



Excerpt From

Gartner Business Quarterly

The Counterintuitive Path to Great Innovation

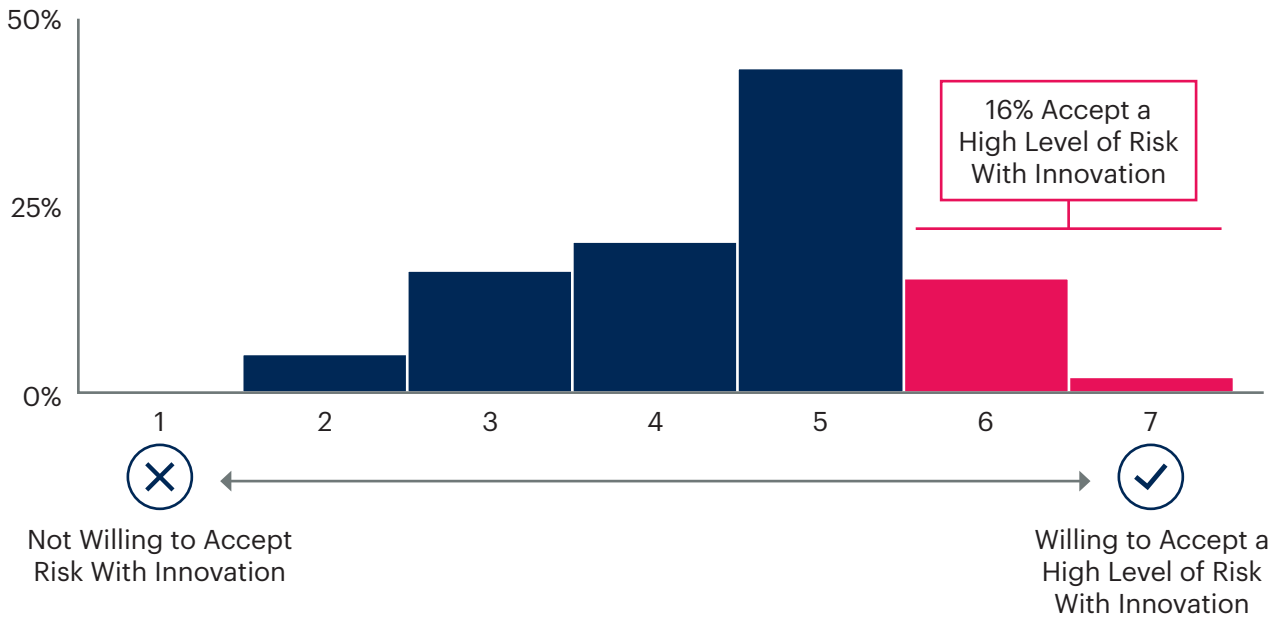
by Peter Skyttegaard

Is your company grappling with an innovation paradox? On the one hand, 64% of nonexecutive directors on corporate boards claim to be increasing their risk appetite in pursuit of growth in 2023-2024.¹ On the other hand, only 16% of innovation leaders say their organizations accept a high level of risk with innovation (see Figure 1).² Executive leaders must close this gap; there's no growth without innovation, and no innovation without risk.

1 Excerpt From Gartner Business Quarterly 2Q23

Figure 1. Appetite for Innovation Risk

Percentage of Respondents



n = 300; IT and business leaders with innovation responsibilities

Q. How would you rate the appetite for innovation risk (threats or opportunities) in your organization?

Source: 2022 Gartner Justifying and Funding Innovation Survey

Overwhelmingly, successful high-risk innovators have the most mature processes for nurturing, adopting, implementing and scaling new ideas so that they become part of the fabric of the business. These companies follow five counterintuitive practices that help them be bold about pursuing a wide range of projects and then move the right ones from pilot to reality:

- **Don't (just) go after money.** Expand your range of innovation objectives to include nonfinancial business priorities.
- **Commit budget without asking for ROI.** Provide cash upfront to support new thinking and measure success in terms of tangible outcomes rather than financial metrics.
- **Don't abuse the F-word.** Not all failure is good — make sure your organization experiments and learns the right way.
- **Know when to stop acting like an innovator.** Enable promising ideas to cross the credibility threshold by managing them professionally when they mature.
- **Don't let innovators take ideas to the finish line.** Help the business take over ownership of proven ideas and scale them up.

