



Global Innovation Survey

Innovation Leader versus Laggard Study



About the authors



Freek Duppen

Freek Duppen is a managing consultant with Capgemini Consulting based in The Netherlands. He specializes in business innovation, with a focus on innovation strategy, new business and operating models, and innovation management.



Dianne Inniss

Dianne Inniss is a managing consultant with Capgemini Consulting based in North America. She specializes in strategy and transformation, with a focus on growth strategy, innovation and marketing strategy.

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Freek Duppen

Dianne Inniss

Executive Summary

As the knowledge partner of the World Innovation Forum, Capgemini Consulting has recently completed its global innovation survey on the current state of innovation. The result is our second innovation leader versus laggard study. It covers five key areas that affect a company's innovation success: the strategic outlook companies have with respect to innovation, their capabilities to manage the innovation process, the overall impact of technology, the innovation function itself, and how these factors influence companies' spending plans. The study offers a unique perspective by looking at the differences in behavior of innovation leaders vis-à-vis laggards across these key areas. Finally, this report offers an overview of the most important implications for innovation executives – looking to improve the material impact of their innovation efforts on the business results.

In summary, this study reveals that given the strategic priority companies allocate to innovation and their corresponding spending plans, the maturity of their formal innovation governance structure lags behind considerably. To overcome many of the innovation bottlenecks encountered, it is time to establish an innovation function that is able to deal with this kind of innovation governance and decision-making. Furthermore, there is an enormous unlocked potential for innovation in the involvement of external parties in the innovation process. Innovation leaders may have outpaced their peers by simply being better at involving external parties, leveraging a much broader innovation network and increasing innovation potential. Also, the study shows that more value, in terms of impact on business results, is to be expected from business model innovation, than from any other form of innovation. Targeting new business opportunities in emerging markets is much more likely to be successful when approached outside of the traditional competitive landscape.

These and a wide range of other relevant findings for innovation and business executives are elaborated on in this report. The most important findings per area can be summarized as follows.

Innovation is considered a top strategic priority, with a primary focus on identifying new business opportunities to take advantage of an economic upturn.

- Innovation is considered a top-three strategic priority by more than seventy-six percent of the respondents. Moreover, making innovation a top priority pays off. This is evidenced by the correlation found between ranking innovation as the top priority and its positive impact on the business results, as illustrated by the leader versus laggard comparison.
- Most innovation efforts are put into customer-focused innovation whereas fewest resources are allocated to business model innovation. Innovation leaders put relatively more effort into business model innovation, whereas innovation laggards allocate more efforts to incremental product improvement.
- As the global economy begins to rebound, identifying new business opportunities is the primary area of focus for 46 percent of respondents. In addition, innovation leaders are preparing themselves for hyper growth in a new business cycle whilst innovation laggards are focusing on increasing productivity of existing assets.

Key opportunity areas with respect to innovation management are the formalization of the innovation governance structure and the capability to engage external parties in the innovation process.

- Executive level commitment and the idea generation and enablement process are the overall best developed innovation management capabilities. Most concern exists around the innovation governance structure among respondents.
- Most respondents – 53,5 percent – indicate they have developed relationships with third parties to support their innovation efforts on an ongoing basis.
- The large majority of 89 percent of survey respondents has made the step to somehow involve their customers in the innovation process.
- Leaders have advanced to a high level of maturity when it comes to engaging third parties. They maintain ongoing dialogue with their customers or even integrate them into their innovation project teams. On the other hand, laggards are predominantly stuck at the ad-hoc engagement of third parties for innovation and have advanced less in terms of customer involvement.

Emerging technologies are expected to have a significant impact on companies' value chains, however few companies feel highly capable of adapting rapidly to anticipated changes.

- Technological innovation is anticipated by the majority of respondents to have an incremental (42 percent) up to fundamental (38 percent) impact on their organizations' value chains.
- Fifty-six percent of respondents say their organization is somewhat capable of adapting rapidly to emerging technological innovations.
- Clearly, our innovation leader group is the best equipped for emerging technological innovations, scoring thirty percent higher in the category 'highly capable and prepared' than their lagging counterparts.

Establishing accountability for innovation through a corporate function or dedicated executive is part of the solution towards attaining innovation leadership.

- When looking at the innovation function within organizations the most frequently mentioned hurdles to innovation success are urgency of pressing day-to-day business demands (54 percent of respondents) and financial constraints (41 percent).
- There seems to be a clear relationship between the appointment of an accountable innovation executive and the innovation success rate, with 59 percent of innovation leaders having such an accountable executive versus only 32 percent of the next best performers.
- The following types of innovation decisions are mentioned most as decisions to be made by the innovation executive or the corporate innovation function: determining the focus of innovation efforts – i.e. the innovation strategy (80 percent of respondents), and the allocation of funds and innovation portfolio management (67 percent).

Companies are increasing their spending on innovation across a wide variety of areas to improve their capabilities and competitiveness.

