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Overcoming Barriers to Innovation

Emerging Role of the Chief Innovation Executive

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Executive summary

How are the world's global companies faring in their quest for innovation? To answer this question, the Economist Intelligence Unit, on behalf of Accenture, surveyed 601 senior executives in late 2007.

Most of the companies surveyed are pursuing business strategies that depend on a stream of innovation. Eighteen percent say that they intend to totally transform their businesses over the next few years. Another 44 percent say they use innovation to drive high growth rates and continually renovate the core business. Simply having a vision for innovation and naming an innovation head is not enough. Companies need to address the long-term problem of a "quick-fix" approach and diffused thinking. While innovation is a top priority, the survey uncovered significant organizational barriers for implementing a successful innovation agenda.

Key Findings

Despite its prominence on the corporate agenda, **organizations are faced with increasing challenges of executing and sustaining innovation that deliver results.**

- Frequency, pace and speed of innovation were commonly cited as areas of weakness.
- Changing the organizational culture and reducing time to market represent significant challenges for organizations in realizing their innovation objectives.
- Overall satisfaction with the ability to reach consistent, repeatable and high-impact innovation performance was low.

The role of the CEO with respect to innovation is ever-more important and needs to evolve from vision and direction setting to enabling and driving execution.

- Mid- and high-level managers have reported significantly lower satisfaction from their organization's innovation performance and capabilities as compared with CEOs who responded to the survey.
- Therefore, CEOs face the risk of increasing the gap between their vision and objectives for innovation and their organization's ability and trust in realizing the objectives.

One way in which CEOs are addressing the innovation execution challenge is by driving innovation through a dedicated senior level executive, a chief innovation executive or a C-level executive with innovation responsibility.

- Organizations that indicate a higher importance of innovation to their success are more likely to designate a single executive-level point of accountability for innovation.
- Those organizations with a single point of accountability for innovation reported higher innovation performance and capabilities as compared with their peers at a ratio of 2:1.

Innovation will remain a top priority on the corporate agenda across most industries. More than 60 percent of survey respondents indicated that their organization's strategy is either totally or largely dependent on innovation.

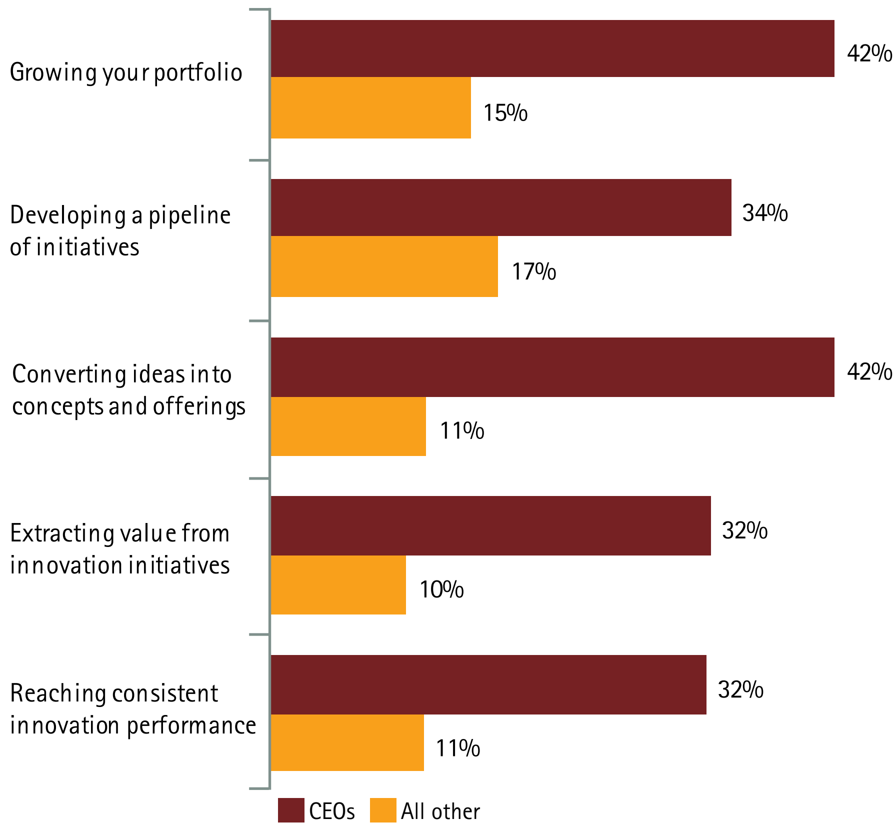
- In comparison with the overall sample—retailing, IT/technology, and media, publishing & entertainment place significantly higher emphasis on innovation while logistics and aerospace & defense industries rank innovation lower in importance.

