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The Essentials of Innovation— Best Practices for Creating and Maintaining a Culture of Innovation

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Innovation. The word conjures images of tablets and mobile phones, electric cars, “cloud” technology, robotic surgery and other breakthroughs far too numerous to list. In virtually every industry, advances ranging from incremental enhancements to real game-changers are rapidly and routinely transforming the way we live and work — and there’s no end in sight. Innovation is a nearly universal aspiration, but as Einstein once said, “Invention without execution is hallucination.”

Companies like Apple, Google, Xerox and Disney seem to have the formula down pat. But at many other organizations, some really great concepts don’t get further than the proverbial drawing board. What does it take to successfully commercialize your creativity on a recurring basis? Based on our experience in bringing new products and services to the marketplace, BNY Mellon believes there are eight essentials for success.

The 8 Essentials of Innovation

1. Enlist support from executive management. This is widely recognized as a “*must have*” among those who study and pursue innovation. Why is this so important? Primarily, because innovation requires investment — of time, money, subject matter expertise and numerous other sought-after resources. For the past several years, a tumultuous economy has led many companies to focus primarily on battening down the hatches — controlling expenses and minimizing risks. If that’s the main message emanating from the board room, that’s where employees will spend their time and their resources, concentrating on identifying ways to minimize costs. The problem is, while you may find some smart ways to cut costs in the process, in the medium term there’s no new revenue, no ROI, generated by that approach. As economic conditions improve, companies may no longer be as reluctant to consider putting some money into R&D, acquisitions or hiring to build their expertise. But they may be behind the eight ball if they’ve let their innovation program lapse.

Ultimately, senior management controls the allocation of resources — and sets the strategic direction for an organization. Even if we talk a lot about innovation, our true commitment is readily apparent in the investments we are willing to make in an ongoing program. Incongruity between what’s communicated and what’s actually allocated to innovation speaks volumes to employees, who will logically conclude that any significant discrepancy means that other priorities take precedence. They will focus accordingly.

You can’t really blame CEOs, whose own performance is often measured in dollars and cents and the shareholder value they create. They are used to operating with a sense of urgency. Help them set reasonable expectations. Sharing information about the required investment level, the client need you’re looking to satisfy, projected returns on investment, how an initiative ties into your company’s business model, and the associated timelines will help them see the bigger picture.

2. Don’t stop innovating — no matter what! During difficult times, it can be challenging to have the fortitude to focus on innovation. However, history provides many examples of how urgency actually breeds greater creativity — and spawns some profitable products and services.

Take, for instance, the Great Depression — the undisputed worst economic period in U.S. history. In its report titled, *Collateral Damage*, the Boston Consulting Group (http://www.bcg.com/expertise_impact/capabilities/management_in_a_two_speed_economy/collateral_damage.aspx) discusses some interesting parallels between the U.S.’s recent recessionary economy and the Great Depression. Among its findings: many companies that embraced innovation during the Depression weathered the storm quite well. A prime example: sales of refrigerators — which were a significant innovation at the time — rose by 30 percent from 1929 to 1933 right in the midst of the crisis. What was so appealing about the concept of refrigeration that people were willing to outlay cash in a period of scarcity? Whatever the reason, be it the desire to economize by better preserving perishables or to keep up with their friends and neighbors, the product caught on like wildfire. Consumers clearly saw a benefit that outweighed their reluctance to part with cash — and an enduring innovation was born.

It’s not a unique situation. Numerous other innovations took root during difficult economic times as well. It’s a list that should inspire CEOs everywhere to consider investing — nylon, radio, self service grocery stores, color TV, photocopiers...even the game Monopoly emerged in spite of economic challenges.

On the flip side, you can find current headlines about companies that have suffered by allowing their capabilities to stagnate. Case in point: Kodak — once the giant in the photography industry, the company failed to embrace the emergence of digital photography, clinging instead to its traditional focus on film. Competitors jumped in to fill the gap — and today the one-time industry giant is in bankruptcy. That would have been hard to imagine only a decade ago (<http://www.billshrink.com/blog/4021/10-products-and-innovations-from-recessions-past/>).

