

Executive summary

Most companies struggle with innovation. It is difficult to come up with new ideas continually, particularly ones that people will pay for. To promote innovation, many researchers suggest executives cultivate a specific mindset: one that is more open, nimble and resilient—as well as willing to fail. Otherwise, they risk what the Stanford University psychologist Carol Dweck calls “CEO disease”, or the peril of the fixed mindset. In her book *Mindset: The New Psychology of Success*, she notes that the power that CEOs wield allows them to “surround themselves only with the good news of their perfection and the company’s success, no matter what the warning signs may be.”

Global companies that are furthest along the innovation path have put in place processes or cultural norms to foster good ideas and implement them quickly. By monitoring and analysing how

initiatives develop, leading firms spot trends and create opportunities for innovation. They also have systems in place to learn from failed innovations.

In April 2012 the Economist Intelligence Unit conducted a global survey of 226 senior executives, sponsored by Oracle, to explore the characteristics of companies that are adept at promoting innovation. The principal research findings are as follows:

- **Effectively capitalising on multiple resources to pursue innovation remains elusive for many companies.** The bigger the company, the more likely innovation is to be siloed. Yet those who take advantage of good ideas from all departments, including sales and customer service, are reaping results. Survey results confirm that the IT department is underutilised

Who took the survey?

The survey questioned 226 executives worldwide. The respondents were based primarily in North America (27%), Western Europe (27%) and the Asia-Pacific region (27%), with the rest from the Middle East and Africa, Latin America and Eastern Europe. Of the total number of respondents, 27% were from the US, 10% from India, and 8% each from the UK and Canada. In terms of seniority, 24% were at the CEO level, 15% at the managerial level, and 13% at the director level. With respect

to organisation size, 56% were from companies with revenue of US\$500m or more annually, with 17% of those with revenue of US\$10bn or more. Respondents represented a wide variety of industries, in particular manufacturing (13%), healthcare (12%), IT and technology (10%) and professional services (10%). Functionally, respondents identified their primary roles as management, business development, finance and marketing/sales. ■

and could be more engaged in educating business leaders about new technology trends, enabling business units to adapt processes rapidly and identify pockets of innovation in the enterprise.

- **Companies furthest along the innovation path utilise customer data and customer participation in their product and service improvements.** Fifty-four percent of respondents in this group actively collect customer feedback and analyse customer data for clues to innovate effectively, but in different ways. Companies with US\$500m or less in annual revenue are more likely to incorporate customer feedback in product design and testing by means of direct interviews. Large companies, those with annual revenue of US\$1bn and above, also utilise customer feedback, but are more likely than smaller companies to tap into social networking and sentiment analysis in search of customer-focused innovations.
- **Leading companies make use of disruptive technology trends to either foster innovation or improve business processes.** Big data and social media were identified in the survey as offering the most opportunities for companies seeking to innovate effectively. Big data are seen as best suited for developing new pricing models, while social media are seen as strongest for improving customer experience and developing new ways of selling. However, concerns around perceived security risks, lack of talent to implement or lack of understanding of the benefits of these technologies persist.
- **Many companies have no plan for learning from failed ideas.** Nearly half (49%) of respondents said their company had no system to deal positively with failure. Among companies that do have such a system (38%), redeploying employees involved in a failed innovation from one business unit to another has been a successful strategy. It has proven a good way of maximising learning and promoting greater success in subsequent innovation initiatives. ■



Introduction

Only a small number of companies, such as Apple, are known for continually producing fresh thinking. And fewer still engage multiple business divisions in developing innovative ideas from within the company. Yet successful innovation promises business growth, and lack of innovation may spell decline. Moreover, a focus on innovation may open companies to entirely new business lines in addition to yielding incremental improvements,

says Greg Linden, an entrepreneur who was in senior positions at Amazon and Microsoft. To achieve “fresh thinking that provides value people will pay for” (an Economist definition of innovation cited in a March 2012 edition), each company needs to decide how innovation will be approached, who will be the driving force behind it, and how to maximise the necessary resources to support it. ■

1

Getting everyone involved

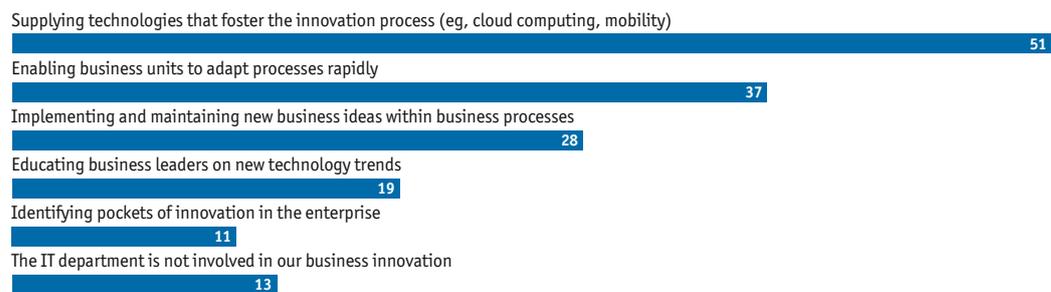
While common sense might suggest that cross-departmental support for innovation would be a good thing, getting everyone involved is not a widespread practice. Survey respondents said they typically ask only certain departments for ideas, while other departments are relegated to implementation. Sales and customer service functions ranked high as innovation creators in our survey. This was especially true for respondents operating in the manufacturing, professional services and healthcare industries. Other departments, such as product development, marketing, research and development, IT and manufacturing, were also identified in our survey as supplying innovative ideas. In the view of respondents, those in the human resources, finance and distribution departments contributed less overall to innovative ideas than their colleagues.