Strategic imperatives:

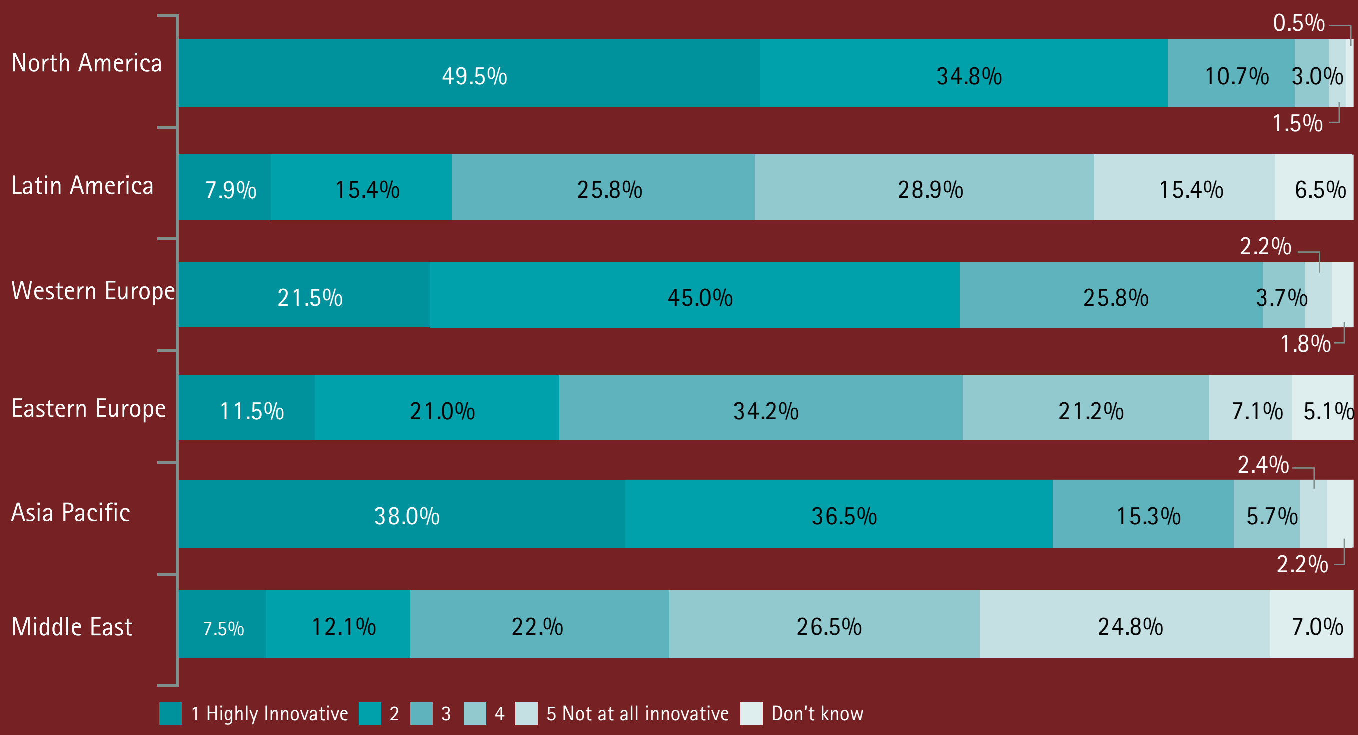
The survey also highlighted two strategic imperatives that must be addressed in order for companies to shift from a vision of innovation to a high performance innovation organization:

- It is not sufficient for organizations to create a vision for an innovation culture—CEOs must create ownership and accountability for execution.
- To deliver results companies must treat innovation as any other business discipline by aligning resources, tools and processes with a clear set of performance goals and metrics.

