



We make it happen. Better.

**Attaining Sustainable
Growth Through Innovation
Excellence**

**ASSOCIATION for
FINANCIAL TECHNOLOGY
San Antonio, TX**

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Vice President
March 16-18, 2014



Innovation

Strategy



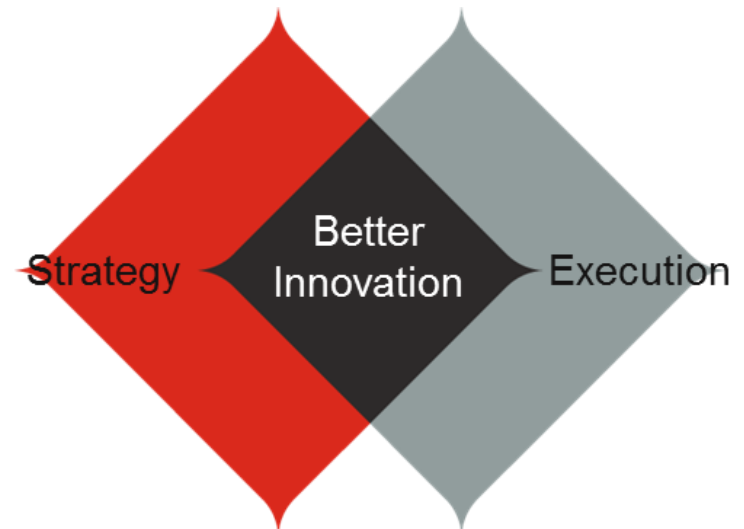
**Better
Innovation**

Execution

Innovation Excellence

Agenda

- ◆ Introduction
- ◆ Innovation Point-of-View
- ◆ Insights and Recommendations
- ◆ Improvement Approaches
- ◆ Questions/Open Discussion



Hitachi, Ltd. – a global technology leader.

Hitachi, Ltd. ranks 38th on the 2012 FORTUNE Global 500®.

- Founded in 1910
- \$96.2B FY12 Revenue
- 963 Companies
- 326,240 Employees
- Invested \$3.7 Billion in R&D (2012)
- Strategic focus on Social Innovation Business
- More than 100 years of product and service innovation, engineering and quality

HITACHI
Inspire the Next

Hitachi delivers innovations that answer society's challenges. With our talented team and proven experience in global markets, we can inspire the world.

Society Changes, Hitachi Transforms It.

Hitachi Social Innovation

Enable the development of safe, reliable societal and commercial infrastructure, powered by information technology

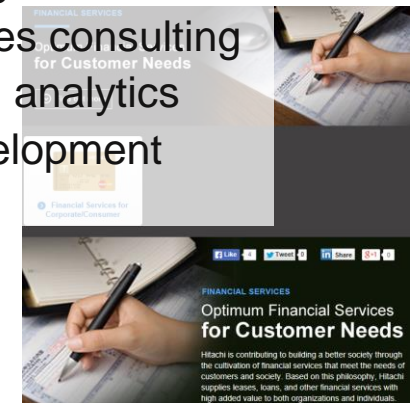
Product Diversity

- ◆ Information and Telecom Systems
- ◆ Power Systems
- ◆ Transportation
- ◆ Industrial Solutions
- ◆ Electronic Systems and Equipment
- ◆ Construction Machinery
- ◆ High Function Materials & Components
- ◆ Automotive Systems
- ◆ Digital Media and Consumer Products
- ◆ **Financial Services**
- ◆ Logistics and Other Services



Examples in Finance

- ◆ Hitachi Capital
 - Financial services
- ◆ Hitachi Devices
 - Finger vein technologies
- ◆ Hitachi Data Systems
 - Content platforms
 - Big data, BI and analytics
- ◆ Hitachi Consulting
 - Financial services consulting
 - Big data, BI and analytics
 - Application development



Companies Compete with Better Offerings

Innovation is central to balancing value disciplines
 Market timing is a critical metric

Global	CEO Challenges	Europe	US
1	Human Capital	1	5
2	Operational Excellence	2	1
3	Innovation	3	4
4	Customer Relationships	5	3
5	Global Political/Economic Risk	4	6
6	Government Regulation	6	2
7	Global Expansion	7	7
8	Corporate Brand and Reputation	9	8
9	Sustainability	8	10
10	Trust in Business	10	9

Survey of 729 CEOs, Presidents and Chairmen around the globe were asked to identify their most critical challenges for the coming year (2013).

