core, help companies raise capital and facilitate the trading activities of asset managers and hedge funds. They serve as “middle-men” by providing a host of services to gain and retain clients. These services range from providing securities research and trading to facilitating public offerings, debt issuance, and advising on M&A transactions. Depending on where a bank sits in the pecking order, its focus can range from retaining larger blue chip clientele to serving niche industry segments. A bank’s general incentive structure is to provide services such as research, conferences, and corporate access to keep corporates banking – and asset managers trading – with them. This means banks cater to the firms that trade most actively, which in recent years has been quantitative hedge funds.

Asset managers, especially long-only asset managers, tend to manage large sums of money for pension funds, endowments, and other large pools of capital from allocators. Their business model thrives on growing their assets under management (AUM), but they also strive to differentiate themselves by providing superior investment returns. As such, asset managers have a completely different set of incentives from banks, relying primarily on allocators to cover their cost structure rather than enticing hedge funds to trade with them. These allocators, such as pension plans and retirement accounts, often leave funds with a certain asset manager for years or even decades. The fees on these assets under management are how asset managers keep the lights on; hence the belief that asset managers need to hire talented personnel, make profitable investments, and outperform their competitors in order to attract and retain AUM.

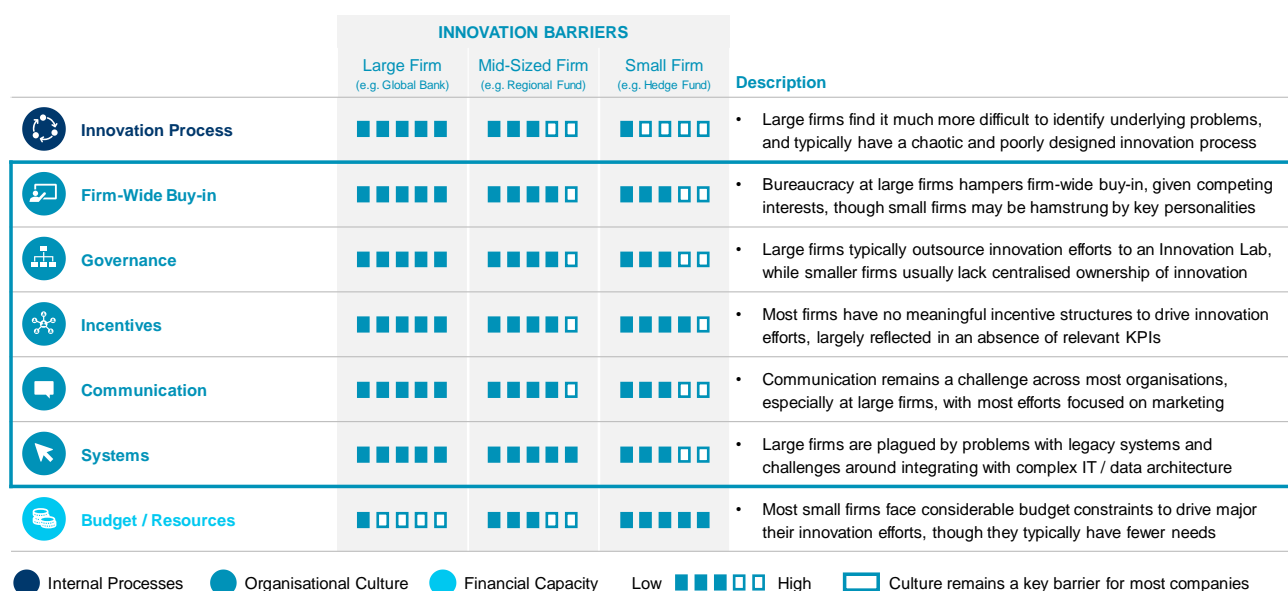
Hedge funds tend to be smaller than long-only asset managers and often focus on only a few core investment strategies. While typically nimbler and more performance focused than large managers, hedge funds also thrive on AUM, though they often employ more concentrated investment strategies with fewer assets under management. Hedge funds also cover their costs by charging a percentage of AUM, but they make the vast majority of their money by charging a substantial percentage from return on investment, incentivising them to take riskier trading positions in an effort to generate outsized returns.

At face value, it would appear that each of these institutions would be heavily incentivised to

seek out innovative solutions to their common problems; whether that incentive is to attract investments, retain clients, or directly increase their compensation. Unfortunately, face value is only skin deep.

Most financial institutions have come to the realisation that genuine innovation is hard and often expensive, though the barriers they face differ, largely as a function of the size of the organisation. These barriers are typically related to poor innovation processes, a weak innovation culture, and broader financial constraints. A weak innovation culture generally remains the largest problem for most firms, irrespective of their size or industry focus (see Figure 10).

FIGURE 10: INNOVATION BARRIERS (BY FIRM SIZE)



Source: Quinlan & Associates

In response to these challenges, many firms have turned to the more dubious strategy of aggressively marketing their innovative culture, often using an Innovation Lab as a prop, while

rarely backing up those claims through investing in real companywide innovation. We have seen many examples where this statement holds true.

