

State of Global Innovation

New Industry Report 2015



Introduction

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The Innovation Imperative

Hardly a day passes without a major business story about innovation or disruption. Driverless cars simultaneously threaten both the insurance and automotive industries. Manufacturing must grapple with new, cheaper production technologies — of which 3-D printing is only the best known. Robotics and automation software may soon replace human workers in a wide array of industries. FinTech innovations promise to change the world of banking and finance. Cleaner ways to produce energy are becoming cheaper, and more likely to change power generation forever.

Meanwhile, the line between “startup” and “corporation” continues to blur. Ten years ago, Google and Amazon were still young companies; Facebook had just been founded. Many other fast-growth companies have transitioned very quickly from scrappy startup to global behemoth. Uber, Tesla, and

Airbnb are the most commonly mentioned among a dizzying variety of new enterprises that are changing industries from the ground up.

Against this backdrop, many storied corporations and institutions have begun to feel an **Innovation Imperative** to keep pace with the changes around them — and ideally to lead those changes as well.

One of the most striking findings from this year’s study was the sheer number of companies that view innovation as a priority, with 95% of respondents saying innovation is on the management agenda.

This task will be difficult: large organizations are typically matrixed and bureaucratic, and as such are not typically nimble, agile, or adaptive. Shareholder expectations, brand equity, and entrenched culture and processes are among the very real, and very powerful, forces that keep companies from becoming more innovative.

Yet we feel confident that innovation as a core competence will only grow stronger within modern-day enterprises. Organizations that fail to develop innovation capabilities are already being steadily replaced by others that are better suited to the competitive forces of a digital, networked, and entrepreneurial 21st century world.

About the 2015 Study

We conducted the 2015 State of Global Innovation study with the goal of assessing how innovative today’s mid- and large-sized organizations have become.

This does not mean counting patents, measuring revenue growth, or tracking the number of new product releases. At best, these are crude proxies for the more fundamental innovation capabilities necessarily to consistently succeed in the 21st century. Instead, we focused on three primary lines of inquiry:

Innovation Mind. A sustained ability to innovate cannot flourish inside a large organization without a solid understanding of the strategies and levers required for innovation’s success.

- Do today’s organizations view innovation as a priority? If so, *why*?
- Have today’s organizations defined innovation’s mission or purpose? Has this sense of mission been translated into an organizational lexicon to be shared and reinforced more broadly?
- Do today’s organizations understand the obstacles and challenges involved in building and scaling sustainable innovation practices? If so, do they have an active plan or strategy for addressing them?

One of the most striking findings from this year’s study was the sheer number of companies that view innovation as a priority, with 95% of respondents saying innovation is on the management agenda.

The 2015 study was an opportunity to push our research into new areas. We added new questions on innovation budgets, resources, metrics, methods, and much more. We also spent considerably more time speaking with respondents in qualitative follow-up interviews, which allowed for a deeper understanding and richer analysis throughout.

Innovation Body. The professional discipline of innovation draws on specific skills, workplace habits, and processes — many of which are not well distributed in today's mid- and large-size organizations.

- What innovation governance structures are in place within today's organizations? How well do they reinforce the necessary connection between corporate strategy and innovation objectives?
- To what degree have today's organizations mobilized sufficient resources — both financial and human — to support innovation's mission?
- How thoroughly have today's organizations mastered, and implemented, the best practices of innovation methods and processes?

Innovation Results. The ultimate proof of an organization's capacity for innovation lies in its ability to drive outcomes, and (just as important) to measure and improve innovation's impact over time.

- What sort of business results do today's organizations expect from their innovation efforts?
- What benefits have today's organizations received from innovation to date? How well aligned are these outcomes with the desired results?
- What obstacles remain in the way of better outcomes, and what are today's organizations doing to overcome them?

Summary of Findings

This year's study builds on a previous effort from 2013. To analyze trends over time, we kept many aspects of the study constant, including research

topics, question wording, and specific lines of analysis. Therefore, it is hardly a surprise that a number of major 2015 results are broadly consistent with our findings from two years ago:

- **Innovation continues to be important.** In both studies, nearly 95% of companies consider innovation a management priority. And more than half have created deliberate governance structures to coordinate their efforts. Although both numbers edged up slightly, neither constituted a significant difference. And innovation is clearly on the agenda for the long-term: in both studies roughly two-thirds of companies reported it has been a priority for two years or more.
- **Follow-through is still the hardest part.** Again in 2015, an overwhelming proportion of respondents believe that innovation execution is their primary roadblock. Most companies already have enough ideas, and are reasonably good at finding and prioritizing the best opportunities among those ideas. But the ability to consistently launch successful downstream innovations remains elusive.
- **Three types of innovation leaders dominate.** As in 2013, there are three typical models for innovation leadership. Most often, the CEO him/herself is the primary innovation driver for the organization. Almost as often, this responsibility rests with a formal head of innovation or Chief Innovation Officer. In still other cases, a cross-functional innovation team or executive steering committee holds the reins. Sometimes two or more of these leadership models co-exist within the same company.

The 2015 study was also an opportunity to push our research into new areas. We added new questions on innovation budgets, resources, metrics, methods, and much more. We also spent considerably more time speaking with respondents in qualitative follow-up interviews, which allowed for a deeper understanding and richer analysis throughout. As a result, new and noteworthy findings emerged:

- **Innovation funding and resources are scarce.** Permeating the study was a collective sense from respondents that although innovation has been deemed important, extremely thin resources are at their disposal. Neither cash nor staff is available for innovation efforts in any scaled quantity. Therefore, at most organizations, innovation ef-

forts are piloted either by a very lean dedicated crew or as a fly-by-night operation involving folks with other mainline responsibilities.

- **Culture eats innovation for breakfast.** Throughout the study we found evidence of the damage done to innovation efforts by entrenched corporate culture, bureaucracy, and politics. In the comments to almost every question, respondents lamented how the invisible forces of conservatism and complacency conspire to thwart well-intended efforts to advance the innovation cause. This looms as the primary lurking issue standing in the way of innovation success for most large organizations.
- **An innovation vanguard has emerged.** Developing a sustainable innovation competence within a large organization is extremely hard. Yet, a small sub-set of today's companies have built impressively mature, well-funded, purpose-driven innovation programs. These organizations enjoy sophisticated innovation management structures and can point to a growing record of major innovation achievements. Although such examples are still in the minority (by far), their increasing longevity and successes may help them serve as role models for other firms.

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The State of Global Innovation

There was once a time, decades ago, when impactful innovations came from large organizations: NASA, Bell Labs, Xerox PARC, etc. More recently, startups and entrepreneurs have become innovation's darlings, not just in developed countries but increasingly on a worldwide basis.

Yet, major corporations and institutions still account for a large proportion of the global economy. Their marketplace activities, spending and hiring decisions, and even their attempts at innovation carry outsized consequences. Yet all is not well. This year's survey suggests they are failing to innovate — despite a consistent, broad-based, deep-seated need.

To the degree that sounds disheartening, it's important to place our findings in context. Making large, lumbering, bureaucratic corporations into more agile and innovative organizations is a very difficult task. It takes years of hard work, dedication, and persistence to build a new core competence across a global organization. All the more so when that competence is innovation.

Fortunately, the majority of leaders we interviewed are aware of both the enormity of the task, and the seriousness of its purpose. They understand the need to transform and innovate. Through hard lessons over the past few years, they have come to appreciate the time and effort it will take to do so. Although successes have been neither immediate nor resounding, early efforts to do better are underway. That wasn't previously the case, even as recently as 2013.

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Many companies hear the distant specter of external change, but not loudly enough to force unconditional action now. Yet for most organizations, it's just a matter of time before the need to innovate becomes a deafening roar, and heretofore tentative efforts suddenly become urgent, accelerated, and well-funded.

However, there is still much work to do, even for the most innovative "vanguard" companies. Respondents have reported early successes in creating a better and more collaborative workplace culture, but most are still severely resource-constrained and have far more to prove than they have to spend. Innovation is still a political axe and PR slogan just as often as a serious, purposeful business discipline. And actual results don't yet match stated objectives — which themselves are still too hazy.