The bottom line: sometimes, innovations fail. But failing to continuously innovate can be far more damaging.

3. Tie innovation closely to company strategy. A recent study by McKinsey reveals that most companies realize this — an impressive 84 percent of executives participating in that survey stated that innovation is “extremely or very important” to their companies’ growth strategy.

Experience shows that, without a clear understanding of where you want your innovation initiatives to take you, it’s difficult to create a roadmap to guide employees who want to lead or even support the effort. To be truly effective, innovation must be treated as an integral component of your business plan.

How do you do that? What’s crucial, according to Booz & Company, is for companies to ensure that innovation programs operate in sync with their other efforts to grow and to treat it as one more aspect of their active pursuit of success. Booz experts state that companies, “must also excel in areas outside R&D, including manufacturing, logistics, sales, marketing and human resources. And their innovation efforts must be in sync with their overall corporate strategy. They must integrate the right innovation capabilities with the right set of firm-wide capabilities, as determined by their overall strategy.”

Keeping in mind the client needs that your company is in the business of addressing, dedicating experts to development efforts, establishing an adequate budget, and aligning sales and marketing campaigns are all key ingredients that must be coordinated in pursuit of innovation. In another 2007 report, Booz elaborated on the value in doing so, reporting that companies that achieve a tight alignment of their firm-wide and innovation strategies on average generate 40 percent higher operating income growth and 100 percent greater total shareholder return. (Strategy and Business, Issue 61, Winter 2010 Booz and Company). The numbers tell the story.

4. Implement a well-understood process to capture and act on ideas. As I previously noted, there’s no shortage of new ideas. Why are so few commercialized? For many, one of the biggest obstacles lies in the absence of a standard mechanism for gathering, selecting and prioritizing the ideas contributed.

One of the world’s most widely used methods—and one successfully employed for many years by BNY Mellon — is the Stage-Gate® process, developed by Dr. Robert G. Cooper. As its name implies, Stage Gate is designed to provide companies with a disciplined step-by-step process they can employ to transform their best ideas into commercialized products or services, while readily identifying concepts that should be abandoned early on in the process so as not to waste resources.

Each step in the Stage-Gate process requires cross functional teams to complete a set of standard evaluations to assess ideas. The key criteria applied throughout the evaluations include quality of execution, business rationale, and quality of the action plan. Risk, of course, is also assessed as a key part of the process. As uncertainty about an idea diminishes, it passes through to the next gate in the process and the upcoming step consumes a higher level of resources to complete. Ultimately, only the most promising ideas will pass through each “gate” to garner additional resources and enter the commercialization process.

BNY Mellon operates an intranet-based system called the “i-zone” where employees can find information about how the company defines innovation, how it is related to our overall strategic vision, a running inventory of ideas submitted and in the evaluation queue, and an easy to use portal for submitting an idea. The system works; currently, we have collected more than 4,000 ideas and 100 are now in development. (Some of our current innovations are described at the end of this paper).

You can learn more about how the process may help your organization at (http://www.stage-gate.com/knowledge_pipwhat.php).