MARKETING HYPE?

Genuine innovation takes not only brilliant ideas and a fantastic team, but also hard work and dedication. Entrepreneur lore includes tales of sleeping in the office for nights on end and traveling 300 days out of the year. This kind of work ethic rarely coincides with legacy businesses, particularly large corporations. To make things more difficult, financial services companies have the additional barriers of high compensation and heavy regulation that incentivises people to maintain traditional behaviour patterns over seeking out innovative solutions (and the change that inevitably comes with it).

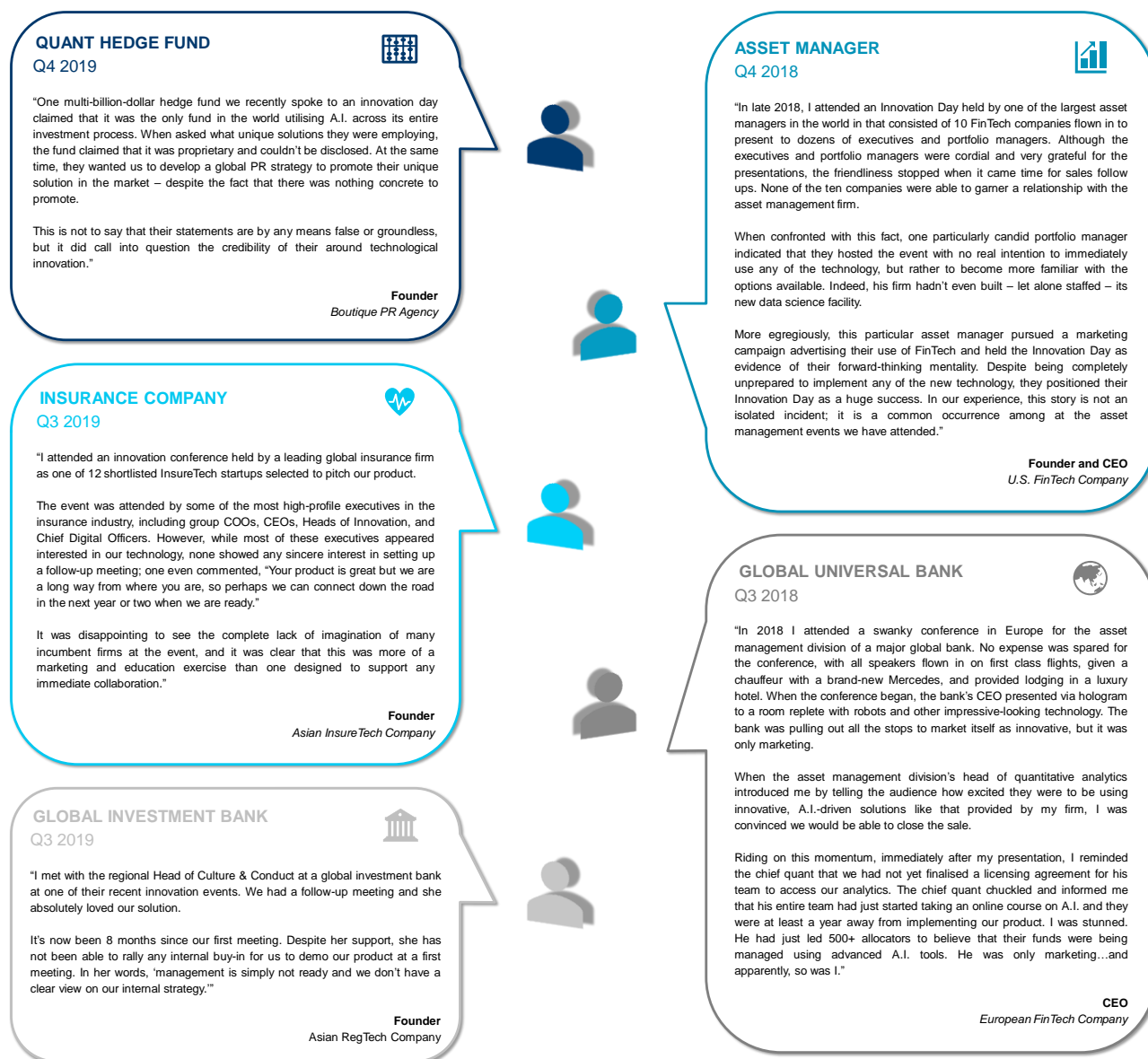
Given these barriers, both real and psychological, financial institutions tend to genuinely innovate only when it is absolutely

necessary. One could argue that such innovation has been necessary over the last few years, especially with the rise of FinTech disruptors such as virtual banks, zero-commission brokerages, and peer-to-peer lending platforms. However, when genuine innovation is simply too hard (read: most always), we have found many of these institutions often put their marketing and communications teams to work in order to create the appearance of innovation.