- The large majority of our survey respondents – 63,5 percent – anticipate an increase in their innovation spending over the next 12 months.
- More than half of the respondents (56 percent) say they are planning to increase their innovation investments in rapidly developing economies.
- When it comes to innovation investment areas our respondents are not intending to change the focus of their efforts: new product development (59 percent) and customer focused innovation (54 percent) come out on top. When making the split by success rate it appears that innovation leaders tend to invest more in customer focused and business model innovation, whereas laggards invest relatively more in incremental product improvement.
- Nearly half of the respondents say they are likely to invest in M&A to improve their innovation capabilities, in particular to gain access to new markets.

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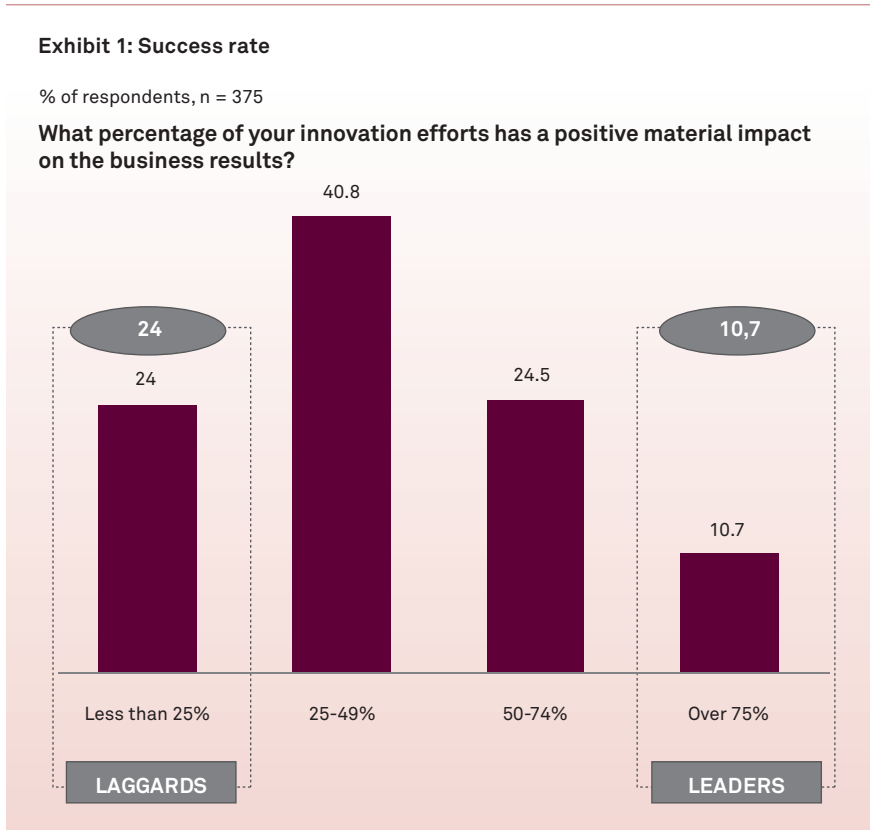
Leader versus Laggard perspective

As we started off this global innovation survey on the occasion of the *World Innovation Forum*, the objectives were twofold: not only did we want to understand the current state of affairs regarding innovation, but we also wanted to identify what drives the success of companies that view themselves as successful innovators. The result is this innovation leader versus laggard study.

The methodology differentiates between innovation leaders and laggards based on a self-assessment by survey respondents of their innovation success rate. The innovation success rate is determined by the percentage of innovation efforts that has a positive material impact on the company's business results.

We distinguish between 4 categories of innovation success based on this rate, namely: 'Less than 25%', '25-49%', '50-74%' and 'Over 75%' of innovation efforts having a positive material impact on the company's business results. The 'Less than 25%' category represents the innovation laggard group and the 'Over 75%' category the innovation leader group of analysis.

Exhibit 1 shows how respondents are distributed over these four categories. Twenty-four percent of respondents fit the innovation laggard profile, whereas nearly eleven percent belong to the innovation leaders group. This report summarizes the difference in behavior of innovation leaders vis-à-vis laggards across five key areas that affect a company's innovation success.





Strategic Outlook

Amidst ongoing economic uncertainty, but with increasing indicators of economic recovery, survey respondents were asked about their strategic outlook with regard to innovation. Four specific elements are addressed in this context, namely the strategic priority given to innovation, how innovation efforts are allocated, the primary drivers for innovation, and finally, as the global economy begins to rebound, what the organizations' primary focus areas are. The most important findings – taking into account the leader versus laggard perspective – are discussed below.