Yet the IT department is identified in our survey as a key area of missed opportunity. According to more than half of respondents (51%), the predominant role of their IT department is to implement, rather than generate, innovation. The survey findings suggest broader opportunities await for companies that fully capitalise on all of their IT department's talents. Educating business leaders about new technology trends, enabling business units to adapt processes rapidly and locating pockets of innovation in the enterprise were identified as areas where the IT function can help spur business innovation. Our survey results suggest that some executives are underestimating the role played by IT, with 13% of respondents saying the IT function is not involved in innovation at their firm. Significantly, this figure falls to 6.7% for C-suite respondents—in other words, those at the top seem to know that most innovation



In your opinion, what is the role of your IT department in cultivating business innovation?

(% respondents)



Source: Economist Intelligence Unit survey, April 2012.

CASE STUDY Geeky Ventures: pushing down authority

“Usually, when large companies talk about innovation, they are looking with a wistful eye towards startups and their wild and crazy ways,” says Greg Linden, founder of Geeky Ventures, a US consultancy. “Large companies often long to move faster, to imitate startups, to create bold and exciting new products. This not only ignores the whirlwind of creative destruction that shreds all but the few, most visible successful startups, but also ignores that big companies are not and cannot imitate startups. Big companies have none of the life-or-death urgency that causes startups to pivot and make radical changes over late nights for one last shot at life before their last funding drains away.”

As a former principal engineer at both Amazon and Microsoft, Mr Linden should know how big companies can improve innovation. “Pushing down authority is key,” he says. “IT departments that can make their own decisions build tools to automate, do more with less, and build custom applications that tend to speed others’ productivity. Customer service teams that can make their own decisions start building tools to make it easier for customer service representatives to do their jobs, add applications to the company website to allow customers to answer more of their own questions, and tell product teams about suggestions from customers and problems customers keep seeing.”

The way Amazon implemented innovation was primarily through small projects and short project cycles, Mr Linden says

about his tenure there. “Developers and product managers could have a good idea, work in a small team for a week or two, and launch a new feature to the website, often as an experiment that only a percentage of customers saw, to check to see how much of a difference the idea would make,” he says, a process called A/B testing. “All this was done without management involvement and sometimes even without management knowledge.” While unsanctioned projects to improve productivity are common in business, as many as 38% of manufacturing and IT executives responding to our survey said they would appreciate more of the C-suite’s support to implement ideas.

At the same time, Amazon CEO Jeff Bezos occasionally set what he called “Big Hairy Audacious Goals” (or BHAGs) to help spur innovation, Mr Linden says. “Mr Bezos seemed very comfortable with the fact that his idea of a BHAG was almost certainly wrong in the details,” according to Mr Linden. “He wanted a big push to implement something like the idea, and then expected the iterative innovation of small teams on that idea to find the right version of the idea somewhere nearby.” Respondents in our survey similarly found success in deciding how innovation will be approached, who will be the driving force behind it, and how to maximise resources to support it.

The result of Mr Bezos’s call for innovation supported Amazon’s mission to provide every book, ever printed, in any language, Mr Linden says. ■

requires IT expertise.

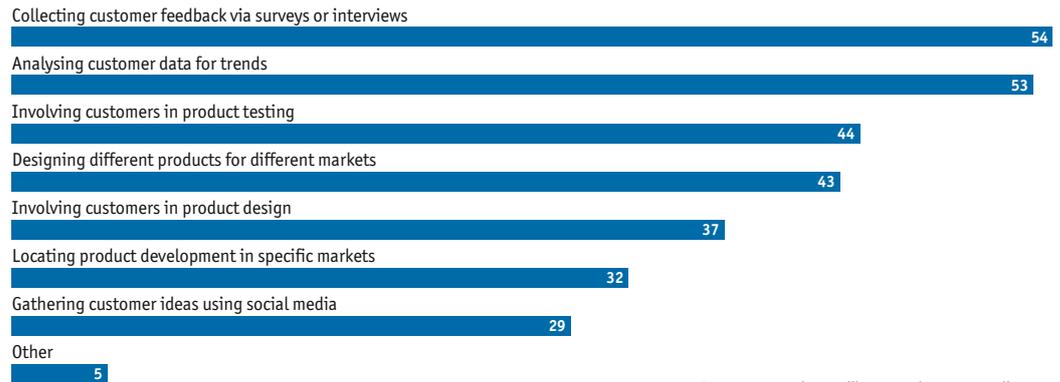
Our research confirms that the bigger the company, the more likely it is for innovation to be siloed. In our survey, companies with US\$500m or less in annual revenue were most likely to use as many departments as possible to bring innovative ideas to market. This is not surprising: smaller companies have fewer resources to build multiple separate departments. Inspiration in these smaller companies is typically more widely spread among departments such as marketing (46%), product development (40%), and research and development (36%). Large companies, those with annual revenue of US\$1bn and above, were most likely to have innovation concentrated in product development (53%), research and development (50%), and marketing (45%).

Nordstrom, a US department store retailer, is a

major company that has reaped rewards from involving all departments in innovation. The company empowers all employees to use their own best judgment in providing customer service as well as supporting sales staff. Employees may access sales figures from all departments and stores in the chain and compare performances. Managers use these data to implement new ideas for improving customer service and sales in underperforming areas. In one example, sales of sunglasses needed a boost. Sales managers asked the IT department to build an iPad application customers could use to choose the right pair of sunglasses. Instead of creating the software behind closed doors, the company placed software designers on the shop floor to hear customers’ specific requirements and get immediate feedback.

Says Jean-Marc Frangos, managing director of

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How do you focus your innovation efforts on the customer?Select all that apply.
(% respondents)

Source: Economist Intelligence Unit survey, April 2012.

BT Group, a major UK-based communications services company: “I always resist the temptation of allowing myself to be called chief innovation officer, because it would send the wrong signal to the rest of the company. Innovation is not something a special team does—it is something that must be ingrained in the mindsets and behaviours of everyone, and for which, ideally, there should be no special process.”

Involving more departments in the innovation cycle provides opportunities to improve not only products and services, but also collaboration between companies and their customers. Kaiser Permanente, a US-based healthcare provider, supports several innovation centres dedicated to improving patient care. Yet executives gather good ideas from all aspects of the business. Nurses and even patients initiated and drove three of the healthcare provider’s more successful projects. These entailed:

- Text message reminders for patients, in order to reduce the incidence of missed appointments.
- Neon-coloured uniforms and dedicated areas for special medical procedures to prevent interruption and reduce errors.
- Portable clinics in shopping centres and in suburban regions.

