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Citation: Li, F. (2022). Innovating in the Exponential Economy: Chapter 2. Is data closing or widening the innovation-execution gap?. Palo Alto, CA (USA) & London (UK): VMWare.

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Innovating in the Exponential Economy: CHAPTER 2

Is data closing or widening the innovation-execution gap?

Foreword by Professor Feng Li

2022

Full report available for downloading at:

https://www.vmware.com/content/dam/learn/en/emea/fy23/pdf/1555251_Innovation_Execution_Report_Chapter_2.pdf

FOREWORD

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From well-established businesses to new start-ups, innovation is crucial for competitiveness and survival, but it is notoriously hard to get right. Bridging the innovation-execution gap is a persistent challenge for senior business leaders. The ability to consistently turn new ideas into business outcomes has become a strong differentiator between winners and losers.

The 'original' innovation-execution gap

My 2018 [study](#) in association with VMware found most organisations are not short of new ideas in the digital age. But despite growing digital capabilities, only a small proportion of organisations can consistently identify and execute good ideas and successfully manage the transition from where the organisation is to where its senior leaders want it to be.

Emerging intelligence derived from internal and external data inevitably reshapes both the path and destination of the innovation. To succeed, innovation must be continuously re-evaluated and re-calibrated. The new iterative approach creates significant leadership challenges around technology, culture, risk, and impact that need to be addressed.

Has the gap been bridged?

Four years on since the original report, I want to ask the question as to whether business leaders have been able to heed the advice offered in the original report and look at whether the innovation-execution gap has been bridged – or at least narrowed?

To answer this, we must look at some of the significant changes to the environment that businesses are operating in.

1. First, a plethora of new technologies are emerging and increasingly adopted in real applications. Technologies including artificial intelligence (AI), machine learning (ML) big data analytics (BDA), multi-cloud, edge computing, blockchain, AR/VR and the metaverse are making material impact on the way data is captured, analysed and used, the way decisions are made, how products and services are developed, and, ultimately, how customers served. The very notion of digital technology – and new capabilities based on such technology – has expanded rapidly. Although many applications have helped bridge some traditional innovation-execution gaps (e.g. in product and business model innovation), these emerging technologies are creating new gaps as we learn to extract business value from them.
2. Second, since early 2020, the Covid19 pandemic has drastically accelerated digital transformation efforts, forcing widespread adoption of flexible working. Some organisations successfully exploited new digital capabilities to maintain business continuity, inform decision-making, accelerate product and service innovation, and drive strategic and organisational transformation. From my own research, I've witnessed a proliferation of the [platform business model](#), disrupting a growing range of domains and markets. [New approaches](#) have emerged to support senior business leaders in managing the transition to new strategies and business models, organisational designs, and products and services. [Examples](#) include innovating by experimenting, achieving radical innovations via an evolving

portfolio of incremental innovations, and gaining sustainable competitive advantages through successive temporary advantages. These new approaches have helped bridge the innovation-execution gap in some of the most innovative organisations such as Amazon, Alibaba, Google and Didi Chuxing.

3. Third, the digital environment has become more complex, as the rules governing the collection, storage and use of data vary substantially across countries. Since how data is collected, stored, transferred and used can have a significant impact on civil society, economic development, geopolitical relationships, industry growth and national security, the notion of data sovereignty has become a critical strategic issue for senior business leaders. Clear decisions are required about whose rules and regulations data should be subject to, particularly in relation to meaningful control, ownership, cross-border data flows, and other claims in data. Breaching data sovereignty laws can result in significant reputational damages and heavy fines.

The impact these factors have on the innovation-execution gap is mixed. For example, cloud technologies have made data sovereignty more challenging for many businesses, but services from leading cloud providers with comprehensive expertise and cutting-edge technologies can offer agility, scalability, and integrated solutions to ensure security and compliance, offering significant strategic and operational benefits to business users. This is clearly reflected in the rapid rise of sovereign clouds in recent years, which are architected and built to deliver security and data access to meet strict requirements of regulated industries and local jurisdiction laws on data privacy, security, access and control.

The innovation-execution gap revisited: the new study

This new study not only substantiated some nascent trends in the original report, but also identified significant new trends emerging today. Amongst the key findings:

- The digital transformation of products, processes and business models has gone mainstream across different sectors. Decision-making is becoming increasingly data-driven, or data-informed. Emerging technologies – from AI, ML and big data analytics, to multi-cloud and edge computing – are increasingly adopted in real applications at scale, empowering organisations to capture, access and exploit data for innovation and business outcomes.
- Despite such progress, however, the innovation-execution gap has persisted, due to a lack of digital capabilities and skills, rigid digital infrastructures, and various constraints and risks associated with data sovereignty and compliance. Interestingly, having too much data and issues over access to the right data have been cited as major barriers, and the current technological stack in many organisations is preventing them from becoming more data-driven, resulting in strategic opportunities being missed.
- The fear of data regulatory breach and heavy fines is real, and as a result, 70% of C-suite executives believe the innovation-executive gap will likely widen in the next 3-5 years. Failing to address data sovereignty and compliance will also have a significant impact on employees, customers, and the bottom line.
- 60% of respondents feel their organisations are currently struggling to maximise the value of data, but major investment over the next two years will boost their digital capabilities and data-driven decision-making.

When rhetoric and reality collide

We often hear “digital disruption is everywhere” or “digital transforms everything”, but such sweeping statements lack nuances and are unhelpful for understanding current changes or guiding innovation effort. The gap between what digital can do and what is happening in real organisations is persistent – and is likely to get wider in the next few years.

Digital transformation of products, processes and business models is not an objective, but rather a strategic choice by senior business leaders from an array of alternatives.

As advanced digital technologies, infrastructures and services become progressively more accessible and affordable to all types of organisations, our capabilities to capture, access and use data from different sources will continue to improve. Since few organisations have all the expertise and skills to maximise the value of data to inform decision-making and drive innovation, business leaders are increasingly taking strategic responsibility to combine internal competence and resources with the expertise and digital assets from external specialist providers when pursuing new opportunities.

The rapidly growing digital capabilities to extract new insights from internal and external data will empower us to make informed decisions and choices. Doing so effectively and consistently will help organisations bridge the innovation-execution gap and find continued success. Those failing to do so will risk being left behind.

Recommendations

The original [report](#) made seven recommendations to bridge the innovation-execution gap. The key messages include anticipating and preparing for future disruptions; understanding innovation is not always about creating something new; innovating by experimenting; and addressing leadership challenges around culture, risk, technology, and impact using joint approaches. These recommendations are still valid today.

Based on this new research, looking at the growing role of data, I am urging business leaders to consider the following six recommendations as they look to close the Innovation-Execution gap:

1. Adopting a flexible and scalable digital architecture to ensure the organisation is well positioned to embrace emerging technologies
2. Developing iterative approaches for innovation and execution, using emerging intelligence to continuously recalibrate ideas and actions
3. Pursuing an evolving portfolio of innovations to explore emerging opportunities while mitigating risks
4. Employing external specialist providers of technologies, infrastructures, services and skills to ensure the organisation’s digital capabilities stay at the cutting edge
5. Building and nurturing comprehensive data capability to continuously evaluate progress, adjust directions, inform decisions and calibrate actions.
6. Going beyond compliance to proactively exploit strategic opportunities around data sovereignty for competitive advantages