The Conference Board CEO Challenge™ 2013 – Research Report R-1511-13-ES
Authors: Charles Mitchell, Rebecca L. Ray, Ph.D., Bart van Ark, July 2013



Innovation
Apply new technologies (product, process, information, etc.)
Engage in strategic alliances with customers, suppliers, and/or other business partners
Find, engage, and incentivize key talent for innovation
Create culture of innovation by promoting and rewarding entrepreneurship and risk taking
Develop innovation skills for all employees

What is Innovation?

Innovation is translation of ideas and inventions into profitable offerings for customers.

Innovation may include changes to...

- *Business Model* (Business structure or financial model)
- *Operational Model* – (Core processes and functions improvements)
- *Products, Services, and Markets* – (New offerings or applications)



...but should always be viewed from end-to-end

Innovation Challenges Summary

Typical root-cause challenges to effective innovation

1. Market Timing

Innovations miss the market window (early or late)

2. Portfolio Strategy

Unclear portfolio ambitions and/or lack of committed resources necessary to drive results

3. Focus

Lack innovation directional boundaries necessary to translation from strategy to execution

4. Organization

Decision structure, culture, and incentives don't support innovation

5. Innovation Process

Lack mechanisms to capture, evaluate, and transition ideas to offerings, execution models

6. Performance Management

Lack adequate performance measures, visibility, and decision triggers to take action.

7. Enabling Technologies

Inadequate integrated capabilities to support capturing, controlling, and acting on information.