So, what does the “appearance of innovation” look like? Typically, it not only involves setting up a glossy new Innovation Lab, but hosting “Innovation Days” and launching aggressive PR drives across mainstream and social media. Drawing on some real-life examples from various startup founders, we can see a huge number of flaws in this method (see Figure 11).

WHEN GENUINE INNOVATION IS SIMPLY TOO HARD
(READ: MOST ALWAYS), WE HAVE FOUND MANY
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THE APPEARANCE OF INNOVATION

FIGURE 11: STARTUP PERSPECTIVES ON INNOVATION DAYS



Source: Quinlan & Associates

Although capital markets players are under particularly acute pressure to appear innovative, this set of problems plagues most

large financial institutions, including insurance companies and stock exchanges.

When selling into a global financial institution, innovative FinTech companies are often overly optimistic as a result of the hype around alternative data, big data, machine learning, and A.I. Unfortunately, these startups must then endure a remarkably long sales cycle. Many large financial institutions are not incentivised to move quickly, and often cite regulatory barriers as an excuse for slow progress.

After compliance hurdles are cleared, often the only way to make a large sale incumbents is by slowly – and painstakingly – building a supportive coalition, during which the product is expected to be provided at a steeply discounted rate, if not completely free of charge. This practice is often devastating to early stage companies who waste considerable resources on longshot sales. But the practice of stringing innovative companies along appears to have become somewhat of a marketing tactic for large players.

While incumbents are the most common culprits of this behaviour, smaller firms are not immune to the marketing trap. While fewer internal hurdles often means a faster sales cycle for innovative tools, many smaller financial institutions, especially hedge funds, have built a reputation for being innovative via in-house development rather than purchasing external solutions.

This bent toward in-house development and reliance on substantial legacy infrastructure – even at some of the most well-known quant funds – makes it difficult to adopt or implement new technology and instead incentivises funds to claim the ideas of technology innovators as their own. This common practice is protected by highly secretive protocols that enhance these funds' mystique and often creates a marketing narrative allowing for increased AUM growth, regardless of performance.

FINANCIAL SERVICES COMPANIES HAVE THE ADDITIONAL BARRIERS OF HIGH COMPENSATION AND HEAVY REGULATION THAT INCENTIVISES PEOPLE TO MAINTAIN TRADITIONAL BEHAVIOUR PATTERNS OVER SEEKING OUT INNOVATIVE SOLUTIONS (AND THE CHANGE THAT INEVITABLY COMES WITH IT)

SECTION 5

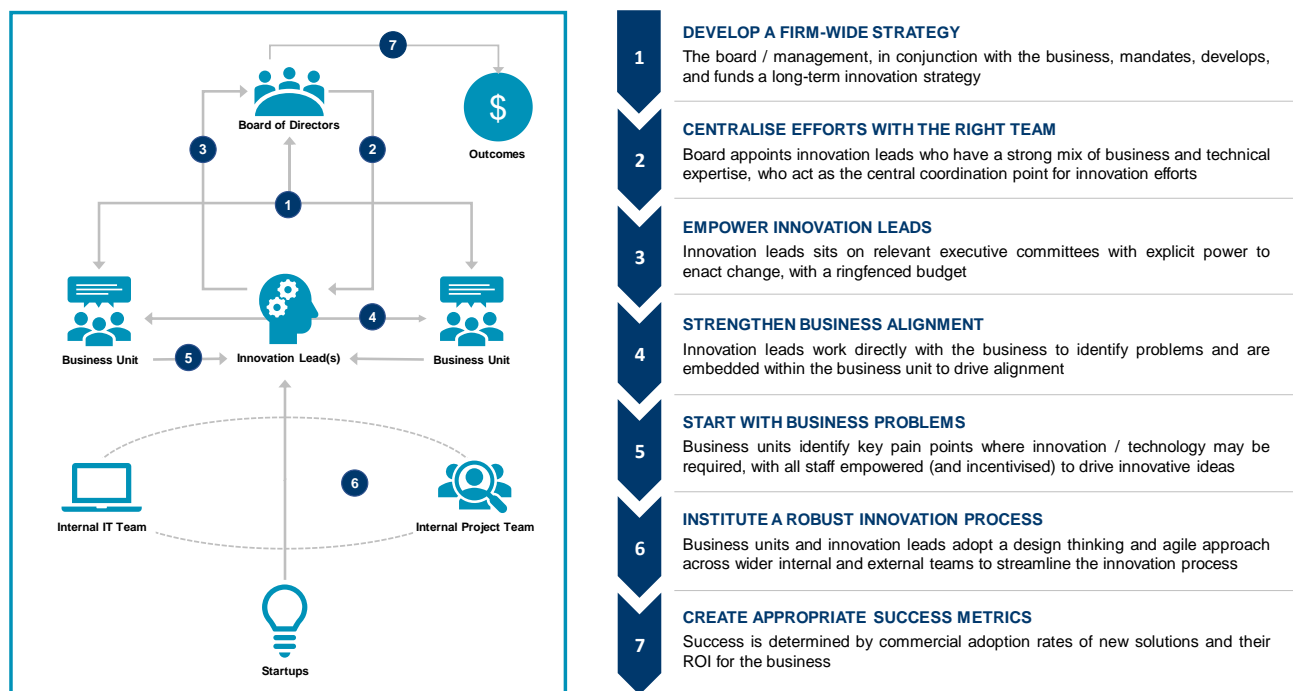
GETTING DIGITAL INNOVATION RIGHT

Given the multiple barriers to innovation, many companies simply resign themselves to a poorly defined strategy that is heavily reliant on marketing, but short on genuine innovation. Although this is a logical tactic for maintaining brand reputation and espousing a company's

technological capabilities in the short-term, it is simply unsustainable in the long run.