How satisfied are you with your organization's performance in the following innovation areas? (percent of respondents that are very satisfied)



Q1: Regardless of whether your organization has operations there or not, how would you rate innovation in the following



Q2: Who is primarily responsible for innovation in your company?

Chief innovation officer (or similar title)	123	20.5 %
Other C-level executive, please specify	65	10.8 %
Other executive (below C-level)	58	9.7 %
Multiple executives	287	47.8 %
Other, please specify	39	6.5 %
No one	16	2.7 %
Don't know	12	2.0 %
Total	600	100.0 %

Q3: In your opinion, to what extent does your organization's strategy depend on innovation for its long-term success?

Totally—we intend to transform our business in the next 3-5 years	106	17.6 %
Largely—we use innovation to drive above average industry growth and continually renovate our core business	265	44.1 %
Moderately—we balance new innovations with sustained improvements in our core business to drive growth	179	29.8 %
Minimally—our plans call for improvements in our core business mainly	44	7.3 %
Not at all—we look to maintain our core business as it is today for the next 3-5 years	5	0.8 %
Don't know	2	0.3 %
Total	601	100.0 %

Bridging the execution gaps:

In addition, the survey revealed additional gaps all organizations must contend with to bridge the chasm between plans and results:

- The innovation organization must be legitimized and professionalized—the accountable innovation owner must connect with line management and make transparent the CEO's vision for innovation along with the commitment for execution.
- A robust innovation process must be established to support the organization to facilitate the frequency, speed and consistency of innovation results.
- The innovation organization will need to keep an open mind as new ideas will increasingly come from overseas operations in emerging markets as the multi-polar world continues to mature.

Ownership and accountability for innovation is diffuse.

The difficulty with innovation also appears to have roots in organizational design. (Q3) While executives say there is top management commitment to innovation, a mere 21 percent of companies surveyed have a chief innovation executive, and another 11 percent assign some other top executive to be in charge of the process. Many more have dispersed responsibility: 48 percent say that multiple executives are responsible for innovation in their companies. (Q2)

Companies with a chief innovation executive believe they are more competitive and have managed to achieve better innovation performance.

Nurturing innovation and shepherding new ideas to market requires a concerted effort—the lack of organizational clarity may be keeping some companies from achieving the results they expect from innovation. In fact, companies that are successful with innovation are more likely to have a chief innovation executive. Of those who say their level of innovation is much stronger than competitors, 40 percent have such an executive. That number falls to just 10 percent for those who are much weaker than competitors.

More than half think their companies are stronger than competitors in terms of the level of support to innovation that their CEO provides.

Having a senior executive in charge can help solve one common difficulty with innovation: that new ideas languish because they can't find an internal champion. Indeed, over a third of respondents say that this is a major problem in their companies. (Q8)

Despite the importance of innovation, many companies are still too cautious.

Part of the problem appears to be a disconnect between what companies hope to achieve from innovation and the steps they are taking. Although most companies say that their strategy is business transformation or major improvement, they are often taking incremental steps to implement these strategies. When asked about the most common barriers to innovation within organizations, the top response was that the organization tends to pursue line extensions rather than developing totally new business models. Many are also hindered by a

