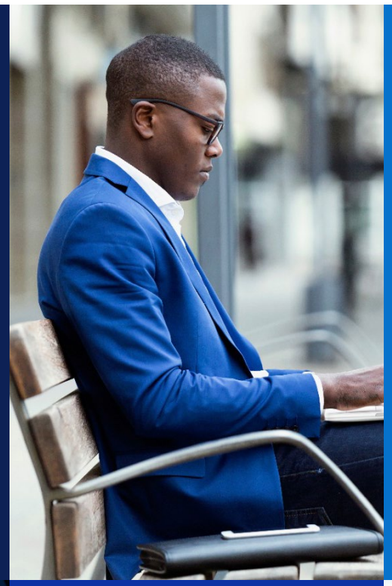
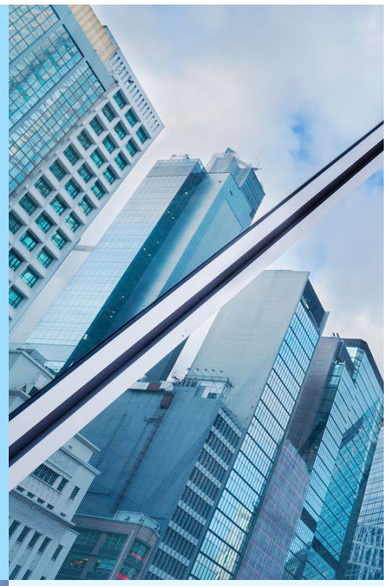
REPORT

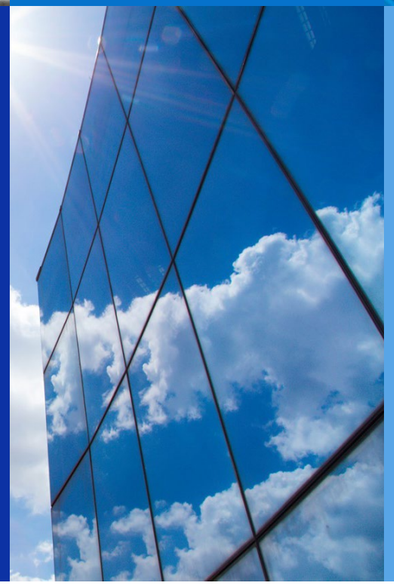
Building your innovation muscle

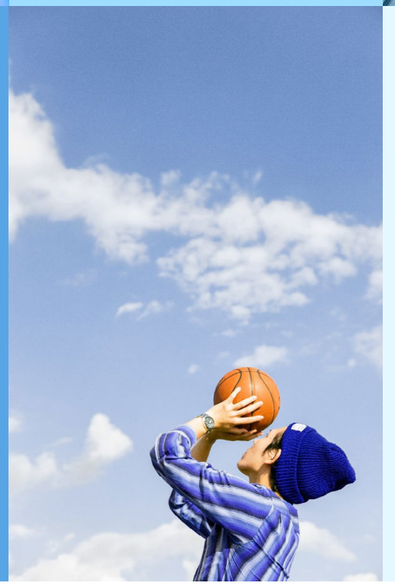
How to make innovation part of your organization's DNA to lead in the AI-enabled world

DELL Technologies









What's next starts now

We live in an increasingly digital world where the pace of change isn't slowing down and disruption is the norm, not an anomaly. These are things we must adapt to. We need to ask ourselves how we can react to these factors and what a prosperous future for all looks like.

At Dell Technologies, we believe tangible and impactful change is achieved only through the coupling of innovation and action. But how is it that some organizations can successfully turn their ideas into meaningful, game-changing innovation while others cannot?

In today's ever-changing environment, organizations must pivot from treating innovation as a side project to embedding innovation into everything they do. Of course, this is not as simple as flipping a switch. **Dell's 2023 Innovation Index** found that currently only 18% of organizations can be classified as "innovative" with mature practices. These innovation leaders and adopters were able to build a strong innovation muscle to spot high-impact opportunities and act straight away. By combining their people's ingenuity with the right technology and processes, they can take smart and informed risks, stay agile, drive business growth and carve out competitive advantages over and over again. They don't wait for things to happen. Their mantra is "what's next starts now".