In 2015, the state of global innovation is more advanced than in 2013. But the path ahead is still longer than the ground covered thus far. For innovation practices to become mainstream and standardized, several threshold conditions must appear:

- **Leaders learn to make the specific case for innovation.** Most companies today seek to innovate for reasons that are too fuzzy, too formulaic, or both. Either they mimic well-trod existing paths to innovation (e.g., traditional New Prod-

uct Development) or they push forth frenetically with inchoate goals and objectives. This leads to halfway-serious efforts and halfway-serious management commitment. It's time to sharpen the sword and be very specific about why innovation matters, and what steps need be taken to achieve those objectives.

- **Innovation develops a new business language.** Notions of efficiency, predictability, and risk analysis still dominate the language of executive management. This is a very poor conceptual backdrop for decisions about innovation portfolios — which inherently carry a very high variance of expected return. Innovation requires a new and complementary management lexicon, one capable of funding and measuring core activities on innovation's own terms. This means giving equal credence to opportunity cost, creative possibility, and the promise of entrepreneurial action.
- **The world continues to change, even faster.** Innovation is a nice aspiration, but still feels decidedly alien in most corporate settings. Ultimately, forcing functions provide the best impetus for change. Many companies hear the distant specter of external change, but not loudly enough to force unconditional action now. Yet for most organizations, it's just a matter of time before the need to innovate becomes a deafening roar, and heretofore tentative efforts suddenly become urgent, accelerated, and well-funded.

We hope this study serves as a useful tool for organizations around the world that aspire to be more innovative. Further, we hope that when the time comes for our next study on innovation practices worldwide, we have even more reason to be optimistic.

Innovation Mind

Leaders view innovation as a priority, but struggle to mobilize the organization.

Over the years, we've encountered many companies that approach innovation by exploring every possible avenue, often all at once. They operate under the mistaken belief that merely spinning up an ever-increasing array of innovation-related activities will eventually make the organization more permanently innovative.

This viewpoint has merit — to a point. Although it's hard to know in advance which specific activities will stick, we've never seen a single company develop robust and sustainable innovation capabilities without an overall sense of what innovation means for their organization, why it's important, and how they can best orchestrate deliberate efforts to improve.

So first, we turn our attention to the **Innovation Mind** — an organization's level of shared understanding about how and why innovation fits into their business.

Defining the mission

First, we'll state an obvious but important truth. If you don't know what innovation means, it's impossible to know whether you're succeeding. Far too many companies omit this crucial first step.

The predictable result is that almost any initiative or outcome may be declared "innovative". Most typically, the very word "innovation" steadily becomes a political axe instead of a rallying cry to mobilize around fundamental value.

This should not imply that innovation's mission must be chiseled into stone and never changed — far from it. But an evolving, and shared, elucidation of its core purpose is important. This begins with defining whether, and why, innovation matters to the organization.

For most of today's companies, innovation is clearly an important priority. Nearly all respondents (95%) reported it has been on the management agenda for at least some amount of time (see Figure 1). Further, the vast majority of these respondents (67%) listed innovation as an ongoing priority for at least the last two years, and more than one-third (37%) for more than five years. Not only is innovation a management priority; at most companies it has been so for quite awhile.

Yet the seriousness of purpose underscoring innovation's inclusion as a "management priority" spans a very wide range — even among organizations with a long tenure. Populating one end of the spectrum are companies for which innovation is unquestionably a substantive priority, not just a slogan. A sizable minority of respondents cited specific evidence of innovation's ascendancy as a management priority — including the creation of the Corporate Innovation Center, the initial hiring of a Chief Innovation Officer, or installation of a dedicated innovation team.

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How long has Innovation been part of your organization's management agenda?

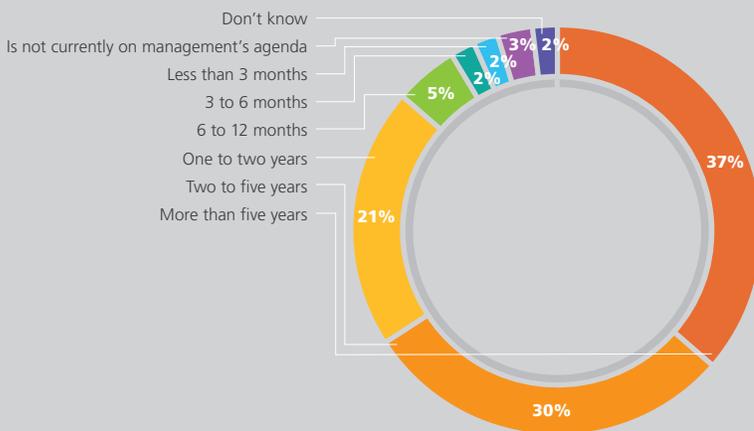


FIGURE 1

“The emphasis [on innovation] has changed throughout the years. Early on it was a separate group doing more ‘break through’ applications. Then it was more integrated with an emphasis on spending a % of everyone’s time. Then split into a hybrid separate group leading the % of everyone’s time plus a completely separate offsite group to work on disruption. Innovation in general has recently been made a company wide major objective.”

innovation as formally appearing “on the management agenda”. One software company’s situation is fairly representative: *“The emphasis [on innovation] has changed throughout the years. Early on it was a separate group doing more ‘break through’ applications. Then it was more integrated with an emphasis on spending a % of everyone’s time. Then split into a hybrid separate group leading the % of everyone’s time plus a completely separate offsite group to work on disruption. Innovation in general has recently been made a company wide major objective.”*

Perhaps a better way to explore whether, and how, companies are defining the innovation mission is why they believe innovation is important. In several areas, the drivers for innovation have changed substantially since our 2013 study. Nearly half (46%) of respondents cited increased competition as a primary reason to innovate (see Figure 2). Almost as many (43%) said the same for their need to scale new concepts and ideas faster. Both represent a dramatically higher proportion of respondents than in 2013.

On the other end of the spectrum were a plethora of companies with only the vaguest reasons why innovation has become a management priority. For example: *“We’re a software company. Though perhaps not a formal process, innovation has always existed.”* Another justified her answers by stating: *“Innovation has been a core capability of our organization since inception.”* Although they may be true, these statements betray the likelihood that innovation is not actually a management priority in any meaningful sense.

Less surprising were the high scores for two perennial innovation drivers — changing customer needs and a changing technology environment. Nearly all respondents mentioned changing customer needs as a priority, including 61% who listed it as a primary driver. Although substantially lower, the 47% who mentioned a changing technology environment as a primary innovation driver was enough for second place.

Still other respondents have seen innovation efforts wax and wane over the years, creating a difficult decision about whether (and when) to date

Many respondents listed multiple factors as innovation drivers, emphasizing that it can be very difficult to separate them cleanly. Industry trends re-

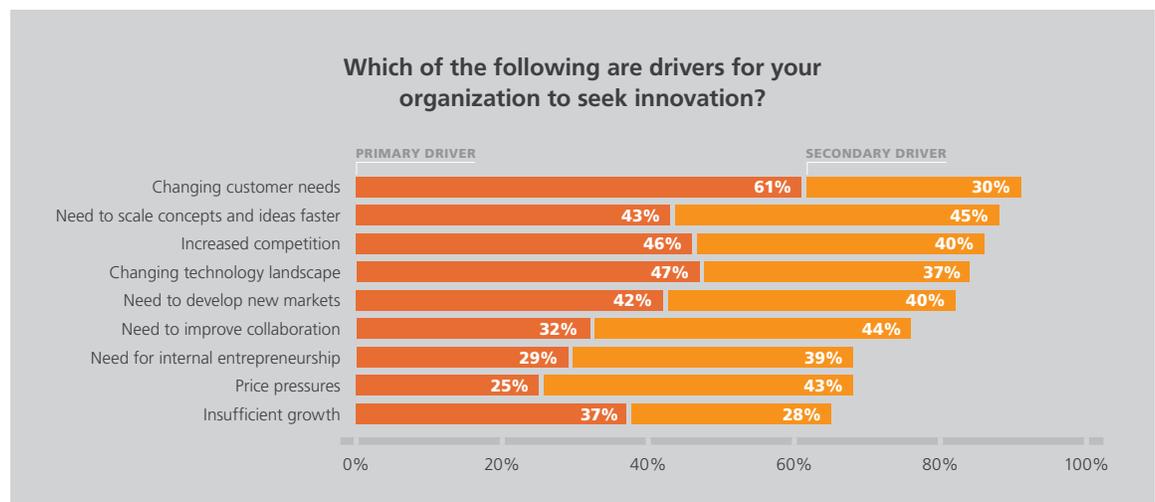


FIGURE 2

“There is a difference between corporate aspirations [for innovation] and true living and breathing deployment at the operational BU level.”

quiring action or response often involve causes that span technology, marketplace demand, and structural ecosystem factors, among others. One respondent put it succinctly: *“All of the above [innovation drivers] work in combination to each other...”*

Overall, much progress still remains before most of today’s companies have crisply defined the core reasons for innovation. Many think of it as a tactical reality, others see it as fundamentally strategic. In many cases, the reasons for innovation differ from one executive to another within the same company, as in the case of a large life sciences company: *“All too often, the sense of innovation’s mission depends on who you’re talking to that day.”*

Creating a Lexicon

Even if innovation’s overall purpose is clear, the organizing principles in place to achieve innovative ends often are not. This breeds confusion, and ultimately cynicism, about innovation across an organization and can doom repeated innovation pushes to inevitable disappointment.