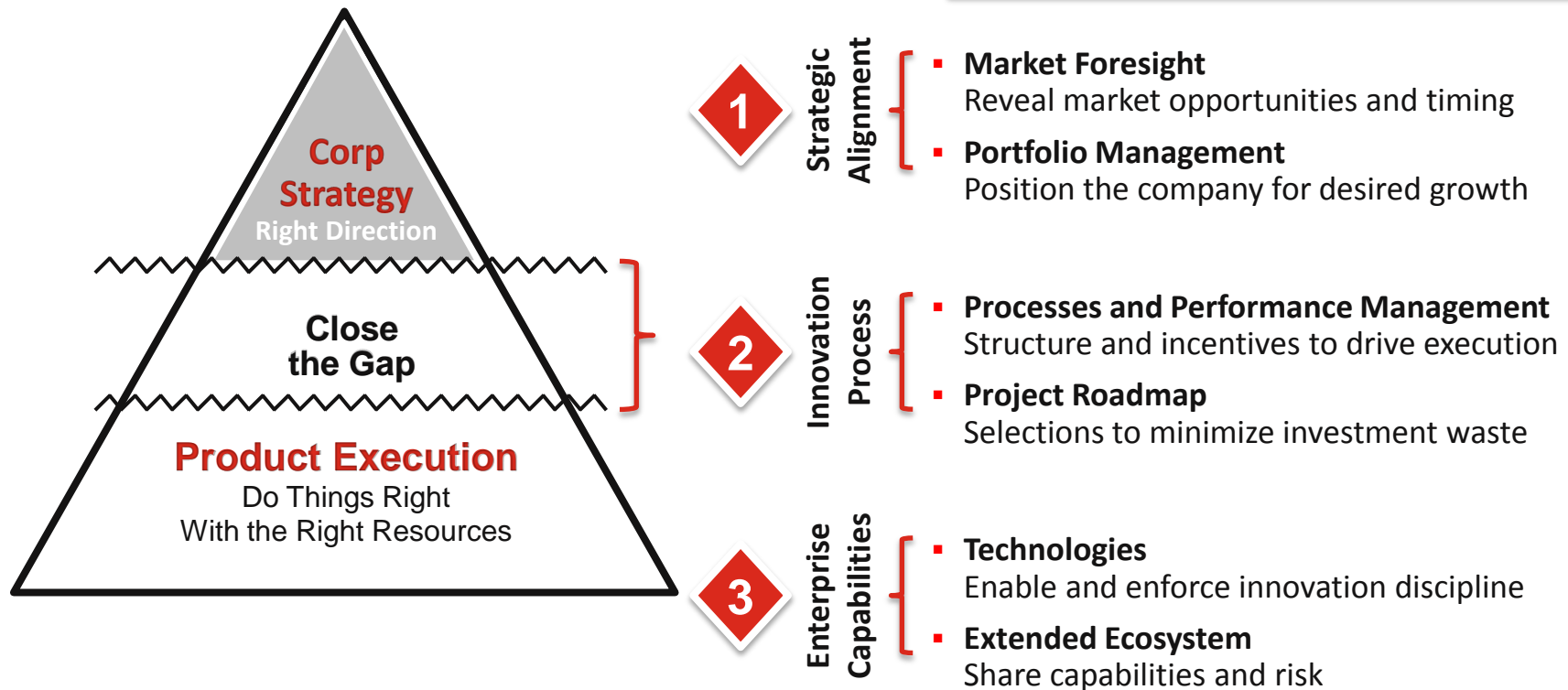
Innovation Excellence

Themes that drive our solutions

- ◆ Companies are seeking to improve innovation capabilities now
- ◆ Market timing the critical KPI of innovation
- ◆ All innovation is not the same
- ◆ Point solutions fail to address the primary Innovation challenges
- ◆ Sustainable Innovation is attained through operational execution