In order for genuine innovation to take place, companies need to develop a robust innovation strategy, supported by a sound processes for effective delivery (see Figure 12).

FIGURE 12: A FRAMEWORK FOR SUCCESSFUL INNOVATION



Source: Quinlan & Associates

1. DEVELOP A FIRM-WIDE STRATEGY

Before embarking on an innovation makeover, it is critical for organisations to develop a firm-wide innovation strategy. To do this properly, the company's Board, with the advice and support of the business, should identify problems that may require innovative solutions. This will naturally involve detailed industry and competitor analysis to identify key technological trends, including gaps to existing competitors,

innovative practices being deployed in other industries, or promising new ideas that are yet to be unearthed. It also necessitates a comprehensive internal review of the company's existing resources and capabilities (e.g. budget, talent, internal processes), including an honest evaluation of its core strengths and weakness. Once this exercise is complete, realistic strategic goals can be set, after which preliminary budgets and milestones can be mapped out.

2. CENTRALISE EFFORTS WITH THE RIGHT TEAM

While we see several fundamental flaws with today's Innovation Labs, we do believe that a company's innovation efforts should be centrally coordinated through innovation leads. However, unlike Innovation Labs, we believe these individuals need to possess a strong mix of business and technological expertise, or that digital innovation efforts be jointly led by senior technologists and business personnel with an in-depth understanding of the business. We see this as absolutely critical for organisational buy-in.

3. EMPOWER INNOVATION LEADS

Rather than acting as mere influencers that straddle multiple business lines, innovation leads should form part of the firm's most senior management team and be a key stakeholder within the company's executive committees at both the business unit and group level. In addition, innovation leads should be given specific decision-making powers, including independent budgets to address specific issues that are critical to achieving the Board's overall innovation objectives. Without such power, difficult – albeit necessary – change is unlikely to occur.

4. STRENGTHEN ALIGNMENT

To ensure ideas from the front-line are properly explored, innovation leads should work directly with the business when identifying problems (or exploring "blue sky" ideas) in order for efforts to be centrally coordinated. This is particularly important for larger organisations, where cross-business collaboration – and alignment – is vital. To enhance this alignment even further, innovation leads can be embedded within individual business units, allowing for a deeper understanding of specific functional problems and, in turn, a more precise identification of potential solutions.

5. START WITH BUSINESS PROBLEMS

While technology forms a core part of modern corporate innovation efforts (given the ongoing digitalisation of the global economy), companies should never lead their efforts with technology – after all, it is simply an enabler. Rather, businesses should be responsible for identifying key pain points where innovation and / or technology may be required. Moreover, every individual within the business needs to be empowered (and incentivised) to drive innovation initiatives, which will require active encouragement and promotion of idea sharing by employees on the front lines.

To facilitate this, incentive structures must be redesigned to augment ownership and accountability across the ranks. This should include recognising – and rewarding – successful ideas, while ensuring employees are not reprimanded for innovation "failures", given that failure is an essential part of innovation.

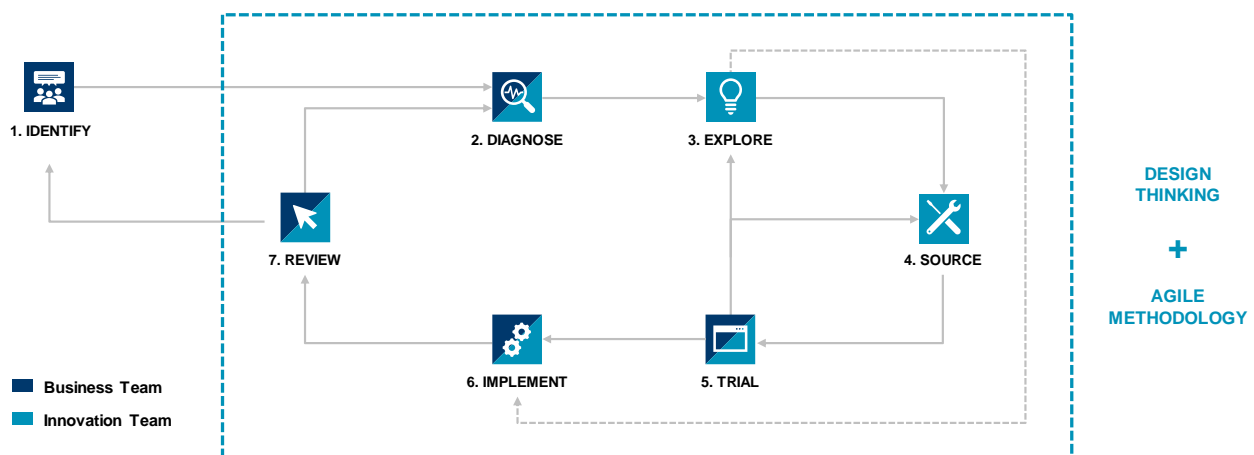
6. INSTITUTE A ROBUST INNOVATION PROCESS

Perhaps the most important part of getting innovation right is the development of a robust innovation process – yet this is exactly where we see most organisations falling painfully short.