C-level respondents to our survey similarly identified the importance of involving customers in innovation cycles. Fifty-four percent of respondents in this group actively collect customer feedback and analyse customer data for clues to innovate effectively. This interaction allows companies to create specialised products for different markets, our survey found. Companies with annual revenue of US\$500m or less are more likely to involve customers in product design and testing as part of their innovation efforts, according to our survey. Large companies, those with annual revenue of US\$1bn and above, also utilise customer feedback, but are more likely than smaller companies to tap into social networking in search of customer-focused innovations. ■

2 Harnessing technology for innovation

For a company to excel at innovation, it needs to be willing to continually invest in ways to support innovative ideas and implementation strategies, says Richard Foster, the author of *Innovation: The Attacker's Advantage*. While a new technology might cost more to develop in the short term, it offers scope for new, higher limits of capability that enable the company to experience new levels of growth, says Mr Foster. Our survey asked executives about their companies' degree of investment in technology trends such as cloud computing, social media, mobile, and big data. In 2011 the US-based technology research firm Gartner considered all of these to be set for mainstream adoption within the near term (0-5 years). They are generally applicable across industries, and asking about how companies are

using them can shed light on their role in driving innovation and implementing ideas.

Among the more recent disruptive technology trends, respondents identified big data (massive amounts of data from various structured and unstructured sources) as being the most useful overall. Executives said they favoured big data for developing new pricing models (60%), developing new products or services (38%) and improving business processes (38%). Lack of analytical talent topped the list of concerns around big data.

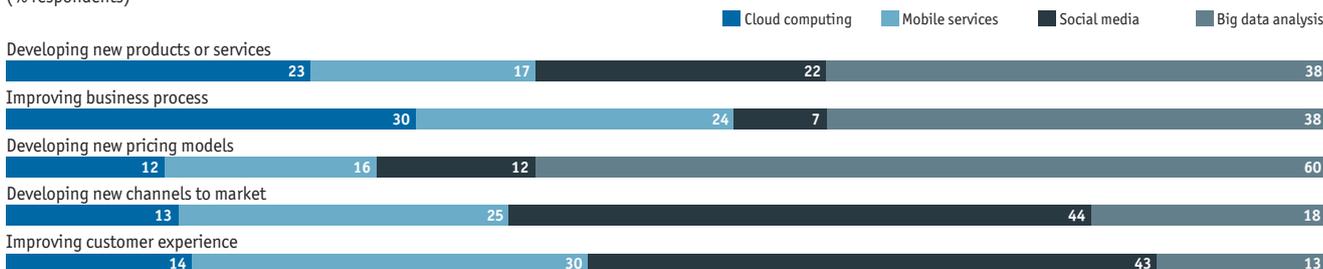
The C-suite selected social media as the emerging technology with the most potential to add value for developing new channels and improving customer experience (43%). Large companies, those with annual revenue of US\$1bn and above, were most likely to tap into social

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Applying disruptive technologies

For each of the following strategies, please choose which of the following technologies would best be suited for helping your company's business units innovate effectively.

Select one technology per strategy.
(% respondents)



Source: Economist Intelligence Unit survey, April 2012.

CASE STUDY HSBC Holdings: Overcoming cannibalisation fears

“It is very hard to leap forward and have faith that the new business opportunities will be even better than the existing ones,” says Pascal Nizri, a group strategy and planning executive with HSBC Group in Hong Kong. “But if the vision and the leadership are strong enough, and can build on a culture where people are empowered to innovate and allowed to fail, it is then possible for companies, even large, to reinvent themselves on a regular basis.”

HSBC Holdings is one of Europe’s largest banks. The financial services company currently manages more than 7,200 locations in more than 80 countries. Its lines of business include the usual consumer and commercial banking. But managers at HSBC knew they needed to differentiate its services from competitors and even from other businesses at HSBC. Driving tomorrow’s revenue streams in some cases meant replacing existing ones. From its start in 1991, private banking, investment banking and leasing were all developed as internal programmes and supported through organic growth.

HSBC’s First Direct, a telephone and Internet service launched 20 years ago by Midland Bank, challenged established banking

methods. The service operated largely independently from the parent company, but the business unit noticed a significant number of HSBC’s traditional banking customers migrating from conventional banking accounts. While some at HSBC viewed the newly launched division as a threat to overall business growth, group managers positioned the branchless bank as retaining within HSBC Group existing customers who were clearly at risk of leaving. Empowering executives to support First Direct and investments in innovation helped HSBC and its partners collaborate with merchants to accept payments through smartphones and mobile devices. The division currently serves 1.16m customers.

For HSBC, securing customer data and complying with regulations was critical to its expansion. Executives were empowered to respond to business opportunities by evaluating innovative tools such as cloud computing and data analytics to support their decisions. In this way, executives determine how HSBC can take advantage of these developments, prevent cannibalisation of existing products and services as well as support business goals, concludes Mr Nizri. ■

networking in search of product innovations. Respondents from smaller companies were more likely to turn to social media for insights into developing product pricing plans. Amid soaring growth of social media adoption, smaller companies are likely to come to rely on social data for a wider array of business insights. A 2012 US study of companies with fewer than 1,000 employees conducted by SMB Group, a market research company, identified a 63% year-on-year growth of social media adoption by smaller companies.

While social media are an obvious tool for engaging customers, executives in our survey said a lack of understanding of the benefits of social

media remained a barrier to creating an innovation culture. According to management consultants Accenture, 60% of their clients still consider themselves to be social media novices. Interest in social data remains high, but many companies are only just beginning to capitalise on the potential.

