

HOW TO CREATE INNOVATION

+50 proven tools
to go from
whiteboard to
reality

The ultimate guide covering proven strategies and #businessmodels
to drive #innovation and #digitaltransformation!

Created by

**Stefan F. Dieffenbacher, Caroline Hüttinger
Susanne M. Zaninelli, Douglas Lines**

Co-created by

**60+ thought leaders from
around the world**



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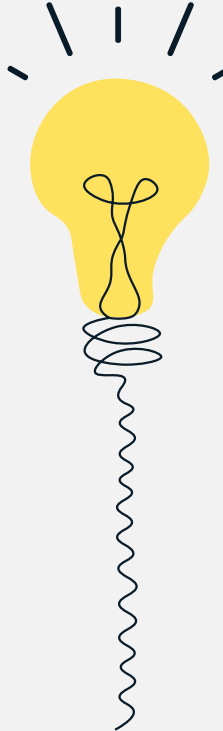
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The only book on Innovation you are ever going to need!

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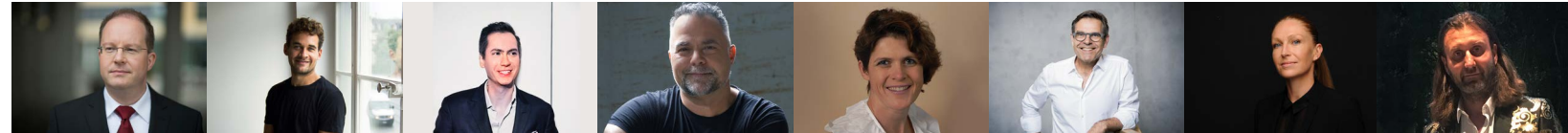


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CO-CREATED BY 60+ AMAZING PEOPLE

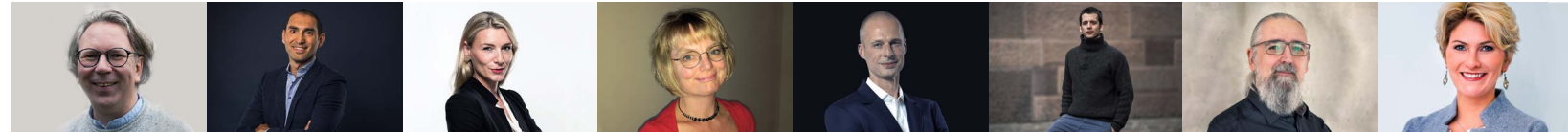
Countless experts supported the effort. We want to introduce and call out the following contributors and early readers of »How to Create Innovation« who were quintessential in creating this book. They critiqued draft chapters, offered examples and insights, co-developed and reviewed frameworks, models and approaches, and supported this book throughout the production. Most spent days or even weeks on it. Their pictures appear on the following pages, and their names appear below.



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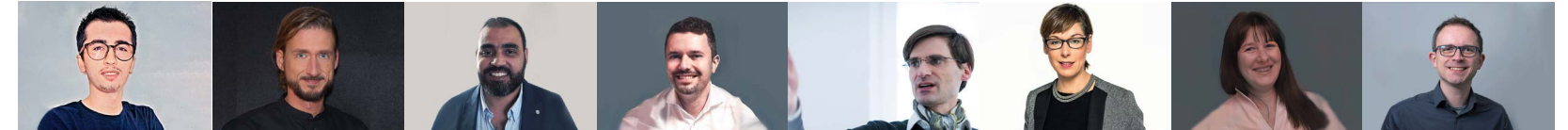


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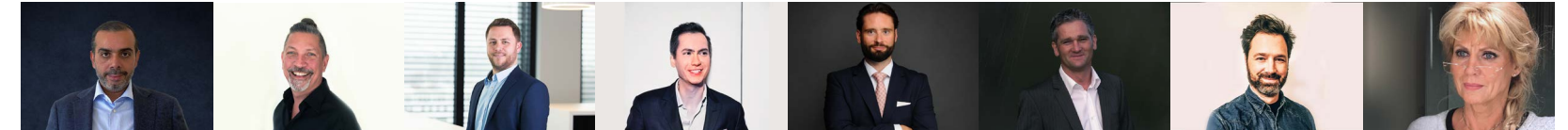
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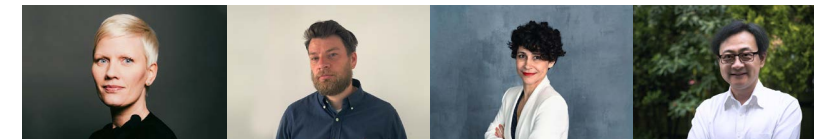
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CHAPTER 1

Introduction



**«Let's UNITE & Create
A World Worth Living in»**

We love the old, cobbled streets we find in the cities around our planet. We admire the splendor of historic buildings from centuries ago. And at the same time, our past achievements and our current way of living are anything but guaranteed. To develop ourselves and keep what we treasure from the past, we must prepare for the future; what we have ahead is the most fluid and tumultuous time in the history of humanity. Never before has there been so much change. The only way to move into a future worth living in is to innovate and transform our societies, our organizations, our departments and teams and, last but not least, ourselves. Organizations, and even societies, that do not embrace the current pace of innovation and the changes in our world will fail and disappear from the landscape, putting their employees out of work and the people they care for at risk. So, we need new ways of doing. And this book, uniquely, shows us how.

This book is practically 20 books in one. It comes fully supported with all the tools, models, canvases and approaches you need. It will help you identify opportunities with near certainty and deliver on the solutions you imagine. It is tried and tested, holistic and end-to-end, covering everything you need. In short, we propose nothing less than a new and all-encompassing approach to innovation and transformation.

We wrote this book to create clarity on How to Create Innovation. At this point, the market is so saturated that it is hard to know who to trust. What practices should you use? How should you use them, and how does it all fit together? Our main objective was to bring together established practices that work. As a result, you will certainly recognize many of the things you have learned and come to treasure in the past, but you will also discover new concepts and strategies. Most im-

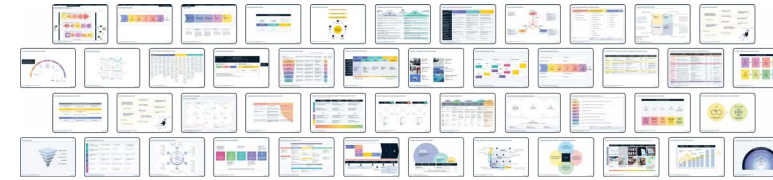
portantly, you will, for the first time, see everything connected in one holistic framework.

Our team of over 60 authors and contributors have written this book to help you build a future worth living in. This is why this book comes entirely free of charge—at least if you share it. This is also why we have made all the practices, models and tools entirely OpenSource and free to use for anyone, with the objective of enabling you and your organization to implement successful innovation and transformation initiatives.

Let's go out and create a world worth living in.

On behalf of all authors and contributors of How to Create Innovation, we wish you a great journey –
Stefan F. Dieffenbacher, Caroline Hüttinger, Susanne M. Zaninelli, Douglas Lines

THE UNITE INNOVATION & TRANSFORMATION MODELS AND THE UNITE MOVEMENT



This book contains over 50 tools, models, canvases, approaches and frameworks that cover the entire domain of innovation and transformation. You can download the models entirely free of charge, including critical variations, usage instructions, examples and print-ready versions for your workshop, on the website www.digitalleadership.com/UNITE.

All models are published under the *Understanding and Navigating Innovation and Transformation in Enterprises* (UNITE) umbrella—an umbrella that reminds us that when we UNITE, we are greater than the sum of our parts. What we really want to create under this umbrella is a **movement**. Let's UNITE and together start rethinking how we deliver innovation and transformation. We as a collective sum are greater than any individual part.

We will keep updating the UNITE models, so check back regularly. We are also looking for new friends, contributors and partners who want to support this OpenSource movement. So let's UNITE and share openly with the world at large the tools and models that we have come to love and that have proven to work.

Share your work here:
www.digitalleadership.com/UNITE/submit.

A board of innovation and transformation leaders will review any relevant contribution and publication request. We are meeting once per month to review all contributions. As part of your publication request, you may introduce yourself and your organization.

PLAY TO WIN

Most people and organizations play to avoid losing. That's a sure way to fail.

Innovation is first of all about having the right *mindset*. Are you playing to win? Or are you merely playing to avoid losing? Organizations playing to win take chances and seize opportunities. Organizations playing to avoid losing concentrate on staying safe, not making any errors and avoiding risks. These organizations tend to focus on cost-efficiency and cost-cutting and work on getting more performance out of what they have. There is nothing wrong with that. But if you focus on that for long enough, you will eventually be swept away by the next wave of disruption.

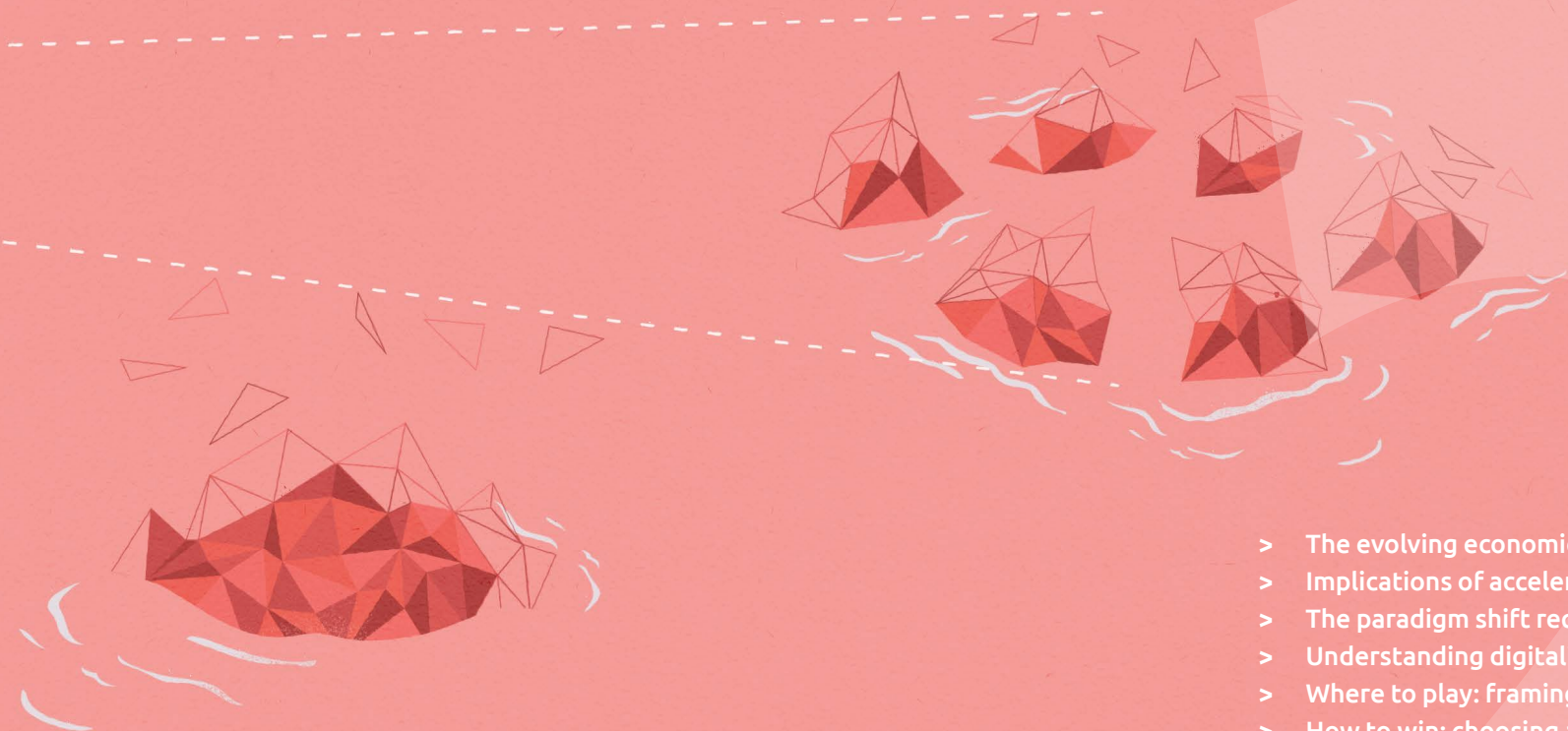
And what happens to the playing-to-win organization that took chances and invested in opportunities in the meantime? They are most likely miles ahead. As the fabled management guru Peter Drucker put it more than half a century ago, "The business enterprise has two and only two basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs."





CHAPTER 2

Understanding context



» If the rate of change outside, exceeds the rate of change inside, the end is in sight.«

— JACK WELCH

long-term former CEO of General Electric who made the firm the world's most valuable company in 2000. Today GE is worth not even a quarter of this.

- > The evolving economic & cultural context
- > Implications of accelerating technological change
- > The paradigm shift required for organization
- > Understanding digitalization
- > Where to play: framing the landscape
- > How to win: choosing a structure fit for purpose
- > Questions for reflection

The evolving economic & cultural context

To successfully create innovation, we first have to understand the context we are operating in, what we mean when we use buzzwords such as transformation, innovation or digitalization, and what kind of structure it takes to stack the odds in your favor.

THE 4 WAVES OF ECONOMIC DEVELOPMENT

We are in the midst of a paradigmatic transition—a fundamental change in how we do business—from Industry 3.0 to Industry 4.0. This latest industrial revolution may perhaps better be termed an “information revolution,” since in the past 10 years, the global economy has swapped oil for data. No matter what sector you operate in, you can’t afford to ignore the presence and power of information. At the same time, as the service and data sectors grow, the traditional industrial sector has eroded to less than a quarter of global GDP.

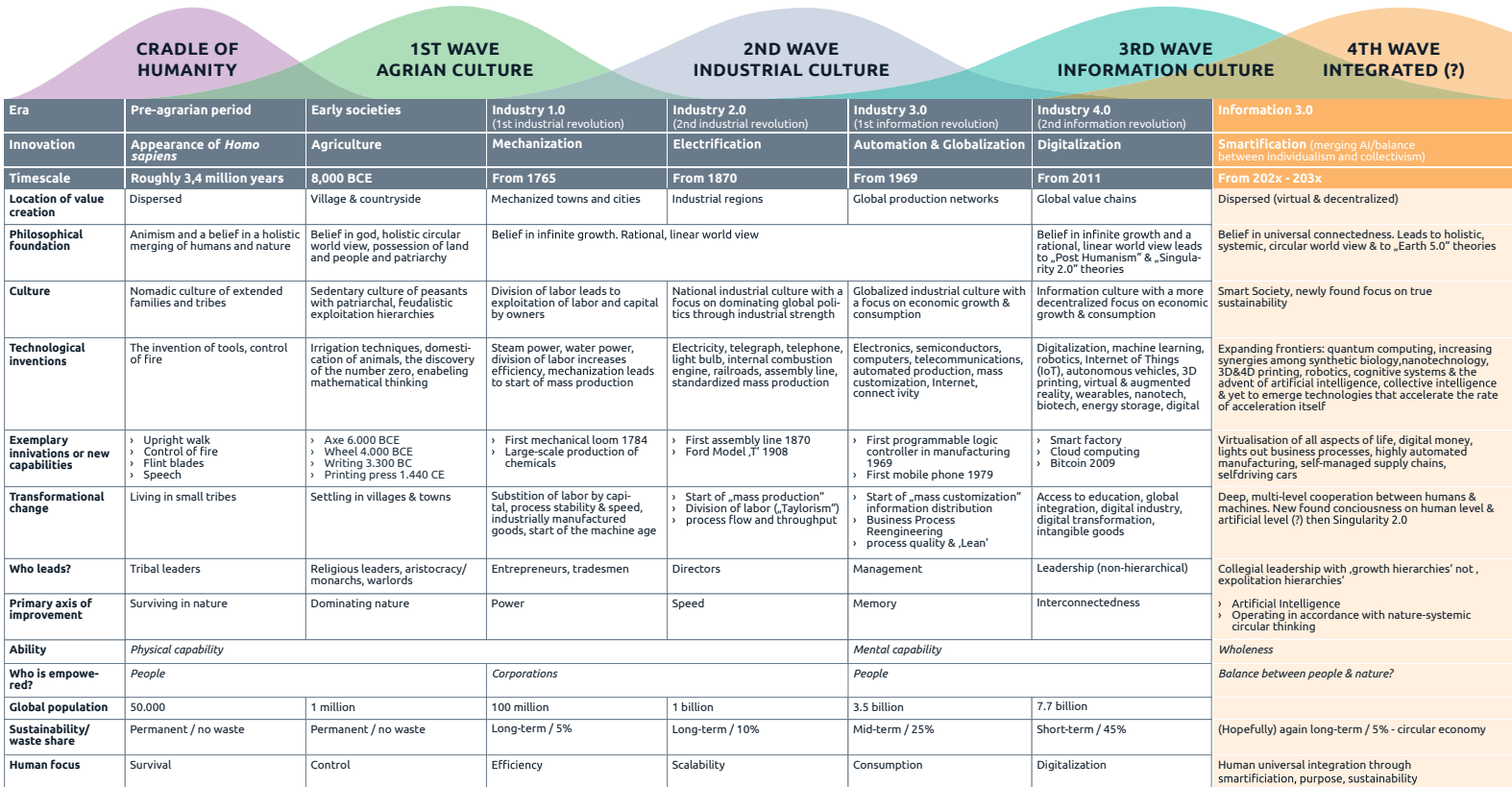


This information revolution, and its rapidly changing economic and cultural context, requires us to adapt as organizations and individuals in significant ways. The seeds of this information revolution are not new, however. As can be seen in the following visualization, they go back to the mid-20th century.