Strategic Priority

Innovation is considered a top-three strategic priority by over seventy-six percent of the respondents (Exhibit 2). It is even considered the top strategic priority by nearly a quarter of respondents. With such a strong emphasis on innovation as a strategic driver for improving business results, it is of paramount importance to understand the current state of affairs regarding this topic and where it is heading. Moreover, making innovation a top priority pays off. This is evidenced by the correlation found between ranking innovation as the top priority and its positive impact the business results, as illustrated by the leader versus laggard comparison:

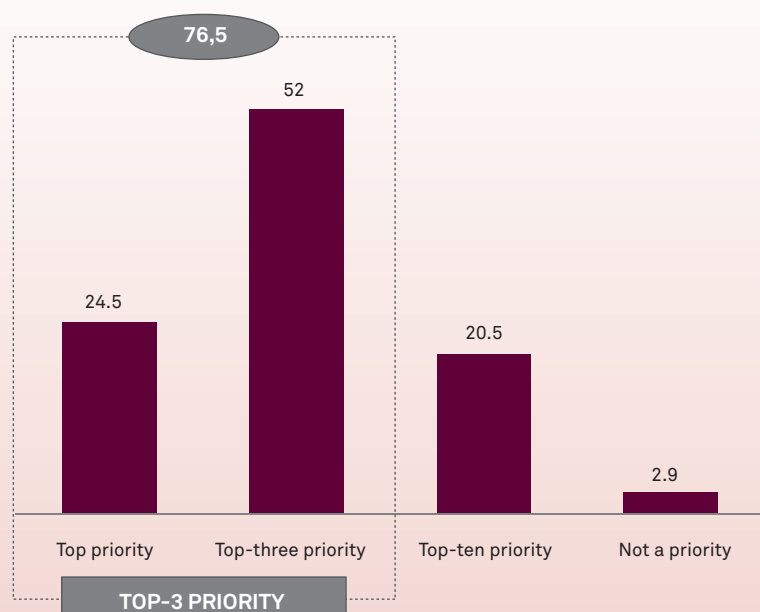
Forty percent of the innovation leader group (with innovation efforts having over 75% positive material impact on the business results) has made innovation a top strategic priority, versus only eighteen percent in the innovation laggard group (with innovation efforts having less than 25% positive material impact on the business results).

Perhaps equally interesting is the fact that when looking at the breakdown for innovation as a top three priority by innovation success rate, it becomes clear that making innovation a top-three priority in itself is not enough to achieve breakthrough business results from innovation efforts. There seems to be a clear distinction between companies that

Exhibit 2: Strategic Priority

% of respondents,¹ n = 375

Where does innovation rank among your organization's strategic priorities?



¹Figures do not sum to 100% because of rounding.

make innovation a top strategic priority, and the ones that make it the single most important strategic priority. As some interviewees notes, innovation is always on the strategic agenda; leaders, however, mention that the strategic agenda is built around innovation as a core element.

Allocation of Efforts

How does this prioritization of innovation translate into the allocation of organizational resources for innovation? Most innovation efforts are currently allocated to customer focused innovation (Exhibit 3). This emphasis on innovation focused directly on customer needs can be explained by the economic downturn as companies tend to identify new ways to squeeze more out of their existing clientele. This is followed closely by

new product development and incremental product development.

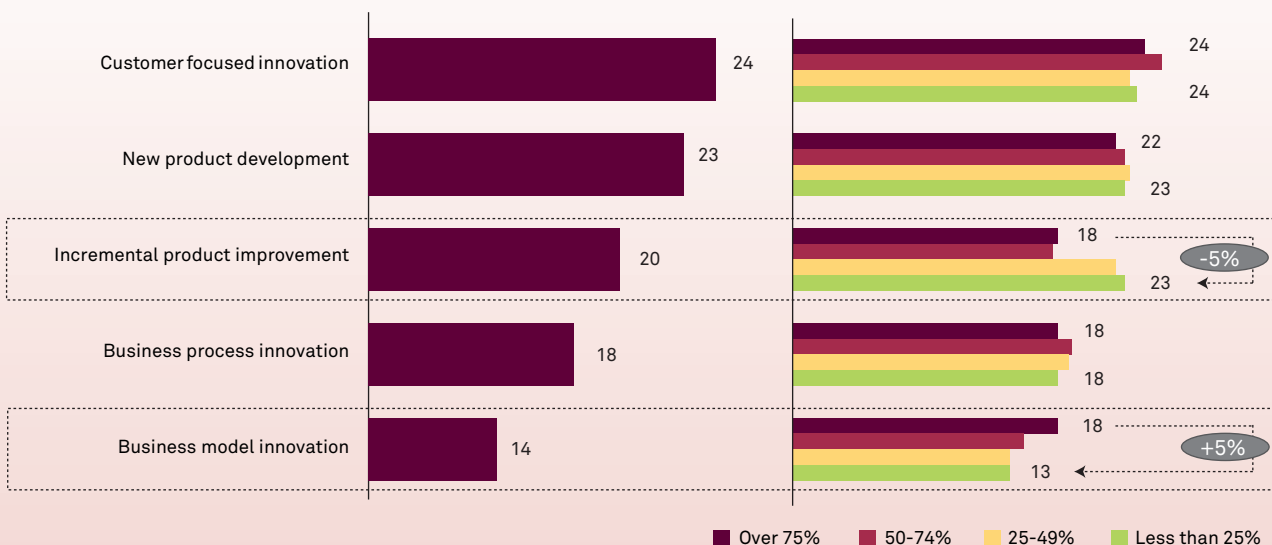
Along these lines it is not surprising that business model innovation comes last in terms of the allocation of innovation efforts – a focus on operational excellence rather than new business, and therefore new operating models, seems logical in an uncertain environment.