We Often See a Strategy-to-Execution Gap

Hitachi Consulting – How Leading Companies Close the Gap

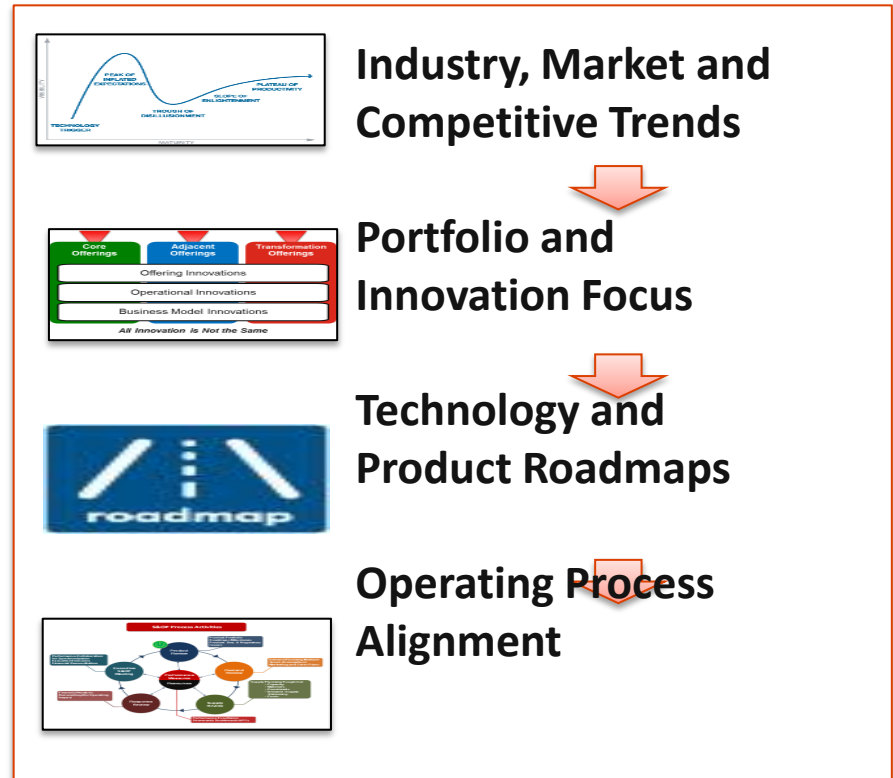


Critical Elements to Drive Innovation

Strategic Alignment Makes Decisions Stick

Requires well-managed activities and good information

- ◆ Market Foresight
- ◆ Portfolio Management
- ◆ Organizational Alignment



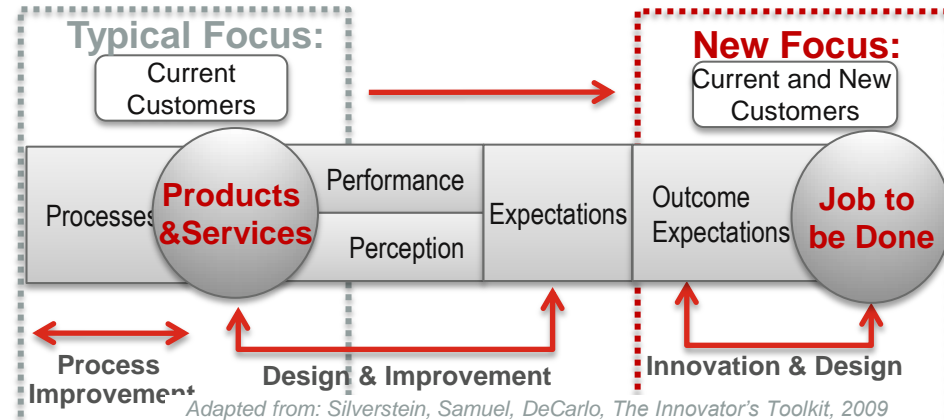
Assign accountability to manage activities and capture good information to make decisions

Key mechanisms to capture information to base decisions

Organizational and Cultural Aspects of Innovation

Attain organizational alignment

- ◆ Set directional boundaries
- ◆ Establish decision structure
- ◆ Align incentives with ambitions
- ◆ Right roles AND skills



Strategic Ambition	Core	Adjacent	Transformational
Inventory Implication	Same Product Cheaper and Faster	Better Product or Combine	Replace with a new Product
Strategy	Profit Bias	↔	Growth Bias
People & Skills	Integrated with Core	↔	Separate from Core
Funding	Product P&L Cash	↔	Separate funding
Pipeline Management	Project Review at Gates	↔	Non-linear Evaluation
Metrics	Economic and External	↔	Non-economic and Internal
Resource Allocation	70%	20%	10%
Total Returns	10%	20%	70%



Innovation Program Roles to Consider

Ensure the Right Participants Carry the Flag for Key Roles

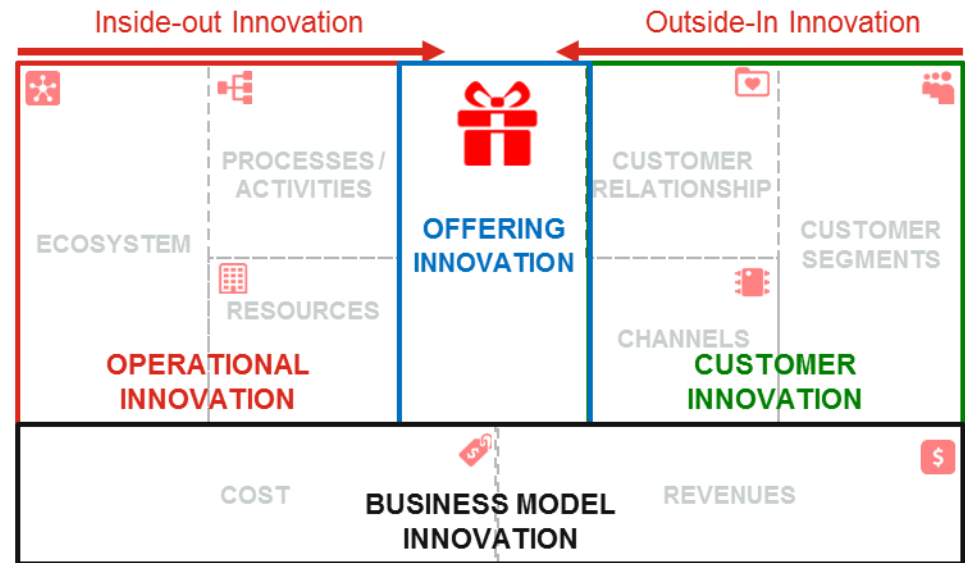


*Note: Each job varies with the **Type** of innovation (Business Model, Ops Model, Product/Service), the **Focus** of innovation (Core, Adjacent, Transformational), and the company innovation **Culture** (Drive versus enable)*

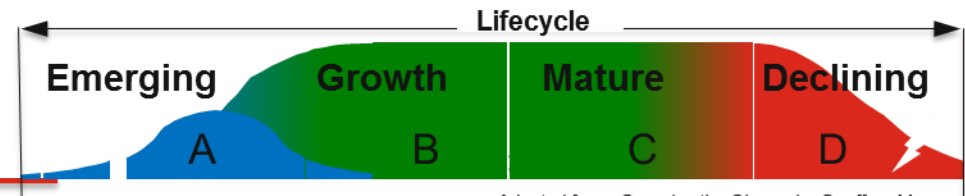
Innovation Goals Change as the Lifecycle Matures

Coordinate multiple types of innovation to achieve results

- ◆ Create Better Offerings
- ◆ Sell More
- ◆ Cost Less
- ◆ Make Money!