One major change in our approach must be the embrace of creative destruction, a term used by the economist Joseph Schumpeter to describe a *"process of industrial mutation that continuously revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."* In essence, creative destruction is when a new invention disrupts what came before it. And this is what we see happening with increasing speed over the course of the waves of economic developmental described above; every new revolution arrives quicker than the one before, to the point that we are now accelerating at breakneck speed. This exponential growth can be seen in other related markers as well: for example, the exponential growth of the population, of global GDP, and of the accumulation of human knowledge.

If we don’t ride these waves, our businesses and organizations will end up being crushed by them. So, it is a good idea to understand what is driving them.

THE 4 WAVES OF INDUSTRIAL REVOLUTION



Overview of industrial & cultural revolutions (from their first appearance).

Source: Susanne Zaninelli & Stefan F. Dieffenbacher.

A part of the Digital Leadership Culture Management Reference Content: #DL-MS-CUT-OIC.

THE DRIVERS OF ACCELERATING CHANGE

These waves of economic development are driven by invention, most of which is enabled by technological breakthroughs. So, what technologies are creating the acceleration we currently see?

One of the dominant features of the economy over the past 50+ years has been a massive growth in computing power. To understand the exponential evolution of computing power we can look to Moore’s law, the idea that computing performance doubles every two years, while costs remain the same. American inventor Ray Kurzweil calls this *The Law of Accelerating Returns* and shows that doubling patterns in computation extend all the way back to 1900, far earlier than Moore’s pronouncement, which occurred in 1965.

Kurzweil also argues that Moore’s law extends to more than just microchips. Many other technologies demonstrate...

EXAMPLES OF EXPONENTIALLY ACCELERATING CHANGE



3D printing

2007: \$10,000
2021: \$100

100x price drop



Industrial robots

2007: \$500,000
2021: \$10,000

50x price drop



Drones

2007: \$100,000
2021: \$50

2,000x price drop



LIDAR sensors

2007: \$20,000
2021: \$100

200x price drop



Solar

1987: \$30 per Kwh
2021: \$0.0104 per Kwh

3,000x price drop



Biotech (1 DNA profile)

2007: \$10,000,000
2021: \$70

100,000x price drop

Source: Digital Leadership GmbH.
A part of the Digital Leadership Strategy Management Reference Content: # DL-MS-SM-AC

As technology develops, this exponential growth will likely continue, driven by more specialized applications, further growth of GPUs, the development of specific chips for designated fields of application, and the advent of quantum computing. At the pace that technology is accelerating, there are likely innovations in our near future that we can't even imagine today.

Understanding the exponential evolution of technology is what most industry experts generally get wrong. Despite seeing that past performance increased exponentially, future performance is generally assumed to be linear. This makes sense. It's hard for human brains to conceptualize exponential growth. We look at our smart phone and we think, it costs the same as it did ten years ago; it even looks relatively the same. But we don't think about the fact that its computing power is 100 times greater! To use an even more dramatic example, there is more computing power in today's pocket calculator than in the computers used to send humans to the moon!

In order to be able to accurately judge when an industry will be changing linearly versus exponentially, you need a deep understanding of the boundary conditions in your domain. It is critical to understand which technologies have the potential of exponential growth and which are restricted in their growth or have already reached their limit. Technological progress won't necessarily affect all aspects of your business in the same way, but in order to ride the wave of innovation, you need to be able to assess what the areas of high impact will be.

As acceleration continues, you will need to envision where technology will be when you start a new initiative. Assuming a doubling pattern, computing power is projected to increase by 400% over a 4-year time horizon. The average tech platform in a corporation is in place for eight years; eventually eight years may represent total change in an industry. So, you have to plan not for tomorrow, but for the day *after* tomorrow!

CONVERGENCE OF TECHNOLOGIES

The past fifteen years have shown that while some of Kurzweil's specific predictions may not have happened exactly as he predicted, the underlying idea of *The Law of Accelerating Returns* grows ever more relevant.

But as we look at the next fifteen years, there is another concept which is becoming more important. Essentially, as technological change accelerates, there is more potential for different technologies to converge and build on top of each other, creating exponential technology on exponential technology.

This may lead to jumps in innovation beyond even the rate of exponential growth itself. This phenomenon is called *The Law of Accelerating Convergence*.

The Law of Accelerating Convergence

Quite simply, if you're a leader or entrepreneur ignoring the convergence points of exponential technology today, it's like ignoring the convergence of mobile phones with computing power fifteen years ago. The

next wave of seemingly magical new inventions will be born when two or more technologies collide.

Kurzweil, who has studied this phenomenon for thirty years, makes four key observations:

> First, The Law of Accelerating Returns states that the doubling pattern identified by Gordon Moore in integrated circuits applies to all information technologies.

> Second, the driver fuelling this phenomenon is information. Once any domain, discipline, technology or industry becomes information-enabled and powered by information flows, its price/performance begins doubling approximately annually.

> Third, once that doubling pattern starts, it doesn't stop. We use current computers to design faster computers, which then build faster computers, and so on.

> Finally, several key technologies today are now information-enabled and follow the same trajectory. These technologies include artificial intelligence (AI), robotics, biotech and bioinformatics, medicine, neuroscience, data science, 3D printing, and nanotechnology.

Of course, just because industries as a whole will grow exponentially, doesn't mean that each business, or even each sector within an industry, will ride this wave of growth. Some will stagnate and some will disap-

pear altogether as creative destruction rebuilds systems from the inside out. It is the task of the innovator to figure out how to best harness the power of technology to fuel growth.

IMPLICATIONS OF ACCELERATING TECHNOLOGICAL CHANGE

Technological advancements have led to the 1st and now 2nd information revolution, which has drastically reshaped all aspects of human life. Information has become available at a level never before seen. More than four billion people (half of the global population) have access to the Internet, and thus access to free education, knowledge, and often work opportunities in a global Value Chain. This has accelerated the global economy in turn and allowed more efficient distribution of work, lifting hundreds of millions of people out of poverty, particularly across Africa and Asia. This has also led to a redistribution of global power dynamics; the categories of developed and developing countries begin to make less economic sense. Today, many erstwhile developing countries are beginning to lead the global economy. Even Silicon Valley, the cradle of the information revolution, is being overtaken by the innovation ecosystem in China. Because of this, our current ways of organizing and producing value are being deeply challenged—regardless of which industry you consider.

Even our political structures seem to be challenged. After the end of The Cold War, democracies seemed to have won the race when it came to political systems. Now, however, they are in new-found competition with authoritarian technocracies, such as those in some Asian countries.

The role of the customer has also changed. Today the customer drives business growth and innovation because they benefit from global reach and access to information. Until just a few years ago, most people did not have more options than their closest (and possibly only) store. Be-

cause of that, the power was with the producer. Henry Ford is famous for saying, “Any customer can have a car painted any color he wants so long as it’s black,” and it’s no surprise that half of all cars in America in the beginning of the 20th century ended up being black Model Ts from Ford Motor company! Since then, we have gone from standardized mass-market production to personalized products that customers can purchase from anywhere in the world.

The increasing possibilities of personal expression promote a much more nuanced and differentiated demand on the part of customers. Today, most of the world is still going through the 2nd industrial revolution or the 1st information revolution. We can only imagine what will emerge once the fruits of the 2nd information revolution, including machine learning (ML), robotics, the Internet of Things (IoT), autonomous vehicles, 3D or 4D printing, virtual and augmented reality, wearables, additive manufacturing, nanotechnology, biotechnology, energy storage and quantum computing become fully integrated into our daily lives. In addition, consumers are increasingly becoming co-producers in customized goods. We can only assume that this trend will continue.

IMPLICATIONS FROM A CULTURAL PERSPECTIVE

It takes a related *cultural revolution* to benefit from the new possibilities and technological breakthroughs of the continued *information revolution*. While the steam engine provided the increase in power needed for the first industrial revolution, it could not have produced the growth it did without the embrace of the division of labor. The division of labor allowed for the creation of standardized mass production and an entirely new way of producing goods, and it was this cultural innovation coupled with new forms of power that formed the foundation of the 2nd industrial revolution, and “industrial culture” in general. At the same time, the efficiency produced by the division of labor needed to be controlled and refined, leading to the invention of process management, spawning many of the management processes we know today, including, as we will see later, the Lean Startup movement.

Similarly, digitalization is of no use if it cannot be managed. As the 2nd information revolution leads to increasing complexity and therefore unpredictability, more agile approaches have been adopted. This increased complexity has led to business strategy changing from a “planning function” (made possible due to the relative stability of previous eras) to following an “emerging strategy” model which acknowledges that fixed strategies won’t cut it in a hyperdynamic environment.

Thus, strategy today is becoming an emergent phenomenon, typically conducted in small steps, with an agile approach that can be designed and adjusted by people at the frontline of the business. Increasingly, strategy is even being co-developed with the customer. This will lead

from a classical pyramid-type of organizational chart to an inverted pyramid, in which it is the role of management not to dictate to but to support customers and frontline workers as they determine the direction of the business.

The last decades of increasingly rapid change produced a world of Volatility, Uncertainty, Complexity and Ambiguity (VUCA). But in our current moment of—amongst other things—political mayhem, climate disasters, and global pandemic, our environment is perhaps better understood and described as being Brittle, an environment where people are Anxious, in which there is Nonlinear change, and which is thus at least difficult to understand if not fully Incomprehensible (BANI).

Organizations thus need a more adapted response. In a complex environment, only an organization that is structured and functions like an adaptive organism can survive. Circular organizations are the structural expression of this need; the periphery now develops the strategy and commands the resources since these individuals are closest to the customer. The organization itself is often split into semi-autonomous cells. The periphery is supported by the center of the circle, and the top-level management thus becomes a service provider for the periphery. As a leader, you can no longer command what employees should do; you can only create the space in which problems are solved together. The leader thus becomes a support system, enabling those most affected by challenges and opportunities to make decisions about them.

To summarize, culture and structure need to go hand in hand. The latest

innovation does not help if your organization structure can’t handle it. The old hierarchical structures and cultural paradigms allowed humans to grow from an agrarian society into an industrial one, but they are not suitable in the 2nd information revolution and do not support innovation at speed and scale. If we want to change and innovate, we need to change both our structures and culture, as well as our collective and individual mindsets.

WHAT ACCELERATING CHANGE MEANS TO ORGANIZATIONS

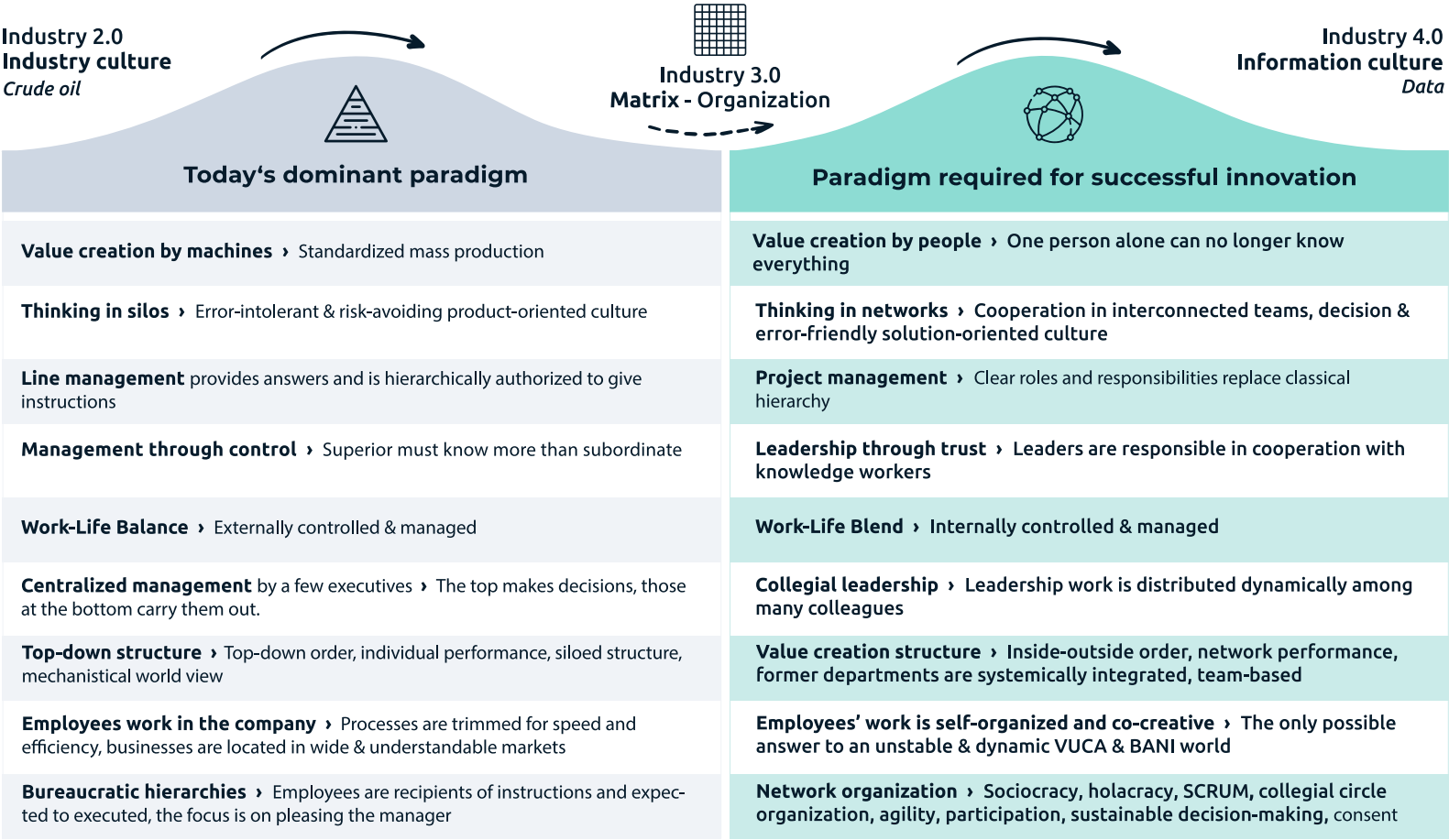
"We can't solve our problems by using the same kind of thinking we used to create them."
- ALBERT EINSTEIN

When paradigms shift, they do not necessarily affect all parts of a system at the same time. We can see in the world around us that all the stages of industrialization are present at the same time. Some societies, countries, industries, firms and individuals may still be in the second stage of industrialization, while others are moving into the second stage of the information revolution. We even sometimes see this in the same environment—for example farmers in rural areas using steam to power a grinding mill while at the same time looking up market prices on their smart phone. This tendency is exacerbated by the speed of technological change, where some parts move along an exponential path while others cannot keep up. This can lead to different paradigms operating concurrently, often even within the same organization!