It is however interesting to find, that when making the split by innovation success rate, it becomes apparent that innovation leaders allocate fewer resources to incremental product improvements and use these resources to beef up their business model innovation efforts. In this way they clearly distinguish themselves from their lagging counter parts,

Exhibit 3: Allocation of Efforts

% of resources allocated to the following,¹ n = 352

How does your organization allocate its innovation efforts?



¹Figures do not sum to 100% because of rounding.

albeit still to a moderate extent. This does point in the direction that more value, in terms of impact on business results, is to be expected from business model innovation than from any other form of innovation.

Innovation Drivers

To better understand what drives the allocation of innovation efforts, respondents were asked to indicate the primary drivers of their organization's innovation initiatives (Exhibit 4). Evolving customer needs is by far the most important driver for an organization's innovation efforts, with 58 percent of respondents indicating this. Thirty-eight percent of respondents say technological advances and changes are the second most important driver for their innovation efforts, followed by executive direction or internal demands.

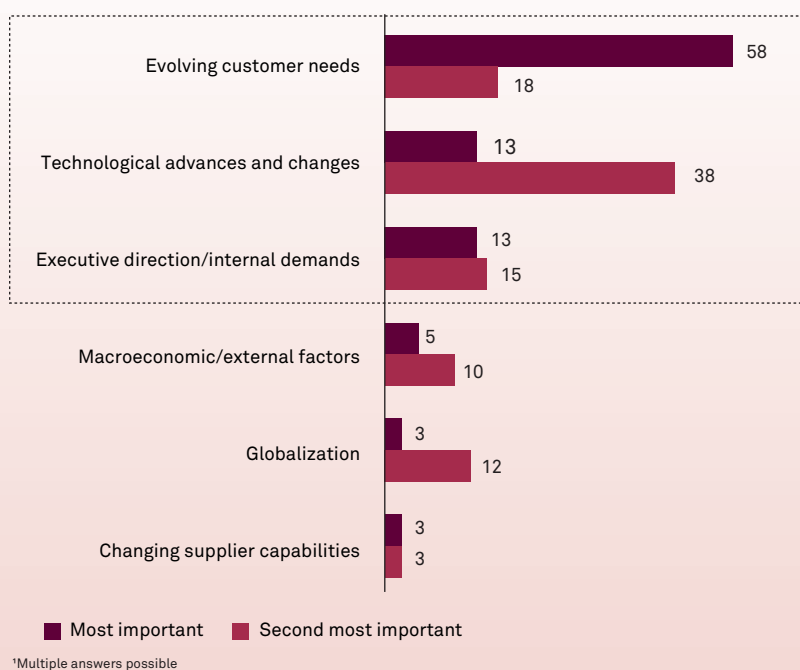
Neither macroeconomic factors nor globalization rank high in these terms, and changing supplier capabilities closes the ranks. The extremely low score of changing supplier capabilities as a driver for innovation suggests that few organizations are yet moving towards a more open model of innovation. This seems awkward as companies such as P&G have already been demonstrating for some time how companies can reduce innovation spending, and increase the positive impact on business results at the same time, by opening up the innovation process to suppliers (and other parties).

There is much to gain by taking supplier-driven innovation into account as a driver for innovation. It offers a unique opportunity for innovation laggards to catch up without making huge investments in developing their own innovation capabilities.

Exhibit 4: Innovation drivers

% of respondents,¹ n = 336

What are the primary drivers of your organization's innovation efforts?



Focus Areas

As the global economy begins to rebound, the vast majority of respondents – forty-six percent – say identifying new business opportunities to take advantage of the upturn is their primary area of focus (Exhibit 5). Managing cost control and lean operations, and increasing the productivity of existing assets, get respectively twenty-three and twenty percent of the responses. Only ten percent of the respondents are preparing themselves for possible hyper growth in a new business cycle.

Our conversations with innovation executives shed some more light on these outcomes. When asked exactly how their organizations are

preparing for growth to take advantage of an economic upturn, respondents mention the following: some say the optimization of their current operations through lean operations and increasing the productivity of existing assets should function as a platform for growth. Others – who have already created a lean and mean organization during the downturn – are now focusing on expansion into emerging markets. They mention a variety of elements which should enable that, including; the beefing up of their sales force; development of strong go-to-market and product launch capabilities; and the creation of new business and operating models. These companies expect to increase market share in the upturn.

One important factor in this whole story is whether or not companies have cut back on innovation and R&D efforts during the downturn. The ones that did not are clearly better positioned to outperform their peers in the longer-term. This brings us to a recurring point of concern among innovation executives, the challenge of how to find the right balance between optimizing business results in the short-term and focusing on sustainable innovation in the long-term.