Adapted from *Business Model Generation Innovation* by Alex Osterwalder & Yves Pigneur



Adapted from *Crossing the Chasm* by Geoffrey Moore

Innovate beyond just the offering

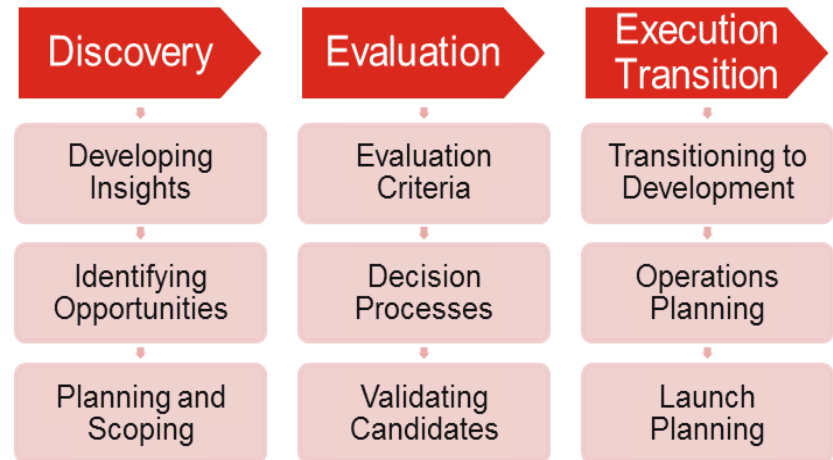
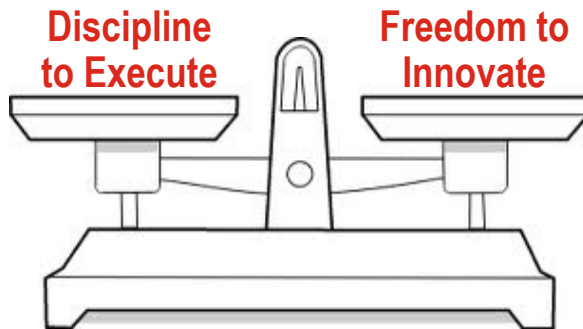


Innovation is a recurring and synergistic process

Innovation Process Keeps the Team Aligned

Balancing key process controls minimizes waste without stifling innovation

- ◆ Innovation Process
- ◆ Organizational Alignment
- ◆ Performance Management



Innovation process, organization, and performance management are tightly coupled

Key Insights and Recommendations

Discovery oriented activities

- ◆ Market Foresight – Understand market
- ◆ Organization – Effective decision structures
- ◆ Ecosystem – Involve external partners and customers
- ◆ Portfolio Strategy – Establish ambitions
- ◆ Utilize Technologies - Enable process consistency

Discovery

Key Insights and Recommendations

Evaluation-oriented activities

- ◆ Organization - Involve the right roles
- ◆ Portfolio - Force trade-off decisions
- ◆ Business cases - Develop scorecards in advance
- ◆ Performance – Consistent metrics
- ◆ Ecosystem – Validate with customers early



Evaluation Scorecard

Evaluation Criteria and Voter Weighting

- ✓ Is it real?
- ✓ Is it worth doing?
- ✓ Can we win?