- 5. Be willing to take appropriate risks.** Even when the best ideas make it through a process like Stage Gate, there is always some level of risk involved in taking the next step. Simply put, you will never really know with 100 percent certainty that an innovation is a success until some time after it has been launched — so you need to be ready to fail now and then. However, while risk is reality, in addition to the tips provided in this paper, there are several things you can do to specifically reduce your chances of failure and to monitor your level of exposure ongoing.
- **Pilot your product or service** with a few trusted clients before you officially launch. Their real-life user perspectives can help you adjust your offering early on. Pilots also offer value well beyond the innovation program itself, often strengthening customer relationships by fostering a sense of partnership between the provider and user and generating opportunities for endorsements which are useful in marketing efforts.
 - **Establish metrics by which you will measure success.** How can you tell if your innovation is a success? If you have already launched your offering, it is too late to be asking this question. To sort out the home runs from initiatives that should go “back to the drawing board” for improvement, it’s important to know what you are aiming to achieve before you begin development. Metrics vary among companies ranging from the “fluffy” to the precise. An exhaustive list is too long to offer here but some common metrics include increases in cash flow, profit increases, ROI, cost savings, process improvement, creation of “stickier” relationships with existing clients, addition of new clients, or entry to a new industry or market. Many find the latter is particularly appealing these days as the US economy fluctuates while in contrast, “...new markets around the world are redefining the word “opportunity” as emerging economies such as India, China, Indonesia, the Philippines and Brazil are still growing between 5 percent and 10 percent, even in a “slow” year. (http://www.ontariocanada.com/ontcan/1medt/smallbiz/sb_downloads/we_report_driven_by_innovation_en.pdf.)
 - **Use what you’ve learned from past failures.** You’re bound to have some (everyone does) and what didn’t work is just as important as success stories. Chances are you, in dissecting your mis-steps, can identify things that you could have done better, sooner, or more thoroughly. Use that information to educate your future teams and avoid repeating history. A formal post mortem process is crucial — and it may in fact result in a resurrection of a new and improved product or service that appeared to be DOA. Proceed with caution, however. As previously noted, no one likes to fail. So if you conduct such a process, be certain that you make it clear that assigning blame is not the objective of the exercise — and that many experts agree some of the best innovations stem from instances where things didn’t materialize as originally planned. A blame-focused approach will erode morale and diminish employees’ desire to contribute further to your ongoing program.

6. Understand the real needs of clients.

"A satisfied customer is the best business strategy of all." — Michael Leboeuf, consultant and author

Truer words may have never been spoken. Yet many companies are inwardly focused when conceiving innovations — improving products and services or rolling out new offerings simply because they CAN and hoping that buyers will react positively. That approach usually doesn't work very well.

Successful innovation largely hinges on meeting a client need — making a process less painful, simplifying an onerous task, or improving accessibility to information or systems. To attain this knowledge, you really need to connect with clients to truly understand what challenges them day to day and what they might be willing to pay for to alleviate or improve the situation.

BNY Mellon has had great success in using what we call Customer Advisory Boards (CABs) — small groups composed of customers who represent our entire base or a specific target industry segment, like banks, insurance companies, broker dealers or healthcare organizations. The groups meet in person or by using teleconferencing every few months to tackle a set agenda of topics pulled together by our business development experts. The CABs provide great value in helping us assess our own ideas and by uncovering additional opportunities where we might want to focus going forward to meet a current or upcoming challenge that has made it onto clients' radars.

Likewise, client surveys designed to dig into day to day challenges are useful as well and can consume less of a respondents' time than acting as a focus group participant. Online or phone surveys may be employed depending on your clients' preferences, your time constraints, cultural preferences, your budget and the amount of information — including "verbatim" — you want to obtain.

While this more formal approach is useful, it is essential to couple it with other mechanisms that enable you to connect with clients ongoing. Train your client facing staff to ferret out information about client needs and pain points during routine interactions. Attend industry conferences where you can meet clients and prospects face to face and see what topics are on the conference agendas. Ask what readers thought of your latest thought leadership article or webinar. All of these more frequent, less formal activities can provide you with information and inspiration for your next innovation initiative. Educate and equip your client facing staff to act as your innovation research arm.

7. Reward and recognize success.

As with any program that you want your employees to support, innovation initiatives must include a rewards and recognition component. For many, financial rewards may seem like the natural choice — but money isn't necessarily the most effective option or the most practical given that concepts don't immediately generate revenue to offset expenditures.