Although respondents identified several technology trends as catalysts for innovation initiatives, perceptions about security risks linger over cloud computing and mobility. These concerns are common regardless of the company size, industry or geographical location. Only a handful of executives in our survey (15%) said they are not hindered in adopting any of these technology trends. ■

3

Changing mindset against failure

One of the surprising results from the survey, and one of the biggest missed opportunities, is how few organisations seemed to be learning from their mistakes. More than one-half of respondents reported that their organisation either did not have a programme to re-examine failed ideas (49%), or they did not know whether such a programme existed at their company (13%). Lack of a follow-up programme means respondents' companies invested time, money and other resources in a failed innovation without finding out what went wrong. At a minimum, companies with no programme to re-examine failed ideas run the risk of reinventing the wheel and failing again in the future.

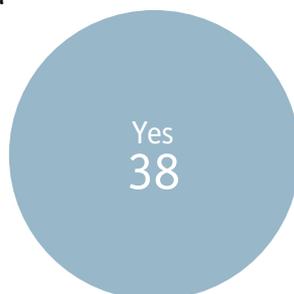
Besides conducting a thorough post-mortem

review that includes internal communication about the lessons learnt, companies should ensure that the team involved in the failed innovation is placed strategically into the next projects, where learning can be maximised, says BT's Mr Frangos. Other experts pointed to the importance of redeploying personnel to gain fresh perspectives. As Carol Dweck notes in her book *Mindset*, changing the parameters of a problem, including the people working on it, can positively alter the outcomes. "Scientists are learning that people have more capacity for life-long learning and brain development than they ever thought. Of course, each person has a unique genetic endowment. People may start with different temperaments and different aptitudes, but it is clear that experience, training and personal effort take

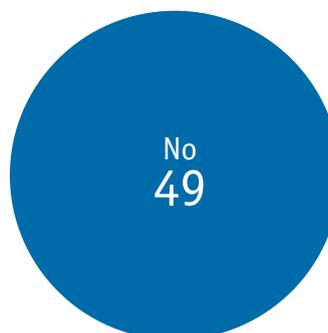


Overall, does your organisation have a support system to respond positively to ideas that fail?

(% respondents)



Yes
38



No
49



Don't know
13

Source: Economist Intelligence Unit survey, April 2012.

CASE STUDY Lojas Renner

While many experts stress that an emphasis on systems can stifle the creative thinking needed for innovation, Brazil's Lojas Renner claims it can systematically innovate and create incentives for innovation throughout the organisation. The country's second-largest department store chain expanded from 99 stores in 2008 to 135 by the end of 2010. This reflects the growth of Brazil's domestic market; the country was the world's seventh-largest economy in 2011 and is projected to be one of the world's top five economies by 2014.

Leandro Balbinot joined the company as chief information and processes officer in 2008. In that role he helped the company learn to leverage its stores of collected retail data, making it easier to predict demand company-wide. Part of his goal was to implement a system to foster innovation.

"Innovation for Lojas Renner is a defined process commonly used to achieve measurable objectives," says Mr Balbinot. For example, the company logs all ideas in a centralised database, screens them and then focuses on implementing the most cost-competitive ones or those with the greatest potential added value. Measurable indicators such as net present value and return on investment are used to clearly identify the value of each innovation implemented. "The value of innovation comes

from achieving new levels of results that would not be obtained through continuous improvement," according to Mr Balbinot.

One way in which Lojas Renner encourages innovation is through a series of rewards and other incentives. Innovation and entrepreneurship are included as competencies in performance reviews; prizes and bonuses are distributed to people who come up with implemented ideas; and innovators are recognised in worldwide conferences.

At the same time, Lojas Renner protects people from "witch hunting" if an idea fails. "If people are afraid of making mistakes, creativity doesn't flourish," according to Mr Balbinot. "Mistakes are an important part of innovation." If the project plans were strictly followed, the project was conducted with a disciplined methodology and even then the project fails, it should be tolerated and the lessons learned should be shared, he says.

For all his confidence in Lojas Renner's system, Mr Balbinot recognises the need for flexibility, and that innovation requires discontinuous, quantum change. "When goals and objectives are set focusing on aggressive and consistent growth, it forces the teams to think out of the box," he says. "Continuous improvement becomes not enough to achieve these goals." ■

them the rest of the way."

Companies in our survey that do have a system to address setbacks (38%) vary their methods to re-examine failed ideas. As part of the review

process, respondents said they often restate the problem (35%), readjust project timelines (24%) and expand the amount of data (24%) leveraged in the innovation. ■

4

Conclusion

Our research suggests that there are a number of ways in which companies across all industries can increase business-led innovation. Respondents to our survey and our interviewees suggest a series of principles for business leaders to bear in mind when seeking to build a culture of business-led innovation:

- Culture comes from the top: it's up to the leadership to set a tone that makes workers feel empowered to innovate—and allowed to fail.
- Success in innovation is also about failure: redeploying members of teams involved in failed innovations can help to increase the prospect of success elsewhere by ensuring that learnings are disseminated.
- Pushing down authority is an enabler: empowering smaller teams to build their own tools to solve business problems helps to give rise to wider innovations.
- Encourage small iterative projects. These set up an environment in which repeated experimentation and learning refine winning ideas.
- Disruptive technology trends are empowering: executive respondents to our survey feel that the IT department should play a key role in educating business leaders about new technology trends. Knowledge is of course critical to using new technologies appropriately and effectively.
- Get everyone involved: look for opportunities to increase the cross-fertilisation of ideas between as many business units as possible. Encourage customer participation and customer data comparisons in innovation initiatives.