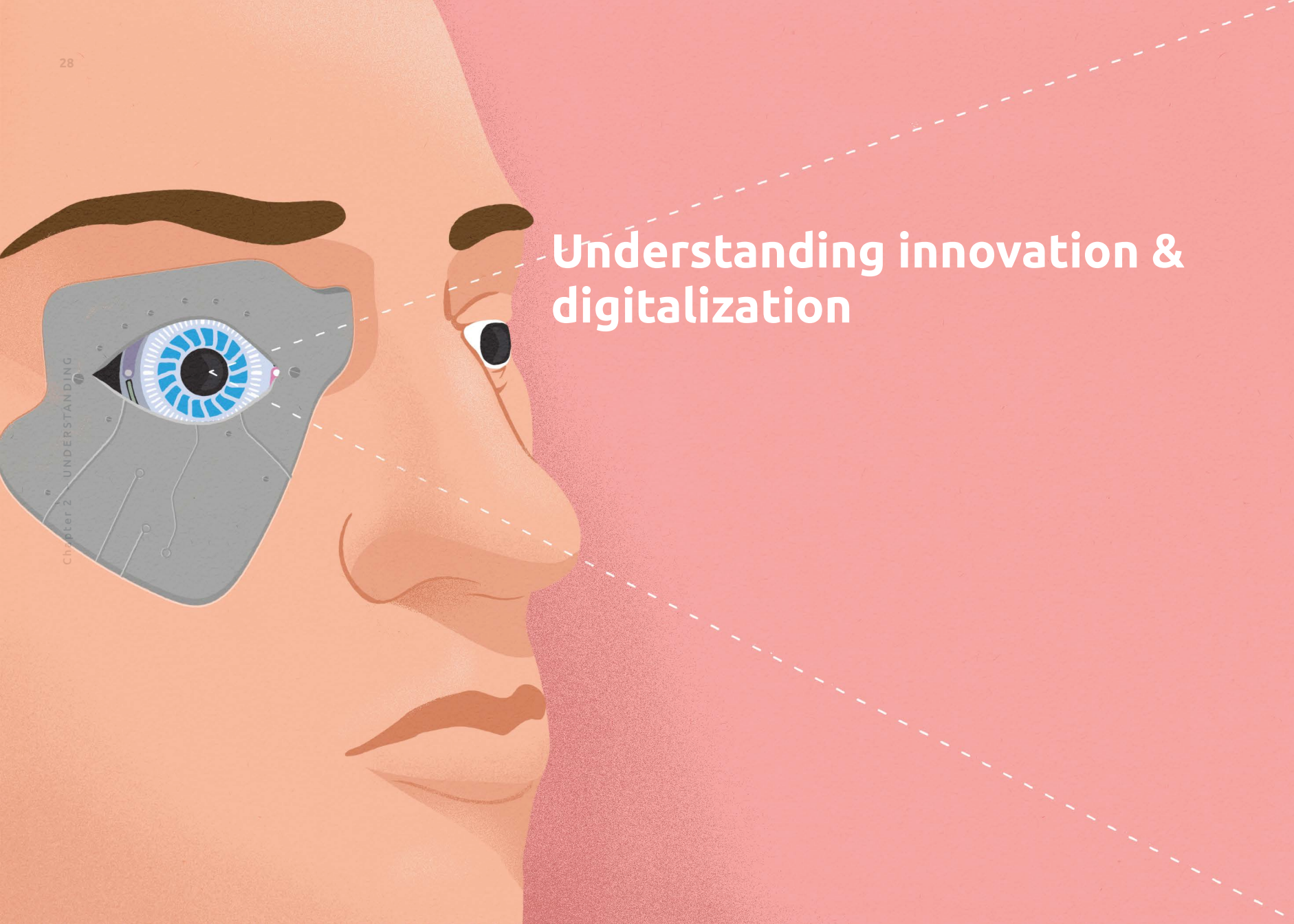
Exponential growth in technology means that we must be constantly responding to change, rather than conducting business as we always have.

And because technological innovations can only fuel growth when coupled with cultural and organizational innovations, the paradigm shift we need to make will cover all dimensions of our business: organization, leadership, skill sets, working methods, communication skills, culture and mindset. The following table provides an overview of the extent of the change we need to go through. What this will look like will be covered in depth in the culture chapter, which will show that cultural change is the tipping point of most innovation and transformation efforts.

Now that we have explored the context of the world we find ourselves in, let’s talk a bit about innovation.



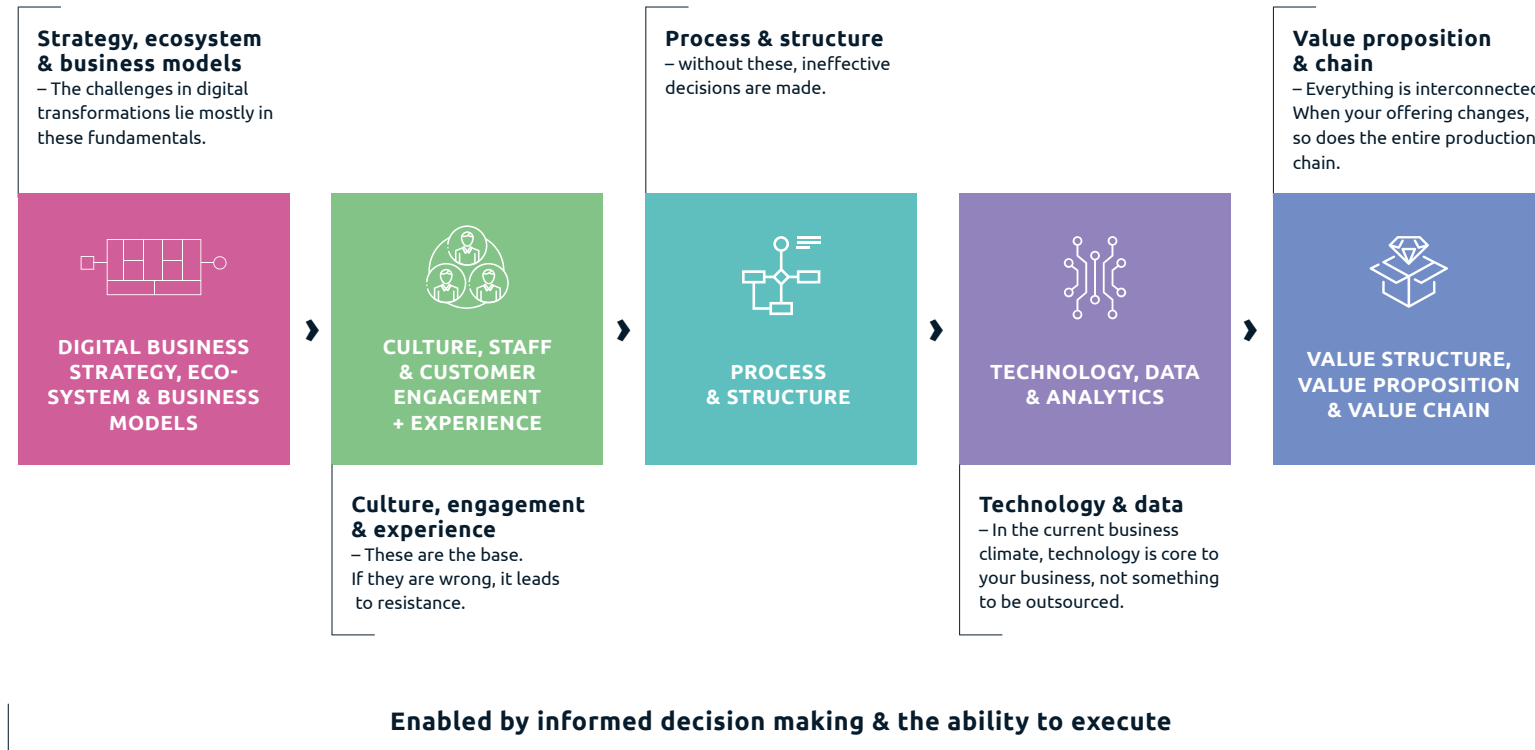
Overview of required paradigm shift in organization & leadership.
Source: By Susanne Zaninelli & Stefan F. Dieffenbacher.
A part of the Digital Leadership Culture Management Reference Content: #DL-MS-CUT-PS.



Understanding innovation & digitalization

You cannot speak about innovation without discussing digitalization in context. Almost every Business Model is at least partially digital today, from supply chain integration to your Value Proposition to how you do marketing and acquire customers. At the same time, many people believe that if they have one or two processes *digitized*, then their organization is fully *digitalized*. This is not the case, which is why it makes sense to start with basics and explain what we mean when we talk about digitalization.

The best definition of digitalization is “the transition from the physical and biological world to the information world.” The reason to adopt this definition is that it encompasses social, business, technological and strategic aspects of the phenomenon. It provides a holistic perspective, emphasizing the overarching impact of this process. Digitalization has profound consequences for us as a society, as well as for organizations, governments, the meaning of work and many other things. Because we are focused on innovations within businesses, let’s understand what digitalization means in that context. To *digitalize* itself, rather than simply *digitizing* some processes, an organization has to develop core capabilities across various business components, as we can see here.



The building blocks of digitalization initiatives.

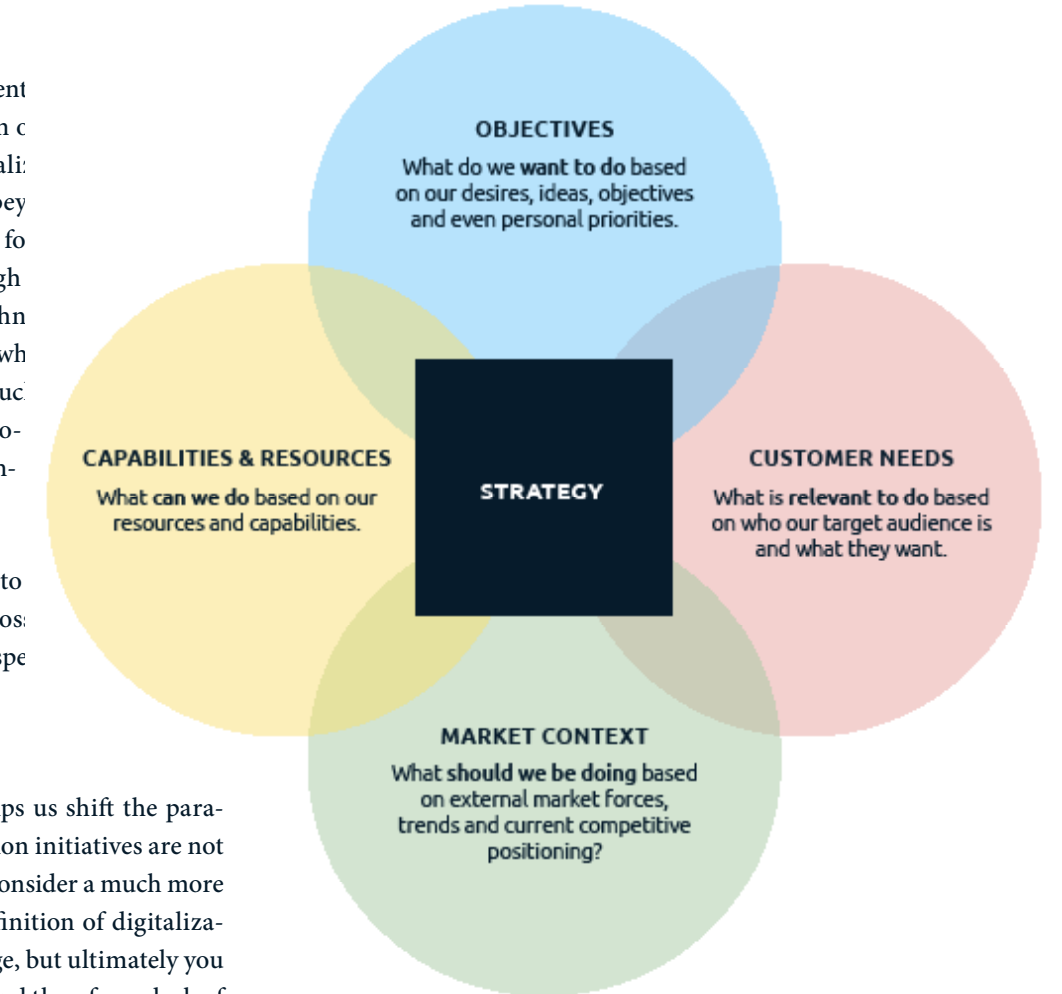
Source: Digital Leadership GmbH.

A part of the Digital Leadership Digital Transformation Management Reference Content: #DL-MS-DTM-BBDI.

This simple diagram does not fully capture the extent but it makes one thing clear. While the digitization of information and processes is a crucial first step to digitalization, shifting the entire paradigm means going far beyond the too often singular focus on technology (you can achieve amazing results through technology is just one of numerous levers) or integration of technology (technology is in many cases a mere enabler). So, when we talk about digitalization, we have to take a much more global perspective, talking about strategy, ecosystems, people, culture, processes, structures, technology and value.

There are four sets of questions that we can use to grow our ability to think about digitalization across our organization. We call these the 4 Strategic Perspectives.

Thinking about these four aspects of strategy helps us shift the paradigm of our thinking. Innovations and digitalization initiatives are not limited to one process or part—rather we have to consider a much more holistic picture. If you stick to a more limited definition of digitalization, it may lead to a good deal of superficial change, but ultimately you will find yourself with little true transformation, and therefore a lack of lasting results.



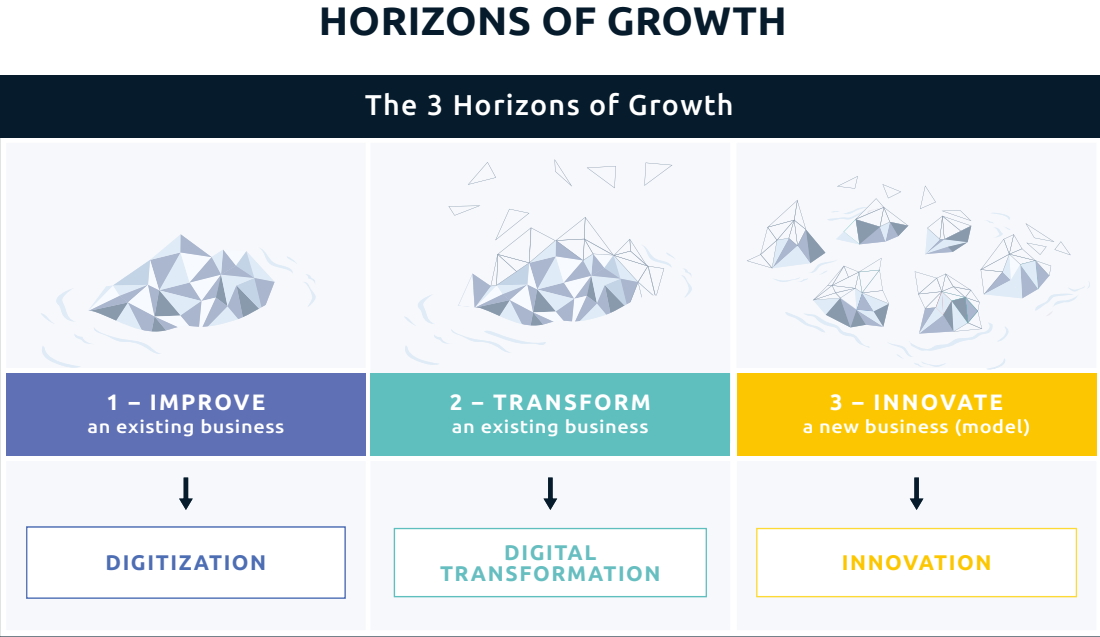
The 4 Strategic Perspectives – a framework for strategic thinking
Source: inspired and adapted from Crossan et al., 2015. A part of the Digital Leadership Strategy Management Reference Content: #DL-MS-SM-SPF.

Framing the landscape with the UNITE Horizons of Growth

THE UNITE HORIZONS OF GROWTH FRAMEWORK

As organizations grow and mature, they shift their focus from finding a Business Model to achieving stable output at scale. In order to still achieve consistent growth in uncertain environments and across their lifetimes, organizations must however attend to both their existing business while at the same time considering areas of future growth.

The UNITE Horizons of Growth framework provides a structure for organizations to assess those different dimensions and meaningfully respond to the challenges found in each horizon.



A part of the Digital Leadership Strategy Management Reference Content: #DL-MS-SM-3HO.
Source: Digital Leadership GmbH.
Inspired by the work of (Baghai, Coley and White, 2000) .

To be an organization that successfully manages its core and creates new things, an organization needs to allocate its resources across 3 Horizons—it has to keep its day-to-day business running, while transforming its core business and creating innovation. Thus, each horizon is defined by whether it is working to *improve* an existing business, *transform* an existing business, or *search for/innovate* entirely new Business Models.

- > **Improve — Horizon 1:** Improving a business (model) means making *incremental* changes in order to execute your current systems and processes more effectively. This is well understood, since this is what most people work on every day.
- > **Transform — Horizon 2:** Transforming an existing business (model) is focused on evolving your existing business in new directions. You seek to change at least one part of your Business Model in a more significant way, i.e., a *step-change*.
- > **Innovate — Horizon 3:** Innovating a new Business Model is focused on *radical* innovation. You venture beyond and explore unknown possibilities through an innovation of the Business Model itself.

As you can imagine, each horizon requires a different approach, different management, different tools and different goals.

The terms used here are often employed interchangeably, but they have important distinctions.

Improvement comes from Anglo-Norman French “emprower” and means “to increase the value of something” and “to make greater in amount or degree.”

Transformation comes from the Latin verb “trānsfōrmāre” and means “a complete change in somebody/something.” Transformation is to make a (transformative) change to something that already exists.

Innovation comes from the Latin verb “innovāre”* and means “the introduction of new things, ideas or ways of doing something.” Innovation thus differs from improvement and transformation in that the focus is not doing something you are already doing better, but rather doing something completely different from what you are already doing.

* *The noun form of “innovare” is the Latin word “innovatus,” stemming from in—“into” + “novus” to renew or to bring about or introduce new*
Definitions taken from Oxford Dictionaries 2020.

Therefore, while the distinction the 3 Horizons model offers may sound trivial, it is in fact critical because **a different context and purpose require a different approach.**

Organizations fail to digitalize because they attempt to apply the same techniques to Horizons 2 and 3 as they did to Horizon 1. McKinsey reports that this leads to a 30% success rate for Horizon 2 transformations and much less when it comes to innovation in Horizon 3. This is why the seemingly trivial distinction between the 3 Horizons is, in fact, fundamental.

The 3 Horizons model also provides another important insight: An organization has to transform its existing business and *at the same time* innovate to shape its future. Experts refer to this as a “dual transformation” or an “ambidextrous organization”—in short, an organization that manages to do both: maintain its core and innovate.