At BNY Mellon, we have matched the type of reward given to the stage of an innovation idea. For instance, when an idea is submitted, a simple acknowledgement is provided to the employee, thanking them for their initiative and letting them know what the next steps will be. A mini poster is displayed in our operating areas, again thanking the employee for submitting the concept and summarizing the submission. We've also used small tokens such as pens, plants, etc. as recognition items.

If an idea makes its way through subsequent phases of our evaluation process, of course, the rewards and recognition increase accordingly. Names of employees who submit the best idea within any quarter are posted to our intranet site with a short summary of their concept. The most creative and those that promise to generate the most revenues or significantly reduce costs may result in the employee receiving a cash award or a percentage of the value attained by the company.

In the process of rewarding and recognizing contributors, we have learned some important lessons:

- **No idea should go unacknowledged.** Not sending an acknowledgement to the submitter in a timely manner — or not following up as an idea makes its way through the evaluation process — can lead to disillusionment and diminishes employees' interest in continuing to participate.
- **Sort out real innovation ideas from general "suggestions".** Having bottled water dispensers and publishing internal newsletters are great ideas that will likely foster employee engagement. But they aren't revenue generating innovations and they can clutter up your evaluation queue. BNY Mellon wanted to continue to receive such suggestions — but not via our innovation portal. We solved the issue by adding an e-mail link to our Web site so that employees can submit their important suggestions and receive faster feedback. It's worked very well.
- **Let your staff know it is okay to "fail".** No one likes rejection. And when an idea doesn't make the cut (most of them don't!), it can be discouraging — and potentially embarrassing — for the employee who has developed an innovation concept and possibly shared it with colleagues. You can take away some of the sting by acknowledging participation; rewarding those who continue to plug away by submitting idea after idea (some organizations give award to the person who submits the most ideas); and explaining why an idea isn't being advanced to the next stage.

8. Encourage collaboration among businesses, and within business functions.

You'll gain a diversity of perspectives. That's important because a concept that your Sales team considers a home run may not be as clear cut when your IT, product development, legal and risk management staff weigh in. Multidisciplinary teams — with their wide range of specialized expertise — should be involved early on in your concept evaluation process. And these days, with a rapidly changing technology environment, remember to include some "20-somethings" on your teams if possible. They may bring you a fresh perspective on the way you design and deliver your next big idea or enhance an existing product. Likewise, if your organization operates in different regions of the world, consideration of the often divergent perspectives — and technical resources — of your global buyers should be taken into consideration so teams should reflect the global nature of your business and your clientele.

To foster collaboration, BNY Mellon has created a cross departmental IT innovation council that meets bimonthly. The council's responsibilities include managing, reviewing and approving proposed ideas, developing potential business solutions and participating in specific business prototypes. It also promotes innovation through proactive management education on opportunities created by emerging technologies. Council members represent senior staff from our IT area as well as our numerous businesses.

Another tool that has proven useful at BNY Mellon is our "superuser" network — a simple yet effective method of connecting employees with a special interest in innovation from across our businesses. The superuser network is an online community designed to increase the process, pace and culture of innovation across our company. Its nearly 700 members check in regularly to share their ideas, read and comment on their colleagues' concepts, and catch up with current thinking about innovation.

Also available online are innovation guidelines, useful planning templates, and other resources designed to inspire creativity and accelerate the process.

A great example of effective collaboration at BNY Mellon is our use of mobile technology. Mobile computing is growing increasingly pervasive, fueled by high-speed wireless networks and rapid device innovation. Likewise, mobile applications are growing in both number and complexity as advances in hardware, infrastructure and deployment foster marketplace proliferation.

Over the past year+, BNY Mellon has rolled out several new institutional mobile options that enable our clients to accomplish a variety of financial activities any time, anywhere. From the convenience of a tablet, smart phone or other mobile device, our clients can now complete a variety of tasks such as securely reviewing and releasing payments, funding investments, keeping tabs on account balances and ongoing transactions, transferring money between accounts, and receiving alerts about time-critical transactions. Those of our clients who serve the consumer marketplace can also enable their own customers to review their accounts and authorize payments on the go. By collaborating with colleagues across the company, several areas of our company have identified promising new offerings and shared lessons learned and best practices about the development and rollout process. (See further information in the following section).