For a digital innovation process to be truly effective, a comprehensive and dynamic approach needs to be driven by a cross-

functional team: from problem identification through to solution review (see Figure 13). Most importantly, companies should look to adopt a design thinking approach and agile delivery methodology, centred around the adoption of flexible, adaptive planning focused on continuous improvement and rapid (and accommodative) responses to change. Core to this process is putting the customer / user at heart. While many companies claim to be “agile”, we find this is rarely the case.

FIGURE 13: MODEL INNOVATION PROCESS



STEP	DESCRIPTION
1 IDENTIFY	<ul style="list-style-type: none"> The business unit, through its daily operations and periodic evaluation, identifies problems that could be addressed by innovation
2 DIAGNOSE	<ul style="list-style-type: none"> Problems are evaluated to identify key hurdles / define requirements for potential technology solutions
3 EXPLORE	<ul style="list-style-type: none"> Ideas are explored and their efficacy evaluated to identify potential technology (and non-technology) solutions
4 SOURCE	<ul style="list-style-type: none"> An early version of the solution is sourced (externally or internally), depending on organisational capabilities and requirements
5 TRIAL	<ul style="list-style-type: none"> A solution is trialled and, if it is inappropriate / suboptimal, the innovation process circles back to Explore
6 IMPLEMENT	<ul style="list-style-type: none"> If the trial is successful, the solution is implemented / deployed, along with training and incentives to drive business adoption
7 REVIEW	<ul style="list-style-type: none"> After deployment, periodic reviews should be conducted to refine and enhance the solution

Source: Quinlan & Associates

IDENTIFY, DIGANOSE, AND EXPLORE

For any digital solution to ultimately work, it is critical for the business to identify and articulate the problem it is trying to solve. This requires a deep understanding of the industry, market situation (including competitive dynamics), and challenges. It also necessitates engaging with internal and external stakeholders to understand the customer journey, user experience, and key concerns.

Once problems have been appropriately identified by the business, innovation lead(s), potentially with the help of an external party (e.g. an independent consultant or subject matter expert) need to define key requirements – including potential hurdles – for technology solutions, after which initial ideas can be explored, and their efficacy evaluated. This brainstorming process should be iterated and validated with customers before a prototype is sourced (or developed) for trial.










A critical part of this process is to determine whether the problem is truly technological in nature or whether it is simply a deficiency of internal processes. In our experience, this is a significant misstep by many firms, given the absence of proper diagnostics processes to determine whether technology is genuinely needed to solve certain business problems. Many of these non-technological “quick fixes” can be passed on to relevant internal teams (e.g. strategy, change management, COO, etc.) for further investigation and / or direct solution implementation, which are typically low hanging fruits.

SOURCE

Once the diagnostic and exploration phases are complete, appropriate solutions need to be sourced by innovation teams. We see three key avenues that organisations can explore to do this (see Figure 14):

1. **Buy:** likely to be costly to purchase and customise, but will require fewer internal resources to develop and maintain target solution(s);
2. **Partner:** likely to be cheap, but will require more internal resources to guide design and implementation by a potentially smaller and less experienced vendor; and
3. **Build:** cost will be dependent on the specific solution(s) being built but will likely require considerable internal resources to develop, implement, and maintain.

FIGURE 14: SOLUTION SOURCING OPTIONS

	 BUY	 PARTNER	 BUILD
INVESTMENT	\$ \$ \$	\$	\$ \$
RESOURCES*		 	  
BENEFITS	<ul style="list-style-type: none"> ✓ Immediate acquisition of technology ✓ Creates potential barriers to entry to fend off competitors 	<ul style="list-style-type: none"> ✓ Leverage proven solutions ✓ Sharing of risks, with potential for talent / knowledge transfer 	<ul style="list-style-type: none"> ✓ Development of tailored solutions ✓ Easy integration of legacy systems and new systems
DRAWBACK	<ul style="list-style-type: none"> ✗ Generic solution ✗ Potential integration / compatibility issues with legacy systems ✗ High upfront cost of acquisition 	<ul style="list-style-type: none"> ✗ Time-consuming ✗ Risk of partnership firm leaving and benefiting competitors ✗ Potential long-term pay-away cost 	<ul style="list-style-type: none"> ✗ Alternative solutions may already be available in the market ✗ Slower rollout and / or risk of failure ✗ Need for costly internal talent

*Resources primarily include labour / human capital and time

Source: Quinlan & Associates

In deciding which sourcing option is most suitable, consideration must be given to a multitude of factors, including the urgency of roll-out, the availability of internal talent, and existing capabilities / solutions in the market. This will also require engaging an organisation's internal technology team, who can provide an initial assessment around the feasibility (and timing / costing) of an internal build.