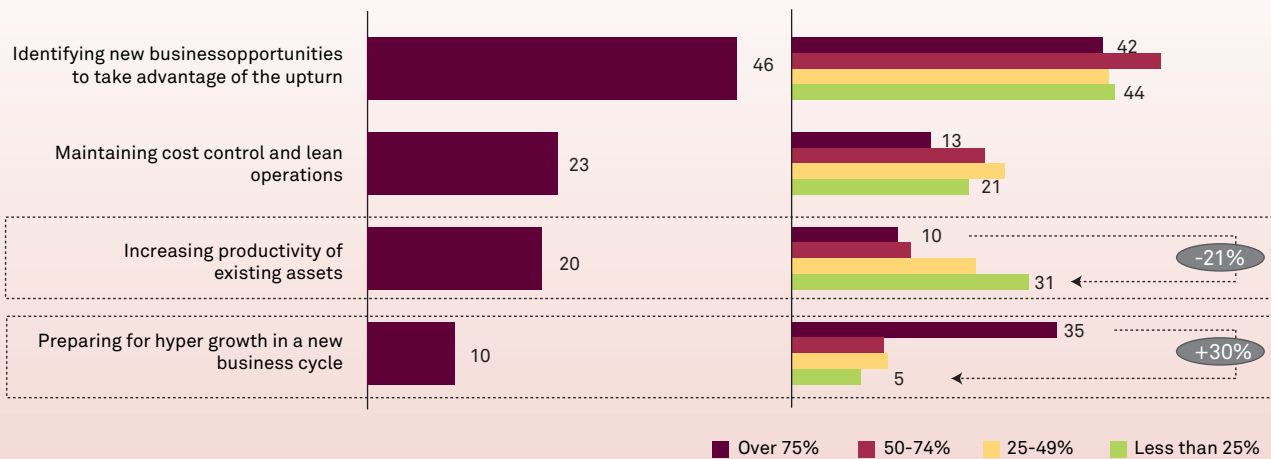
In addition, Exhibit 5 clearly shows why the gap between innovation leaders and laggards is likely to increase even further once the economy rebounds. Thirty-five percent of the innovation leader group are preparing themselves for hyper growth in a new business cycle versus only 5 percent in the innovation laggard group. In contrast to the laggards,

leaders hardly focus on increasing the productivity of existing assets or on maintaining cost control and lean operations. This means that innovation leaders are mainly concerned with identifying new business opportunities and preparing for hyper growth to take advantage of the upturn. In other words, it is clear that innovation leaders are heavily betting on an upturn and are much less conservative than their lagging counterparts in their business focus. This could potentially result in sustainable competitive advantages in terms of early-mover advantages and the capturing of market share in new or emerging markets.

Exhibit 5: Focus areas

% of respondents,¹ n = 323

As the global economy begins to rebound, what is your organization's primary area of focus?



¹Figures do not sum to 100% because of rounding.

Capabilities

Another key area that defines innovation leadership is an organization's capability to innovate. We specifically looked at the current state of affairs concerning the following four elements that play an important role with regard to innovation capabilities: innovation strategy, innovation management, the involvement of third parties in the innovation process, and finally, the involvement of customers in a company's innovation efforts.

Innovation Strategy

When it comes to forming an innovation strategy, most respondents rely on consumer trends, corporate strategy, industry trends and technology trends as the primary inputs into the process. (See Exhibit 6). Macro economic trends, sociological shifts and the M&A / partnership strategy are regarded of much less importance for defining innovation strategy. The low importance of M&A or partnerships as an input to the strategic planning of innovation efforts is striking, but in line with the low importance of

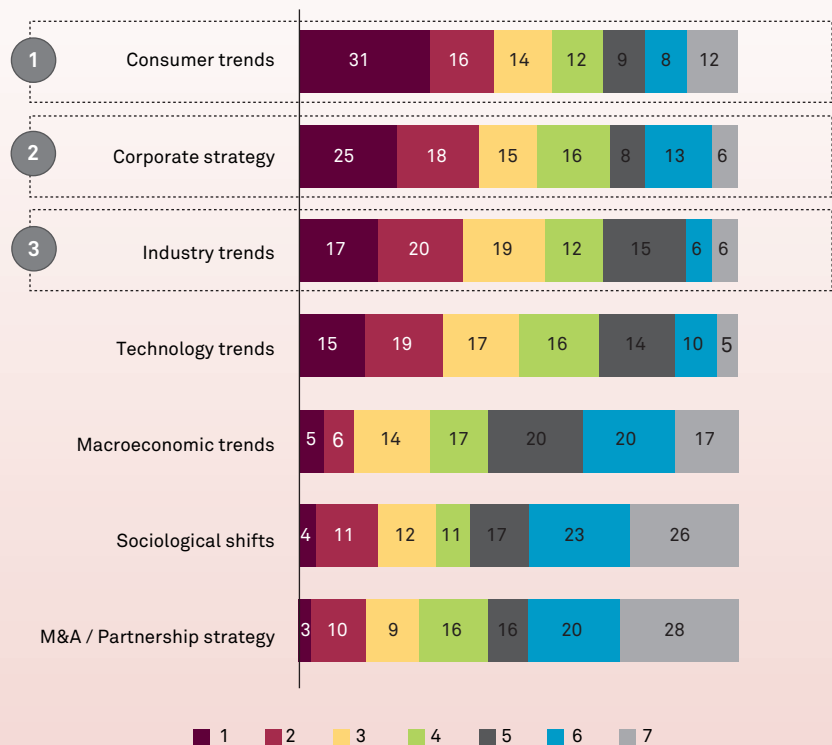
changing supplier capabilities as a driver for innovation as noted earlier. Despite the relatively low influence of these factors, there is much to gain when considering the capabilities and resources available outside of the organizational boundaries, when determining the innovation strategy.