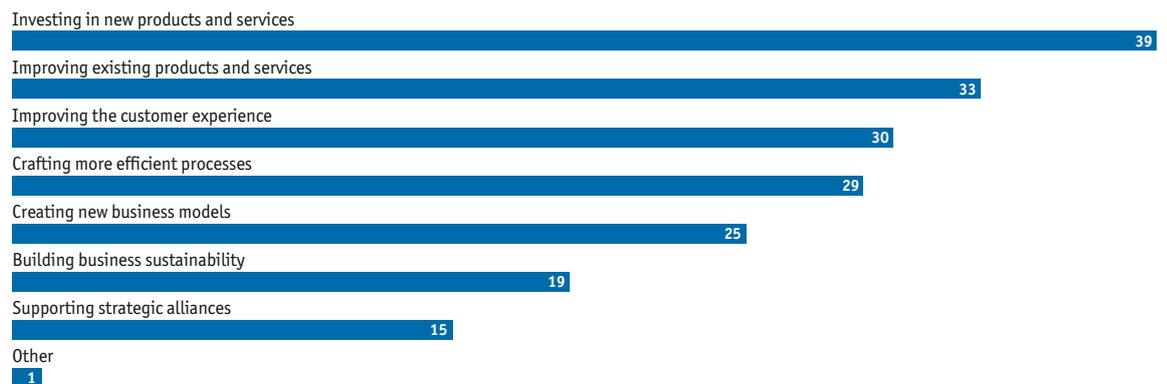
A growing number of companies are identifying areas within the business to support their innovation efforts. Departments historically tasked with developing new ideas, such as research and development, are finding fresh thinking coming from sales, customer service, IT, manufacturing, distribution, finance and human resources. By encouraging participation from more departments, leading global companies foster a culture that supports collaborative innovation. ■

Appendix: survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

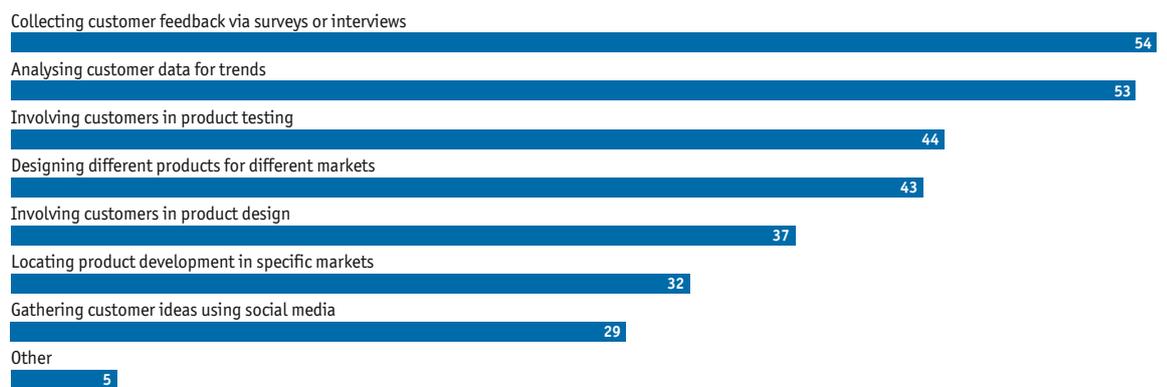
To your knowledge, what are the innovation priorities in your organisation?

Select up to two.
(% respondents)



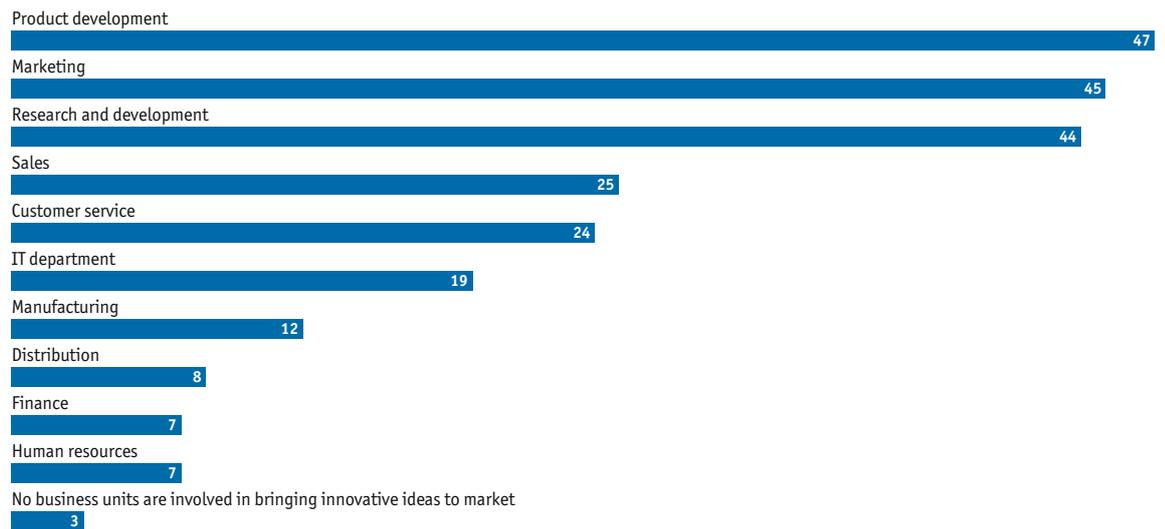
How do you focus your innovation efforts on the customer?

Select all that apply.
(% respondents)



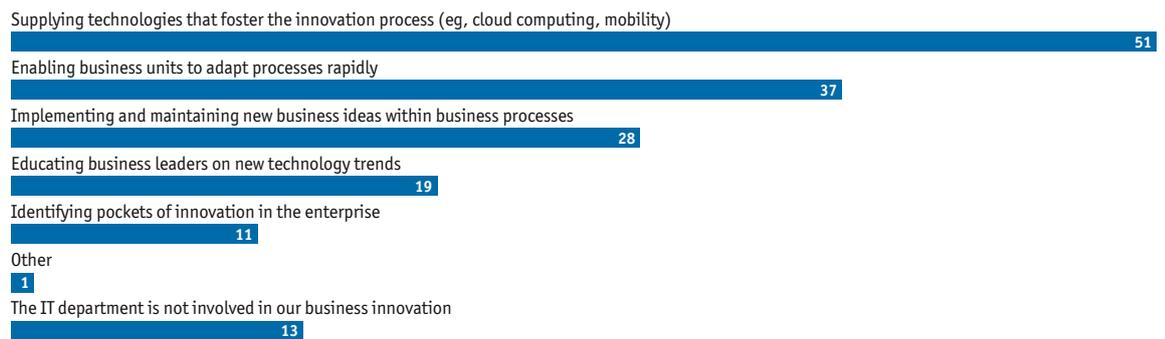
To your knowledge, which areas or business units in your company are involved in bringing innovative ideas to market?