That’s why sustainably innovative companies excel at developing a shared lexicon for how innovation happens on-the-ground. They actively shape dialogue across the ecosystem — including but not limited to their employee base — about what innovation means and why it matters. When embodied in operational structures and scaled processes, this shared lexicon is uniquely capable of guiding repeatable, concerted action throughout the organization.

Some of today’s companies have gone a long way to shape the innovation lexicon. We talked with a senior leader at a product company in the education space, who explained that all of their innovation efforts revolve around driving better student outcomes. This strategic focus drives a specific slate of activities, with well-defined language and process for coordinating those efforts globally.

Most respondents, however, had far less well-defined innovation ambitions. Some expressed a disconnect between what leadership thinks, and what is happening underneath: *“There is a difference between corporate aspirations [for innovation] and true living and breathing deployment at the operational BU level.”* The aspirations of senior management are not always translated effectively into verbiage that’s meaningful for everyone else.

Sprinkled throughout our study were comments that showed only a tentative management commitment to innovation. The result was an organizational innovation vocabulary that either didn’t fully exist, or was constantly changing and at times contradictory. According to one respondent, *“Our company is really interested in building an innovation engine, but it’s not part of the strategic planning process.”* Tentative steps such as this create enough confusion that the shared lexicon necessary for scale and sustainability may never take root.

One particularly important lever for building a shared language of innovation — traditional as it may seem — is funding and resourcing. Where the

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Approximately what proportion of your company’s annual operating budget is devoted to innovation?

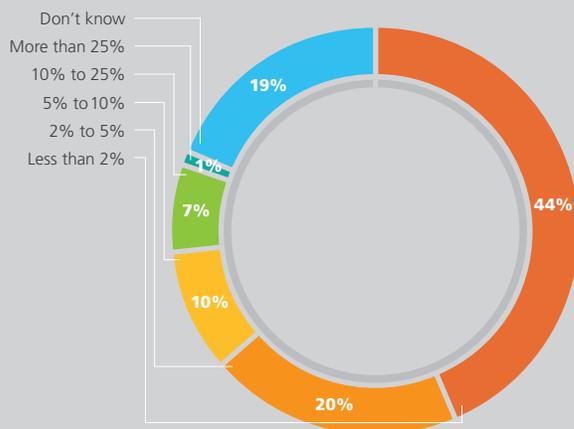


FIGURE 3

money flows, so too do the opportunities to create structure and persistent sense of mission. Yet it's clear that most companies haven't fully exploited funding as a way of scaling innovation. When asked what percentage of corporate budgets are devoted to innovation, nearly two-thirds (63%) either didn't know, or said less than 2% (see Figure 3).

Worse, respondents expressed a decidedly low level of confidence in their answers. Many openly admitted having no clue what the real answer was. Even C-level executives had trouble answering this question: "Not sure on the answer. It is more that 2-5% but not sure what it is." This general uncertainty is a telltale indicator that most of today's organizations have not put meaningful effort into defining what counts as innovation and how it's pursued.

In particular, many respondents had trouble deciding whether general R&D spending should count as "innovation". At least one respondent confided in a phone interview that he changed his mind several times before deciding on an answer. Others believed that "new product" R&D belongs to innovation spending, but not other types of research or engineering. Most admitted they were just guessing, and that there was no consistent viewpoint within the company for tracking innovation spending.

Persistent shared beliefs about innovation development just as much from the way performance outputs

"Still finding the best way to present the metrics, but a little of everything is currently being included to see which metrics have more traction within the C-Suite."

are tracked and measured (see Figure 4). Overall, financial metrics dominate, with 71% expressing either moderate or aggressive use. One respondent summarized the general climate nicely: "The focus is on the eventual benefit to the bottom line." For most companies, such measures are still the best — and in many cases the only — tool in their arsenal.

Yet despite active use of financial metrics, several respondents made no effort to hide their misgivings. Some worried that financial metrics, especially when applied too early in the innovation cycle, effectively kill promising ideas before they have a chance to shine. Others professed outright disdain for the approach, for example: "I believe that our company's metrics are hostile to innovation."

Few fewer organizations make aggressive use of strategic, qualitative, or engagement-driven measures of innovation. Nonetheless, substantial subsets of today's companies do report "moderate" use — including 48% for qualitative metrics, 38% for strategic metrics, and 32% for engagement metrics. In each case, this number is roughly triple the percentage reporting aggressive use.

This is noteworthy. Underlying the high levels of "moderate" use was a sense of general experimen-

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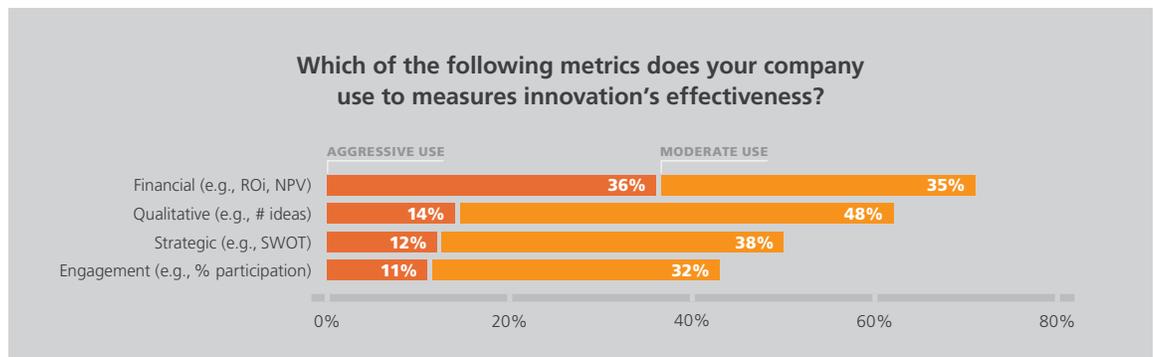


FIGURE 4

“The problem was the view that middle management should judge ideas and select what is good. However, this was driven by politics, patch protection and views on authority/power/control.”

tation, in honest attempts to discover what works best. As one respondent explained: *“Still finding the best way to present the metrics, but a little of everything is currently being included to see which metrics have more traction within the C-Suite.”* Despite less consistent use than financial metrics, these other options do not seem to engender uncertainty about whether the right metrics were being employed.

This illustrates a wider point about the contemporary state of innovation practices at today’s larger organizations. In most cases, no one — neither the C-suite executives, nor the middle managers, nor the staff underneath them — have a clear sense of how to best orchestrate a large innovation rhythm at enterprise scale. A climate of trial-and-error and experimentation pervades funding decisions, choice of metrics, and level of certainty about the correct drivers and outcomes. The best practices are still being written.

Understanding the Obstacles

Many companies are capable of producing occasional flashes of innovation brilliance. Yet sustained organizational mastery of innovation is very difficult to attain. Doing so entails deep cultural and structural changes to how the company operates, how it interacts with customers and the marketplace, how work gets done, and how employees are motivated. To make these changes, it’s necessary to surmount a series of difficult obstacles that typically hamper organizational transformation.