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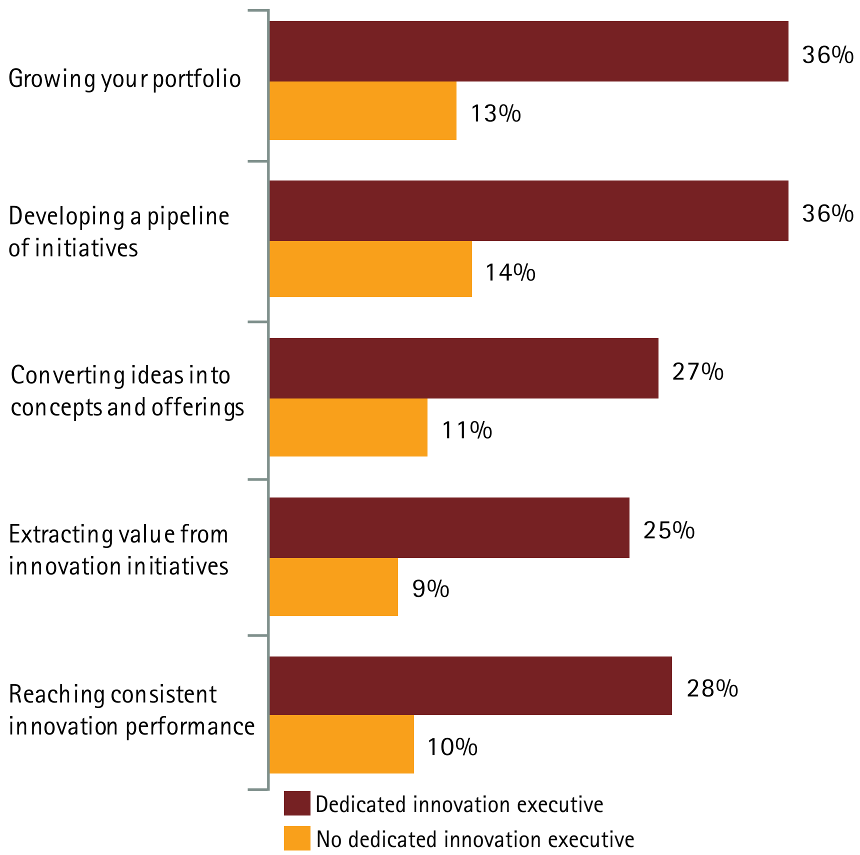


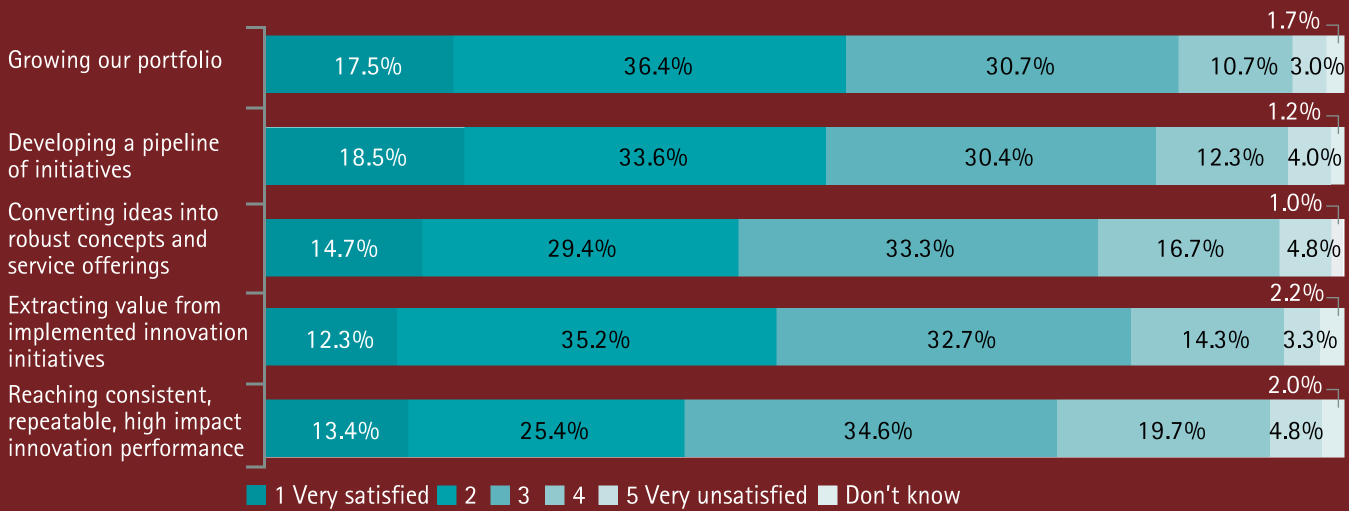
Q4: Which of the following factors do you think are important in helping your company decide whether to invest in new ideas? When we fund innovation, we mainly aim to... Select up to two.