Given the plethora of startups that exist in today's market, we believe most companies should proactively explore open innovation as a first step before looking to build technology

solutions in-house; partnering with – or buying – relevant startups allows organisations to think well outside the box and explore new (and potentially more valuable) perspectives around how to best solve their existing problems. While many large firms turn to third parties, such as corporate accelerators, to facilitate the sourcing process, we believe they should only be engaged once a specific sourcing mandate has been established, together with a clearly defined vetting process. Otherwise, many accelerator programmes end up becoming little more than a very expensive marketing exercise for a company.

TRIAL, IMPLEMENT, AND REVIEW

The trialling, implementation, and review of new technology solutions should be jointly conducted by the innovation and business teams in close coordination. Employing an agile methodology, this would involve engaging in a continuous “test and pivot” process with both internal and external customers to continually improve and evaluate the prototype. For solutions that simply “don’t work”, irrespective of subsequent pivots, the team may need to go back to the “explore” phase of the process in order to re-define their technology requirements.

Once a trial is successful and a solution can be implemented, companies need to build an effective go-to-market strategy. However, this is by no means the end of the process; continuous engagement with key stakeholders is required to identify areas for improvement or further refinement on next-generation products.

7. CREATE APPROPRIATE SUCCESS METRICS

As highlighted in Section 4, many companies have no clear success metrics around their innovation efforts and often end up marketing the fundraising achievements of the startups at their Innovation Days. Unless the company has invested directly in these startups, such metrics have almost no relevance to their own success.

We believe, first and foremost, that the success of digital innovation efforts – particularly with respect to open innovation – needs to be based on the commercial adoption rates of technology solutions; in short, are these new technologies actively being used and to what extent? This provides the clearest indication as to whether a company’s innovation process (i.e. Step 6 above) is hitting the mark. The fact is, many solutions being trialled by Innovation Labs (or being showcased as Innovation Days) are not being adopted, suggesting companies need to go back to the strategic drawing board.

Another key problem with the adoption of new technology is the inability to attach a clear ROI to investments, given many solutions do not have a direct / tangible impact on a company’s top or bottom line (e.g. a new CRM tool). This is compounded by the fact that most listed companies remain relatively short-sighted in their approach, given they typically focus on quarterly earnings targets. However, digital innovation efforts may take years to yield tangible results due to high upfront investment costs and the need for a staged rollout.

To address this ROI dilemma, companies need to design customised KPIs / success metrics that are tailored to each solution in question and the specific problem(s) the new technology has been designed to solve.

BLACKROCK: A SUCCESS STORY?

While many firms fail to get digital innovation right, there are some financial institutions that are much better at – and more committed to – their digital innovation efforts than others.

The world's largest asset manager, BlackRock, is an example of a company that has made significant inroads in digital enablement. The firm employs over 2,000 technologists, spends over USD 1 billion p.a. on technology and data, and is currently undertaking its Tech 2020 initiative to transform digitally (see Figure 15).

One of its more notable efforts in the digital space is Aladdin, BlackRock's proprietary operating system for investment managers, designed to act as a fully customised end-to-end portfolio management solution that combines sophisticated risk analytics with comprehensive portfolio management, trading, operations, compliance, and accounting tools

on a single platform. It plans to host Aladdin on Microsoft Azure Cloud to enhance computing scale and bring new capabilities to clients.

Additionally, the company is exploring how to better leverage big / alternative data to drive investment performance through its A.I. lab and Data Science Core, while actively examining the latest developments in distributed ledger technology to enhance its operations.

Despite the challenges brought about by COVID-19, BlackRock's Q1 2020 technology revenues surged 34% y/y, driven by continued growth in the adoption of Aladdin, as well as the asset manager's USD1.3bn acquisition of alternative risk analytics provider eFront in 2019 (+13% y/y ex eFront acquisition). As part of its Tech 2025 strategy, BlackRock is eyeing aggressive growth for its Aladdin platform, with the ambition for it to manage risk for the entire asset management industry by 2025.

FIGURE 15: BLACKROCK TECH 2020

2,000+
Technologists

"We have a very ambitious plan that we call Tech 2020. We are really excited about the opportunity to take a company like BlackRock, which is already [...] at the forefront of technology in its industry, and, if anything, keep expanding that."