Judging by this year’s study, most companies are well aware of this need. Most respondents demonstrated a keen sense of the obstacles standing in the way of innovation mastery. Paramount among these obstacles, according to 55% of respondents, are factors related to organizational culture and mindset (see Figure 5). Frequently cited cultural problems included general risk aversion and fear

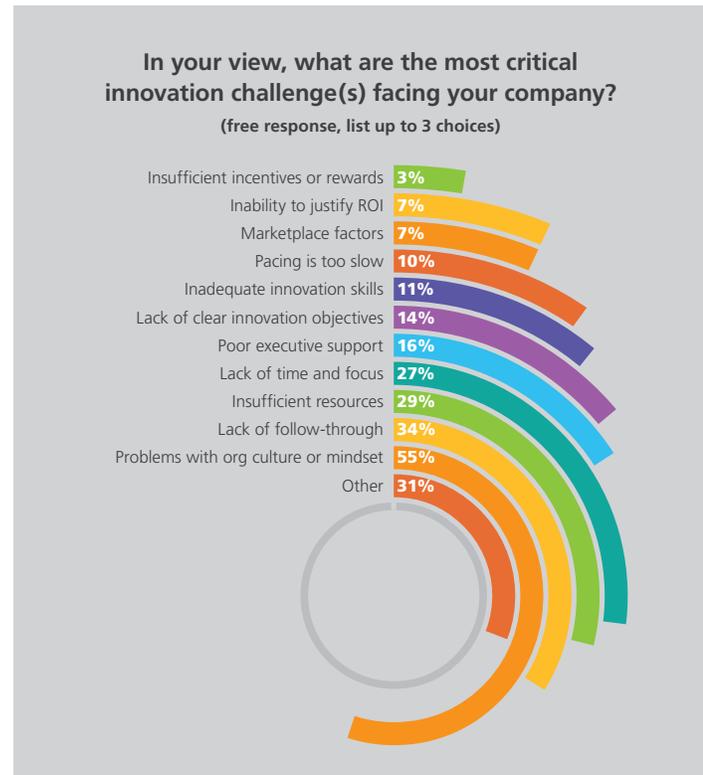


FIGURE 5

of innovation, entrenched hierarchical and bureaucratic behaviors, and (most of all) an inability or unwillingness to think differently or change habits.

Surprisingly, only 3% of respondents mentioned the lack of proper incentives or rewards as a roadblock to innovation. Regardless of seniority level, there was a common belief that most folks within today’s organizations genuinely aspire to be innovative.

Rather, in many cases, the hidden force of corporate politics emerged as the culprit. According to one respondent: *“The problem was the view that middle management should judge ideas and select what is good. However, this was driven by politics, patch protection and views on authority/power/control.”*

A senior executive from a large global corporation also blamed politics for ruining innovation’s chances. He explained that early innovation efforts were succeeding through an internal venturing and incubation unit that reported directly to the CEO. But this eventually gave way to a corporate Innovation Center governed by a distributed committee with decisions dominated by “process and politics” rather than a true accounting of inherent value.

Another major cultural problem was the obsessive focus on short-term results and metrics. This produced a chronic scarcity of time and attention

“It is fine to say we innovate and have the capability to do so, but to embed this as a part of our culture and not a one off project is a challenge.”

devoted to innovation: “...everyone is already very busy.” A distracted organization proved especially crippling for companies with complex and sophisticated innovation ambitions (new products, business models, etc.). Such innovation efforts cannot be easily time-boxed to allow an already-busy workforce to participate meaningfully. As one respondent explained: “It is fine to say we innovate and have the capability to do so, but to embed this as a part of our culture and not a one off project is a challenge.”

Similar themes emerged when we asked respondents about the innovation challenges facing their industry as a whole (see Figure 6). One-third (33%) named some sort of complacency, incumbency, or resistance to change as the major industry problem. Many of the above quotes could easily describe the general sentiment here as well.

Although sizable proportions did mention external challenges like regulatory and policy constraints (21%) and changing customer preferences (21%) as industry-wide innovation roadblocks, these issues never came up in free-form comments or in follow-up phone conversations. Over and over again, when allowed to speak freely, respondents singled out culture, politics, and time/attention as the primary inhibitors of innovation.

It can be difficult to have a serious discussion about “soft” issues such as the role of organizational culture in innovation success. As a result, culture is typically cast aside as either too fuzzy, or too inevitable, to bother addressing explicitly. Yet, if today’s organizations want to focus on the real reasons they fail to achieve their innovation ambitions, “culture” in all its manifestations cannot be ignored.

Through the anonymizing safety of a confidential research study about innovation, an overwhelming number of corporate leaders obsessed about organizational culture — and the politics, entrenched habits, and fear of failure that hold innovation back. If today’s organizations cannot also *publicly* acknowledge and address these issues, they may never be able to sustain innovation efforts at desired success levels.

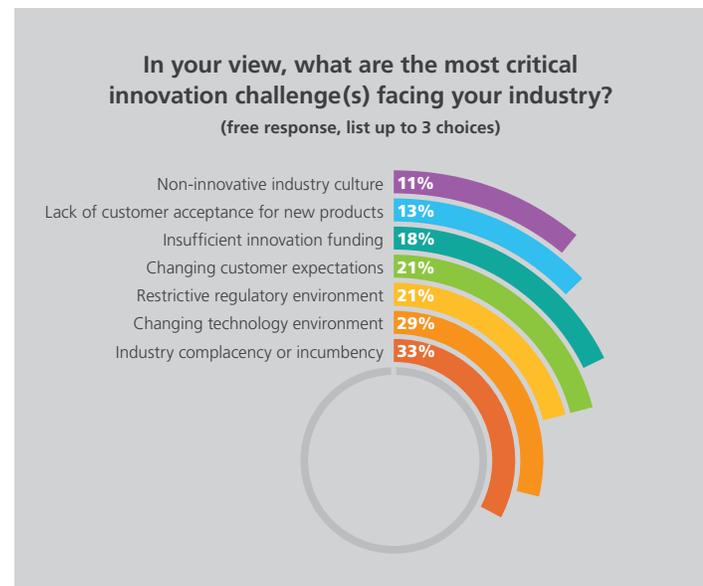


FIGURE 6

Innovation Body

Companies are creating innovation structures, but resources are slow to follow.

While it is true that almost any company can learn to be innovative, it is also true that the vast majority of today's mid- and large-size organizations have little experience with scaled and sustainable innovation practices. Most still need to acquire, and then strengthen, key innovation skills across the workforce, and then build and scale core innovation processes that bridge these skill sets into a force for progress. Finally, they need suitable governance structures to ensure that innovation efforts achieve scale, rigor, and permanence, and which ensure proper innovation investments and decision-making.

This is what we refer to as the **Innovation Body** — the set of skills, tools, and structures that consti-

tute an organization's on-the-ground capacity to innovate. Our goal in this section was to understand the degree to which today's organizations have been able to methodically cultivate and leverage these core capabilities.

Organizing for Success

When leadership declares a mandate for innovation, it's easy to over-engineer the top-down structures that enable its success. Innovation must be grounded in grassroots efforts to build the right work habits to foster creativity, collaboration, and new ideas.

Yet, the most innovative companies we know have all created governance structures and management levers — both formal and informal — to guide, shape, and support innovation initiatives and activities. They've created Innovation Labs, hired innovation leaders, built innovation teams, and molded purpose-designed Innovation Centers. These spaces, places, and people create the struts and scaffolding for innovation to graft onto and thrive from both the top-down and bottom-up efforts.

We turn first to innovation governance structures. Roughly comparable numbers of respondents reported that their organizations had corporate innovation teams or programs integrated with the business (37%), central innovation teams acting independently (22%), and innovation efforts organized only at the divisional or departmental level (28%) (see Figure 7).

The differences between the "corporate and integrated" versus "centralized and independent" innovation units was somewhat blurry. Several respondents made it clear that "governance" might be an overly generous descriptor, as their innovation structures were either very new, very lightweight, or both. As one respondent put it, "We have a centralized team, but it is challenging to capture all ideas and no one is fully dedicated to this role." Another respondent said, "We have two individuals dedicated to advancing the innovation agenda. Most of this is in support of process."

How is your organization structured to manage innovation efforts?