Increase share in existing markets	312	51.9 %
Enter new markets	255	42.4 %
Expand the range of complementary products around a basic offer/model (eg, car accessories)	179	29.8 %
Add new value to a current product (eg, camera phone)	166	27.6 %
Introduce an entirely new product category (eg, iPod)	97	16.1 %
Raise the price of a current product (eg, jewelry)	52	8.7 %
Other, please specify	21	3.5 %
Don't know/Not applicable	12	2.0 %

Q5: What was the source of your organisation's most successful innovation brought to market within the last two years?

New product/service—developed in-house	196	32.6%
Improvement of an existing product/service that we developed in-house	148	24.6%
New product/service—developed in collaboration with a partner	128	21.3%
New product/service—acquired from the outside	49	8.2%
There has not been a significant innovation over the past two years	31	5.2%
Improvement of existing product/service that we acquired from the outside	26	4.3%
Other, please specify	8	1.3%
Don't know/Not applicable	15	2.5%
Total	601	100.0%

Q6: How satisfied are you with your organization's performance in the following innovation areas? Rate on a scale of 1 to 5.



Q7: Which of the following is your organization's highest priority in the next two years?

Growing our portfolio	141	23.6%
Extracting value from implemented innovation initiatives	135	22.6%
Converting ideas into robust concepts and service offerings	132	22.1%
Reaching consistent, repeatable, high impact innovation performance	104	17.4%
Developing a pipeline of initiatives	86	14.4%
Total	598	100.0%

short-term focus—43 percent say that their companies prioritize short-term financial results over long-term investment. (Q8) Further, fewer than half report that they use innovation as a way of entering new markets. (Q4)

Without an innovation structure established and legitimized, putting new ideas into practice is proving difficult.

Few respondents are fully satisfied with how their companies pursue innovation. For example, only 41 percent consider themselves stronger than competitors in terms of the frequency of innovation, and only 36 percent believe that the speed with which they produce ideas compares favorably. (Q10)

Respondents are concerned not only about their ability to generate new ideas, but also with their ability to transform innovation into action. Only 15 percent are very satisfied with their ability to convert ideas into service offerings, and only 13 percent say they can do it repeatedly. (Q6) The top innovation challenges cited by respondents also reflects this concern: high on the list are transforming ideas into marketable goods and services (29 percent) and creating a proper execution strategy (26 percent). (Q9)

Emerging markets focus—increasingly, innovation will come from newer overseas operations; Asia overtakes Europe as innovation engine.