Thus, understanding which horizon you are working on is incredibly useful. The problem is that in practice most organizations do not discriminate between the 3 Horizons; often the approaches from Horizon 1 are applied everywhere, since those are the ones that everyone is familiar with.

THE 3 HORIZONS IN ACTION

Horizon 1) is a company’s *core business*. Here your organization executes its current Business Model (known customers, Value Proposition, competitors, pricing, distribution channels, supply chain, etc.). Your or-

ganization leverages its existing capabilities to run its existing business and Operating Model. There is thus low-risk of failure assuming your current Business Model is sound. Management in Horizon 1 works by building repeatable and scalable processes, using procedures, incentives and Key Performance Indicators (KPIs) to execute and gain feedback on performance and adjust it accordingly.

When change happens in Horizon 1, it is in the form of *incremental improvements* that focus mostly on either the *Operating Model (processes)* or the *Cost Model (improving cost efficiency)*. Product management for Horizon 1 uses existing product management tools and approaches such as Stage Gate and Requirements Engineering practices.

In **Horizon 2 (H2)**, an organization *transforms* its existing core business by looking for new opportunities within the realms of its existing Business Model. It leaves most of its existing business unchanged but goes through a *Step Change* in some areas. Generally, this is done on an ad hoc basis based on a particular insight. But it can also be done systematically, through Business Model Innovation practices (which we will discuss in chapter 7).

Since Horizon 2 uses mostly existing capabilities but augments them with new ones, it has a higher, but still moderate risk of failure.

In **Horizon 3 (H3)**, a company is essentially incubating something novel, similar in purpose to a start-up. A start-up—in contrast to an established organization that is executing its Horizon 1 business—is in the

(sometimes desperate) *search for a Business Model*. The risk here is very high; they may not in fact find a workable Business Model. However, when they do succeed, start-ups, whether independent or tied to a larger organisation, have the potential to radically innovate and thus create Business Models that can disrupt entire industries.

Horizon 3 endeavors are very different in approach as compared to operating an existing business. Thus, it typically makes sense to physically separate these groups from Horizon 1 divisions (in a corporate incubator/accelerator or their own facility). They also need their own specific approaches, procedures, policies, incentives and KPIs, the exploration of which will comprise the majority of this book.

Transformation (Horizon 2) and innovation (Horizon 3) are by their very nature temporary. Once an organization successfully completes the transformation, it once again begins to execute and thus returns to Horizon 1. Similarly, once an innovation initiative (in Horizon 3) has identified a working Business Model and is scaling it successfully on the market, it also focuses on execution and is thus again executing/operating its newly found core business in Horizon 1.

The 3 Horizon framework supports you in achieving a few key goals both relevant to and beyond innovation:

- > It helps situate you in your specific context
(What am I working on: execution/transformation innovation?)
- > It significantly aids applying the right practices to the context you are in
(Should I be applying execution practices, transformation practices or innovation practices?)
- > It illustrates the way an organization should think about and examine its portfolio
(What am I invested in?)
- > It explains how to allocate funds among initiatives
(Where should I invest to achieve a balanced portfolio for my firm?)

Although this may sound obvious, few organizations think about where their current initiatives are located, and fewer still strategize to create a portfolio across the 3 Horizons, which is what allows you ultimately to adapt your business to an increasingly complex world.

Choosing the right structure

In the last few pages, we discussed the 3 Horizons framework. Ultimately, we learned that we need to differentiate between those horizons. But what does that really mean for strategy design and implementation?

THE WAY OF THINKING

The following table breaks down the *way of thinking* about each of the 3 Horizons of Growth.



HORIZON KEY PROPERTIES	1 – IMPROVE	2 – TRANSFORM	3 – INNOVATE
	Execute & incrementally improve an existing business	Develop & implement a step-change improvement to an existing business	Create a radically new business model
WHERE	Working on the core business inside the organization	Moving temporarily outside the business to develop a transformation that will be applied to the core through change management	Working in a space outside the organization to search for new business models and capture blue ocean opportunities
PURPOSE	Exploit current resources and capabilities	Pursue new opportunities to transform the core business	Create new avenues of growth with (possibly disruptive) business models
APPROACH	Execute: incremental, sustaining	Search: configure a step-change to an existing business model	Search: build a radically new business model
BUSINESS MODEL	Known: executing the business model	Partially understood: testing/validating an iterated business model	Unknown: in search of a business model
CHANGES TO THE BUSINESS MODEL	At most incremental (often no change at all)	Step-change to at least one domain (with impact on the others!)	New/radical
STRATEGIC INTENT	Reduce costs/increase profits	Growth/resilience	Innovation
COMPETENCIES	Operational	Change management	Entrepreneurial
CRITICAL TASKS	Operations, efficiency, incremental innovation	New Product/service development, change management, organizational change	Adaptability, new products/services, breakthrough innovation
CULTURE	Efficiency, low risks, error prevention	Opening-up, adaptability	Risk-taking, speed, flexibility, experimentation
EXPECTED RISK	Low	Moderate	High
POTENTIAL REWARD	Low (single digit growth)	Medium (double digit growth)	High (triple digit growth)

The 3 Horizons of Growth: the way of thinking
Source: Digital Leadership GmbH.
A part of the Digital Leadership Strategy Management Reference Content: DL-MS-SM-3HWoT.

As can be seen, leading a Horizon 1 business with the strategic intent of managing cost and profit through operations management and efficiency increasing measures is clearly a different type of beast compared to the more exploratory nature of Horizon 2 and 3.

Naturally, most organizations are comfortable with Horizon 1, “execute & incrementally improve” in their core business, because this represents their standard operating procedure. This approach is suitable when there is little change in the market.

As we have discussed however, there are very few markets remaining which are characterized by longer-term stability. Instead, what we see is a rapidly, and unpredictably, evolving world. Therefore, organizations have to transform and innovate to adapt to the accelerating convergence of technologies, not to mention the political and cultural instabilities, that define our VUCA/BANI environment.

This mental framework gives you a perspective to gauge what type of challenge you are facing, what you need to do to overcome it, and what it takes to execute your plan successfully.

THE WAY OF WORKING

This book will mostly focus on Horizon 3—how to (radically) innovate a new business. Together, we will go through the most significant aspects of innovation and thus cover how to successfully set up an innovation initiative within a larger organization.

The separate chapter entitled “**Leading an H2 digital transformation**” will take what we have learned from innovation and focus on creating a successful transformation. As we will see, a successful (digital) transformation utilizes many of the same strategies as a Horizon 3 innovation initiative.

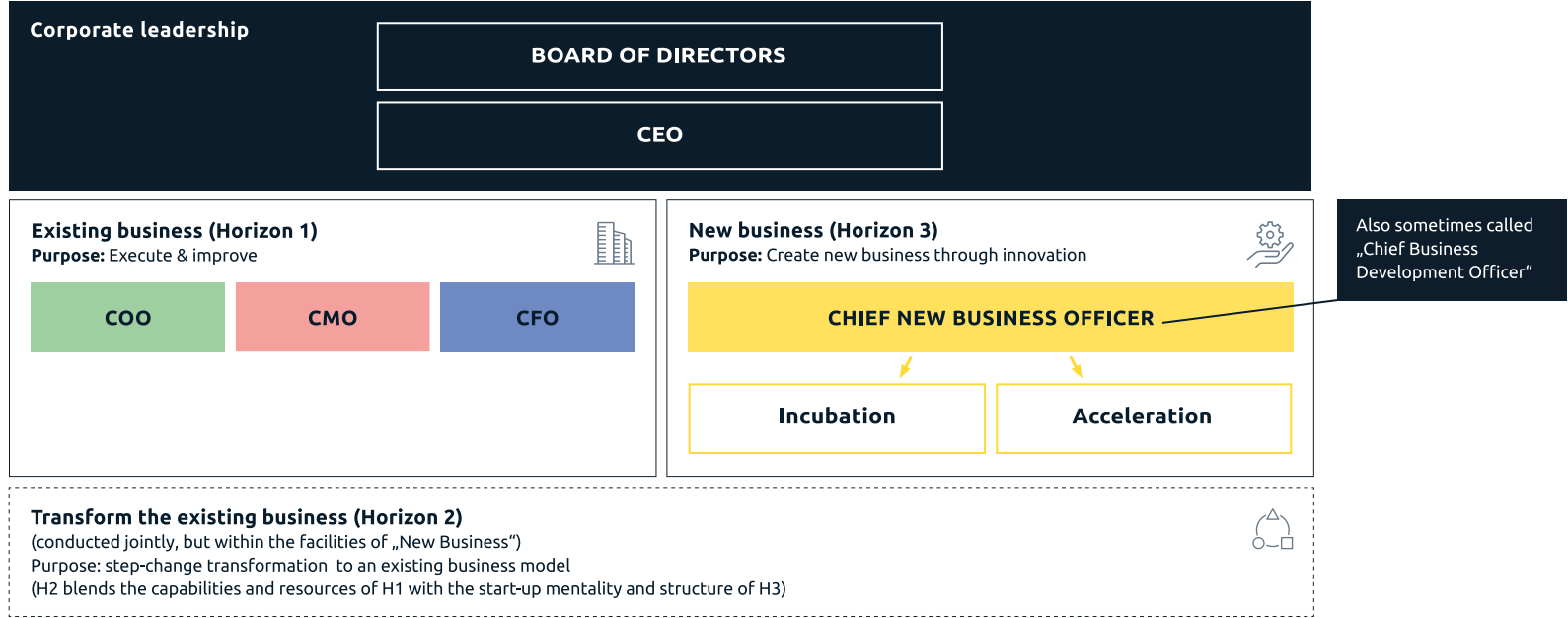
HOW CAN A LARGE COMPANY STAY NIMBLE?

You want to innovate your business, but as we have seen, you cannot combine the qualities of a Horizon 1 organization and those of a Horizon 3 organization *within the same unit*—they are just too different. So, what are the options for creating space for both ways of operating?

One way is to simply isolate the Horizon 3 space from the core Horizon 1 business. The existing Horizon 1 organization remains as-is to exploit the existing Business Model, and a new Horizon 3 organization is setup to explore new territories. The Horizon 3 group can either be temporary/project-based or it can be a fully-fledged permanent setup dedicated to innovation. We already discussed the ambidextrous organization in this context. Keep the process-oriented H1 “factory” and build an exploratory H3 business someplace else.

Another approach to staying nimble is to follow the biological principle of "cell division". Once you become too large, you split up in different cells or units. Smaller units are much more likely to remain nimble. A great example is Google creating Alphabet as an umbrella organization to house all of its different affiliated companies under one overarching structure.

Ultimately, if you think about what this means in terms of organizational structure, your thoughts will likely lead you to the following organizational setup.



Reference org-chart for the ambidextrous organization.
Suggested org-chart as a baseline of an ambidextrous organization. To be adapted to your context.
Source: Digital Leadership GmbH.
A part of the Digital Leadership Strategy-Execution Management Reference Content: #DL-MS-SEM-ROAO.

While innovation must happen in a space separated from the H1 business, the responsibility for the transformation should be a joint one. We will discuss this in more depth in the dedicated chapter, “*Leading an H2 digital transformation.*”

Questions for reflection

Chapter 2 - Understanding context

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Understanding Context	Are the implications of Industry 4.0/the 2nd information revolution clear to you and your organization?					
	What implications does further accelerating technological change have on both you personally, as well as your organization? Are you reading the signs around you correctly?					
	Is your organization aware of the exponential technologies that could impact its business? Are you prepared to leverage these technologies?					
Adapting the culture	Under which organizational paradigm do you and your company operate? In the hierarchies of the 3rd industrial revolution or in the supportive leadership model of the 2nd information revolution? Or are you already moving beyond into an open & networked organization?					
	Given the changing context in the world around us, does your organization have the ability to change and adapt in the short-term, both from a technological and structural, as well as cultural, perspective?					
Understanding the strategic context	Does your organization have a complete view of digitalization?					
	Have you answered the 4 fundamental questions: what is relevant to do (customer needs), what you want to do (objectives), what you can do (capability & resources) and what you should do (market forces)?					
	Is there are shared understanding within your organization about the key differences between the 3 Horizons of Growth? If there is a gap, how can you create a shared understanding?					
Leading with the 3 Horizons of Growth	Do you have a well-structured portfolio across the 3 Horizons?					
	Do you have a different setup for existing business (H1) vs. new business (H2/H3)?					
Understanding Context	You are reading the signposts? Are you acting on them?					
	Do you have the key people and capabilities on board to lead the digitalization of your organization?					
	Do you systematically undertake H2 transformations and H3 innovations outside of the core H1 organization?					

When considering the past and current industrial and related cultural revolutions, we have ample evidence that change is accelerating. This is a threat to those who are clinging to the current paradigm, but an opportunity for those who understand that nothing less than a paradigm shift is required and who are eager to exploit the changing nature of business.

Ultimately, any transformation or innovation initiative begins with an honest self-assessment. Where do you stand, what strengths can you build on, and what roadblocks do you anticipate?



CHAPTER 3

Laying the Foundation for Innovation



- > How to play to your strengths
- > Keys to successful Strategy-Execution
- > Understand the problem
- > Iterate. A lot.
- > Dealing with high failure rates

How to play to your Strengths



WHY SHOULD ADVANTAGES BE FAIR?

The start-up world likes to talk about finding an "Unfair Advantage": an advantage that allows you to leave competition behind you and play in a space that is not packed with competitors. A sustainable advantage is one that cannot be easily copied or bought.

But which Unfair Advantages do you have as an *established organization* compared to a start-up? After all, you are not nimble; you are more risk-averse; you have somewhat hefty overhead; and you are less flexible.

The key is to avoid focusing on your weaknesses, and refocus on your distinctive strength. As a large organization you have major assets you can use to your advantage. For example, you have a brand; you have existing customer relationships and thus customer access; you have deep technical expertise in specific areas; you have buying power; you have distribution relationships; you possess financial resources; and you probably have a ton of other assets and capabilities. A start-up has none of these things, nor likely do many of your competitors. These are the things that can form the basis of your own Unfair Advantage if you use them well!



Success will come when you play it by the rules of a startup.

LEVERAGE STRENGTHS TO CREATE INNOVATION

As a principle, every innovation you create should leverage the *existing strengths* that your organization already has; this is the one sure way to gain an advantage on the competition, since no one else in the market can leverage *your* unique strengths. This is the recipe to create a substantial, and hopefully even unfair, advantage since it caters to your *existing* strengths. Without leveraging your strengths, you will be swimming in a Red Ocean filled with competitors.

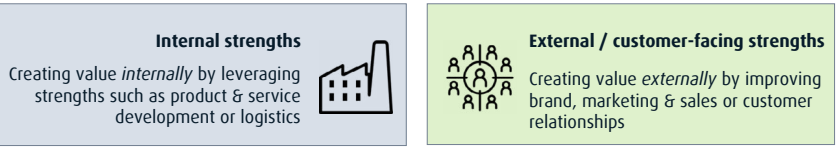
These strengths come into two forms: assets and capabilities.

- **Assets** are things which you possess, such as patents, machinery, equipment or a strong brand that will practically sell a product on its own. Cash is also an asset.
- **Capabilities** (often termed business capabilities) are the types of abilities and expertise that your organization has developed to perform core functions. Simply put, it is what you *can do* as an organization. The particular kinds of capabilities your firm might have are superior marketing skills, the ability to develop artificial intelligence software, or being able to efficiently install a unique type of asset.

Since you absolutely want to leverage your existing strengths, your assets and capabilities will form the boundaries of where it makes sense for you to innovate.

UNDERSTANDING RELEVANT STRENGTHS

Some strengths are internal to your organization and some are external:



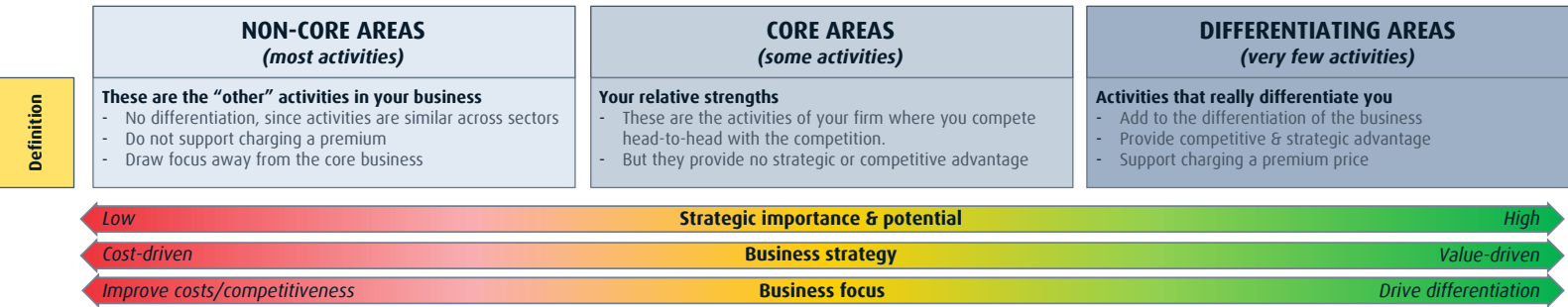
Both internal and external strengths are relevant and can be a source of differentiation. From a portfolio-management perspective, you could also cluster different initiatives together that leverage similar strengths (for example have all marketeers across different initiatives leverage the same online marketing means and B2C customer database).

