Eight steps to foster innovation through successful ecosystems

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In today’s complex environment, innovation within public and private sector organisational models is a challenge.

Core business models are not designed to encourage smooth engagement and collaboration between industry, government and commercial enterprise.

Often innovation within organisations encounters resistance and attempts to mould the scope to suit internal objectives will eventually dilute the impact of the original idea. However, innovation outside the core business, that is at the edges of the organisation, is easier to establish through partnerships with other organisations. Such arrangements can provide complementary skills and capabilities so together, they can achieve a greater outcome. These are ecosystems. They can be established with partners such as academia, start-ups and venture capitalists. Such models create disruption as well as growth opportunities for the core business. The partners in these “Innovation Ecosystems” often share investments, risks, outcomes and rewards, and they use digital platforms that enable easy collaboration toward shared goals without derailing the core mission.

The innovation ecosystem drives an outcome for organisations to jointly develop new products and services that are built on applications and platforms, allowing the organisation to enhance core offerings or expand into new markets. It allows organisations to look beyond their own boundaries to bring in ideas more quickly and frequently to enhance operations, saving time and money. Organisations can leverage the investments from such sources as venture capitalists and government.

Organisations that intend to compete effectively in the marketplace will need to prioritise innovation and establish ecosystems at the edge of their organisation, or risk being overtaken by competitors and not being able to recover. It’s important to remember that, since 2000, 60 percent of Australia’s top ASX 200 companies have ceased to exist due to liquidations, mergers, acquisitions or other factors. And 73 percent of the ASX 200 companies are no longer in the top 200 companies today. For Government, the use of innovative technologies offers opportunities to generate greater efficiencies and improve service delivery to meet citizen expectations.

In Australia, the concept of innovation ecosystems is not new at all. Certain industries such as banking are well versed in creating such partnerships. And the idea of innovation ecosystems is emerging in other industries like insurance, utilities, energy and mining. What is new, however, is insight into the means of ‘smartly’ creating and realising value from innovation ecosystems.

43 percent of Australian executives now report that a platform-based business model and engagement with digital ecosystems are very critical to the success of their business – in line with global peers (40 percent).
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In part, this requires changes in operating models, technology architectures and cultures in order to have a foundation of flexibility, to meet the requirements of an ecosystem and respond to rapidly evolving customer and business needs.

As platforms rapidly grow and spread (e.g. Uber’s taxi model, Amazon’s ecommerce suite and Philips’ hospital-to-home platform), often they are too big to challenge by the time they enter Australia because these organisations have already achieved global scale and have a full suite of best practice capabilities that they can bring to market quickly. Organisations need to understand when to launch competing platforms and when to position themselves within existing platforms as opposed to building their own. This understanding comes from active engagement within their innovation ecosystems and working with their partners, so that they understand what they want to position in the Australian marketplace and how to deliver customer value.

At Accenture, we feel that many of the operating models and cultures of organisations within Australia are not designed for effective ecosystem participation. This creates a risk for these firms.

The opportunity is significant. Accenture estimates that if the Australian economy improved its digital density through an optimal combination of improvements in digital skills, capital and other enabling accelerators, such as supporting technologies, it could enjoy an even higher boost to GDP, adding an additional AU$44 billion to 2020 GDP. That equates to a 2.4 percent uplift to GDP beyond current forecasts.3

The innovation ecosystem and Government

One of the ways that the Australian government is showing commitment to innovation is via the National Innovation and Science Agenda. The Australian Government is investing AU$36 million over five years in a Global Innovation Strategy to improve Australia’s international innovation and science collaboration.5

It is important for large companies to partner with government agencies on industry accelerators for innovation. Consider, for example, the Resources Innovation through Information Technology (RIIT), which provides an ecosystem to Australian entrepreneurs in the resources sector. RIIT follows a public-private partnership model, working with support from the Australian government and local companies.6

From a public sector perspective, the digital government of tomorrow will include online ecosystems in each of the mission areas of government, such as education, health and social security. These ecosystems will not only connect the government agencies but also parties such as NGOs and Australian citizens. Standardising and simplifying business processes and utilising technology platforms intelligently should be a top priority for the Australian public sector if it wants to continue to keep up with the continuously evolving digital landscape. Ownership of the various platforms will need to be addressed up front and some organisations are incorporating a chief integration officer as a new role to help ease the transformation process.7

97 percent of large companies stated that open innovation is important or critical to higher levels of future business performance.4

For Frank Bobe, entrepreneur-in-residence at Harvard University’s Wyss Institute, “clusters are all about people and relationships. The success of certain clusters can be attributed to their open, risk-taking, and collaborative environment. You need to immerse yourself in the culture of the cluster and absorb it.”

Banks, for example, are focusing on open innovation. They are putting it at the heart of their digital transformation by engaging with external technology solutions, knowledge capital and resources early on in the innovation process.8 Collaboration, or “co-innovation,” is becoming more important as a method of identifying new ways to generate value. Banks are undertaking partnerships and acquisitions, creating incubators and making strategic investments to help them rebuild themselves as consumer platforms, not just banks.

Rio Tinto and Accenture co-established a co-located innovation centre in Singapore. The IoT Centre of Excellence for Resources provides a way organisations can gain competitive advantage.9
The eight-fold way to build innovation through ecosystems.

Business leaders need to engage their organisations to build and implement an innovation ecosystem strategy. From our research, there are eight mutually reinforcing practices that leading innovators adopt:

1. **Agree on a clear and specific focus**
   The strategy should have clear objectives that are adjusted as the innovation evolves to give all parties confidence that their investment is being used effectively and the outcomes will be shared. It must clearly show how successful ideas can be scaled quickly and drawn back into the core business and not stranded in pilot phase.