On the Horizon

It wouldn't be right to end this paper without providing more insights into BNY Mellon's commitment to innovation and the advances that we have recently brought or are on the verge of introducing to our clients. By applying the methods described herein, some of our most cutting edge initiatives include:

- **Multicurrency Exchange Settlements.** BNY Mellon Treasury Services is teaming with our colleagues in the company's Broker Dealer Services area to combine high value multicurrency payments with broker dealer collateral management services. Our new enhanced offering will expand our current USD settlement capabilities for Futures Commission Merchants (FCMs) to include 18 currencies in all. The new service will offer FCMs the opportunity to gain a timely mechanism for meeting original and variation margin calls from Futures Exchanges.
- **CFO ViewSM.** Today's healthcare systems face numerous challenges, including reduced insurance reimbursements, changing payment models, greater patient out-of-pocket responsibility, rising operating costs, poor economic conditions and expensive legislative mandates. In other words, they're facing the perfect storm. So, when they're making critical business decisions, managers often have great difficulty pulling information together and synthesizing data in a meaningful and actionable way. By combining BNY Mellon's proven investment tracking and performance capabilities with its revenue cycle solutions, CFO View supports their efforts to address this dilemma. CFO View displays an organization's investment, operational, and obligation forecast via one centralized, continually accessible analytics tool. As a result, users can readily access key information such as future cash flows and investment values to help them determine the best way to pay their obligations.
- **Healthcare Exchange for Supply and Equipment Invoices.** Currently BNY Mellon is pursuing an opportunity to team with an organization that facilitates the exchange of supply chain documents such as purchase orders/shipping notices/invoices and provides online workflow tools for hospitals and their suppliers, making it easier for these parties to buy and sell goods such as medical supplies and equipment to each other. By blending our supply chain and working capital management expertise with their own, we'd support the company's efforts to expand their offering to include payment services which will enable these buyers and suppliers to reduce fees associated with purchase cards, provide straight through processing and more aggressively optimize their working capital. One of the most important benefits of our solution is that it will take costs out of the healthcare space; in particular, purchase cards are becoming more prevalent as a payment vehicle and suppliers are bearing the brunt of the costs associated with their usage by buyers/providers. Fees are passed back to the buyer/provider in terms of higher product costs, thus increasing overall healthcare costs. Our proposed solution would carry a lower cost to the suppliers, thereby keeping product costs down for the buyers/providers. The solution also promises to automate and simplify the accounts receivable and accounts payable posting and reconciliation processes associated with payment and working capital optimization.