USD 1bn
Annual Technology and Data spend

Robert Goldstein
COO, BlackRock

	A.I.	Blockchain	Operating System	Cloud Computing
Action / Policy	BlackRock established an A.I. lab and an internal Data Science Core unit to support A.I. research	BlackRock is a 'big student of blockchain', and is actively following the developments in distributed ledgers	BlackRock developed Aladdin, their proprietary operating system for investment managers	BlackRock is transforming Aladdin into a cloud-centric architecture, to further evolve its technological infrastructure
Benefits	<ul style="list-style-type: none"> New insights on assets based on big / alt data, providing the potential for alpha-generation and outperformance 	<ul style="list-style-type: none"> While still at early stages, blockchain has the potential to enhance the consistency, transparency, and trackability 	<ul style="list-style-type: none"> A fully tailored and customised end-to-end investment platform to enhance operations across all asset classes 	<ul style="list-style-type: none"> A core platform that is standardised throughout the entire company, improving both application roll-out and client servicing

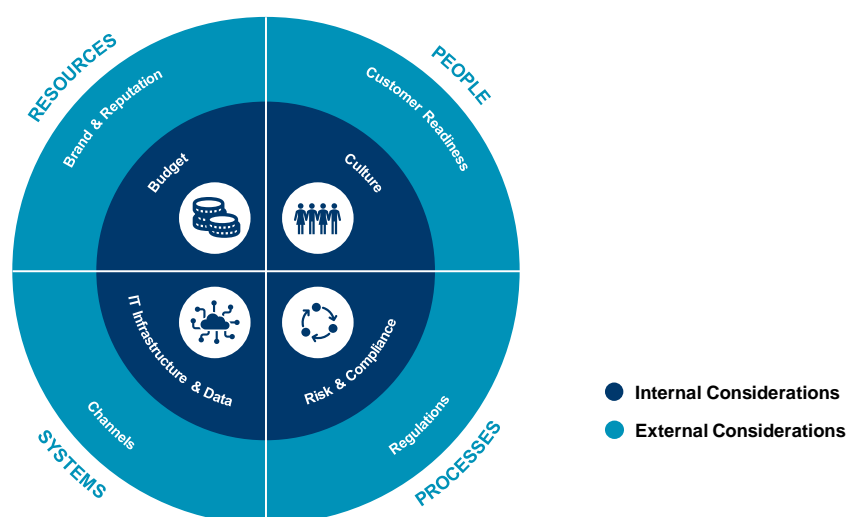
Source: BlackRock, Business Insider, Financial Times, Reuters

OVERARCHING CONSIDERATIONS

In addition to the recommendations outlined above, there are a number of overarching considerations that every company needs to

examine when it comes to developing an effective digital innovation strategy. These include both internal and external factors centred around a company's resources people, processes, and systems (see Figure 16).

FIGURE 16: DIGITAL INNOVATION CONSIDERATIONS



	Consideration	Key Questions	Example Criteria
INTERNAL	Budget	<ul style="list-style-type: none"> What budget is the firm prepared to allocate? Can the organisation support the investments required? 	<ul style="list-style-type: none"> Availability of capital for technology build or acquisitions Financial outlook, including forecast revenues and costs
	Culture	<ul style="list-style-type: none"> How responsive is the firm to emerging technology? Does the organisational DNA support innovation? 	<ul style="list-style-type: none"> Tone from the top and organisational DNA / culture Incentives, governance, and communication processes
	IT Infrastructure & Data	<ul style="list-style-type: none"> What is the capacity of existing IT infrastructure? What is the current state of existing data / MIS? 	<ul style="list-style-type: none"> Target architecture, legacy systems, cybersecurity Data strategy (collection, storage, access, use, disposal)
	Risk & Compliance	<ul style="list-style-type: none"> What is the firm's overall risk appetite? How effective are current risk management processes? 	<ul style="list-style-type: none"> Overall risk tolerance Robustness of risk management processes
EXTERNAL	Brand & Reputation	<ul style="list-style-type: none"> What is the firm's reputation in the market? How strong is the firm's brand in attracting customers? 	<ul style="list-style-type: none"> Competitive position and industry perception Digital brand identity and visibility
	Customer Readiness	<ul style="list-style-type: none"> Are customers willing to adopt a digital proposition? Is the target market mature enough to support adoption? 	<ul style="list-style-type: none"> Online and offline penetration rates Consumer norms and preferences
	Regulations	<ul style="list-style-type: none"> What regulations does the firm need to comply with? Can the firm address potential fines / penalties? 	<ul style="list-style-type: none"> Existing regulators and their compliance standards Reserves for litigation costs and potential fines
	Channels	<ul style="list-style-type: none"> How large is the firm's international footprint? How wide is the firm's product / client coverage? 	<ul style="list-style-type: none"> International / industry / product footprint Partnerships and alliances

Source: Quinlan & Associates

While each of the above factors should be carefully examined, we see a weak innovation culture, poor data strategy, and haphazard implementation processes as critical stumbling blocks for most large companies. Much of this stems from a pervasive resistance to change, especially when engaging with third-party vendors that disrupt the status quo.

As highlighted above, for innovation to be truly successful, companies must start by developing

a firm-wide innovation strategy. More importantly, this strategy must be accompanied by a fundamental shift in organisational DNA; in essence, moving from a corporate culture that focuses on stability, success, and short-term financial targets to one that openly embraces change, failure, and long-term goals. While this is no doubt easier said than done, this change in mindset cannot be ignored if companies are genuine about moving beyond the buzz.