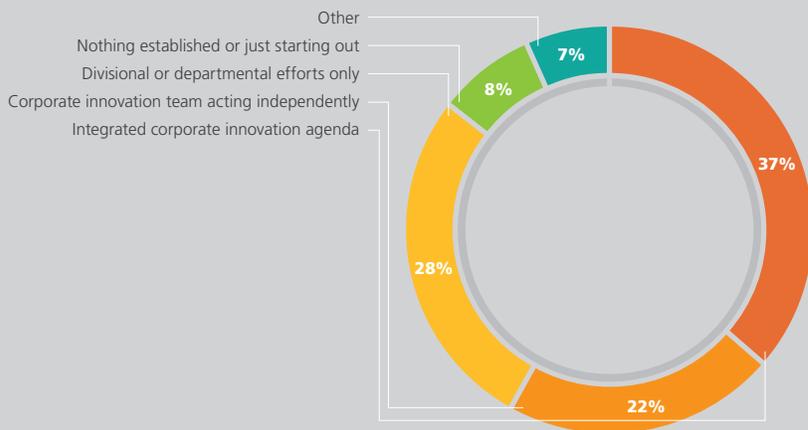


FIGURE 7

"We have a centralized team, but it is challenging to capture all ideas and no one is fully dedicated to this role."

2 Innovation Body

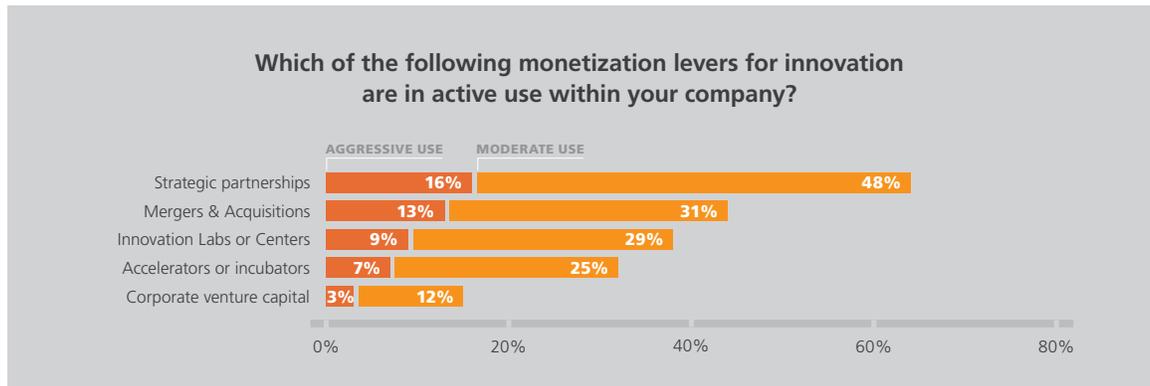


FIGURE 8

The scale and ambition of such efforts is a far cry from other, more sophisticated organizations. In one particularly salient example, a multinational food industry conglomerate described dedicated innovation management structures within each of the portfolio businesses, as well as a corporate-level Innovation Committee with a small full-time staff. This two-tiered governance design allows the portfolio companies to pool and coordinate resources and insights centrally, while still advancing their own specific innovation agendas.

It's also important to create levers for funding, exploring, and launching innovations (see Figure 8). Overall, current adoption of these levers for innovation purposes is quite low. Despite the surge of corporate venture capital (CVC) activity over the past decade, only 3% of respondents reported its aggressive use in developing innovations internally. More tried-and-true corporate efforts such as strategic partnerships and M&A also scored poorly, used aggressively by only 16% and 7% of today's companies, respectively.

Just as confounding was the lack of informed commentary from respondents about their answers in this section. According to one, the connection between innovation and other levers of corporate-development is sporadic: "Previously Mergers was used, but this is regressed to a point. This may grow again." Another respondent was even more

blunt in explaining the absence of these investment and monetization levers: "We are not putting much money into innovation at this time."

It should make obvious sense that corporate innovation efforts have shared interests with other corporate development activities such as M&A, partnerships, and external venturing. The apparent lack of connection and coordination between these efforts signals a significant weakness in the ability to organize appropriately for innovation success.

Mobilizing Resources

Without appropriate resources in place, it's very difficult for an organization to innovate consistently and repeatedly. Yet, even some organizations with sophisticated innovation strategies and governance structures expressed a persistent worry that innovation was being understaffed, under-funded, or both.

Let's start by looking at human resources — and in particular, who is actually leading innovation efforts within today's companies (see Figure 9). The majority of respondents (78%) believe their CEO is ultimately the innovation leader, at least partially if not completely. This is hardly a surprise, given innovation's supposed importance to the organization's future, as we've seen earlier in this report.

More interesting is the innovation leadership role being played by cross-functional teams, which exist at 68% of today's organizations. Although these teams are fairly ubiquitous, their activities and levels of influence vary widely. For some companies, the cross-functional innovation team is little more than a catch-all term with little leadership substance.

According to a respondent from a major US-based healthcare company, their cross-functional

"We have two individuals dedicated to advancing the innovation agenda. Most of this is in support of process."

2 Innovation Body



FIGURE 9

innovation group “has some leadership sponsorship, but has spotty initiatives and is very much driven by grassroots efforts.” Several other respondents noted that although a nominal cross-department innovation team exists, it often meets sporadically, engages in episodic or uneven activities, and is minimally empowered by senior leadership.

Yet in other companies, the cross-functional innovation team was operating as a senior-level innovation steering committee, and thus able to tap into significant resources and influence across the organization. According to a senior executive at a multinational chemicals company: “The main programs are signed off at the Innovation board (CEO, CTO, Heads of Business, CFO and Head of Strategy). Programs, main platforms are owned by the business, and driven by Innovation teams with the BUs...”

Another important leadership role is the Chief Innovation Officer (CINO) or head of global innovation. In this year’s survey, 32% of respondents

named the CINO as the key figure in driving innovation across the organization. Yet the CINO’s precise responsibilities are far from universal. Whereas some CINOs have full authority for creating and executing the company’s innovation strategy, most are more limited to a supporting “helper” role, as in the case of a large life sciences company: “Driving innovation is the responsibility of all, but the chief innovation officer and the innovation team are responsible for enabling innovation and providing the process and tools.”

Regardless of who leads innovation, resourcing is a topic of central concern. Given the low proportion of companies reporting aggressive investments in any major spending category, it appears that innovation is being systematically under-funded in most of today’s companies (see Figure 10). Only 17% of companies reported aggressive investment in Innovation Lab spaces — which was still higher than dedicated innovation staff (16%), innovation tools

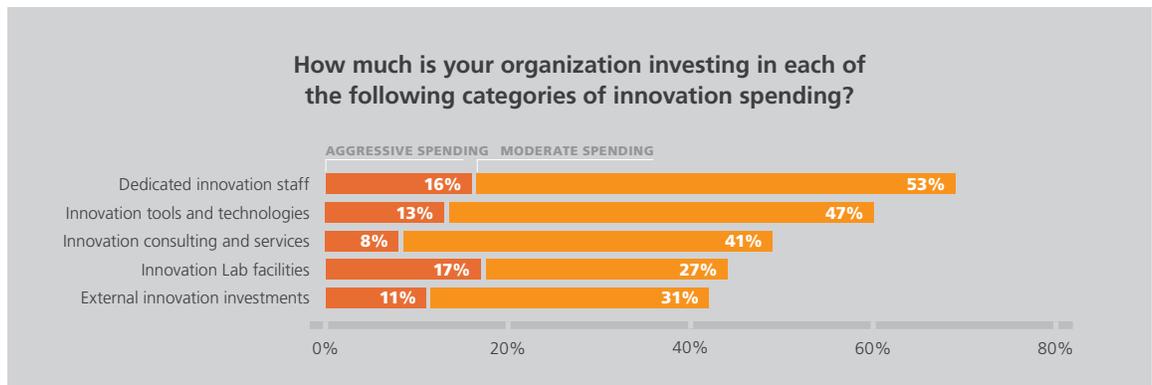


FIGURE 10

“[Our] company has struggled with taking the leap to make these investments. The need has been identified and appreciated, but focusing on where to start has been the challenge.”

and technologies (13%), or any other spending category. Much more common were companies reporting “moderate” innovation spending levels, ranging from 53% to 27% depending on the category.