2. **Lead with the customer experience**
   Start-ups and entrepreneurs focus on solving real customer problems. They begin with a customer challenge or frustration, or a need that customers don’t even know they have. Focus on what your customers want and need, and how you can improve their experience. Then determine who the best partners are to help you reach your goal.

3. **Establish an open culture**
   Develop digital skills and literacy in employees to network externally, develop processes to absorb learning within the organisation and develop a portfolio of digital tools to facilitate effective collaboration. An organisation can have the best people and technology, but without effectively empowering both with the right culture, it will not fully realise the benefits. Cultural change is led from the top. Leaders can encourage the workforce to innovate and take risks—which is what innovation ecosystems are all about.

4. **Encourage proximity to innovation**
   Leaders in innovation tend to cluster together. Centres such as Silicon Valley, or innovation hot spots in London, New York, Israel, Stockholm, Hong Kong, Singapore and beyond, are about creating digital partnering ecosystems. To bring the essence of their success into your business, we believe you will need to model those companies’ sense of proximity—the structured but also unanticipated ways diverse groups of people “cluster” together to solve problems, explore external viewpoints and generate new ideas. Australian organisations can achieve this by establishing a presence within a centre of innovation. Or they can co-locate some of their resources with an existing innovation partner. Alternatively, co-locating some resources within the partner organisation, is another option.
5 Protect your core intellectual property
The default option should be openness. However, being open-by-default does not mean all guards should come down; organisations must continue to protect data and for the private sector, their competitive essence. Identify critical IP that needs protection. This IP is core to the business operations. These are the areas providing unique value propositions and competitive advantage. Test further with the different functional areas of the business – IT, legal, finance, operations, HR and marketing. With the critical IP protected, it’s easier to determine the IP you can share.

6 Undertake due diligence on potential partners
The organisation will need to quickly establish a new corporate capability that will help them improve service delivery and for the private sector, outperform competitors. The ability to spot effective partners and then establish an effective innovation ecosystem to enable timely and secure collaboration, is important. Remember, the security of digital tools is not unlimited. Seek insight into data and security practices before committing to ecosystem partners or deals. Vet ecosystem partners for cyber-integrity and resilience across all areas of their technology landscape. Differences in cyber preparedness exist among business units, geographies and industries. Also, use the collaboration platform that is fit for different phases of work.

7 Modify operating models for mutual success
Examine entrenched business processes and adapt operating models and technologies to stay focused on long-term success within the extended business environment. A number of formal innovation networks have well-developed digital solutions. Business leaders should start using available tools to build and participate in ecosystems while keeping up-to-date with new technologies. This will require designing for the right digital capabilities. Consider robotic process automation, cognitive computing, cloud and next-generation outsourcing, and embed sustainable cost governance into the organisation.

8 Architect for change
Identify the right architecture and establish a strong integration layer that leverages APIs (application program interfaces that enable effective connectivity to legacy systems, cloud, third parties and so forth) to firstly, allow partners to connect and transact via a robust and secure mechanism. And secondly, to support a multi-speed operating model that is responsive to dynamic, fast-change innovation from the business, but also flexible in providing an industrialised response to major change.
Innovate at the edge

More often than not, organisations have not designed their operating models to support both physical and virtual collaboration, especially across organisation boundaries. According to our report, “Digital shoring for networked innovation,” more than half of large companies we surveyed (54 percent) reported that the benefits of collaboration were uncertain.¹⁰

To move forward, organisations must change their operating models to create, run and maintain innovation ecosystems. This demands a new and innovative approach. At the most fundamental level, the organisation must foster a culture that supports open innovation and backs it up with investment. It requires organisations to create arrangements involving a network of new business satellites with various players including industry, government, venture capitalists, early-and growth-stage start-ups, universities, corporate R&D groups and other companies that can accelerate overall organisational growth. These business satellites would sit on the edge of the organisation.

To survive and succeed, they must be endorsed and supported by the lead organisation. Investment is key. This includes leadership sponsorship as well as proper incentives and rewards to help employees become comfortable sharing knowledge and technology with external parties.

The agility of Amazon’s operating model demonstrates the opportunities and disruptions created by digital ecosystems. AmazonFresh, a fresh and frozen delivery service, continues to gather momentum in the US and UK. If Australian entry remains on track for 2017, what are the implications for local grocery players? How will they respond? And what adjustments will they require to their operating models?¹¹

Australia Post’s digital transformation efforts are a good example of innovation at the edge. Their July 2016 announcement of a new parcel processing, delivery centre and onsite business hub in Newcastle is intended to benefit customers, provide jobs and grow Australia Post. Co-located with StarTrack, the hub consolidates operations, streamlines transport and gives customers more efficient operation, improved pick-up and delivery times.¹²
Breaking through the barriers

Whether formal or informal, digital ecosystems complement physical with virtual working. Business leaders need to engage their organisations to build and implement an innovation ecosystem strategy.

How Australian organisations build and implement an innovation ecosystem will be critical to their success and survival.

Despite the challenges ahead, creating and building strong innovation ecosystems will open up a world of possibilities for Australia to achieve higher levels of efficiency and performance. This will drive GDP growth and global competition. Innovation ecosystems that leverage leading digital capabilities, offer improved service delivery and greater customer satisfaction. For the private sector, innovation through ecosystems offers the opportunity to profoundly improve productivity, reach new markets and drive revenue growth in a sustainable way. As the innovation ecosystem becomes more deeply interconnected, it is vital to the long term success of organisations to participate.
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