Select up to three.
(% respondents)



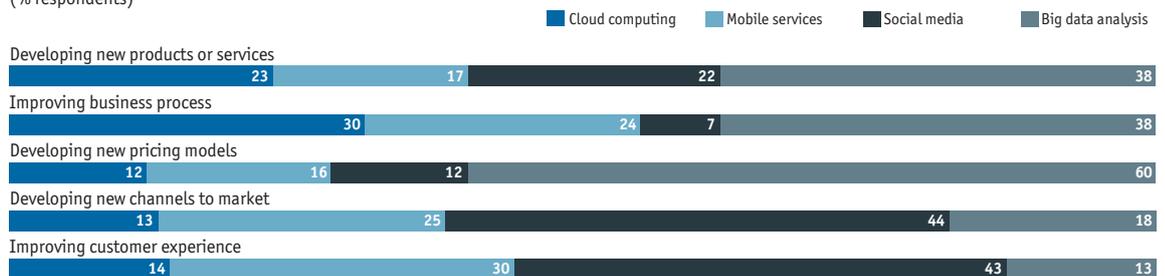
In your opinion, what is the role of your IT department in cultivating business innovation?

Select up to two.
(% respondents)



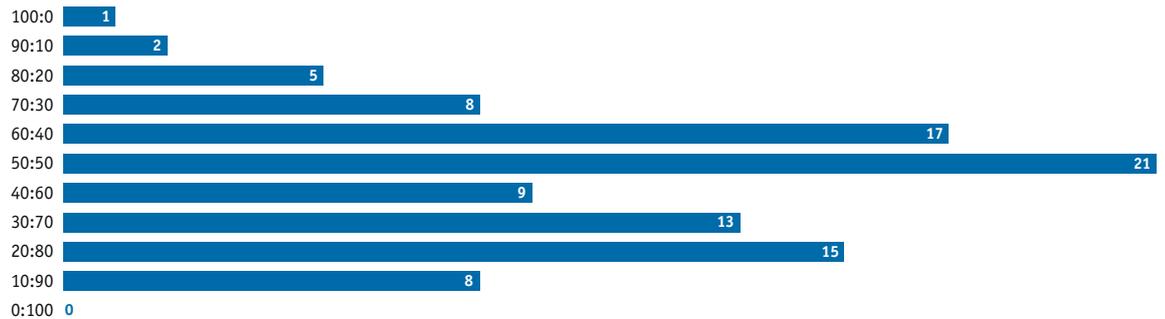
For each of the following strategies, please choose which of the following technologies would best be suited for helping your company's business units innovate effectively.

Select one technology per strategy.
(% respondents)



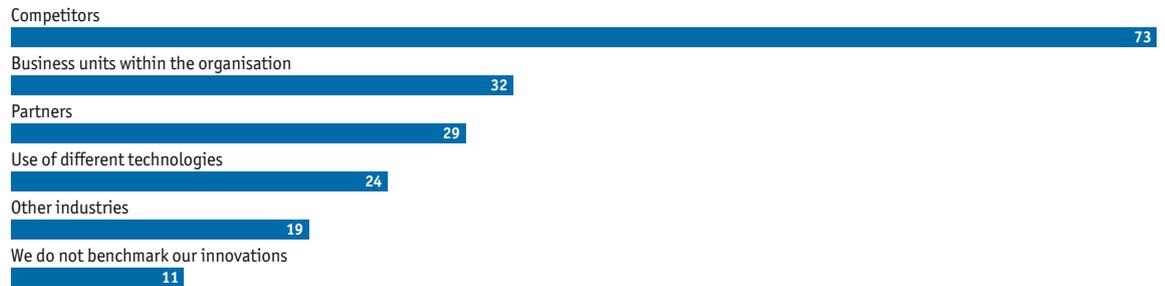
Overall, what percentage of your job or your business unit's purpose is balanced between "Coming up with innovative ideas" and "Implementing those ideas"?

Choose a relevant percentage split.
(% respondents)



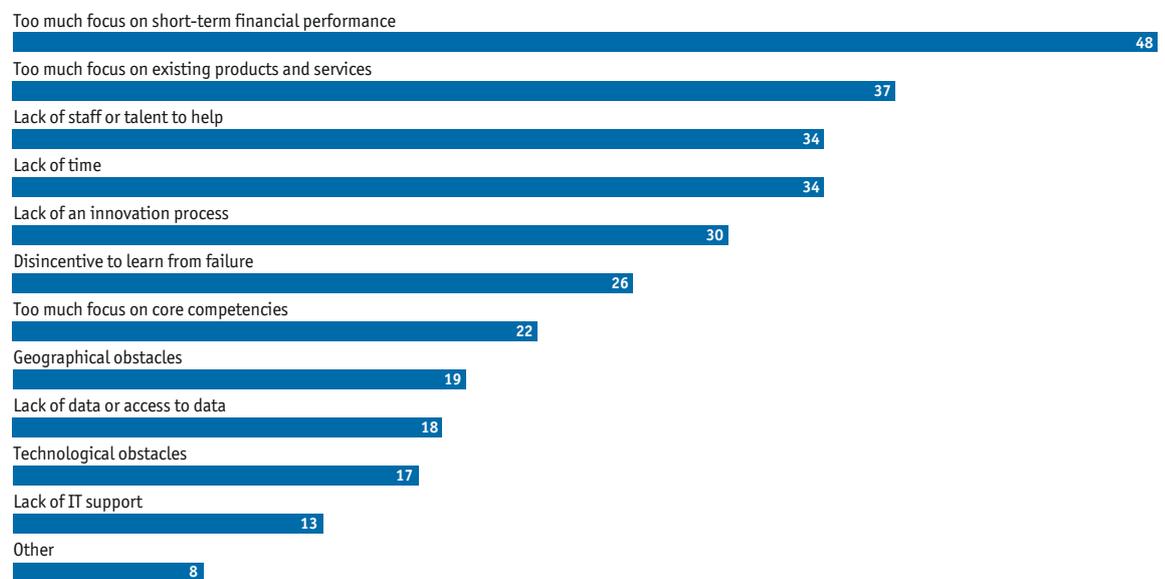
Which of the following does your organisation benchmark its innovative programmes against?