Generally, we found an optimistic-yet-tentative attitude surrounding innovation resourcing decisions. Some organizations have invested heavily in only one area (incubators, tech scouting, and external venturing in particular), and wish to make these efforts successful before funding wider innovation efforts across the board.

Even more common are those companies willing to fund multiple limited innovation efforts in an exploratory way, but are not ready to scale these investments aggressively until they better understand the most appropriate model for success. As we learned from a global technology corporation: *“[Our] company has struggled with taking the leap to make these investments. The need has been identified and appreciated, but focusing on where to start has been the challenge.”*

Staffing levels, in particular, remains a challenge for most organizations. Although “dedicated inno-

vation staff” scored better than most other funding categories, it is also the area where the effects of under-resourcing have been felt most keenly. Many respondents rely heavily on part-time or volunteer innovators, without whom the innovation program would be nonexistent. Yet volunteer contributions tend to be sporadic, and tend to disappear overnight when there are shocks to the core business. The result is that innovation successes materialize much more slowly and haphazardly than they otherwise might.

Building Capabilities

It's hard to instill an organization-wide innovation competence by a top-down mandate alone. Most innovation activities feel foreign at first within a large corporation, because they tend to cut laterally across normal workplace habits and practices. To assess the state of global innovation in 2015, it's therefore critical to understand how (and whether) today's companies are building strong innovation habits on the ground.

We began by asking about the methods and practices used to conceive, build, and launch new innovations (see Figure 11). Across eight rather disparate classes of business methods associated with innovation, respondents expressed a wide range of adoption. Although Voice of Customer, Stage Gate, and Customer Insights practices had the highest use, there were no clear winners. Each innovation method seems to be employed in at least a healthy sub-set of today's organizations.

Qualitative follow-up interviews revealed two important trends. First, although certain innovation

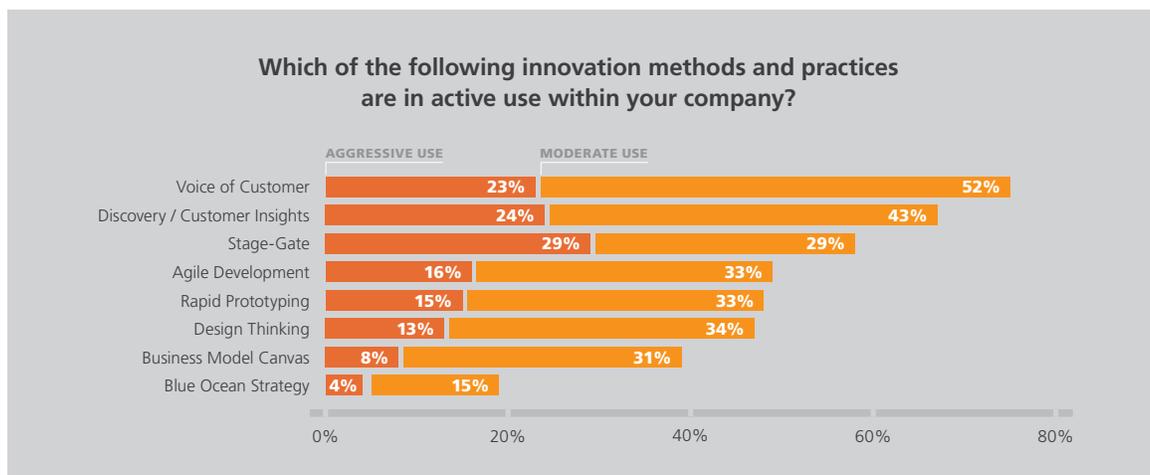


FIGURE 11

2 Innovation Body

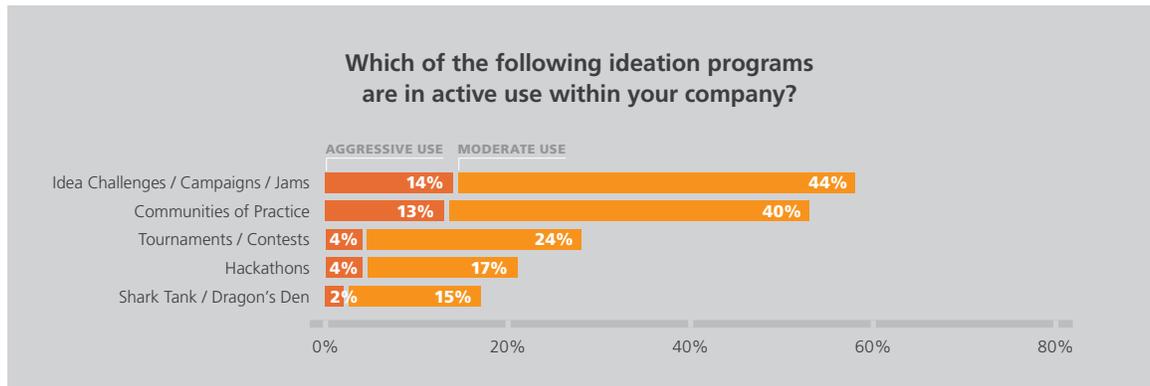


FIGURE 12

practices may be in active use, they are not always well understood or effectively employed on a consistent basis: *"I say moderate use as these methods are used by our innovation team, but do not have broad adoption across business unit teams."* Another respondent was even more blunt, saying *"No one seems to know how to use these methods."*

Second, too many organizations apply innovation techniques in an inconsistent or undisciplined manner. According to one executive in the insurance industry: *"We probably use too many [of these methods], we should use less and be more focused."* Voicing a similar lament, several other respondents noted that because innovation methods are often applied scattershot and in localized settings, they fail to create synergies and scaled practices throughout the innovation lifecycle.

One powerful way to improve understanding and usage of innovation methods is to involve a greater number of stakeholders (employees, customers, partners, etc.) in the innovation process. To learn how far today's companies have gone in doing this, we asked about whether they're creating broader engagement in idea-generation and idea-development processes (see Figure 12).

On the surface, these numbers are dispiriting. Very few organizations claimed an aggressive use of any specific ideation program — the highest being idea challenges at merely 14%. Furthermore, hackathons, despite escalating buzz and attention, is used aggressively by only 4% of today's companies and used moderately by only 17%.

Why such low adoption? Several companies have used ideation programs in the past, only to stop later. Sometimes, this is due to a painful failure and/or lack of belief in the approach itself. According to

"We probably use too many [of these methods], we should use less and be more focused."

one respondent: *"We have done all of these things at some point in time — but have abandoned them all."* Others have never tried any of these programs and remain skeptical or uncertain of their value.

In other cases, the hesitation stems not from past poor performance, but rather from lack of institutional will to move forward. According to a senior executive at a multi-billion dollar logistics, services, and financial corporation: *"We have applied a test of an idea challenge/campaign with Dragon's Den review/selection using lean startup approach to idea development. This was very successful for disruptive ideas...the prototype showed both the value and benefits. But investment was needed in a better tool and some people. This was where it stopped. The business wants to continue the 'prototype' approach, with no investment or staff."*

Whatever the reason, today's organizations are not making strong progress with engagement and collaboration. This will become a problem for many organizations, if it hasn't already. Although innovation can be incubated initially within a functional silo or firewalled as an elite unit, its efficacy quickly reaches a ceiling without productive involvement from a much broader set of internal and external stakeholders.

Innovation Results

Business outcomes from innovation still lag the stated objectives.

Innovation efforts only have value if they yield positive outcomes for the organization. This point may seem obvious, but is often ignored. Because efficient, scaled execution is normally an area where large companies excel, leaders often assume that once promising ideas have been developed, the rest of the innovation lifecycle will follow naturally.

Yet this is typically not the case. More often, the tangible results come slowly, as innovation capabilities steadily gain better connections to the existing implementation and commercialization functions across the organization. Especially for more radical innovations, the proper launch channels may not be immediately clear — and in many cases must be built from scratch.

Throughout the innovation portfolio, we cannot overstate the importance of ensuring proper execution and timely follow-through. In this section, we take a closer look at how well today's companies are faring.