Expanding on the Innovation Index's findings, we conducted a new study, Innovation Catalysts, based on responses from 6,600 business and IT decision-makers (BDMs and ITDMs) responsible for driving or influencing innovation in their organization from 40 locations worldwide.

While everyone agrees that innovation is important, the question is whether innovation is a) a key part of business strategy and b) is in fact unlocking tangible business benefits today. Only 56% of decision-makers can confirm this.

In a three-part series, we will explore how organizations are innovating to drive business outcomes, what's blocking them, and how can they take advantage of new technologies like generative AI as an innovation accelerator. This report is the first of a three-part series focusing on building an innovation muscle.

1. Build your innovation muscle.

Building a reliable innovation muscle is not accomplished in a silo or in one-off initiatives. By building a close, regular and strategic partnership between IT and the business, organizations can better align their people, processes, and technologies to nurture human-machine partnerships and act on high-impact opportunities. Over time, this evolves into the organization's identity. And with GenAI as the biggest technology advance in decades, the potential to accelerate innovation across all aspects of life is huge.

2. Maximize your data insights.

Data is a key differentiator to spot and act on the right opportunities, as well as track their success. In today's distributed landscape, and to realize the potential of GenAI, you need an agile, secure and sustainable infrastructure from edge to core to cloud to properly collect, store, protect and act on data, wherever it resides and whenever you need it.

3. Embrace human-machine partnerships.

Empower your workforce with the skills needed to deal with this fast-paced and increasingly digital world – moreover instil confidence in them to deal with ambiguity, change and failure. With the emergence of GenAI, it's essential to have clear guidelines on how to use it responsibly and keep communication and ongoing training consistent. This is paramount for successful adoption. To support your employees in reaching new levels of productivity, provide them with AI-optimized, intuitive, collaborative, and secure technology.

The state of innovation

Navigating an uncertain future

The future seems uncertain for many. Nearly half are unsure what the next 3-5 years will look like for their industry. And the challenges are mounting, like the pace of disruption which almost 6 in 10 are struggling to keep up with.

Yet surprisingly, 82% claim they are well-positioned competitively and have a solid strategy for success. While all these statements might be true, to successfully drive innovation in an uncertain, rapidly changing environment, organizations need to align their innovation priorities to drive business outcomes.

Setting innovation goals

Knowing where to focus your innovation efforts is key in realizing them successfully. But the study shows differences in opinions on innovation goal priorities. Given today's economic climate, business decision makers (BDMs) are focused on using innovation to drive cost savings and efficiencies, as well as increase revenue.

However, **IT decision makers (ITDMs) are forward looking, focusing on future-proofing the organization as well as using AI/generative AI to transform the organization**. Interestingly, for BDMs, AI/generative AI, falls down the priorities list to 8th place. This discrepancy in goals is significant and could lead to misalignment and failure of innovation initiatives overall.

Looking to the future

Use AI/generative AI to transform the organization
(ITDM: 44%, BDM: 36%)

Focusing on the present

Cost savings and efficiencies
(ITDM: 43%, BDM: 50%)

Increase revenue
(ITDM: 40%, BDM: 46%)

Improve the customer/ citizen experience
(ITDM: 38%, BDM: 41%)

Overcoming challenges

94% admit their organizations are facing challenges preventing them from driving innovation successfully. Acknowledging this fact helps organizations focus their efforts on concrete actions toward overcoming these challenges.

The biggest barrier reported – both on an organizational and personal level - is a lack of needed skills and competencies. It is therefore surprising that despite being the number one challenge, organizations rank bridging the skills/talent gap as well as improving the employee experience as their lowest innovation priorities. This may be an untapped opportunity to rethink and innovate around current talent attraction, education and retention programs. After all, there is a known correlation between employee and customer experience.

To ensure innovation success, it is important that organizations draw lines between challenges faced and goals strived for. As a start, organizations have identified key areas for improvement to address key challenges. Looking at the top five improvement areas, they are reflecting some of the most important ingredients that Innovation Leaders and Adopters have used to build their innovation muscle. The right mix across people, process and technology needs to be established, from investing in the right technology to adopting a data-driven process to building a strong innovation culture. And some leaders are hoping generative AI may be able to accelerate innovation as well.