Don't (Just) Go After Money

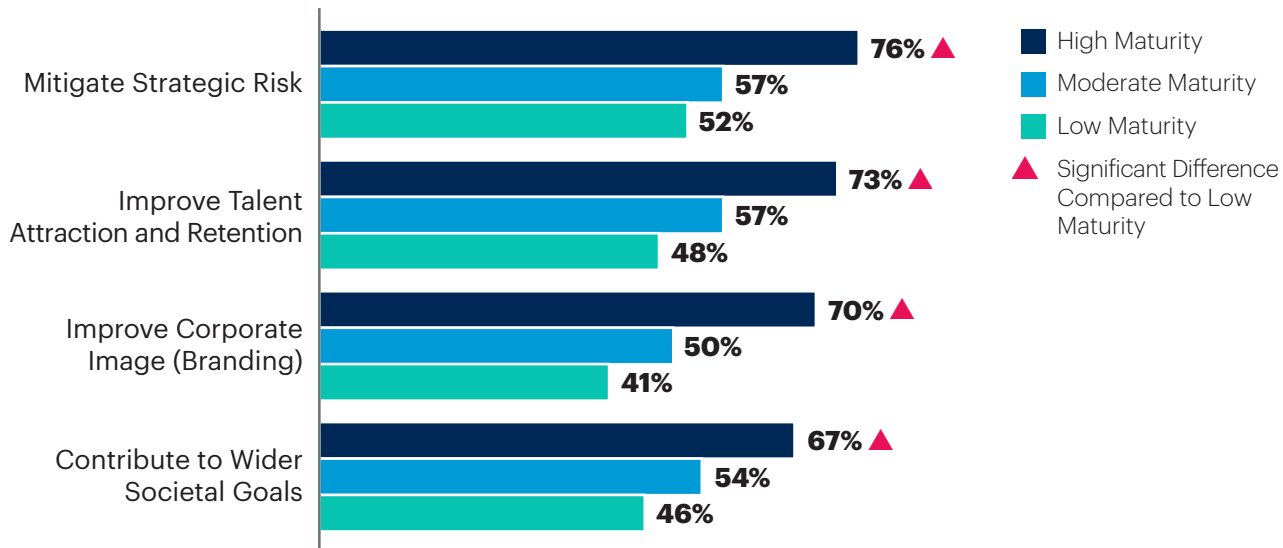
Traditional business objectives are simple: increase revenue, reduce costs and boost margins. That's what less mature innovators try to do, especially the cost savings part. Their initiatives generate incremental gains — for example, by enabling the organization to execute a process more efficiently — but don't fundamentally change the business. By contrast, leading innovators give more weight to nonmonetary goals (see Figure 2). Achieving these priorities lays the foundation for bigger leaps in performance:

- Mitigating strategic risk helps the enterprise navigate business disruptions.
- Attracting talent, including by improving the corporate image, brings in the skills needed for digital transformation.
- Contributing to social goals enables the company to find opportunities outside its traditional markets.

Moreover, boards are shifting toward these nonmonetary priorities anyway. Eighty percent of nonexecutive board directors expect their organization to increase sustainability investments in 2023 and 2024, and 75% plan to spend more on DEI.¹

Figure 2. Top Nonmonetary Innovation Priorities

Percentage of Respondents Selecting Top Importance (6/7)



n varies; IT and business leaders with innovation responsibilities, excluding unsure/not applicable

Q. How important are each of the following priorities for your organization's innovation initiative?

Source: 2022 Gartner Justifying and Funding Innovation Survey

Commit Budget Without Asking for ROI

Enterprises that are serious about innovation put real money on the table to support it. Without such assistance, budding innovators have to ask for money for every project or even every step within a project — or, worse still, they scavenge from other budgets without asking. Three-quarters of successful innovators have a dedicated, enterprisewide innovation budget, whereas only 41% of other organizations do (see Figure 3).