Setting Objectives

At first, many leaders are tempted to keep innovation's goals and objectives decidedly loose — due to the belief that creativity cannot be mandated. Although it's not helpful to impose a straightjacket

“Accelerating or offering more opportunity in existing markets we cater to is a priority.”

on would-be innovators, setting clear objectives is nonetheless crucial to repeatable successes. Innovation flourishes largely as a consequence of appropriate direction, guidance, and constraints.

For today's companies, the most common innovation objective is strikingly clear. New product introduction was named by 47% of respondents as the top innovation goal (see Figure 13). This makes obvious sense. For many industries New Product Development is both the traditional base for homegrown innovation efforts, and still the largest and most natural place where innovation practices tend to thrive.

Not coincidentally, product development is also an area where innovation needs are most keenly and persistently felt, particularly in fast-moving and highly competitive industries. As one respondent from a large high-tech company remarked,



FIGURE 13

3 Innovation Results

“Trials have shown the value [of innovation], both in approach and benefit. However, the issues of culture and middle management feeling at risk are stifling the ability to add value at a group/organisational level. In short, innovation is good, as long as we don’t have to change.”

“Accelerating or offering more opportunity in existing markets we cater to is a priority.”

Surprisingly, the need for cost savings and efficiencies ranked second place among innovation objectives. Although still far behind new products (16% versus 47%), respondents’ answers make clear that it is an important priority, and thus the preponderance of second-place (16%) and third-place (22%) votes it received are also meaningful.

There are important reasons why these two sets of priorities claimed top honors. Both tend to flow from existing, well-established practices within large organizations (especially new product development), and as such can be augmented and accelerated without fundamentally re-tooling large parts of the organization.

Furthermore, both represent ways to deliver relatively quick and easily documented business results. This is especially true of cost savings, for which the payback period can be in weeks or months, rather than years (new products) or decades (new business models).

Achieving Results

Given the apparent need for new product innovation above all else, it might be expected that Product Innovation would also top the list of innovation benefits. Yet by far the most common innovation benefit, cited by 56% of respondents, was organizational culture change (see Figure 14). By comparison, “new and/or better products” fared dismally, mentioned by 19% of respondents and ranking 5th overall.

One reason is that some respondents considered product improvements not as “innovation” but as

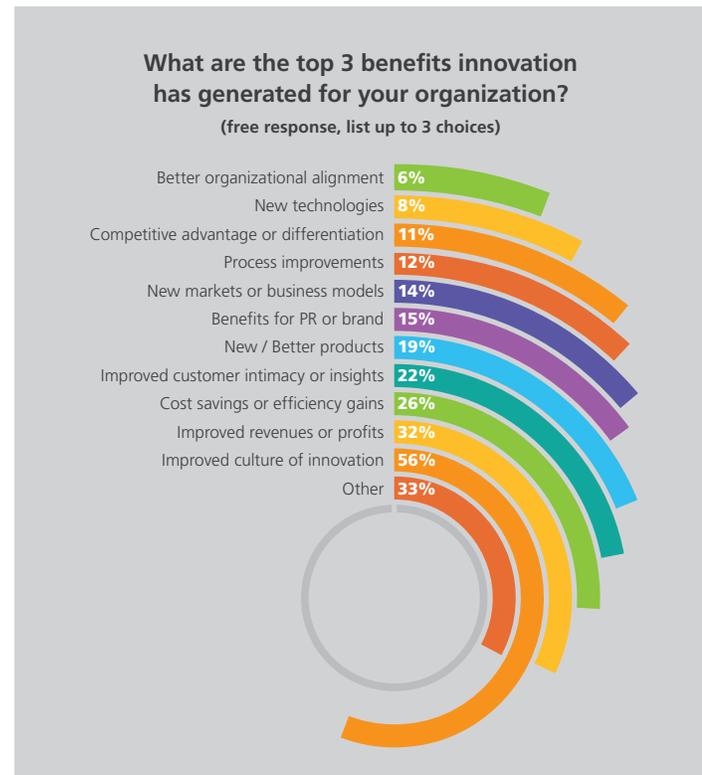


FIGURE 14

an inherent output from R&D or product management. As one respondent noted in his comments on this question: “I’m referring to my specific ‘Innovation’ role rather than the innovation that has been in use for many years as people develop products.”

Furthermore, many of the other top-five innovation benefits — including revenue growth, cost savings, and customer insights — typically have shorter innovation cycles than new products. For example, revenue-oriented ideas with quick suggestions to bump sales can often be implemented immediately, with payback in a single business quarter. Cost savings improvements may start generating returns in less than a week. New products, by contrast, can take months or years to build, and then take just as long again before it’s clear whether they will succeed in the marketplace.

More difficult to explain is the overwhelming preponderance of internal cultural improvements among respondents’ listed benefits from innovation. As the head of innovation at a large life sciences company reminded us, organizational culture is one of the slowest and hardest things to change within a company. Many leaders struggle with culture change for a decade or more, and many inno-

3 Innovation Results

vation programs start showing results only in the tail end of this period.

Yet, despite the headline focus on driving new products, we believe that most leaders are perceptive enough to realize that some of the most important early results from innovation need to address culture change that will allow better, faster, and deeper innovations in the future. One particular C-suite executive in the telecom industry made this painfully obvious to us with his comments: *“Trials have shown the value [of innovation], both in approach and benefit. However, the issues of culture and middle management feeling at risk are stifling the ability to add value at a group/organizational level. In short, innovation is good, as long as we don’t have to change.”*

Tackling the entrenched culture and bureaucracy within their own organizations seems to be an implicit priority for many leaders, along with the more admissible immediate results from innovation such as from quick wins in boosting sales and driving down costs.

Optimizing Potential

As a cohort, this year’s study participants proved to be surprisingly realistic about where to focus their efforts, and what type of innovation results to expect over certain time horizons. Yet their actual expectations vary wildly, depending on the organizational context and general innovation readiness.

In most companies today, innovation’s mission is not well defined, and solid innovation governance structures do not yet exist — which is natural in the early years of building innovation capabilities. In such situations, the main blockages to success

“In a resource constrained cyclical business, when we are slow we cut overhead (innovation projects), and when we are busy we are focused on execution.”

are overwhelmingly centered around execution and follow-through. A whopping 50% of respondents chose “turning ideas into tangible results” as the main obstacle to innovation success (see Figure 15).

Over and over, we heard that companies have plenty of good ideas, but struggle to keep promising innovation projects from falling into a black hole. As one respondent put it: *“[the innovation pipeline] looks more like a tunnel than a funnel.”* This problem becomes even more difficult when organizational attention is consistently placed on short-term business interests: *“In a resource constrained cyclical business, when we are slow we cut overhead (innovation projects), and when we are busy we are focused on execution.”*

Yet, there is hope. A growing number of organizations in our 2015 study voiced cautious tones of confidence. For many, innovation programs have weathered enough storms that the future is at least reasonably secure, if not yet entirely well defined. More of the obstacles and constraints are well known, and thus the path to success is more obvious than before.

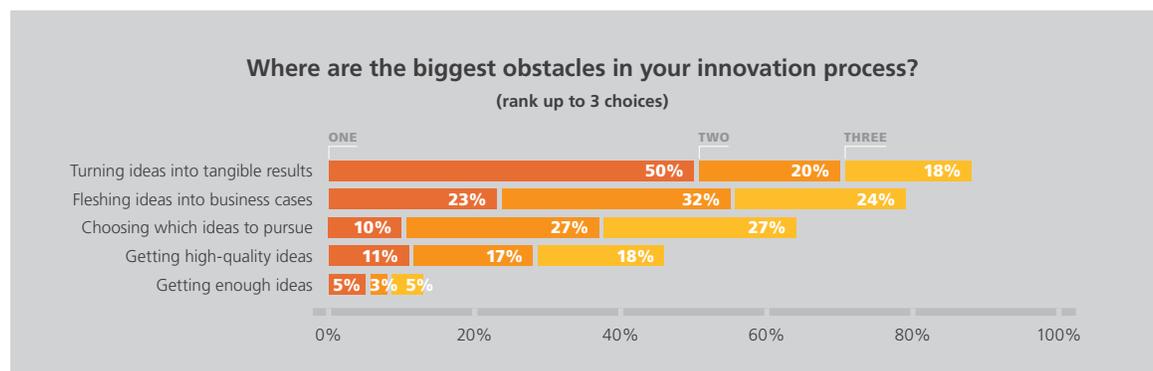


FIGURE 15

Methodology

The 2015 State of Global Innovation study was conducted first as an online survey, followed by qualitative interviews by phone with selected respondents.