	1 – Weak	4 – Tenable	7 – Favorable	10 – Strong
Business Case – 20%				
Strategy Fit – 30%		SPECIFIC TARGETS FOR SCORING		
Leverage- 20%				
Commercial – 20%				
Technical – 10%				


Key Insights and Recommendations

Transition-oriented activities

- ◆ Organization – Manage transitions
- ◆ Project Planning – Prioritize resources
- ◆ Process – Plan launch and production activities early

Transition Execution

Managed Transitions



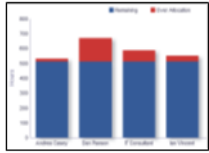
- Organization
- Funding and Incentives
- Structure

Project Analytics

Project Name	Business Process	Project Score
Business Process Template	Project Management	0.00
Product Development Template	Project Management	0.00
Alliance Portal Integration Project	Analytics	87.00
T. Transition	Information Technology	65.00
SIS Interface Project	Operations	87.00
Online Invoice Generation Project	Billing	62.00
Silverdale - Retail Outage	Plant Maintenance	83.00
Juniper Nursing Home	Construction	84.00
Red River - Retail Outage	Plant Maintenance	75.00
Dalhousie - Retail Outage	Plant Maintenance	80.00

- Overview
- Cost
- Schedule/Activity
- Risk

Resource Analytics

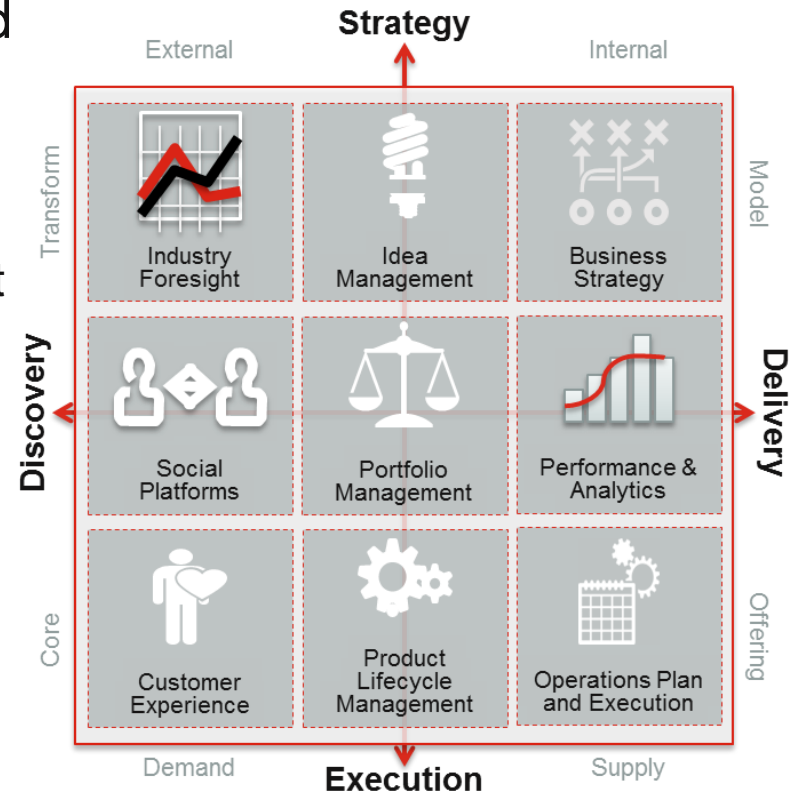


- Overview
- Productivity
- Staffing
- Utilization

Innovation Enabled by an Enterprise Platform

Manage innovation from end-to-end

- ◆ Cross-functional alignment
- ◆ Enterprise performance management
- ◆ External partner collaboration
- ◆ Customer and social insights