Not all strengths are created equal, however. Some contribute to your differentiation while others are unlikely to do so. How can you tell the difference?

Of course, we would like to think that we possess strengths in all the aspects of our company, but in order to identify our key strengths, we have to ask ourselves, which ones really make a difference? Which ones differentiate us from our competitors?

To understand the distinction, imagine dividing your organization into three types of activities: **non-core**, **core** and **differentiating** activities.

ZEROING IN ON DIFFERENTIATION



Non-Core, Core & Differentiating Areas.
A part of the Digital Leadership Strategy-Execution Reference Content: #DL-MS-SEM-BOBSIT.

Most of your organization is made up of **non-core activities**: entire areas such as accounting, forecasting, marketing, and HR, are not even sector specific and thus generally do not add to the differentiation of your organization. In these areas, you can increase efficiency or decrease costs, but further investment in these areas is unlikely to add to your competitive advantage.

Your **core activities** are industry-specific and are areas where you possess relative strength. However, here you are competing head-to-head with other firms and are not superior to them.

Now contrast these with your **differentiating areas**. These are the activities where you are really different from other companies, and thus they are the areas that provide competitive advantage. These **differentiating** activities (and thus assets and capabilities) generally represent a small percentage of your total activities (approximately 2%–5% of the total).

To summarize, when we are looking for strengths that support innovation, we need to be looking for assets and capabilities that are **core** or, ideally, **differentiating**, since only these will support your competitive advantage.

The distinction between **core** and **non-core** is critical, and yet most firms do not bother to make it. But it is precisely that distinction that allows you to understand *where to cut cost and where to invest, where to focus on differentiation and where to standardize*. We will discuss this in more detail in the chapter on Business Models; see page <<ref>>.

STRATEGIES FOR IDENTIFYING YOUR STRENGTHS

There are a few different ways to identify and assess your strengths; here are three ways we suggest.

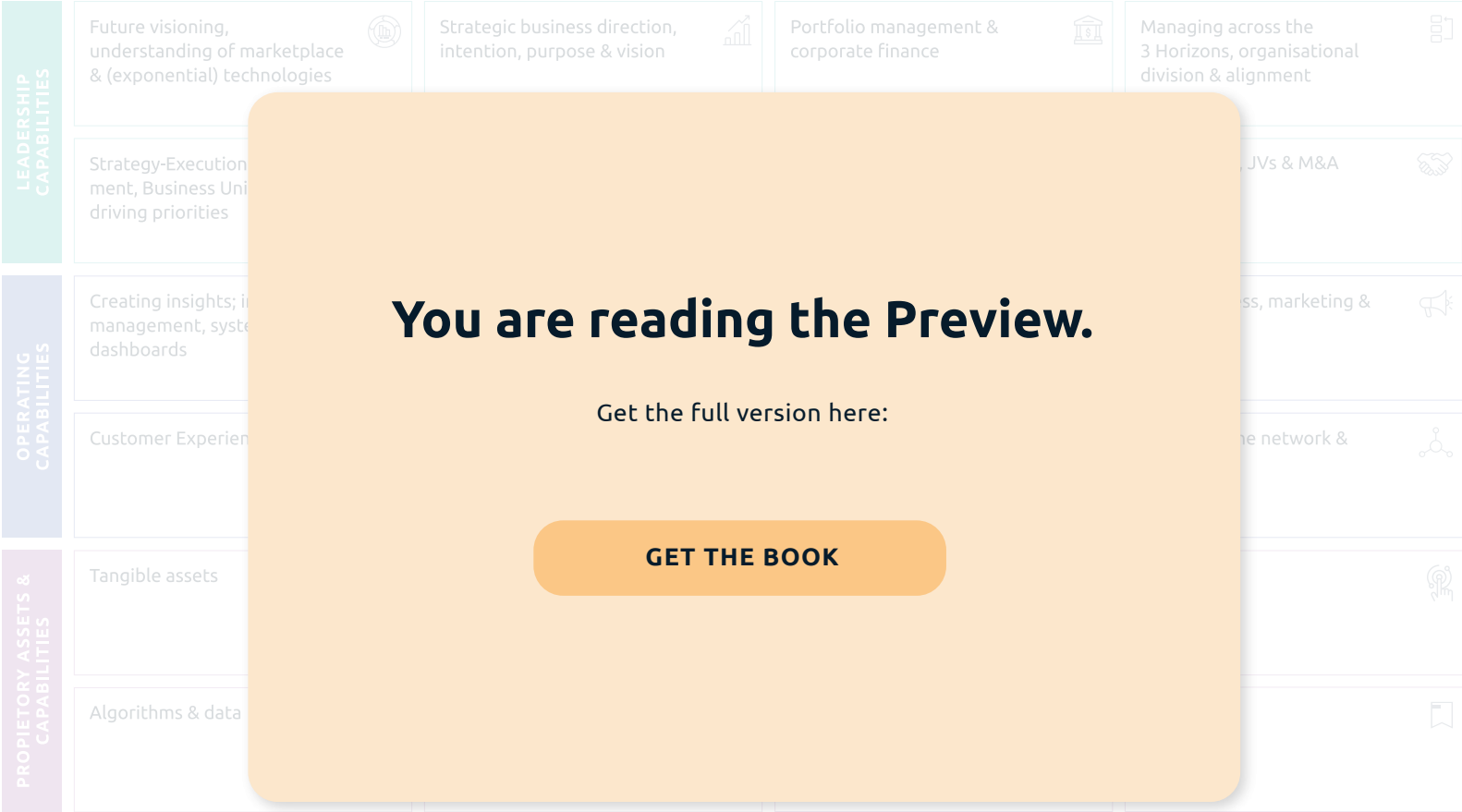
Brainstorm & interview

The simplest way is to brainstorm and build on the ideas you generate through a series of interviews with the senior business executives in your core H1 organization. This approach will uncover some of your greatest strengths quickly. However, based on our experience, it will often not go far enough, since many firms are simply not used to reflecting on their assets and capabilities, and so asking people what they think their differentiating strengths are may not yield a full and accurate picture.

Work with a Capability Map

If you want to take a more systematic approach, our best advice is to work with a Capability Map.

As we have said, capabilities are the processes, systems of knowledge, and specific skills that a firm possesses based on which it operates, earns revenue, and competes with other firms. Capability Maps summarize the capabilities of a firm visually. They can exist at different levels of an organization—from an abstract list of capabilities at the enterprise level (such as in the chart we see here), to a more detailed visualization when focusing on an organizational unit to very detailed when considering the capabilities of say an IT system.



Enterprise Business Capability Map – highest level abstraction.
What does your firm differentiate with?
A part of the Digital Leadership Strategy-Execution Reference Content: #DL-MS-CMT-CMP.

The UNITE Innovation Framework

- > Overview
- > Stage 1: Setup
- > Stage 2: Problem/Solution Fit
- > Stage 3: Solution/Market Fit (MVP)
- > Stage 4: Build & Scale
- > How this approach overcomes innovation challenges
- > The innovation lifecycle & expected outcomes



Introduction

The challenge that organizations around the globe face today is the sheer abundance of methods, approaches, tools and frameworks, which either tend to focus on one discipline (such as "User Experience") or one aspect of innovation (such as "Design Thinking"). While these works have helped to clarify a particular subject, they have not led to greater clarity in the application of these lessons to the entire process of innovation. The result is widespread confusion about what approach to use, how to use it and how everything fits together.

With a distinguished team of over 60 industry leaders, practitioners as well as researchers, we have developed an integrated approach: the UNITE Framework. UNITE stands for *Understanding and Navigating Innovation & Transformation in Enterprises*. The UNITE framework provides a comprehensive way of thinking and working, encompassing all business domains and spans the entire lifecycle of an initiative, integrating what has been learned in Silicon Valley and China, in Switzerland and Japan. With this framework, our intention is not to address all possible ways of innovating, but rather focus on the single best way to create digitally enabled innovation.

Simply put, the UNITE approach shows you *what to use, how to use it and how everything fits together*—addressing the most critical challenge of innovators *everywhere*.

The UNITE Innovation Approach covers four distinct stages across incubation (identifying your idea and Business Model) and acceleration (growing your business concept). The four stages we are going to discuss are:

- > Stage 1: Setup
- > Stage 2: Problem/Solution Fit
- > Stage 3: Solution/Market Fit (MVP)
- > Stage 4: Build & Scale (Growth Hacking!)

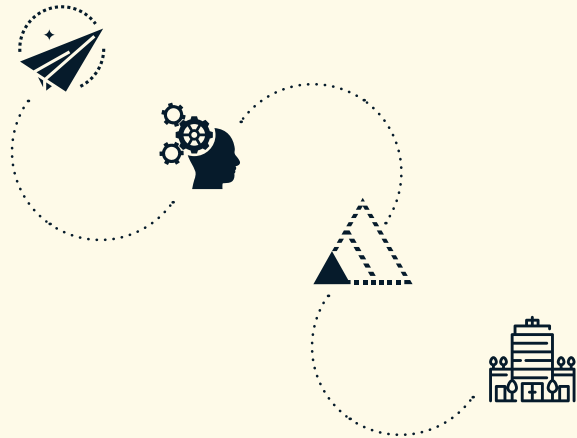
Based on our experience working with the UNITE frameworks, and our long-standing track-record working with organizations globally, we know that the UNITE Innovation Approach is vastly superior to conventional approaches as they are typically applied. Based on our experience, we believe you can reach a 50% innovation success rate *if you execute well*. This is in stark contrast to the 90% corporate and start-up innovations that are outright failures

(which we will discuss over the course of this chapter). At the end of every stage, we will briefly discuss the main differentiating aspects that lead to the success ratio of the UNITE approach and invite you to judge for yourself.

As you proceed, we invite you to think about your own innovation initiative or a recent innovation project and take it mentally through the proposed journey.

The only way to realize your future is to invent it.

So, let's UNITE and create a world worth living in!



OVERVIEW OF THE FRAMEWORK

On the following page, you will see the UNITE Innovation Approach, our all-encompassing approach to innovation and transformation, at its most abstract level. It incorporates the groundwork we discussed in the previous chapter, and, as we will see, it can enable vastly different results in terms of project success, costs and time frame. Most importantly, we believe you should be able to increase the success rate of projects by factors compared to classical waterfall/ideation-based approaches.

Let us start with an overview of the key stages:

Stage 1: Setup. This is a short phase designed to set up a well-targeted initiative or even an entire incubation/acceleration structure.

Stage 2: Problem/Solution Fit. Here we identify important but unmet user needs based on Jobs to be Done, which we then translate into innovative concepts using a customer-centric and Business-Model-Innovation-based approach. The main objective of this stage is to identify and solve the challenges of a clearly defined user group in a qualitative way.

Stage 3: Solution/Market Fit. We now move through actuating the product or service and testing it in real-life by building what is called a Minimum Viable Product (MVP). In this stage, we achieve true quantitative customer validation.

Once the innovation survives this important test, we can finally deem

it verified and thus *investment ready*.

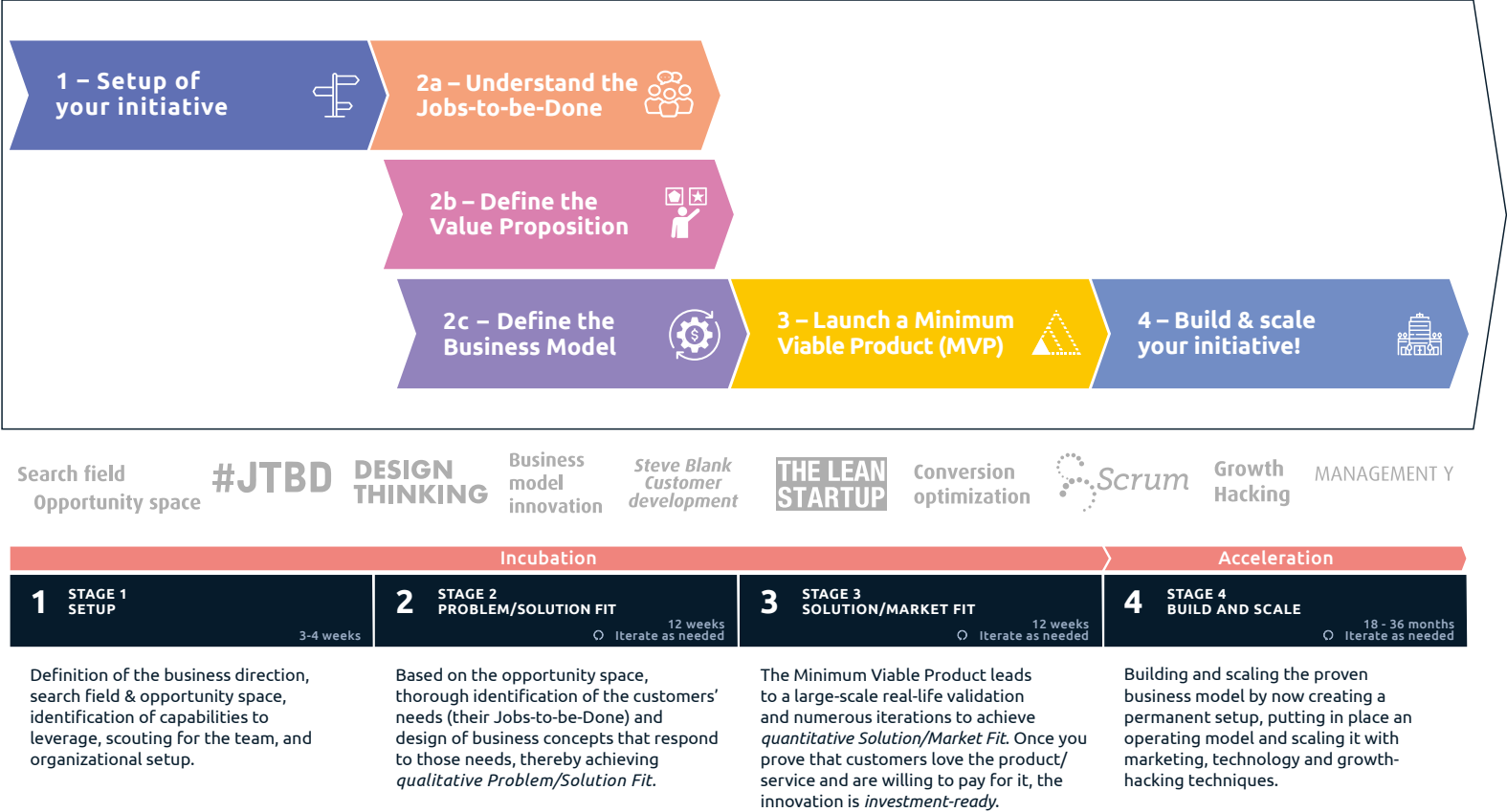
And at that point (and only then) we can move on to...

Stage 4: Build & Scale. Here we move from incubation to acceleration. The real purpose of this stage is Growth Hacking, i.e., growing the identified business concept.

Having clarified the big picture, let’s jump into the details, focusing on the largest challenges most organizations face.

THE UNITE INNOVATION APPROACH | OVERVIEW

Overview of the end2end innovation approach



A part of the Digital Leadership Innovation Management Reference Content: #DL-MS-IM-DLIM.
Source: Digital Leadership GmbH.
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Stage 1: Setup

Stage 1 is all about setting yourself up for success.

You probably already have some ideas of initiatives you'd like to get started on, but if you don't, that's OK. When it comes to real-life testing, we suggest you start small. The right reaps immense benefits. The wrong reaps the investment security of a sinking ship.

Of course, if you feel like you're ready to move on to Stage 4: Execution, you can jump ahead and start implementing ideas in Stages 1-3.

STRUCTURAL OVERVIEW

As you can see here, the book is structured to help you build your business by thinking about the problem you're solving, the innovation space through which you're solving it (think of this as macro), with each Section focusing on a specific area of the innovation space (think of this as micro), with each Opportunity Spaces (think of this as the specific assets and capabilities you need to build your initiative(s). Then it is all about the organizational setup of your business.

You are reading the Preview.

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Consider what you as an organization are really after, in other words, your Business Intention. What problem do you want to solve? What legacy do you want to leave behind?

Opportunity Spaces (detailed)

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CHAPTER 5

Organization & Governance



»The ideology of leadership and management that underpins large-scale human organizations today is as limiting to organizational success as the ideology of feudalism was limiting to economic success in the sixteenth and seventeenth centuries.«

— GARY HAMEL

- > The role of strategy & governance
- > How to organize for innovation
- > Aligning a team & initiative
- > Structural setup & operating context
- > Governance
- > Measuring success
- > Bringing innovation lessons into the core organization
- > How do you deal with a repeated innovation challenge?
- > The role of the investor/key stakeholder

The role of strategy & governance



INTRODUCTION

In the past few chapters, we have been operating on ground level, exploring the UNITE Innovation Framework from the perspective of the innovation team. In this chapter, we are going to take the elevator up to the C-Suite, not because the airy perspective of the penthouse is better than the view from the ground (it's definitely not when it comes to innovation), but because we need to think about the big picture, and ensure that leaders of the organization understand the crucial role they play in fostering innovation.