- Medical loss ratio** — Healthcare insurance companies are preparing to meet the August 1, 2012 deadline for compliance with new Medical Loss Ratio guidelines. At that time, they will be required to issue rebates to policyholders, if beginning in 2011, payers did not meet specific criteria for medical care and quality improvement spending. As a result, insurers of small and large group health plans — as well as individual plan payers — that may fall into this category face the urgent need to establish a process for issuing one time rebate payments to policyholders — a potentially costly process which could involve substantial risk. BNY Mellon's iRxSM Rebate Check solution is a value-based turnkey service designed to assist health plans in processing and managing the new rebate process. By tackling many of the major obstacles normally encountered in developing a one-time process in house, the outsourced solution provides a single process designed to meet a plan's individual refund needs by incorporating rebate check issuance, payment tracking and return check handling, customer service and escheatment for unclaimed funds into one comprehensive offering. By transitioning these one-time payments to BNY Mellon's iRx Rebate Check service, health insurance companies can potentially reduce the risk and costs associated with developing and maintaining a process in house while also upholding controls on all aspects of the process and freeing up resources to concentrate on bottom line efficiencies.
- Subrogation** — Currently, Insurers send each other hundreds of checks a day to settle subrogation payment obligations (i.e., when one Insurer owes another Insurer payment due to liability of one of their insured on a particular claim) and primarily manually post payment and claim information. In our proposed net settlement system, BNY Mellon would act as a net settlement provider, stepping in between all of the insurers to net all of the payment obligations. The result would be one net credit or debit position for each insurer during the 'netting period' (which could be daily or less frequently) settled via ACH. BNY Mellon would also provide each Insurer with all the necessary claim data to automatically post the payment. Initially, the service is expected to be particularly useful for property and casualty insurance clients who deal with subrogation payments involving automobile insurance — but we currently plan to expand its use over time. Users will benefit from a more efficient subrogation payment process, lower check volume and less need for capital.
- Mobile Electronic Bill Presentment and Payments** — Ready or not, your consumer clients like the speed and convenience of mobile technology — for paying bills and facilitating many other interactions with your organization! So, whether you are already "app" savvy or don't know a smart phone from a tablet, it still may be time to "mobilize" your electronic bill presentment and payment (EBPP) process. BNY Mellon has enhanced our EBPP solution to enable our business clients to offer their consumer payers the option to view statements and make payments via a variety of mobile devices. The outcomes: accelerated receivables, faster access to cash and more satisfied customers. Our mobile Web services can also be integrated with a company's own payment application to facilitate data collection and reconciliation as well as payment collection.

As we go to press, our President and CEO Gerald Hassell has just announced the further fortification of our current innovation program on a global basis, calling for active participation by every business and business partner group in every region where we operate. As you can see, innovation is alive and well at BNY Mellon.

If you would like to receive more information on these products and services, or if you have an unmet challenge where we could apply our expertise, please send an e-mail to Foresight@bnymellon.com. We would welcome your thoughts about innovation and where we may be able to apply our creativity to help your organization excel.



About the Author

Susan Skerritt is the global head of Business Strategy and Market Solutions for BNY Mellon's Treasury Services business. In this role, she is responsible for driving the ongoing development of new and innovative solutions for our clients worldwide. Prior to joining Treasury Services, Susan led the Strategy, Development and Investment group of the company's Financial Markets & Treasury Services group of businesses and served as the Chief Administrative Officer for its Corporate Trust business. Before joining BNY Mellon, she was a partner of Treasury Strategies, Inc. and held progressively senior level positions with companies including Manufacturers Hanover Trust Company, Ernst & Young, and Morgan Stanley. She holds a Masters of business administration in finance and international business from New York University and a Bachelor's degree in economics from Hamilton College. Susan is a frequent speaker at treasury industry conferences, including SIBOS and the annual Association of Financial Professionals (AFP) conference.

About BNY Mellon Treasury Services

With locations in 34 countries on six continents and a network of more than 2,000 correspondent financial institutions, BNY Mellon Treasury Services delivers high-quality performance in global payments, trade services, cash management, capital markets, foreign exchange and derivatives. It helps clients optimize cash flow, manage liquidity and make payments more efficiently around the world in more than 100 currencies. Processing more than \$1.4 trillion in payments transactions on a daily basis, the company is a top-five participant in both the CHIPS and overall funds transfer markets, and is a recognized leader in the delivery of private treasury services solutions for banks and other large institutional clients.

About BNY Mellon

BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. BNY Mellon is a leading provider of financial services for institutions, corporations and high-net-worth individuals, offering superior investment management and investment services through a worldwide client-focused team. It has \$26.6 trillion in assets under custody and administration and \$1.3 trillion in assets under management, services \$11.9 trillion in outstanding debt and processes global payments averaging \$1.4 trillion per day. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation. Additional information is available on www.bnymellon.com or follow us on [Twitter@BNYMellon](https://twitter.com/BNYMellon).



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