Top innovation goals

1. Cost savings & efficiencies
2. Future-proof the organization
3. Increase revenue
4. Use AI/GenAI to transform the organization
5. Improve the customer/ citizen experience

Top innovation challenges

1. Lack of right talent with needed skills/ competencies
2. Data privacy and cybersecurity concerns
3. Lack of budget/ ability to invest due to economic downturn
4. Lack of right resources to manage the evolving regulatory landscape
5. Outdated and/ or too complex technology environment

Top improvement areas

1. Invest in modern, scalable technology
2. A strong relationship between business and IT
3. Adopting a data-driven approach
4. Actively nurturing an innovative culture
5. Having a company-wide, known innovation process; Driving environmentally sustainable innovations (tie)

Generative AI, the new innovation accelerator

One way to overcome challenges and potentially accelerate innovation initiatives is to embrace what some argue to be the greatest technology advancement since the birth of the internet, generative AI (GenAI). Unlike earlier forms of AI, generative models can understand context, generate creative outputs and adapt to diverse tasks without explicit programming. This versatility makes GenAI valuable across industries offering a broader range of applications while also democratizing access to AI through user-friendly language interfaces. The vast majority of organizations agree this is a game changer.

81% agree that AI/GenAI will significantly transform their industry

82% agree that there will be greater human and machine partnership within five years.

> *With AI, the future is happening now and it's accelerating innovation in every industry. To take advantage of this fast-moving technology, you need to first align your AI initiatives and data with what makes your company unique…then build your AI innovation infrastructure based on this balanced approach. A partner with strong end-to-end solutions, expertise and partner ecosystem, like ours at Dell Technologies, can make the difference in how quickly you move the enterprise AI needle forward.*
>
> **John Roese, Global Chief Technology Officer and Chief AI Officer, Dell Technologies**

And while the potential seems endless, it also creates unique challenges.

A deeper human-machine partnership

Organizations have been presented with an opportunity to reframe the AI conversation away from confusion and misinformation to the positive advantages the technology brings. And the results are there.

On a personal level, respondents believe GenAI will make them more productive in their jobs and help them discover insights they would not have access to previously.

They have also prioritized their use cases; customer interactions (including but not limited to chatbots, CSR support with contact centers etc.), improving developer productivity (e.g., code development, bug detection, etc.) and streamlining IT operations have been identified as areas organizations should turn their GenAI attention to first. While C-level and senior management also have an eye on applying GenAI to improve environmental footprint.

Sustainability has long been a challenge and an opportunity for organizations. New technology must be efficient and managed in the right way, with GenAI being no different. Almost three in ten (29%) report that concerns about the increased energy usage needed to train AI models is holding them back from adopting GenAI. In addition, 70% are working to limit the energy consumption of GenAI by right-sizing their model.

Expectations to deliver significant or transformative value are high, especially from the C-Level and senior management. Respondents hope that GenAI can help them with increasing productivity, improving customer/citizen experiences as well as address some of the identified innovation barriers like increasing their security posture, finding new revenue streams and saving costs.

Alignment on strategy and budget

While the hopes are high, the questions of 'where to start?' and 'how to fund?' are still open. The majority (57%) of organizations are in early-to mid-stages with no formal strategies in place and some piloting or not yet deploying. Only 11% say they are well-established with GenAI solutions, rolling out tools to employees and training them appropriately. While senior management, however, believe this to be higher, middle and junior management show healthy pragmatism.

Tensions arise between the management levels when it comes to budget: While senior managers say a dedicated budget will be created for AI projects, middle and junior managers are more skeptical and are most likely to say they'll use their existing IT budgets. ITDMs also lean towards the likelihood that existing IT budgets will be used.

Risks and regulations

Keeping up with the evolving regulatory landscape is amongst the top five barriers to innovation and a lack of regulations for responsible GenAI use may be increasing the pressure. A lot of concern centers around understanding the risks and who is responsible: **77% agree that the organization, rather than the machine, the user or the public, is responsible for any AI malfunction or undesired behavior**. Furthermore, 68% are concerned about the closed system nature of AI and its potential for bias, IP infringement, and other risks they don't understand.

In fact, concerns about bias in data and models, which could damage the organization's reputation and have ethical implications, is the second most cited barrier for GenAI adoption. 82% say that customers/ citizens will demand transparency on the use of GenAI and **74% are willing to put their own GenAI governance into place rather than waiting for the government**.