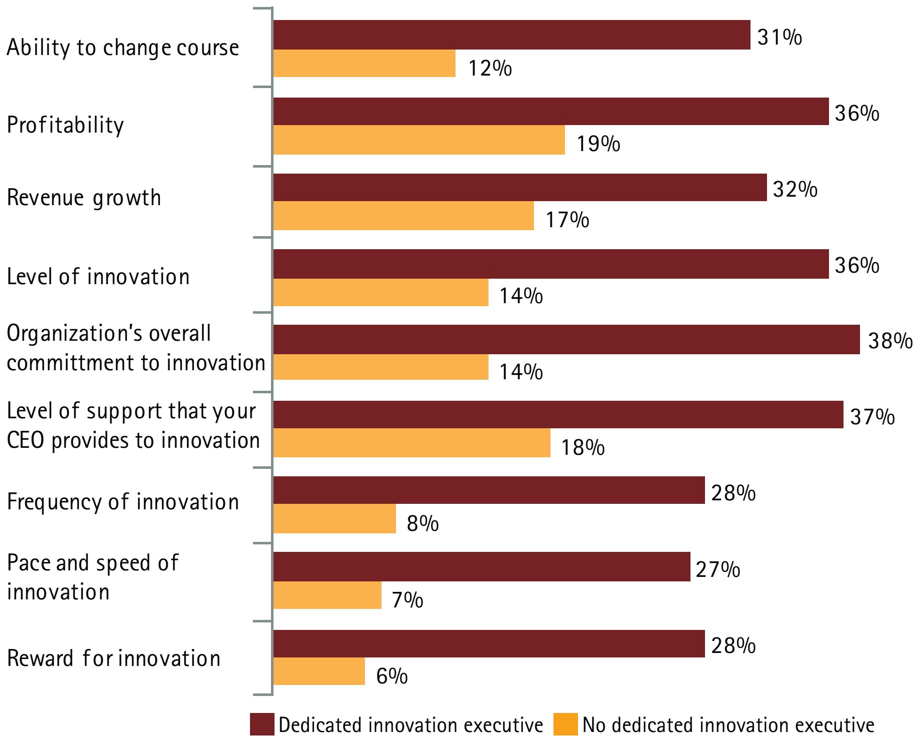
As North American and European companies struggle to promote innovation at home, they must confront a change in the market: innovation is increasingly coming from emerging markets such as Asia. (Q1) While respondents regard North America as the world's most innovative region, they also consider Asia to be more innovative than Europe. Thirty-eight percent say that Asia is highly innovative, compared with just 22 percent for Western Europe. UK and German respondents share this view: they also consider Asia more innovative than Europe.

For the growing number of companies with operations in Asia, this is a change to be harnessed. While the level of innovation is by no means consistently high in Asia, economies such as those of China and India are producing a generation of companies that have grown by being nimble and creative. Employees in established markets may well be able to learn from their emerging-markets colleagues.

Strategic implications

- The role of the CEO with respect to innovation needs to evolve from vision setting to enabling and driving innovation execution.
- To drive execution of innovation, organizations need to appoint a c-level executive to take on that role and drive the required change while addressing the organizational and execution challenge. For innovation to become part of the organizational fabric, it has to be managed as every other business discipline, such as marketing, finance, operations or HR.
- Organizations need to focus on finding ways to accelerate innovation frequency and speed. This is a major weakness, which has been identified by the survey, and which can serve as a major source of competitive advantage, particularly in industries faced with intense global competition.
- Ideas may increasingly come from new markets. Companies can benefit by being open to lessons drawn from the experiences of companies in Asia and putting them into practice in other parts of the organization.

In your opinion, how does your organization compare to its closest competitors in the following areas? (percent of respondents indicated that their organization is "much stronger" than its closest competitor)