FOR INNOVATION TO BE TRULY SUCCESSFUL, COMPANIES MUST START BY DEVELOPING A FIRM-WIDE INNOVATION STRATEGY. MORE IMPORTANTLY, THIS STRATEGY MUST BE ACCOMPANIED BY A FUNDAMENTAL SHIFT IN ORGANISATIONAL DNA

SECTION 6

CONCLUSION

In a world that constantly changes from rapid advancements in technology, it is only natural for many companies to feel overwhelmed by daily news headlines on “*blockchain* this” and “*machine learning* that”. Add to this a period of acute flux being brought about by COVID-19, and it’s clear corporate management teams across the globe have suddenly been thrown into the deep end, confronted with the need to make major strategic decisions overnight.

However, despite all the change and uncertainty facing the global economy, one thing remains certain: the digital age is here to stay, and ongoing developments in technology are forcing companies to pivot at a precipitous pace. With digital innovation spend forecast to reach USD 1.02 trillion by 2025, the investment being allocated to this pivot is nothing short of spectacular, but unless current approaches to innovation are given a major overhaul, much of this will end up as money down the drain.

Like any major crisis, COVID-19 will inexorably produce some winners and losers. Companies that can best respond to the changes that lie ahead – be it with respect to consumer preferences, regulatory developments, or

employee working habits – will likely flourish. And as the world is forced into a new normal, “going digital” is going to be a fundamental prerequisite to corporate survival in years to come.

Innovation, by its very nature, is about staying nimble, and digital innovation is no exception. More importantly, genuine innovation is about embracing failure, learning from mistakes, and responding to them faster than your competitors. However, for many firms, “innovation” has been nothing more than a buzzword on a corporate website, supported in principle from a marketing standpoint (with sizeable budgets), but rarely delivered through a clear strategy or implementation process. Unfortunately, as a result, the cultural DNA of countless firms (and even entire industries) has failed to evolve in a meaningful way, such that many will be left behind.

While innovation is no doubt easier said than done, the change required to corporate mindsets cannot be ignored. Only when there is a fundamental rethink that prioritises – and delivers on – innovation as an organisational necessity will companies finally move beyond the buzz.

ONLY WHEN THERE IS A FUNDAMENTAL RETHINK
THAT PRIORITISES – AND DELIVERS ON –
INNOVATION AS AN ORGANISATIONAL NECESSITY
WILL COMPANIES FINALLY MOVE BEYOND THE BUZZ

SECTION 7

HOW CAN WE HELP?

Our consultants have extensive experience working with organisations of all sizes in various industries on developing and implementing their innovation strategies. Our project work typically involves a number of key steps:

1. EVALUATE

Evaluate an organisation's current innovation strategy and processes to identify key gaps and future opportunities, e.g.:

- Market analysis to identify the latest technological trends in your industry and potential implications for your future business model
- Market sizing on key digital transformation opportunities (including potential revenue upside and cost savings on offer)
- Competitor benchmarking to identify capability gaps (e.g. geographies, industries, products, internal processes, etc.) against relevant peers, industry best-practice, and sectors with comparable processes
- Determine adequacy of internal capabilities to effect change, including internal budgets, legacy systems, data availability and accuracy, IT expertise / talent, etc.

2. DEVELOP

Develop an appropriate firm-wide innovation strategy, e.g.:

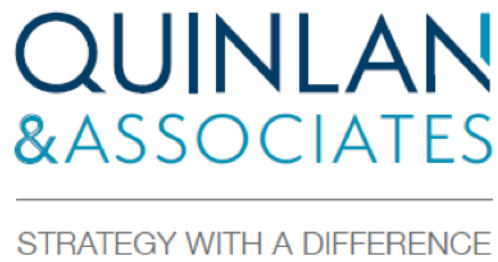
- Define an end-to-end innovation strategy and target operating model at the group and business-unit level centred around improving the digital experience that aligns with the broader vision of the organisation
- Identify the most relevant digital delivery model at each stage of the value chain, and outline all necessary enablers to drive implementation

- Identify the appropriate option(s) for executing specific digital initiatives (i.e. build, partner, or acquire), considering the company's internal capabilities, risk profile, and core objectives
- Formulate appropriate solutions to address potential roadblocks, including defining appropriate strategies around people (e.g. innovation culture), resources (e.g. brand strategy), processes (e.g. compliance protocols), and systems (e.g. IT and data strategy)

3. IMPLEMENT

Implement strategic priorities across the organisation, e.g.:

- Establish and oversee an appropriate Project Management Office ("PMO") team to support the organisation's wider innovation programme
- Develop overall execution plan (e.g. outlining key workstreams, defining rollout prioritisation, identifying project owners / sponsors, and establishing detailed project deliverables with supporting timelines and milestones)
- Connect the organisation to our network of relevant start-ups to better understand new applications and potential use cases relevant to your specific problems, while assisting with potential partnerships for general implementation efforts



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