WHAT IS STRATEGY?

Strategy is often misunderstood, which is surprising because fundamentally it's a pretty basic concept. Strategy is a clearly expressed direction and a verified plan on how to get there.

What is Strategy?

A path how to get there

Direction

The core definition of a strategy.
The roadmap—"a (clear) path to get there from here"—is often missing in strategy documents.

Many strategies are really just ambitious goals, such as achieving market leadership in five years or being the go-to solution to such and such problem. What they don't include is a way to get there.

Having a tested and confirmed plan for achieving your goal is the complicated part and also what is required for any kind of credibility. Without clarity on the roadmap, a strategy is not worth the paper it is written on.

Thus, the core purpose of a strategy is to delineate a clear plan for achieving your goal and to align your team around it. In the landmark book *From Good to Great*, Jim Collins uses the image of the flywheel, the part of a car's engine that keeps it spinning when you take your foot off the gas. What he means by this is that no matter how dramatic the end result, good-to-great transformations never happen by themselves. Rather, the process resembles relentlessly pushing a heavy flywheel, turn upon turn, building momentum until a point of breakthrough, beyond which the inertia of the wheel takes over. Getting to this point requires that *everyone* in the organization push *in the same direction* instead of every department and team moving into different directions. A well-explained strategy has just this federating effect.

BUT STRATEGY WORKS DIFFERENTLY OVER HERE

Of course, it is easier to develop a roadmap for a place that has already been explored and is well-known. If you are working on innovation, you are by definition operating at least partially in unknown territory.

That is one of the reasons that failure rates are so high. Sometimes you don't see that next hit coming. Heavyweight champion Mike Tyson captures this problem nicely when he says, "Everyone has a plan until they get punched in the mouth." We hear in this an echo of our mantra: "No strategy survives first contact with the customer."

If classical strategy formulation is difficult in uncharted territory, the only possible approach becomes figuring out what the customer needs and then testing and iterating until we can give it to them.

This renders business plans fairly useless in an H3 environment and changes the way that we have to think about strategy, governance and measuring success. Strategy formulation in an innovation context thus evolves from a controlled planning process conducted by a centralized strategic planning group to a *decentralized explorative process* led by a *small team with joint decision-making*.



Structural setup

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HOW TO ORGANIZE which stands for Objectives
<<PLACEHOLDER>>

HOW TO CREATE ALIGNMENT
OKR – A MODEL FOR GOAL SETTING & ACHIEVING ORGANIZATIONAL ALIGNMENT
One further critical question is how to set goals and align an organization, while still allowing for individual autonomy. A model to consider
OKR is a way to run your life, your team, or your company. It creates focus and prioritization. It aligns team efforts and ensures that everybody is working towards the same goal. It is a great technique for setting and communicating goals and results in organizations. Its main goal is to connect company, team and personal objectives to measurable results.



CHAPTER 6

Unlocking Culture

»You can't build a differentiated product without building a differentiated culture.«

— AARON LEVIE



INTRODUCTION

Culture lies at the root of what makes a company successful, and yet it can be hard to grasp or define, much less actively cultivate. In many ways, it is like the air we breathe: crucial to our survival; but invisible.

At the same time, everyone seems to know that culture is foundational particularly to innovation, citing principles like willingness to experiment, co-creation, tolerance for failure, non-hierarchical structures and team spirit. Yet, if innovation culture is so important, why do many companies fail to achieve it?

One reason is that companies often think they need to change their entire organizational culture to one of innovation. We know from our discussion of the 3 Horizons that this is not desirable. Every horizon has different goals, operates in a different way, and thus requires a different setup and culture to support its objectives. Therefore, you actually do not want to create a uniform culture across the entire organization. Rather, you want to allow a new innovation-fostering culture to emerge only when you are transforming your organization (H2) or doing entirely new things (H3). The same culture cannot meet the very different requirements of error-free execution on a large scale (H1) and openness to experimentation in the innovation team (H3).

Another common reason that innovation efforts fail is that companies try to change their culture at a superficial level, assuming that innovation will occur if they offer free espresso, yoga, climbing walls, ping pong tables and sushi lunches. But that's just scratching the surface of what culture is all about. As long as we focus mainly on the things we can see, instead of looking below the surface, it will take a very long time for a system to change. It's the intangible aspects that are the most powerful!



LOOKING BELOW THE WATERLINE

We perceive ourselves and our world from four perspectives: from an individual and collective perspective, and whether we are looking at the visible aspects (behaviors and structures) or invisible aspects (mindset and culture).

The invisible aspects of social systems (mindset and culture) express, manifest and materialize themselves in the visible ones. The 80% of the iceberg below the waterline, the part that we can’t see, is characterized by personal, **unique**, mostly unconscious assumptions, values, beliefs, thoughts, feelings and needs that we develop as individuals during our lifetime. Mindsets are something very individual. At the same time, individual mindsets mold our collectively shared mindset—what we call culture—in its specific worldview, values, narratives and myths.

All living systems—including individuals, your family, organizations or entire states—can be viewed from these perspectives. If you consider your family, you will see that how you behave as a family is based on your individual mindsets that jointly make up your family’s culture. Your mindset may be invisible, but it drives our results. Our mindsets are like windows through which we view and evaluate the world and determine how we will perceive and interpret information and ultimately act.

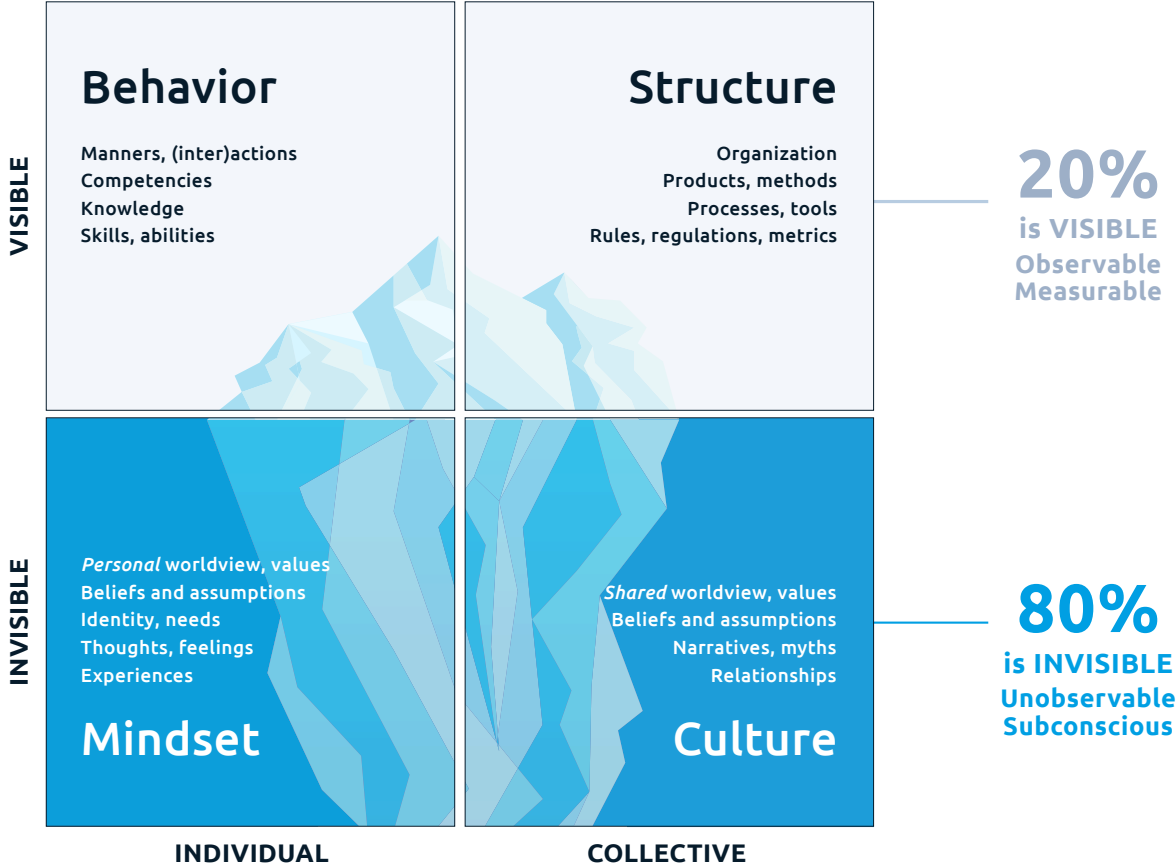
Our individual worldview and culture are expressed above the waterline in visible aspects such as organizational structures, policies and pro-

cesses. Likewise, our invisible inner personal worldviews become visible in our individual behaviors. Both represent the 20% of the iceberg that we can see.

In other words, **culture is our invisible shared mindset manifested in visible collective structures** that we have created.

We become aware of our personal or cultural mindset when we look at the same thing from a different angle, for instance when we travel or meet someone with a very different perspective than our own. Only through comparison can we realize that our individual or cultural mindset is just one of many possible mindset windows through which we see the world.

THE UNITE PERSPECTIVES ON ORGANIZATIONS

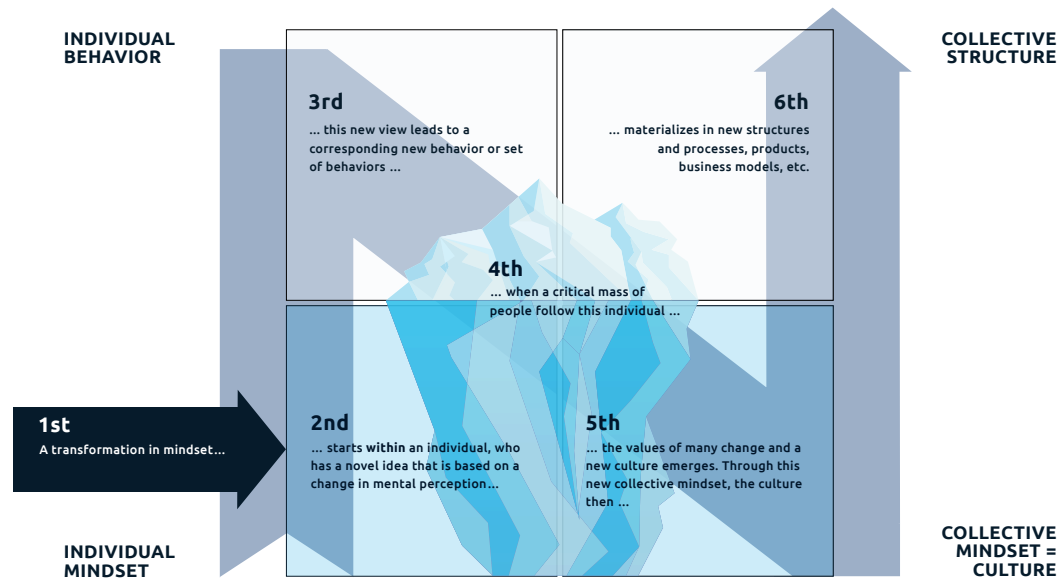


The UNITE four perspectives on organizations
Source: Susanne Zaninelli based on K. Wilber

1.2. HOW DOES CULTURE ARISE AND CHANGE?

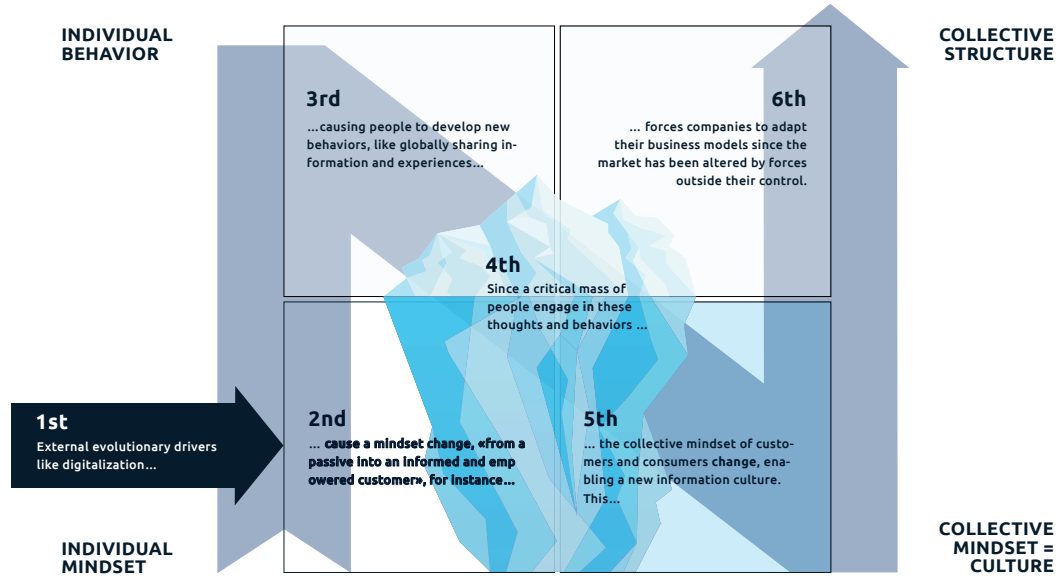
Ultimately everything begins with the individual. Cultural change starts when an individual’s mindset shifts. But how then do these individual mindsets produce the collective worldview we think of as culture? There are two ways that cultural change can happen, catalyzed by either internal or external drivers as you can see in the next two illustrations.

THE UNITE EVOLUTIONARY DRIVERS FROM **INSIDE**



In times of paradigmatic change, such as from industrial culture to digitalization, our corporate culture is strongly challenged, primarily by external evolutionary drivers. Our organizations can only meet this challenge if we ourselves become the drivers of change to counteract the external forces. It is those who understand the new paradigm who can build the new mindsets and skills that our organizations require so dearly.

THE UNITE EVOLUTIONARY DRIVERS FROM **OUTSIDE**



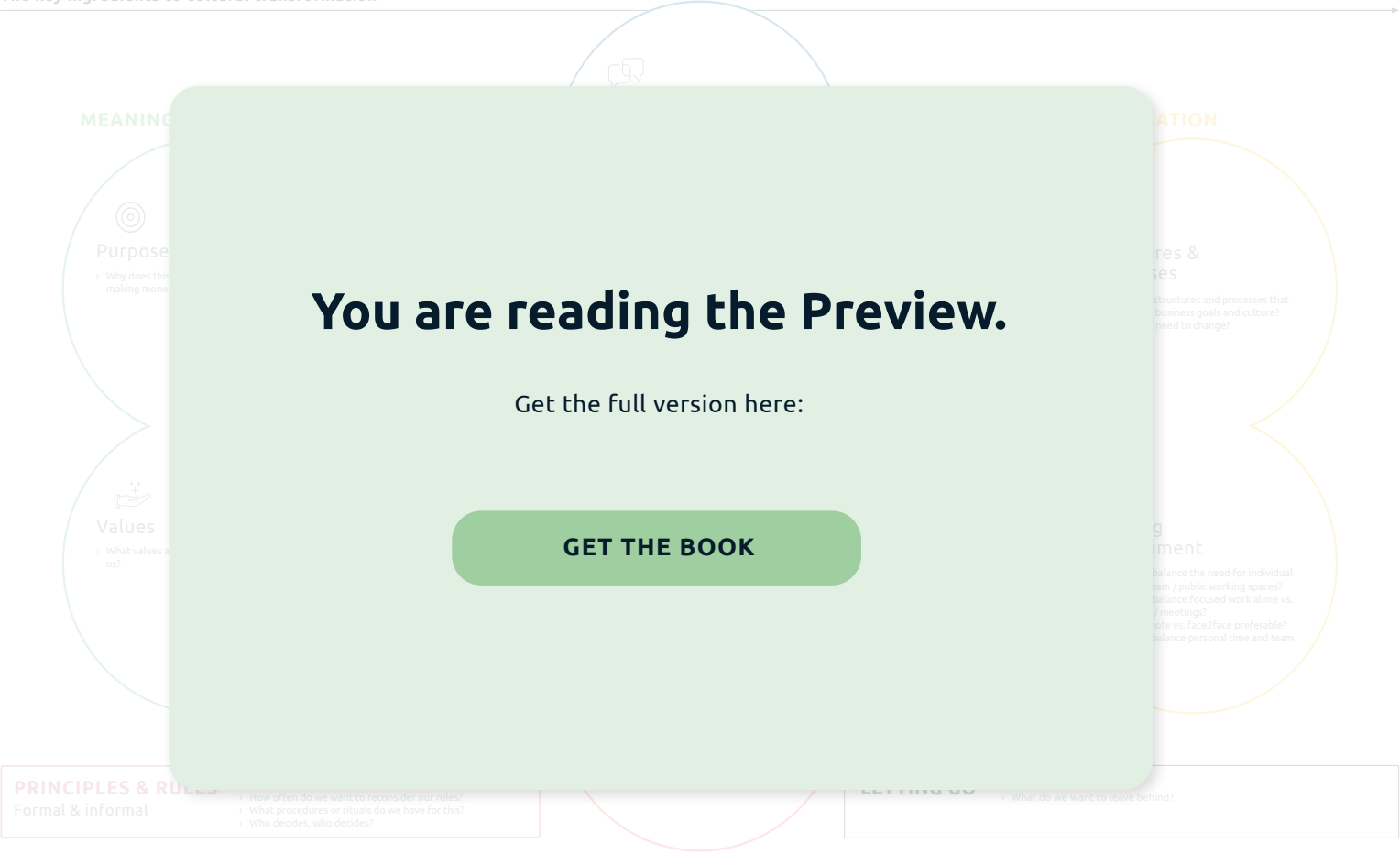
1.3. CHANGING AN ORGANIZATION’S CULTURE

In an organization, all four quadrants of the iceberg are intertwined. Changes to one impact all the others. To transform your culture, you need to address all four of them equally and, ideally, simultaneously.