The survey was fielded during three weeks between May 7th and 28th, 2015. Respondents were asked a wide variety of questions about the nature of innovation at their firms, including many open-ended questions that allowed for richer commentary and explanations. Following the survey, we spent the summer conducting qualitative phone interviews with a representative sample of survey respondents.

In total, 200 qualified respondents answered the survey and are included in the data presented in this report. Survey respondents were business leaders from companies with 200 or more employees. Invitations to participate were sent to potential

respondents screened from an opt-in database of business leaders who self-identified as being interested in innovation.

The survey sample therefore may exhibit a certain degree of non-random sample bias, which we believe skews the findings slightly toward “innovation optimism” (i.e., a belief that innovation is, and/or ought to be, actively managed within the enterprise).

However, because the presence of broad innovation optimism is the only known source of sample bias, we believe that the findings are still broadly representative of the contemporary state of global innovation management practices.

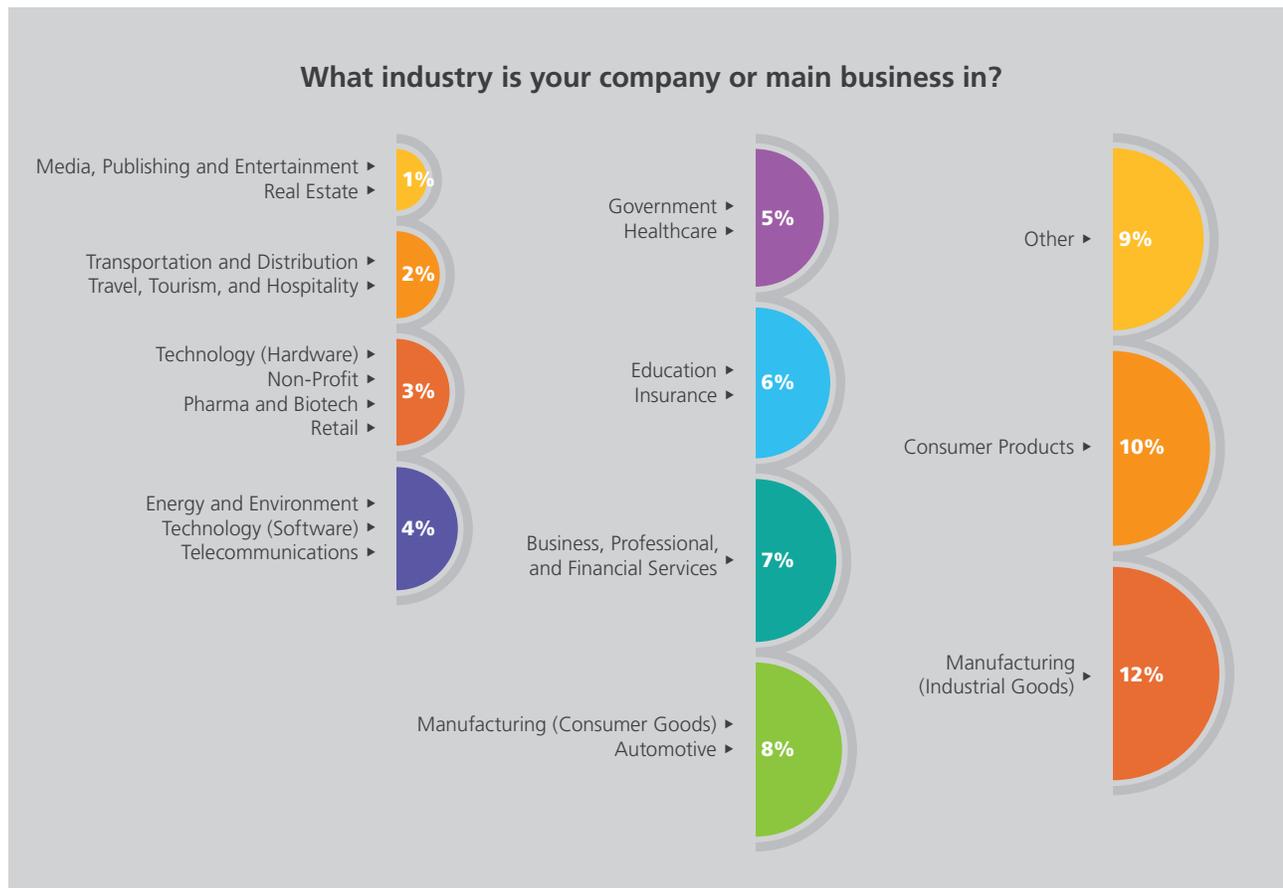


FIGURE 16

What is the size of your organization in terms of human resources?

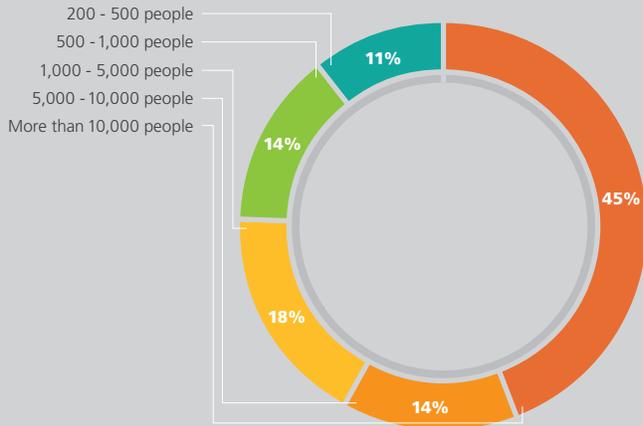


FIGURE 17

What is the size of your organization in terms of revenue?

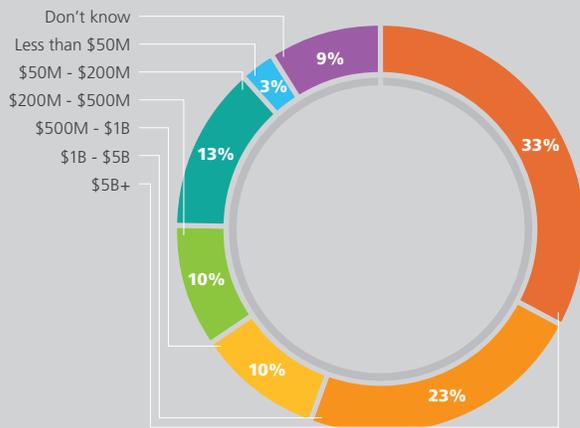


FIGURE 18

Firmographics

Responding companies represent a wide range of industries, particularly weighted toward manufacturing, consumer products, and business and financial services (see Figure 16). This may be due both to the relative prevalence of these industries among the volume of the world's companies, and also due to the relative importance of innovation to these industries.

Organizational size was skewed towards larger companies, both in terms of employees and revenues. A whopping 45% of respondents work at companies with 10,000 or more employees worldwide (see Figure 17). And 33% of respondents hail from companies with more than \$5B+ in annual revenues (see Figure 18).

We believe this makes sense, given the self-selected nature of the sample — because large companies have the most need to innovate, yet the hardest time doing so because of their sheer size and bureaucratic inertia against change.

Respondent Profile

The base of respondents reflects our desire to attract mid- to senior-level managers involved with, or implicated in, innovation processes and decisions within their organizations. As a result, 80% of respondents were middle management or higher within their companies, including 35% senior management or C-Suite executives (see *Figure 19*).

Also to be expected is a respondent base skewed toward job functions in R&D / engineering (20%) and corporate strategy / corporate development (17%) — as these functions represent the most common drivers of innovation within the enterprise (see *Figure 20*). Nonetheless, the relative breadth of job titles and functions is striking, and representative of the fact that innovation in the 21st century increasingly permeates the entire organization, rather than existing as a silo primarily contained within either R&D or corporate strategy.



FIGURE 19



FIGURE 20

Contact Information

If you would like to learn more about the findings and implications of this study, schedule a press briefing, or inquire about follow-up research, please contact us.

Study Details and Follow-Up

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