The number one recommendation for responsible use is to ensure there is human oversight over AI tools and to intervene as needed to warrant equitable results, followed closely by technology that is regulated appropriately with innovation, safety, and transparency at the core.

For organizations, GenAI has massive potential to enhance employee productivity, improve customer value and achieve innovation and business goals. To ensure success it requires a tight-knit, strategic partnership between IT and business units to align on goals, use case prioritization and roll-out. Conscious awareness and alignment will be key to true transformation.

> *In 2024, enterprises are moving beyond experimentation to GenAI at scale. Leaders are no longer waiting on regulations to create responsible AI focused on protecting their key data sets and IP. Forward thinkers are establishing governance models to ensure positive business impact that can help negate the LLM's native tendency to be super confident, yet often wrong.*
>
> **Matt Barrington, Emerging Technology Leader, EY**

THE CITY OF AMARILLO

Making community services more accessible with GenAI

> *Generative AI presents an opportunity to connect with our entire population not only for access to city services but also in our digital literacy and workforce development efforts.*
>
> **Richard Gagnon, Chief Information Officer, the city of Amarillo**

The city of Amarillo's goal is to build a connected and engaged community. With the most refugees per capita of any Texas (USA) city, they want to ensure equal service to all their citizens. Partnering with Dell Technologies, they created an online digital assistant that uses generative AI (GenAI) to interact with residents on government and community services.

The digital assistant is designed with the city's identity, tone of voice and knowledge to provide residents with an accessible, interactive and multi-lingual solution that quickly guides them to the resources they need.

This latest collaboration between Dell and the city of Amarillo builds on previous digital initiatives including laying the IT foundation for the virtual call center supporting its remote public-health clinics and improving emergency response times with analytics. These new AI tools will help create more effective government in the digital age and give them new tools to improve civic engagement and outcomes.

IT, your strategic partner

In our increasingly digital world, every business is a technology business and IT decision-makers need a seat at the table when setting organizational and innovation goals. Their strategic perspective can help navigate uncertainty and overcome challenges. There is a clear awareness among organizations that this relationship between business and IT needs improvement as it is cited as the second most likely improvement area needed to drive successful innovation. Complicating matters is the fact that only around 4 in 10 BDMs consider their IT peers important business partners.

Although this seems like a no-brainer, respondents reveal significant perception gaps in one another's ability to partner, communicate and collaborate.

While IT decision-makers admit they could do better, they view themselves more positively compared to their business counterparts. For example, almost 1 in 2 ITDMs believe they invite their business department peers to work collaboratively on strategic projects and decision-making, while only 37% of BDMs agree.

On the other side, **more than 8 in 10 BDMs report concrete reasons to exclude the IT department from strategic business decision-making.** Investigating those reasons further, they seem to be grounded in false assumptions:

- **Perceived communication gaps** between IT and the rest of the organization. And yet, 43% of ITDMs say that BDMs could communicate more frequently with IT.
- **Perceived time constraints** on IT side, despite only 23% of ITDMs saying having "no time" is a personal challenge to driving innovation.
- **Perceived legacy mindset** that IT "keeps the lights on", despite ITDMs being mostly likely to look into future-proofing the organization and embracing new technologies.

Despite this, some do recognize a missed opportunity here as 44% of BDMs say that their IT department's expertise could be better utilized when it comes to making strategic business decisions.

A path forward

At the crux of ITDMs and BDMs' partnership is an opportunity for better communication and understanding of one another's priorities and challenges. In a back-and-forth blame game with misalignment of innovation goals and improvement priorities, all efforts suffer. Neither side's vision is realized.

The cost? A lack of innovation.

Generative AI appears to exacerbate this disconnect even further. Using AI/GenAI to transform the organization is the most important innovation priority for ITDMs, while their business peers consider it far less important.

Such differences in perspectives and opinions must be addressed through strategic interlocks. If ITDMs and BDMs were to unite and to build a shared vision and unified approach, inclusive of IT's strategic and future-looking viewpoint and business decision-makers' tactical perspective, innovation goals may be achieved more efficiently and holistically.

Building your innovation muscle, together

Whether you are improving processes for efficiency or tackling an industry-wide disruption, any idea, big or small, can be an impactful innovation. It's been one of Dell Technologies' core beliefs for the past 40 years and kept us innovating relentlessly to drive human progress for the next 40.