In addition to understanding the inputs into the innovation strategy process, we are also interested in how the actual definition of such a strategy takes place. From the follow-up interviews it became apparent

Exhibit 6: Innovation strategy

% of respondents,¹ n = 369

What are the inputs to your organization's innovation strategy, in order of importance? (1 – most important,...)



¹Multiple answers possible.

that there is no shared understanding of, nor a shared approach to, innovation strategy. Interview respondents commented on a wide range of factors that are relevant in this context, when asked how their organization defines its innovation strategy. In sum, we can highlight the following:

- **Governance:** There are a variety of ways in which the innovation strategy is defined and governed within their organizations. The highest level leadership is nearly always involved. In addition, some make use of any or all of the following to provide input into the process: innovation councils, cross-functional steering committees, external advisory boards, key clients and/or external partners.
- **Organization:** We can distinguish between corporate-level and business unit-level innovation strategy. Often companies rely on a combination of both, combining top-down with bottom-up innovation. There is also often a split made between the organization of incremental and radical innovation, resulting in the latter often being organized in an incubator setting. For completely new areas, innovation is sometimes sourced through an acquisition strategy.
- **Approach:** Interaction between the corporate and business unit-level is facilitated through frequent strategy meetings and dialogues. Insights are provided by R&D, marketing and technology gurus. Innovation portfolio decisions are usually taken at a corporate-level, whereas the initial analyses and selection procedures are performed at a BU-level, depending on the size of the organization. The funnel-approach for more radical innovation typically comprises

business cases, competitive analysis, a people case, i.e. who will drive this new innovation, and specific metrics for the emerging business areas.

Clearly there is no one size fits all approach to defining an organization's innovation strategy, but there are some common challenges in doing it right:

- Nearly all interview respondents say balancing the more short-term oriented marketing insights and requirements with the longer-term view from R&D is a daunting task.
- Secondly, innovation executives have not yet found a panacea towards managing the budget cycles and funding of the innovation portfolio.

Innovation Management

The second element that determines a company's capability to innovate is the way it manages innovation. We asked respondents to rate how strongly they agreed or disagreed with a number of statements related to their innovation management capabilities. The results are shown in Exhibit 7.

Most survey respondents – 65 percent – strongly or somewhat agree with the statement that they have a high degree of executive level commitment to innovation. This is followed by the facilitation of idea generation and enablement process (55 percent of respondents) as the second most mature capability related to innovation management. Finally, 50 percent of respondents agree they have strong new product development capabilities to drive innovation in their organization.

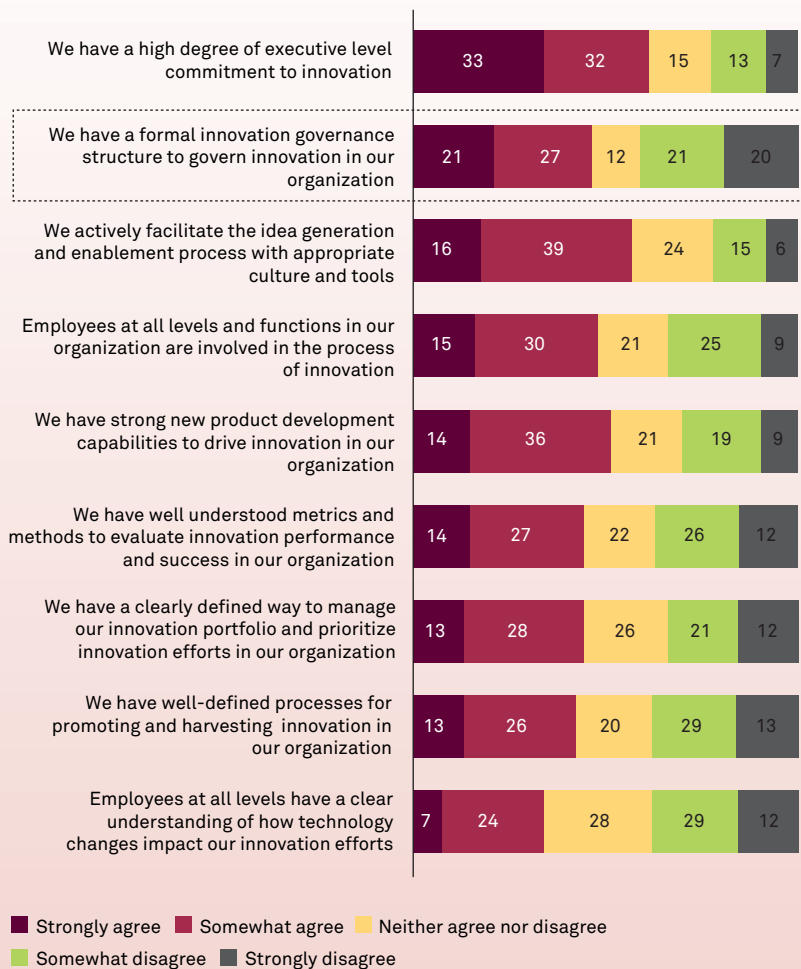
The survey results consistently show that innovation leaders agree more to these statements related to the maturity of innovation management than innovation laggards, providing clear hints to less successful innovators for areas of improvement.