The widespread approach of trying to create cultural change through structural change alone is marked by many setbacks and is rarely successful in changing culture sustainably. Why? Because the root of culture, our collective mindset, is not included. If individuals understand what type of organizational culture they are aiming for, they are much more likely to *"be the change they want to see"*. Just as we cannot force plants to grow through appeals, we cannot do so with culture and people’s mindset. But we can always provide suitable conditions to achieve our ends. In other words, we can create supportive structures that allow growth and self-development to happen. We can fertilize our team culture with the appropriate mindset.

Your culture will ultimately have to change, whether you choose to or not. Outside forces such as technological innovation will force any organization to adapt or die. It is obviously better to design your own future then to be shaped for good or bad by external circumstances or luck. Creating a strong culture of innovation will allow your team to successfully navigate the complex, globally competitive, dynamically networked market that defines our time. To get you kicking, we have designed a particularly useful tool: the Culture Canvas.

The key ingredients to cultural transformation



The Unite Culture Canvas
Source: Susanne M. Zaninelli. Based on the works of Short Cuts, 2021
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Business Models

- > Understanding and designing Business Models
- > Innovating Business Models
- > Introducing the Business Model Innovation Patterns
- > Bringing it all together: The overarching Business Model Framework
- > Connecting the dots: How business objectives, business strategy & IT fit together
- > The role of technology in Business Models
- > Dealing with (your own?) objections

»Sustainable business models are not created by inspiration alone, but can and should be approached systematically building on shared experience.«



INTRODUCTION

Most organizations do not leverage Business Model Innovation. And yet, Business Model Innovation (BMI) is the type of innovation that drives the highest returns and is the most sustainable. In fact, as the shelf life of Business Models decreases, BMI is rapidly becoming a crucial business activity.

There are a number of recent trends that have resulted in a decreasing competitive edge for simple product innovation, including increasing global competition, new adjacent competitors, speed of product replication, and the rapid creation of new technologies. On the other hand, because Business Model Innovation (especially continuous BMI) is far more complex to replicate, it allows for greater long-term competitive advantage.

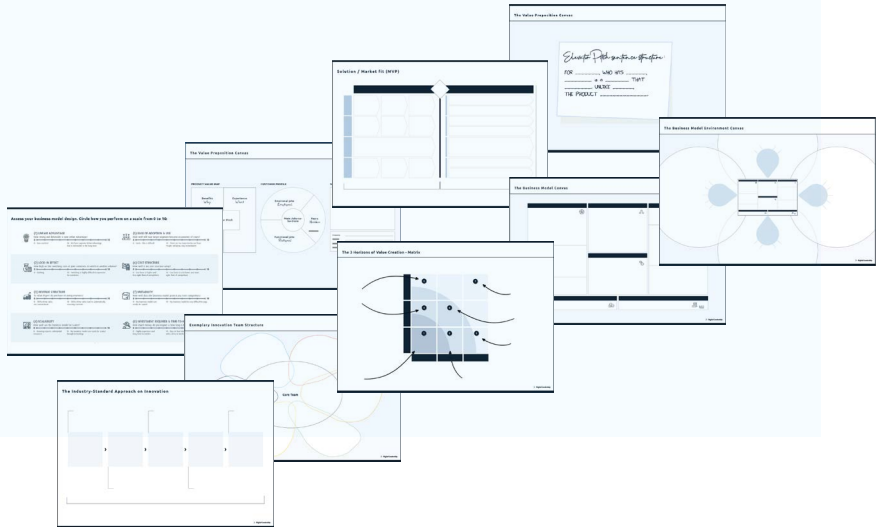
Business Model innovators are a lot more successful than product or process innovators: on average 4x more. Furthermore, Business Model innovators deliver returns that are more sustainable. According to BCG, “Even after ten years, Business Model innovators continue to outperform competitors and product and process innovators.” Business Models are changing faster and faster. While in the past Business Models may have lasted for centuries or at least decades, Business Models now have a shorter shelf-life, to the degree that they go bad almost as quickly as a gallon of milk. Due to



the accelerating pace of technological evolutions, no matter how well your Business Model works at the moment, you never know when it may expire. Probably sooner than you think.

Nonetheless, most organizations hardly think about their Business Models once their company is set up and running smoothly, and even less utilize Business Model Innovation as a source of innovation and differentiation.

However, before we start down the path of Business Model Innovation, let’s first understand what a Business Model is ...



Designing Business Models



UNDERSTANDING AND DESIGNING YOUR BUSINESS MODEL

A Business Model defines the key aspects of your business, including your Value Proposition, how you create and deliver that value, and the resulting costs and benefits. In essence, it is the Who, What, How and Why of your business.

When you design a Business Model, it is useful to lay out the assumptions or hypotheses that animate your business in a structured way. A Business Model Canvas helps you to do just that. The canvas helps you to easily understand your current Business Model, design a new one, see if you have missed anything important and compare your model to others.

The tool we've designed for this purpose is an iterated canvas based on the original Business Model Canvas created by Alexander Osterwalder and popularized by the Lean Startup movement. The Business Model Canvas has become the preferred tool for both start-ups and corporations, since it allows a team to easily understand, discuss, and evaluate a Business Model, as well as to rapidly design or redesign a new one. It is attractive because it condenses years of business school knowledge and management consulting practice into a single page (with some straight-forward questions to help you fill in each section).

RISK ITERATION PATHS

Testing our business model is integral to BMI and to our innovation process in Stages 3 and 4. The sequence in which you seek out, test and improve the weaknesses in a business model is called a risk iteration path. It can take be done from three main perspectives: customer, product and operations, and business case.

Having completed the risk assessment, you should now have an initial business model design. A number of checklists are also available to help you assess your initial business model.

Let's move now to exploring in detail the Value Proposition model. Then we will consider the emerging trends as well as disruptive forces that your business might be facing.



A part of the Digital Leadership Business Model Management Reference Content: #DL-MS-BMM-BMC.
Source: Digital Leadership GmbH.
Based on the original Business Model Canvas from Alexander Osterwalder.

HOW TO USE THE CORE BUSINESS MODEL CANVAS

The basic Business Model Canvas is structured in six distinct sections:

Value Model: At the center of the canvas you find the Value Model. The Value Model is first of all defined by the **Value Proposition(s)** you offer. The Value Model also covers the supporting Product System, i.e., the complementary products and services which you offer in support of your core product. Think about accessories, related services and guarantees, and whatever allows you to up- and cross-sell.

Service Model: Below the Value Model, you find the Service Model. Most Value Propositions do not stand on their own—they are supported by a number of (increasingly digital) services. A Service Model defines the differentiating, core and supporting services delivered by an organization. If we consider Apple, for example, we can see how they differentiated through their Service Model, for example, developing a new way of connecting hardware with software; tailoring their in-store experience with the “Genius bar”; and seamlessly integrating Mac, iPhone, iPad, iCloud and Siri.. Clearly, these services go far beyond a mere hardware and a software offering. When working on your Service Model, think about your service strategy and your core competitive and differentiating services. Also consider Service-Level Agreements, service channels and possible self-service.

Experience Model: The Experience Model defines the ways in which your customers experience your Value and Service Models. It is wise not

to leave this to chance; experience often generates the bulk of the value, whether due to convenience (Netflix) or luxury (Rolex). The Experience Model covers your brand, customer relationships, customer engagement and marketing.

- > **Brand:** What is your brand architecture? How do you position yourself? How do you implement your brand experience across complementary brands and touchpoints?
- > **Customer Relationships:** What type of customer relationship do you have? Think about options such as self-service, personal assistance, communities or Single Point of Contact.
- > **Customer Engagement:** How can you increase customer engagement? Think about data-based personalization, creating rewards for engagement, or collaborating with your customers to co-create an experience.
- > **Channels:** Do you use traditional marketing channels? How can you think outside the box? Consider creating context-specific, go-direct or on-demand offerings.

Operating Model: On the left side of the canvas, you find the Operating Model, which essentially summarizes how you create value. You can flesh out this high-level perspective using the Operating Model Canvas we discussed (see again page <<ref>>), but for now we just want to identify the key pillars that underpin our Value and Services Model.

- > **Value Chain(s):** Initially, you will list your main Value Creation process. As you progress, you can add additional Value Chains to

cover any additional products, services or related products that jointly deliver your Value Proposition(s). It may be helpful to differentiate between in-house and third-party activities. Keep in mind, however, that more chains will mean more complexity, which may clutter up the bird’s eye view of your Business Model.

> **Key Resources:** Identify and list your Key Resources, which can be categorized into physical, financial, intellectual property and unique people skill sets. Particularly focus on the core and differentiating strengths or capabilities that you may be able to leverage.

> **Key Partners:** In an interconnected world, leveraging relationships with ecosystem partners has become increasingly important because it allows you to focus on your relative strengths. Think about the four different types of partnerships, including strategic alliances between non-competitors, coopetition (strategic partnerships between competitors), joint ventures to develop new businesses, and buyer-supplier relationships to assure reliable supplies.

Cost Model: Your operations drive your efforts and thus costs. Once you understand your Value Chains, Key Resources and Key Partners, it should be relatively easy to identify the key cost drivers and potential Opportunity Spaces for innovation. For any Business Model, managing costs is critical, but some Business Models are designed entirely around low-cost structures, such as “no frills” airlines. What role do costs play in your Business Model? Are you seeking to simply optimize them, or could they play a more differentiating role?

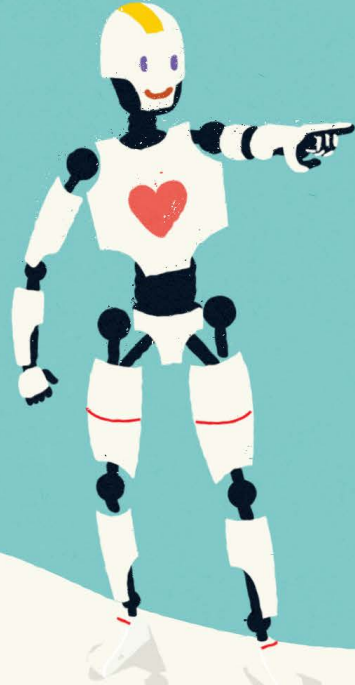
Revenue Model: Revenue Streams outline how you earn money. What

price is each of your Customer Segments truly willing to pay? Identify each possible Revenue Stream per Customer Segment. Think hard about the possible pricing mechanisms per Revenue Stream. Surprisingly, pricing can often be a source of differentiation! Pricing mechanisms can include auctioning, bargaining, fixed-list prices, market- or volume-dependent prices, or yield management. A Business Model can also involve transactional revenues resulting from one-time customer payments (e.g., a sale) or recurring payments (e.g., a subscription). In the context of the Revenue Model, think also about any other benefits you may be getting. Not all value is monetary!

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CHAPTER 8

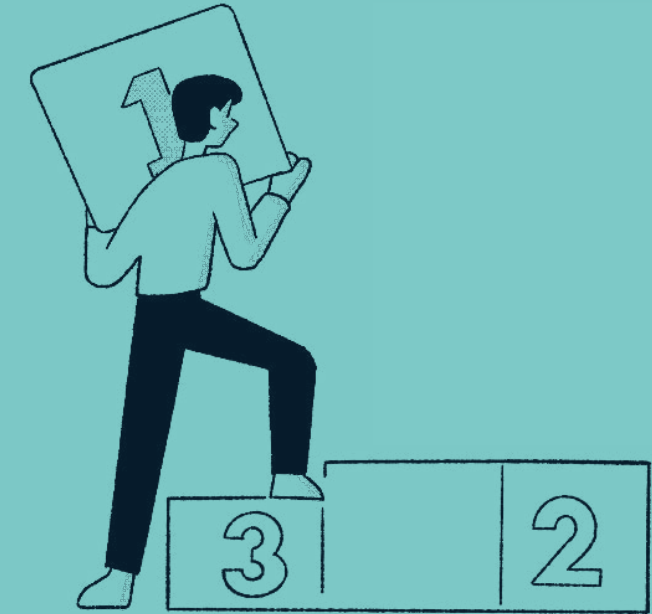
Leading a H2 Digital Transformation

- > Why transformation is harder than we think
- > How to run a digital transformation
- > Where should you take your existing Business Model?
- > The Digital Transformation Pulse Check
- > Questions for reflection



This book has focused on (radical) innovations in Horizon 3. This chapter will discuss (digital) transformations in Horizon 2 using a practical example to illustrate our points. As you will discover, many key steps in a transformation are similar to the steps you need to carry out when creating innovation. The obvious challenge of Horizon 2 is that you are seeking to transform an existing organization which must remain functional and produce value. When you approach radical innovation, failure is part of the game. When it comes to transformation, failure is a no-go (even so most transformations fail).

Let's get into it and see how this approach improves your chances of success.





Why a transformation is more challenging than we think

Beware. A (digital) transformation (Horizon 2) can be incredibly difficult to manage. Not because H2 transformations are inherently difficult, but because we often fall into the trap of treating H2 transformations like H1 improvements. This is no surprise; we are still working in and on our H1 organization, with the same products and services, assets and capabilities. As a result, it is natural to feel tempted to use the same structure, setup, and metrics to execute these initiatives. Adding on to this, a transformation is normally only carried out every eight years on average, which means, by far most people are *simply not experienced leading transformative change* to start with(!).

However, a transformation is still a Step Change to at least one of the domains of a Business Model. The change of one domain (e.g., a changed pricing model) will have repercussions on other interrelated domains and thus will require changes to these as well. As an example, a changed pricing model might open your offering to a different target group, modify your Value Proposition, or require a slightly different Value Chain.

Because these ideas are new, it takes time to get them *effectively configured* in your Business Model. Finding an ideal configuration is an *exploratory and iterative process* that cannot be fully predicted.

This is where the innovation mindset and approach come in: like an H3 innovation, it is a good idea to execute this testing and tweaking process in a space that is removed from the H1 environment. You don't want to disturb your business's ability to create value while you are figuring out how to transform it. Also, you follow very similar steps for

Let's discuss and assess why most organizations struggle with Horizon 2 transformations by considering an example in more detail. Because these ideas are new, it takes time to get them *effectively configured* in your Business Model. Finding an ideal configuration is an *exploratory* and *iterative process* that cannot be fully predicted. This is where the innovation mindset and approach come in: like an H3 innovation, it is a good idea to execute this testing and tweaking process in a space that is removed from the H1 environment. You don't want to disturb your business's ability to create value while you are figuring out how to transform it. Also, you follow very similar steps for finding, testing and tweaking a transformation project as you do when you create innovation.

Let's discuss and assess why most organizations struggle with Horizon 2 transformations by considering an example in more detail.