The availability of funding for innovation reflects the culture of the enterprise. Only 14% of high-maturity innovators say top executives resist funding new ideas, compared with 30% of low-maturity organizations. Likewise, only 5% of high-maturity innovators complain there's no money for experimentation and innovation, versus 20% of low-maturity enterprises.²

Remember also that one of the fastest ways to stifle innovation is to demand immediate estimates of ROI. The whole point of such efforts is to test unproven ideas. If you can calculate the ROI for a new initiative, then it's probably not an innovation. Instead of financial success metrics, use performance indicators linked to the quality and efficiency of the innovation process

itself. Choose tangible outcomes, such as the time to build a prototype or the adoption rate of a new app.

Don't Abuse the F-Word

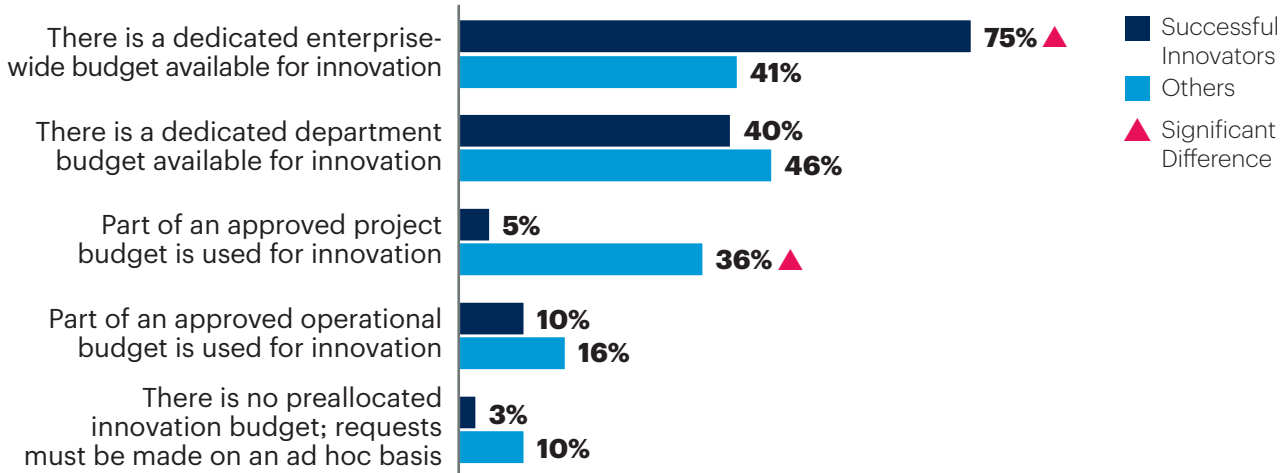
You've probably heard the expression "fail fast, fail often." Many executives took this lesson from the incredible growth of digital-native companies. But using the word "fail" emphasizes the wrong thing. The nature of innovation is to experiment and learn in rapid cycles. Organizations can learn from trials that didn't work, but not all failures yield learning. Some are bad, some good and some great, depending on how enterprises test ideas (see Figure 4).

Leading innovators start with a theory, such as, "We increase the odds of new products succeeding if we involve customers in the design." They then break down this proposition into testable hypotheses. For example:

- "Customers are willing to participate in product design."
- "We can retain confidentiality while involving customers."
- "We can incorporate customers effectively into the design process."

Figure 3. Innovation Budget Sources

Percentage of Respondents



n = 299; IT and business leaders with innovation responsibilities, excluding not sure

Q. To the best of your knowledge, which of the following budget sources are allocated for innovation in your organization?

Source: 2022 Gartner Justifying and Funding Innovation Survey

Innovators can run multiple experiments to test any given hypothesis, but they must determine the proper order in which to conduct them.