Select all that apply.
(% respondents)



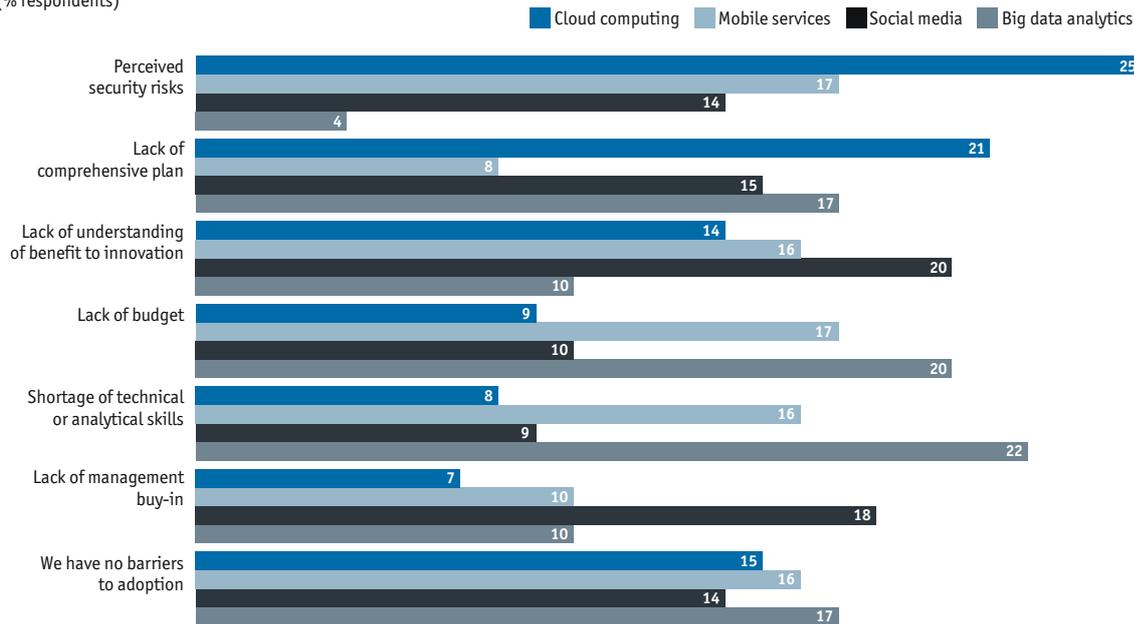
In your opinion, what are the overall barriers to innovation in your organisation?

Select up to four.
(% respondents)



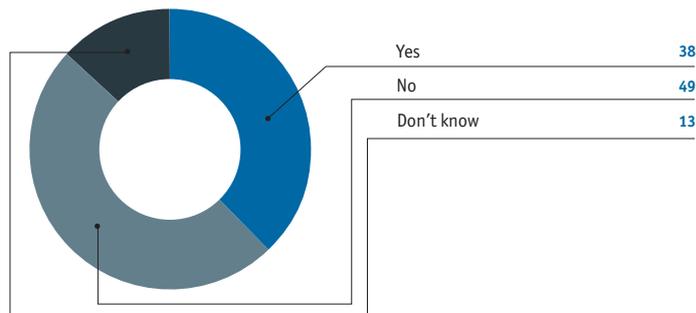
In your opinion, what is the most significant barrier when considering adopting technology trends for fostering innovation in your organisation?

(% respondents)



Overall, does your organisation have a support system to respond positively to ideas that fail?

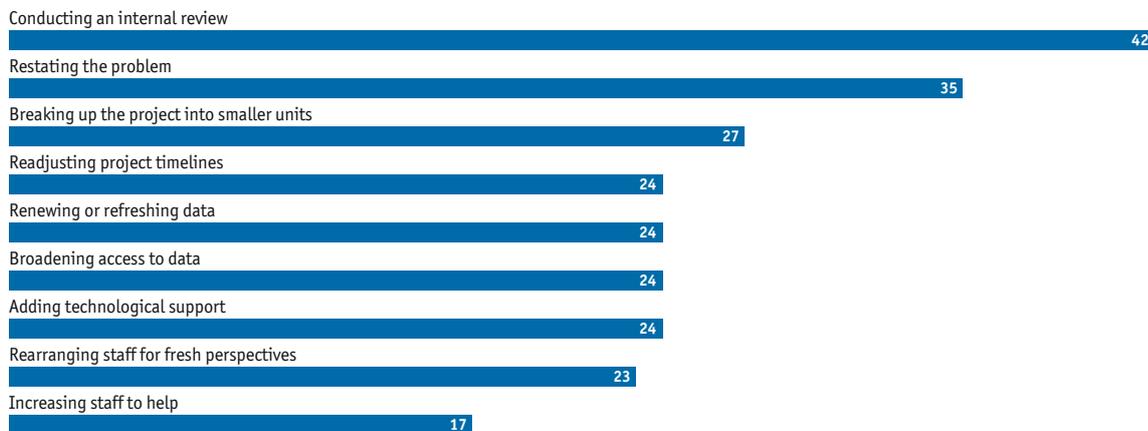
(% respondents)



For ideas that fail, what are the key elements you or your business unit use to re-engage your innovation?