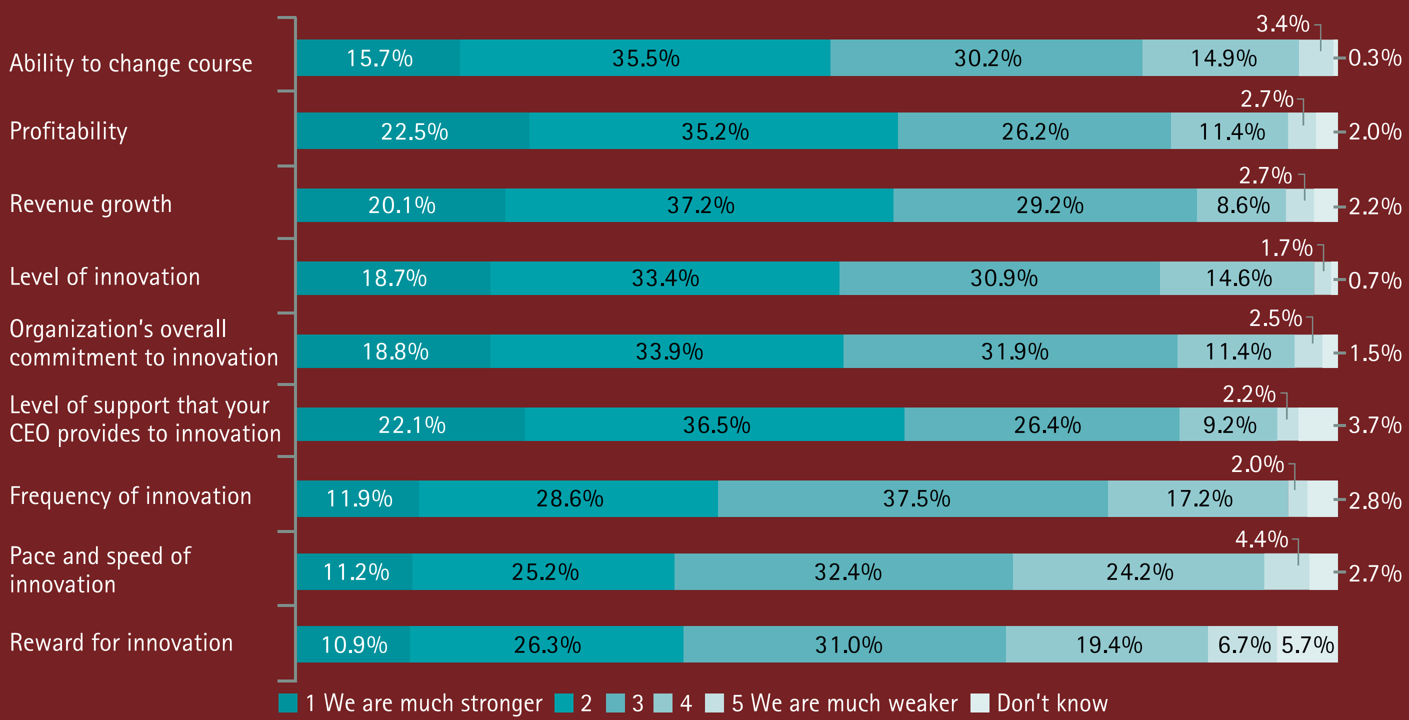
Q8: Which of the following barriers to innovation have you observed often in your organization? Select all that apply.

The organization tends to pursue line extensions rather than developing totally new business models	271	45.1
The organization has prioritized short-term financial results over investing for the long term	257	42.8
Opportunities to exploit underdeveloped areas/markets often die because they can never find a home to nurture them	220	36.6
The organization is looking for the next silver bullet rather than pursuing a portfolio of opportunities	119	19.8
The organization fails to learn from past mistakes and has become more risk averse when it comes to new ideas	153	25.5

Q9. What would you say are the greatest innovation-related challenges facing your organization over the next two years? Select up to three.

Changing the organizational culture	184	30.6 %
Reducing time to market for an innovation	181	30.1 %
Transforming ideas into marketable goods/services	172	28.6 %
Creating the proper execution strategy	154	25.6 %
Getting teams to work together better	140	23.3 %
Identifying changes in customer behavior or emergent and unmet needs	138	23.0 %
Containing development costs	127	21.1 %
Creating the proper incentives to maximize creativity among employees and external partners	121	20.1 %
Difficulty in predicting future trends	98	16.3 %
Leadership's openness to and enthusiasm for innovation as a major lever for growth	80	13.3 %
Leveraging new technology	77	12.8 %
Eliciting and using customer feedback	64	10.6 %
Identifying and collaborating with suppliers, subcontractors, or other external partners	57	9.5 %
Other, please specify	13	2.2 %
Don't know/Not applicable	4	0.7 %

Q10: In your opinion, how does your organization compare to its closest competitors in the following areas? Rate on a scale of 1 to 5.



About the survey

In late 2007, the Economist Intelligence Unit (EIU) conducted a survey, sponsored by Accenture, of 601 executives at major companies in North America and Europe. Respondents included board members, CEOs, CFOs and other C-level executives, as well as senior managers. All of the respondents' companies have more than US$750 million in annual revenues, and nearly two-thirds have annual revenues of at least US$5 billion. The majority of respondents (58 percent) are based in the United States, with the rest based in the United Kingdom (16 percent), Germany (15 percent) and Canada (11 percent). The companies represent a broad range of industries, including financial services, technology, energy, logistics, aerospace, defense, media and entertainment, manufacturing and professional services.

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