Executives must first test critical hypotheses — the ones that must be proved for the whole proposition to work. For example, if customers won't participate in product design, then it doesn't matter how good the design process is. If leading innovators cannot prove one of these indispensable hypotheses, then they end the project and focus on another one.

Know When to Stop Acting Like an Innovator

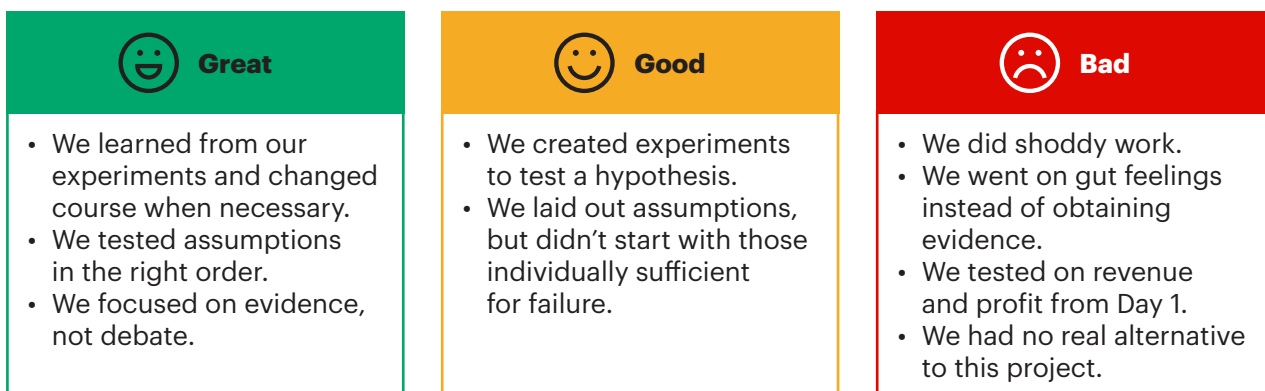
In early-stage innovation, a sense of exploration dominates. Anything is possible. Innovators generate lots of new ideas, don't let rules stop them and aren't wedded to a particular way of doing things. But at a certain point — the credibility threshold — organizations have to

prove that the idea can work within a business process (see Figure 5). That means shifting from exploring the potential of a new concept to testing industrialized assumptions.

The next step is to professionalize a proven idea in a world of policies, procedures, training and controls, with all the attendant financial, operational and time constraints. Innovators must instill confidence in the business about their idea's emergent reliability. Professionalizing a new idea accounts for:

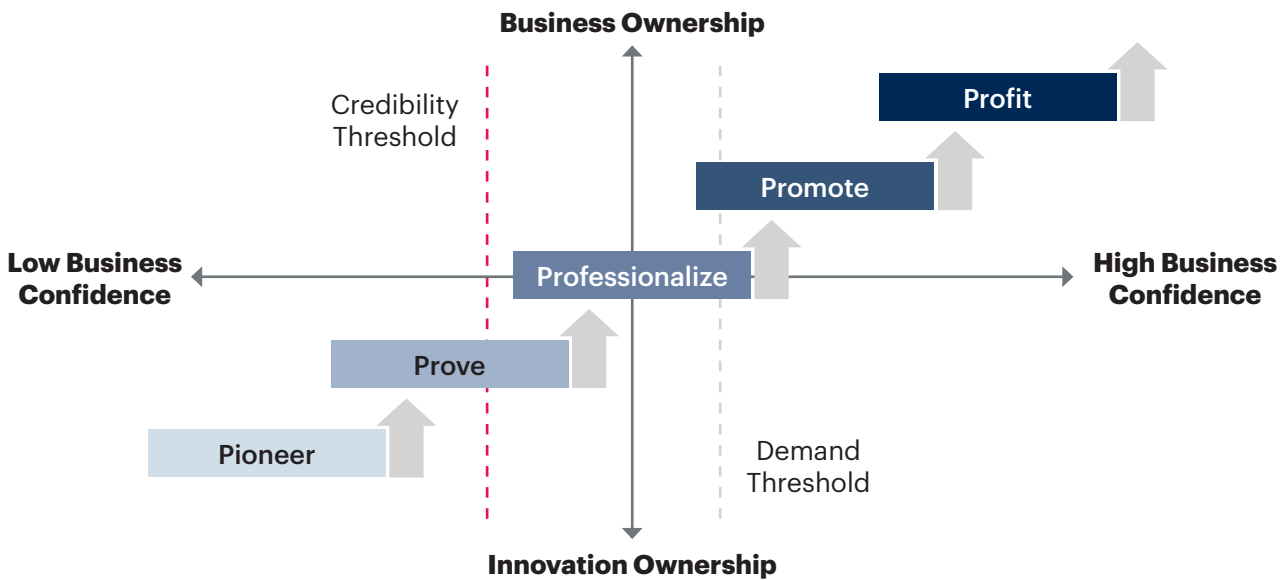
- The ability to realize the benefits promised
- The implications and commitment of resources needed to scale
- The implementation path that was mapped and agreed on