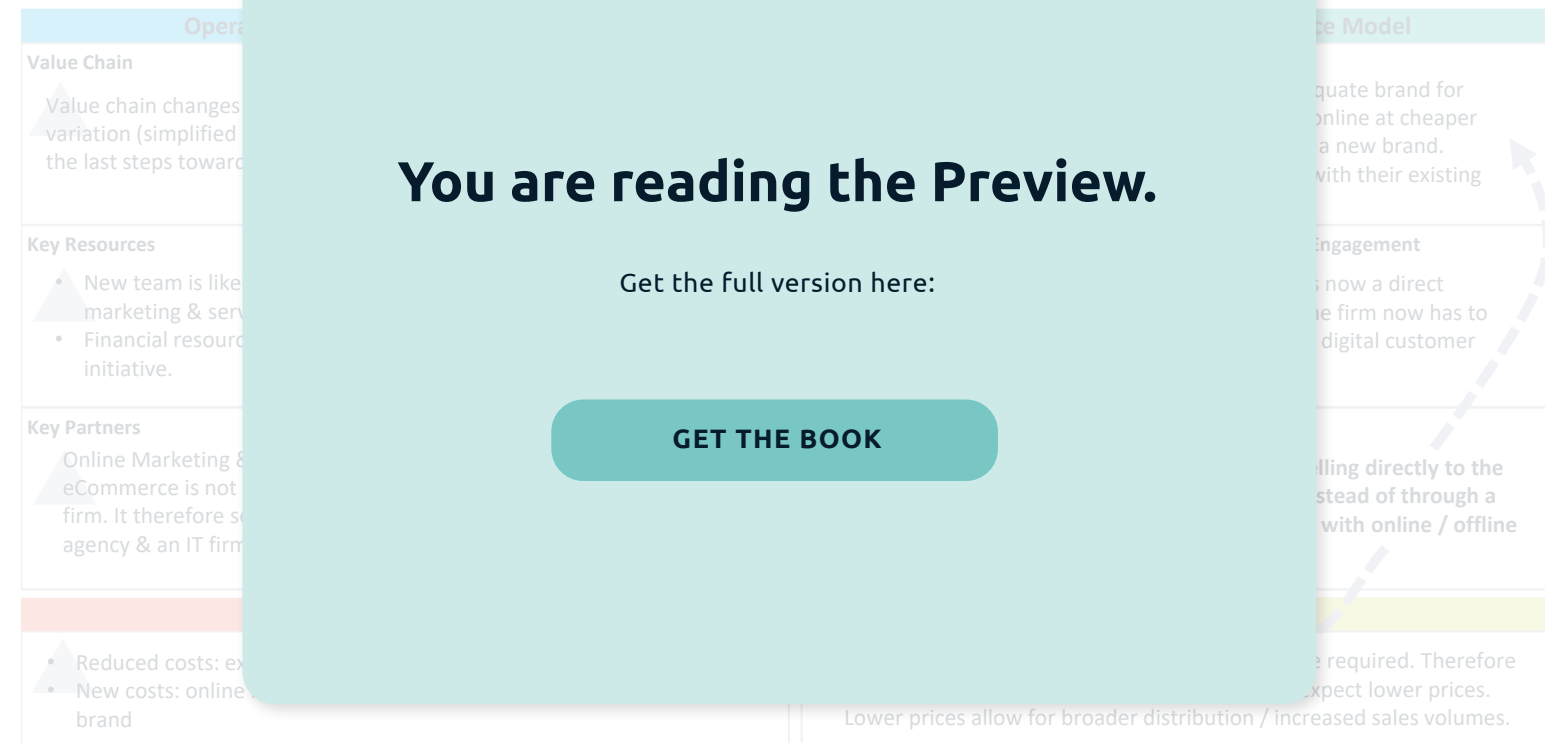
Let's assume you make a change to the distribution channel of one of the businesses that belong to your enterprise. To be more specific, you've decided to stop selling your product through your existing distributors, and instead to sell directly to the customer.

Well, this does not qualify as a H3 innovation since most of the business is staying the same; you are not going for a radical innovation after all. But at the same time, it is not really an H1 improvement, because it is more than an incremental change. Rather, you are making a medium-sized, Step-Change transformation (Horizon 2) to a key part of your Business Model, specifically the distribution channel.

Nonetheless, this will likely have ripple effects on the rest of your business. Let's take a look at what the ramifications of this change might be using the Business Model Canvas.

As we can see, a step-change to one component of the business model will more often than not have far reaching implications and will affect the entire system. Thus, you will not need to just iterate and test that one part during a transformation, you will need to iterate and test the entire thing until you've gotten all the parts realigned and working together. Your organization has probably spent years aligning and optimizing your current business model across all silos. So, this will likely take some time.

The Business Model Canvas – Example of



*»Vision without execution
is just hallucination.«*

— THOMAS EDISON

CHAPTER 9

Putting in practice

- > Find a why
- > Create a strategy
- > Build a team
- > Start with the right focus & culture
- > Take stock
- > Build momentum with early wins
- > Communicate early & clearly
- > 3 key lessons
- > Find a partner
- > Give yourself time
- > Questions for reflection
- > Training requirements
- > Closing thoughts



Introduction



Whether your organization is in the first stages of its journey or has reached a point of digital maturity, keep in mind that digital innovation and transformation is never a one-and-done deal. As the environment evolves—and it will evolve with accelerating change, as we discussed—you will need to evolve with it. Recognizing this is an important start, since it means that the willingness and ability to transform and innovate your business has become a critical skill.

Do you consequently design systems for stability or adaptability? Are you building an open, learning-focused organization or one that stands for permanence and security? Do you promote change and accept the failures that come with it, or are you promoting a no-fail culture? While structures and mindsets will vary across the 3 Horizons, as we have discussed, even your Horizon 1 is likely to need somewhat of a permanent “unfreeze” and needs to rethink how it does business, how it organizes itself and how it can create an environment where those that promote change are not seen as enemies of the system, but rather as its champions.

Another key trap is that innovation and digital transformation have become somewhat of an end in itself. These buzzwords have been in fashion since the dot-com boom (and bust!). Avoid the common trap that many businesses fall into by remembering that innovation and transformation is a means to an end, not an end in itself. The same goes for technology. All of these are simply means to achieve an overarching Business Intention.

Last but not least, to change requires a belief in one’s own ability to be able to carry out that very change. Large corporations often feel that they lag behind start-ups on aspects related to innovation, for example, speed, agility, costs, etc. But the more we have worked with clients and compared large organizations to start-ups, the more we are convinced that scale, *if properly exploited*, can actually be an advantage, not a liability for innovation.

Large firms have numerous assets and capabilities in their core and differentiating areas that help them distinguish themselves in the market and scale innovations beyond what any start-up can do. It is up to all of us to help them discover and exploit those strengths. And if large organizations are inflexible today, it does not mean that they have to be inflexible. Rather, it means that they have been *designed* to be inflexible. If an organization wants to achieve different outcomes, it has to change its design. Doing so is entirely possible.

In this last chapter, let’s pull all of our lessons together and discuss how you can kickstart innovation or transformation as a large organization.

Find a Why

INNOVATION CULTURE

RECOGNIZE THE NEED FOR CHANGE

The first step in a new initiative is simple, recognizing you are facing a problem or an opportunity that an innovation or transformation initiative can solve. On a broad level, this requires an awareness that the nature of technological acceleration and market disruption makes innovation key to long-term survival and sustainability. On a more specific level, it means thinking about your core, non-core, and differentiating areas and about the best ways to move forward given your strengths and the reality of an uncertain future.

FIND YOUR MOTIVATION

What is motivating your actions? We always ask our customers, “Do you *need* to change or do you *want* to change?” Based on our experience, those who want to change are more successful. By the time you *need* to change, it may be too late already.

Establishing a culture of innovation means sharing and communicating its purpose widely in your organization, both to rally the crowd but also to create shared purpose at the highest level. As Brian Solis, Principal Analyst at Altimeter Group, points out, “88% of companies are going through Digital Transformation, but only 25% know WHY.” The distinction is obvious: if organizations do not understand their guiding why, it is difficult to achieve the alignment necessary for *how*. What you need is a motivation that matters. The UNITE Cultural Layers Model is deeply helpful in this context (see page <<ref>>). This model helps connect an individuals or organizations deep **why** (purpose and values) with the **how** (vision goals → business & operating model → customer value proposition) to the **what**, which are the business outcomes and bottom-line results .

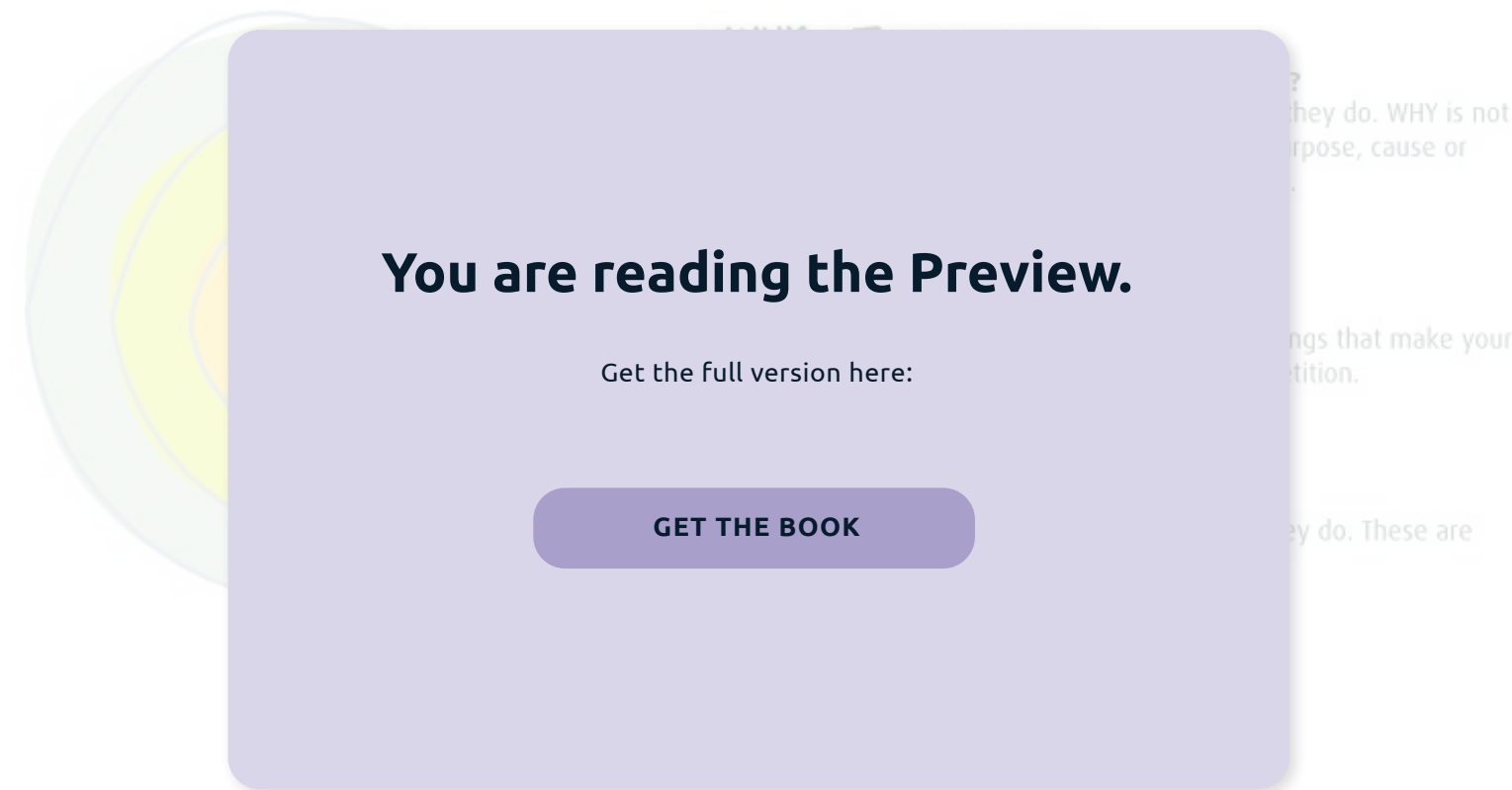
TELL A STORY

To rally everyone together and generate enthusiasm, you need to couch your big why in a story. Whether you want to change the entire organization, a part of it or a particular process or product, you need to communicate the reason in a way that is clear and convincing. Of course, you can try to communicate your motivation with a hundred PowerPoint slides, but what really sticks in people’s minds is a story.

What is your organization’s Big Hairy Audacious Goal? What do you want that is worth striving for? Use your story to generate a sense of urgency about the possibility of seizing amazing opportunities through your initiative.

CREATE A SENSE OF URGENCY

To create the required urgency, your motivation and change story will be the ultimate ingredients. As we discussed, fears motivate us 7x more strongly than hope. So, fear—of future disruption, of the market changing around you, of being left behind—may form a part of the story. But of course, focusing on opportunities can also be an attraction point. Help those in your organization imagine a spectacular future. In fact, the opportunities are tremendous. In a recent online forum, a group of people discussed the highly entertaining question: “What are some \$10B+ markets ripe for disruption?” To summarize the 100+ answers, opportunities are everywhere! In every country, in all industries.



Why, How, What – the "Golden Circle"
Source: Inspired by Simon Sinek.

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ABOUT

DIGITAL LEADERSHIP
The Authors

Annex



About Digital Leadership

We are a strategy-execution firm. Supporting organizations end2end across innovation and transformation challenges is what we do.



Headquartered in Zürich, Switzerland, we are run by a team of senior Business Partners available for work globally.
Find out more about us & get in touch on www.digitalleadership.com.

We at Digital Leadership are a digital strategy-execution firm. Founded in 2010, we are contributing to creating winning initiatives for over a decade.

We are fully focused on digital. Our main focus are Enterprise transformation and innovation initiatives. All in one, end2end & with the entrepreneurial spirit required. Providing individual expertise or whole teams, entire projects or as-needed support.

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**«Digital Leadership was the only company
that was able to explain to us how we can successfully
manage our digital transformation.»**

CMO of a leading bank.

Who are the authors?



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Stefan is an industry thought leader in innovation and transformation. In his role as digital executive, game changer and digital strategist, he has led digital programs for top 5 firms across almost all sectors in Europe and beyond.

Stefan F. Dieffenbacher is an industry thought leader in innovation and transformation. Originally from Germany, Stefan is probably much more a global citizen, having lived in 12 different countries.

He has led major digital innovation or transformation programs for one of the top 5 players globally in almost all industry sectors. He pairs boardroom-level strategic thinking and deep portfolio management experience with the ability to execute. With deep interdisciplinary knowledge and with changing roles between strategy and execution, Stefan has strategized, executed and growth-hacked digital ventures for both startups and corporates with the largest business cases exceeding €100m.

He holds 3x master degrees, including an MBA from Henley Business School in London. He further frequently teaches at international business schools. In addition, Stefan has authored numerous digital frameworks, approaches, and models, many of which you can download here: digitalleadership.com/UNITE.

Today, Stefan lives in Zürich, Switzerland, and supports global players in their evolution.

Stefan has kicked off the research behind this book in 2017 and has led its overall development including numerous models over the years.

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«I believe the purpose of all life is to evolve. For me personally it means to help develop people and organizations. This is what I spend my time on. We live in a time of challenges – so Let's UNITE and create a world worth living in!.»



CAROLINE HÜTTINGER

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We at Digital Leadership Experience specialise in the development of strategic design solutions at the highest level.
I am a creative and strategically-thinking Brand Manager and Creative Director with a consumer-centric mind-set. As a brand enthusiast at heart, I strongly believe that branding makes the difference.

With 10 years of experience in Brand Development, Brand Design and Brand Communication I had the pleasure to work for Audi, Amazon, Occhio, Parador, Wagner, Designreisen and now with and for Digital Leadership.

Specialized in the development of strategic corporate design solutions and the creation of strong brands we at Digital Leadership Experience help companies to turn their brand's message into an emotional experience that inspires people for the brand and is key to win the favor of customers, earn their loyalty for the long term and succeed in global competition.

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Leading through visions and great teamwork enables us to find solutions for any challenge.
Be invited to reach out!

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«Let's get together to strengthen your brand!.»

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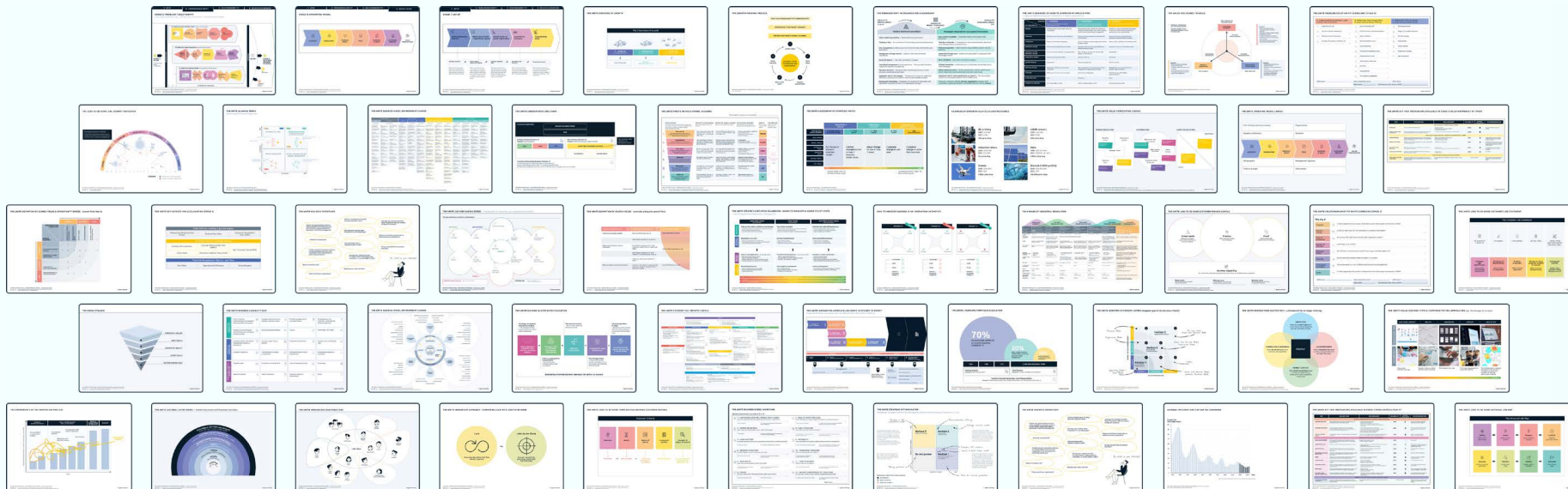
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