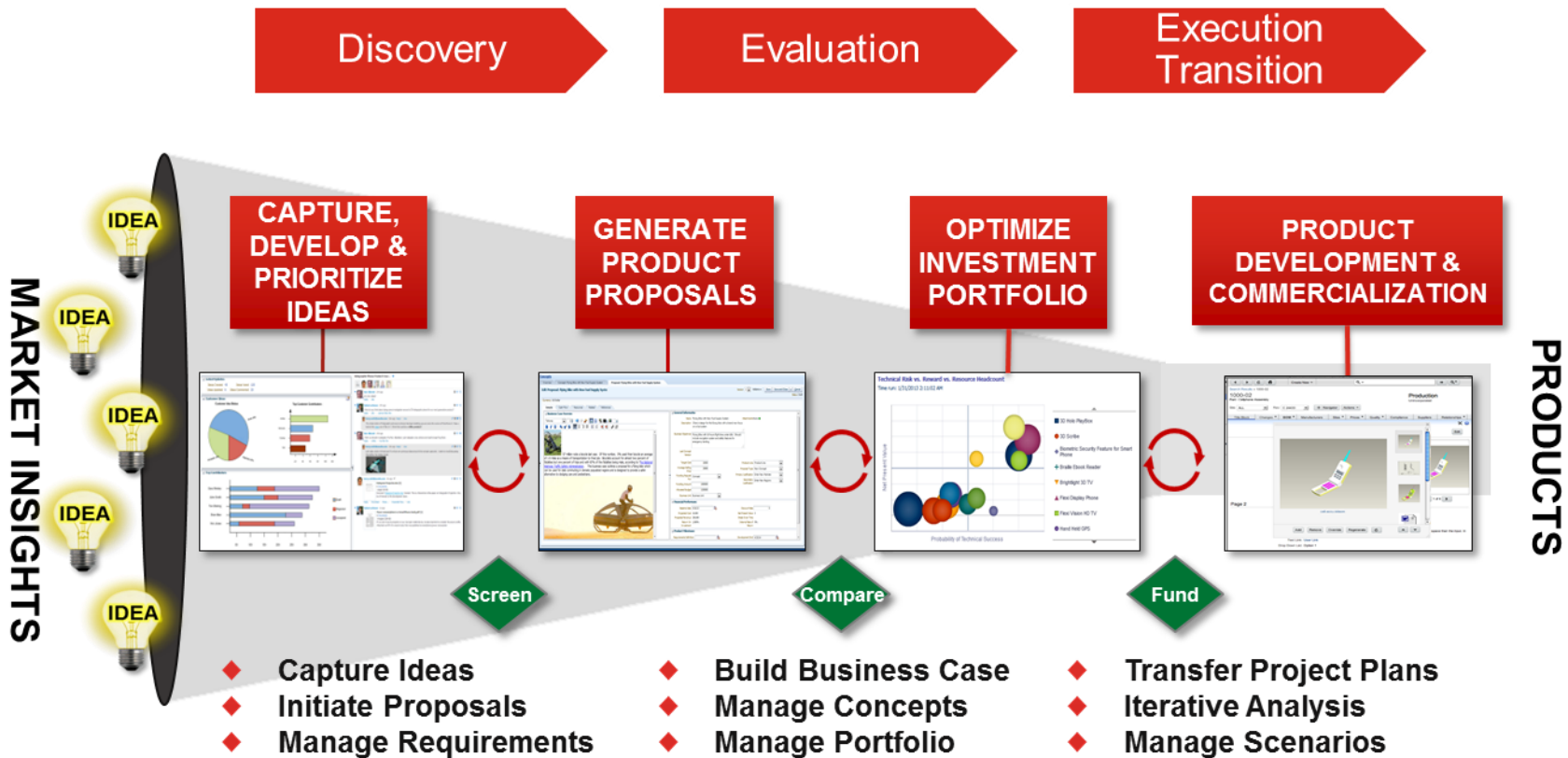
Dashed lines represent common “seams”



“Seams” among platform capabilities inhibit innovation effectiveness

Innovation Management Process

Innovation is an iterative and recurring process



Innovation Strategy Project Example

Focus Areas

- 1. Industry Foresight.** Understand trends, positioning, and set strategic performance targets
- 2. Portfolio Strategy.** Set portfolio targets, evaluate opportunities, and establish a product roadmap
- 3. Strategic Alignment.** Align on strategic process area touch-points, innovation organization design, and execution enabling IT platforms roadmap

Goal



Approach

Assess	Validate (HCC Led)	Implement (Customer)
Establish Governance and Charter	Mobilize teams and operating rhythms	Transition ownership
Establish Focus	Execute innovation processes	Automate and optimize
Develop improvement plans	Collect feedback and revise	Evaluate performance

Process Scope

Discovery	Evaluation	Transition
Industry Foresight	Portfolio Strategy	Strategic Alignment
Market Trends / Benchmarks	Portfolio Mix	Strategic Process Alignment
Technology Roadmap	Innovation Focus	Organizational Design
VoC / VoT Inputs	Product / Service Roadmap	IT Platform Roadmap