Figure 4. Not All Failures Are Created Equal



Source: Gartner

Figure 5. Crossing the Credibility Threshold — From Pioneer to Professionalize



Source: Gartner

Crossing the demand threshold requires data on financial feasibility, engineering viability and customer interest that is defensible at the board of directors level. At this stage, executive leaders should agree to provide additional funding for the initiative — probably from outside the innovation budget.

Don't Let Innovators Take Ideas to the Finish Line

Organizations in which the same people or team own an innovative idea from beginning to end will probably fall short of their goals. Innovation succeeds only when business or operations units implement an idea at scale. Executive leaders should therefore regard the process as a relay race in which innovators run the first leg or two, while experimenting and exploring, and others run the anchor leg, taking over ownership of a proven idea and seeking to exploit it.

In a relay race, the most dangerous moments are baton changes. Teams that botch them won't finish first. The business innovation equivalent is when an innovation team hands off a proven idea to the head of a business unit or process owner with no agreed-upon scaling plan. Even an initiative that the business originally expressed interest in can still founder.

Relay teams practice baton changes in a deliberate way, with teammates running together for a while to get in sync. Similarly, enterprises seeking to scale a proven idea reduce risk by being meticulous about ownership transfer and gradually replacing innovation team members with people from other business or operations units. For example, swap one member per month, depending on the size of the innovation and how quickly uncertainties are resolved. During the transfer, all relevant business functions, such as HR, legal and customer experience, should provide input.

¹ The 2023 Gartner Board of Directors Survey on Business Strategy in an Uncertain World was conducted to understand the new approaches adopted by nonexecutive boards of directors (BoDs) to drive growth in a rapidly changing business environment. The survey also sought to understand the BoDs' focus on investments in digital acceleration; sustainability; and diversity, equity and inclusion. The survey was conducted online from June through July 2022 among 281 respondents from North America, Latin America, Europe and Asia/Pacific. Respondents came from all industries, except governments, nonprofits, charities and NGOs, and from organizations with \$50 million or more in annual revenue. Respondents were required to be a board director or a member of a corporate board of directors. If respondents served on multiple boards, they answered for the largest company, defined by its annual revenue, for which they are a board member. Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and

companies surveyed.
² The 2022 Gartner Justifying and Funding Innovation Survey was conducted to understand the decision and justification criteria used for different stages of the innovation journey for different goals of innovation and different levels of risk and uncertainty in the current economic environment. We also tested for the size of innovation funding. The research was conducted online from October through November 2022 among 300 respondents in North America (n = 100), Europe (n = 108) and the Asia/Pacific region (n = 92) from organizations with \$500 million or more in revenue in fiscal 2021 across manufacturing, banking/investment services, information technology, communication services and other industries. Respondents occupied the roles of director or above, and either leaders or members of a team involved in innovation programs or activities. Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

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