Noteworthy is the result regarding the statement of having a formal innovation governance structure, with the highest percentage of respondents – twenty percent – strongly disagreeing (versus 21 percent strongly agreeing to the statement). Follow-up interviews confirm that respondents are either very content with how innovation is governed within their organization or see ample room for improvement. In particular, areas of concern include: balancing between long-term and short-term innovation success, finding alignment between corporate and business unit-level innovation, and improving the funding mechanism.

Exhibit 7: Innovation management

% of respondents, n = 310

Please rate how strongly you agree or disagree with the following statements related to your innovation management capabilities:



Third Party Involvement

To what extent do companies use external third parties to support their innovation efforts? (Exhibit 8). Most respondents – thirty-five percent – engage third parties on an ad-hoc basis for specific projects. More than half of the respondents (53,5 percent) indicate they have developed relationships with third parties to support their innovation efforts on an ongoing basis.

The majority of the innovation leader group – forty-four percent – has advanced to a high level of maturity when it comes to integrating third parties into their innovation efforts. They indicate that they actively engage a broad cross selection of external partners in formal and informal ways to support their innovation efforts. The majority of other innovators – segmented by innovation success rate – are still at the ad-hoc engagement level. This provides a big hint that innovation success is closely linked to the ability to involve third parties in the innovation process to support ones efforts and increase the odds of a positive impact on the business results. Innovation leaders may have outpaced their peers by being better at involving external partners into their innovation process, leveraging a much broader innovation network and increasing overall innovation potential.

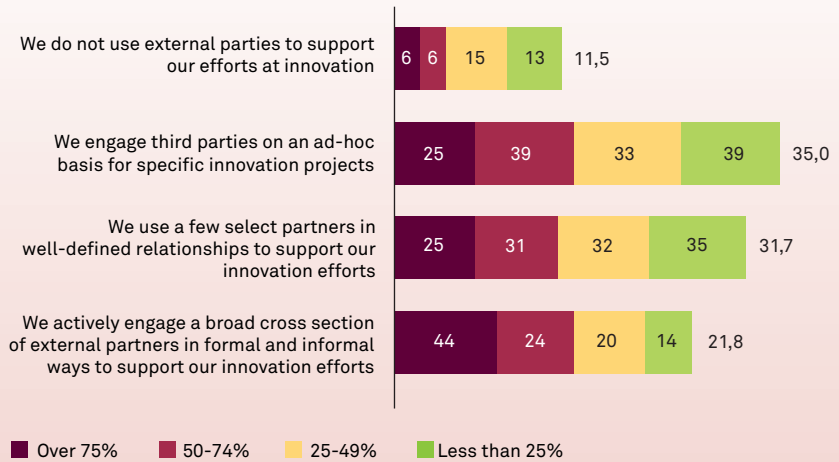
Customer Involvement

The large majority of survey respondents (eighty-nine percent) have taken steps somehow involve their customers in the innovation process. (See Exhibit 9). Fifteen percent have even reached a high level of maturity in this sense, indicating that their customers work closely alongside

Exhibit 8: Third party involvement

% of respondents, n = 331

To what extent do you use external third parties to support your innovation efforts?



their employees, even becoming integrated with their project teams, to support innovation activities.

It becomes evident that innovation leaders, reporting high rates of innovation success, have advanced beyond the less successful innovators in terms of customer involvement.

There are some other noteworthy findings from the leader versus laggard perspective with regard to customer involvement. At first sight there does not seem to be one particular area in the value chain where our respondents are keen to involve their customers in the innovation process; all three suggested areas - new product development, marketing & sales, service and after sales support - are mentioned by a significant percentage of respondents. (See Exhibit 10).

However, when taking the leader versus laggard perspective it becomes apparent that leaders particularly involve their customers in new product development, whereas laggards put most effort into involving customers with marketing & sales activities.