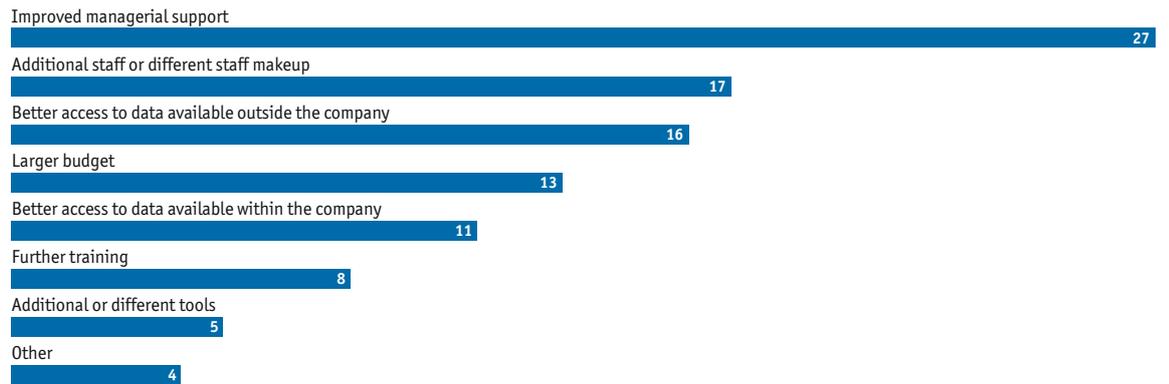
Select up to three.

(% respondents)



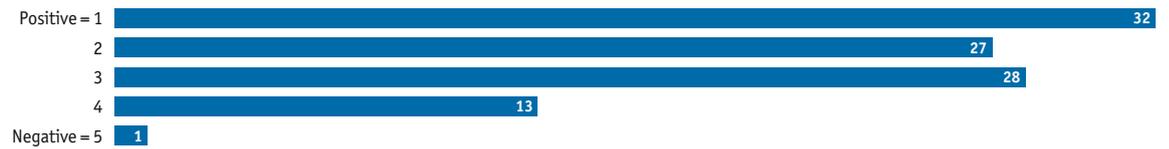
What would be the single most useful item that could help you or your business unit improve the success of implementing innovative ideas?

(% respondents)

**What is your overall perspective on how your company values innovation that is generated from within the business?**

Rate on a scale of 1 to 5, where 1=Positive and 5=Negative.

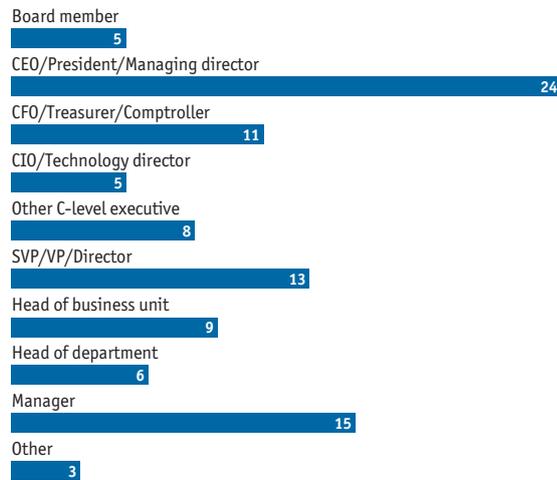
(% respondents)



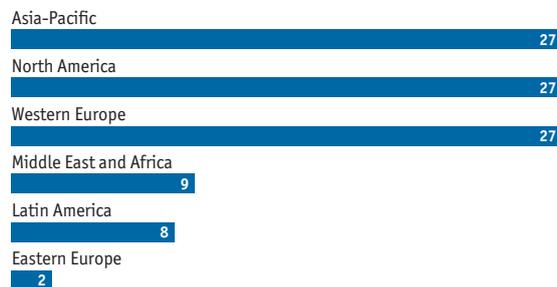
In which country are you personally located?
(% respondents)



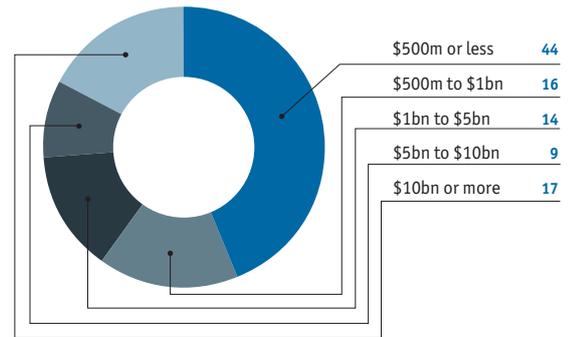
Which of the following best describes your title?
(% respondents)



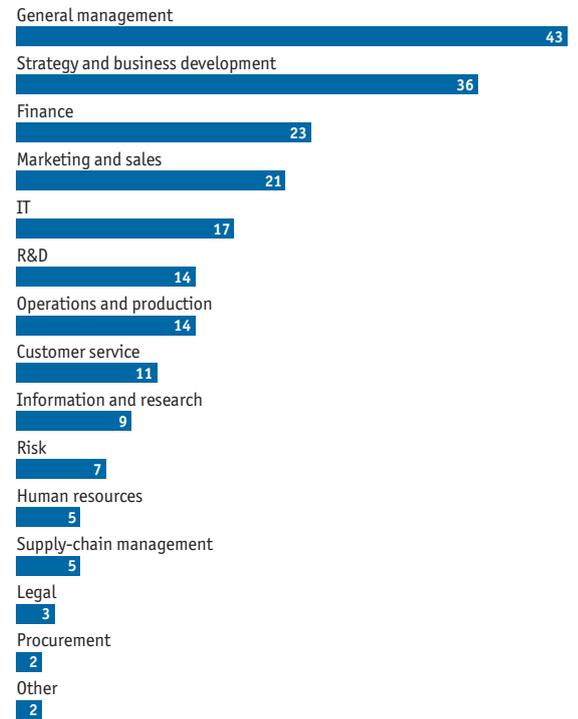
In which region are you personally located?
(% respondents)



What are your company's annual global revenues in US dollars?
(% respondents)



What are your main functional roles?
Select up to three.
(% respondents)



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