Innovation Process Improvement Project Example

Solution Overview

- 1. Process Assessment.** Assess and align on innovation process scope to attain desired business results
- 2. Process Focus.** Identify and prioritize innovation process gaps and decide among alternatives what improvements to pursue
- 3. Improvement Plan.** Design, develop, and deploy streamlined process improvements to attain desired results

Goal



Approach

Phase 1

Follow-on

Assess

Establish Governance and Charter

Establish Focus

Develop improvement plans

Validate

Mobilize teams and processes

Execute innovation processes

Collect feedback and revise

Implement

Organization design and adoption

Technology Enablement

Performance Management

Process Scope and Metrics

Discovery Processes

Scoping and Planning

Developing Insights

Identifying Opportunities

Evaluation Processes

Setting Criteria

Evaluation Processes

Validating Candidates

Execution Transition

Planning Execution

Transitioning to Develop

Innovation Excellence Solution Areas

Summary - How Leading Companies Address Key Challenges

- Strategic Alignment**
 - ◆ Market foresight that reveals market opportunities and windows
 - ◆ Portfolio strategies that position the company for desired growth
- Innovation Process**
 - ◆ Project selections that minimize investment waste
 - ◆ Processes, structure, metrics, and incentives that drive execution
- Enterprise Capabilities**
 - ◆ Technology platforms to enable and enforce innovation discipline
 - ◆ An explicit extended ecosystem to share capabilities and risk

Questions?



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Oracle Solutions

Solution Overview
Innovation Excellence
Attaining Sustainable Growth

Hitachi Consulting
/e make it happen. Better.

What to Innovate?

Over the long term, we see innovation as the driver of growth, as we see innovation as the primary offering for customers. Your ability to manage innovation is critical to having a winning portfolio of offerings. Effectively managing innovation requires the ability to make trade-off decisions and to allocate resources on them. Companies that innovate best have the most capabilities to success, including:

- A strategy that matches the market landscape and leverages solutions
- Portfolio strategies that position the company to attain desired growth
- Project investment decisions that minimize investment waste
- Innovative processes, organizational structure, metrics and incentives to drive execution
- An enabled ecosystem to drive innovative capabilities and risks

Managing innovation is a holistic challenge that requires cross-level perspectives including strategy and execution, and spans "Outgrowing IT and Infrastructure Technologies for a Safer, More Secure World."

Hitachi's Social Innovation Business processes from ideation through delivery. We have developed a set of capabilities designed to facilitate the way that large companies identify areas of opportunity and implement best practices to drive the production of results.

All innovations are not the Same

Offering innovation starts with good ideas, but it's not always clear how to bring them to the marketplace. We help you to establish a framework that supports your innovation strategy, helps you to identify the types of offerings needed in the portfolio and the nature of the resources needed to ensure the offerings are competitive.

Value	Efficiency	Change
High	High	High
Medium	Medium	Medium
Low	Low	Low

The figure above illustrates this concept and is important for three reasons:

1. The matrix enables you to position the best innovative ideas very strongly offering types (low effort and high performance)
2. The next likely course and role of the best innovative ideas vary strongly, depending on the nature of the offering, operational or business model
3. The workable ideas that are emerging in our portfolio are various, encompassing the categories and need to be evaluated using different criteria

In summary, if you are looking to make your portfolio more, it is important to involve people who have the right skills to provide insight into the types of innovation most useful to the company portfolio, and evaluate ideas using appropriate criteria for the category.

Closing the Performance Gap

While it may be difficult to quantify, the all-in-one solution usually occurs because of:

- A portfolio strategy that results in investment projects that are heavily weighted to the core offerings of the portfolio and targeted to establish and maintain winning combinations.
- An open investment approach that allows investment projects to evolve within business investments without a number of rigidly defined "strategic engine" projects.

Converting the concept into a decision and all-gained action that can be more readily effected through the following:

- ◆ Clear data collection processes that provide better more quantitative market foresight
- ◆ Clear portfolio objectives and targets in each category
- ◆ Rigor in portfolio management capabilities
- ◆ Performance management with clear metrics in each category
- ◆ Robust organizational roles and capabilities to drive real results

Types of challenges organizations face when executing these concepts are outlined in the paragraphs that follow.

Download our
whitepaper on
Innovation Excellence

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