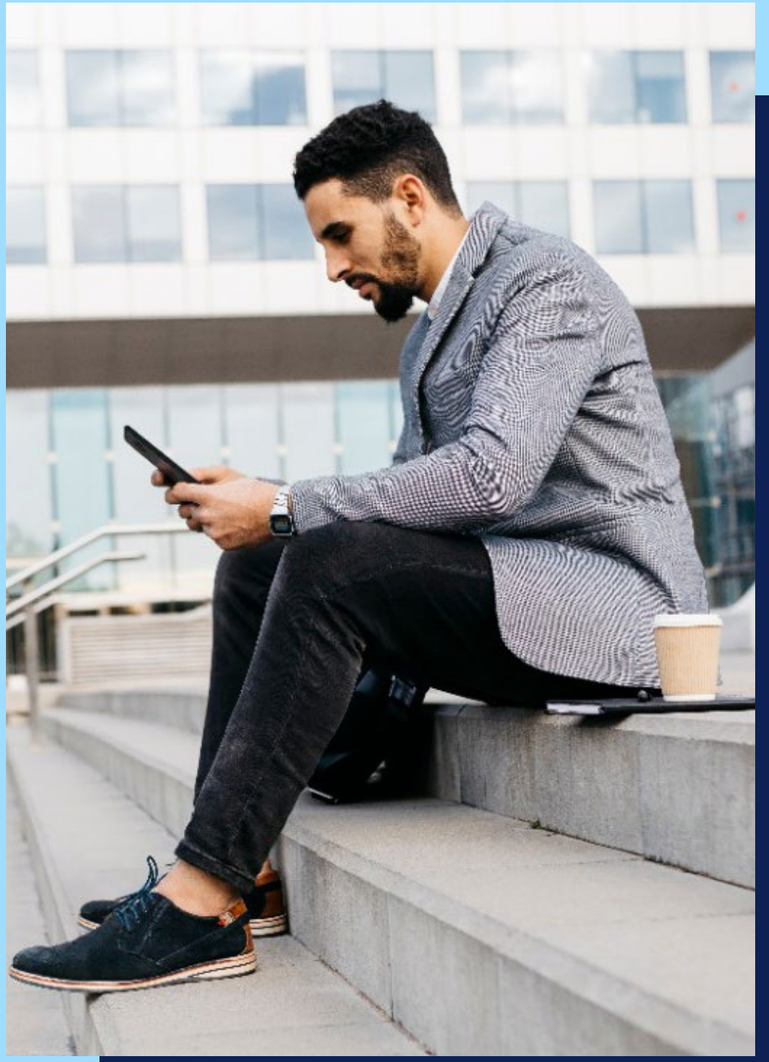
We don't know what the future holds but what we do know is that now is the moment for ideas to take shape and transform into action and impact.

To build their innovation muscle, successful innovators must ensure there is a strategic partnership between business and IT that promotes a value-driven, future-forward strategy and the deepening of human-machine relationships across the organization.

And you don't need to do it alone.

With Dell Technologies as your innovation catalyst, you'll overcome barriers to innovation, uncover new possibilities, and shorten time to value. Whether you engage us to empower your employees or entrust us with your most complex data challenges, together, we'll turn ideas into innovation and innovation into outcomes.

Learn more at **Dell.com/InnovationCatalyst**



Research methodology

Dell Technologies commissioned independent market research specialist Vanson Bourne to conduct this research, called Innovation Catalysts. It is a continuation of last year's **Innovation Index**. Instead of benchmarking the status of innovation across organizations, it dives deeper into organizations developing their own innovator DNA, leveraging the right data and insights, and putting people first.

The study surveyed 6,600 respondents from organizations with 100+ employees from across the following regions: North America, LATAM, EMEA, APJ and Greater China. These organizations are from a range of public and private sectors.

All respondents either drive or influence innovation in their organization. Of the total number of respondents, 3,300 are IT decision-makers (ITDMs) and 3,300 are business decision-makers (BDMs).

The interviews were conducted online and via telephone in September, October and November 2023 and were undertaken using a rigorous multi-level screening process to ensure that only suitable candidates were given the opportunity to participate.

DELL Technologies

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