Apparently, involving customers in new product development has a higher economic pay-off than involving them in marketing and sales, or service and after sales support. In other words, to realize a direct material impact on the business results from your innovation efforts, involving customers in NPD is ought to prevail above all other areas.

Exhibit 9: Customer involvement

% of respondents, n = 336

How involved are your customers in your innovation efforts?

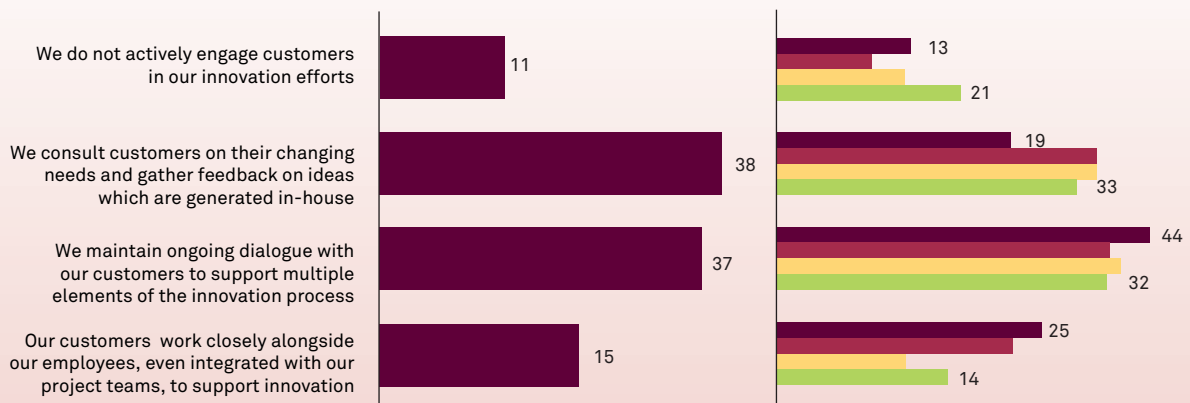
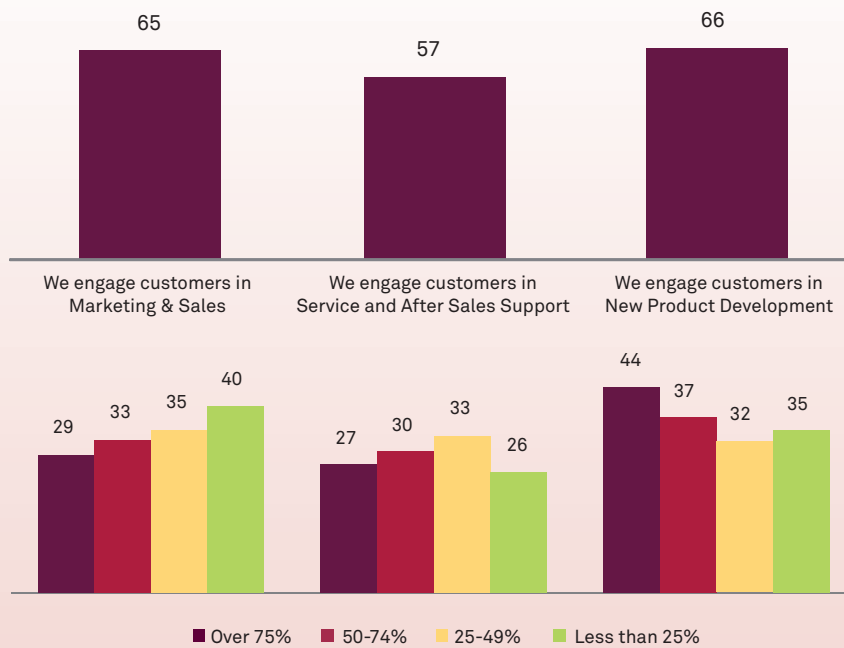


Exhibit 10: Customer involvement

% of respondents,¹ n = 321

In which parts of the value chain do you engage your customers?



¹Multiple answers possible.



Technology

In an era of digital transformation, it is unthinkable to do research on innovation leadership without taking into account the role of (information) technology. Companies such as Apple, Google, Microsoft, Amazon, etc. are continuously on top of the list when it comes to most innovative companies. Just think of the new business models and value propositions they have introduced. We asked survey respondents about the impact on their company's value chain and their capability to adapt to technological innovation.

Impact on Value Chain

The majority of survey respondents – forty-two percent – expect emerging technological innovation to provide incremental productivity or service enhancements in targeted areas of their value chain (Exhibit 11). This is followed by a large group of respondents representing thirty-eight percent of the total, who anticipate that emerging technologies will fundamentally alter the way they do business and interact with their customers and business partners. Thirteen percent of executives surveyed expect only a limited impact from emerging technologies on their value chain, and for seven percent it is unclear how their value chain will be impacted by technological innovation.

Interview findings provide some examples of how technological innovation can impact companies' value chains. On the customer side

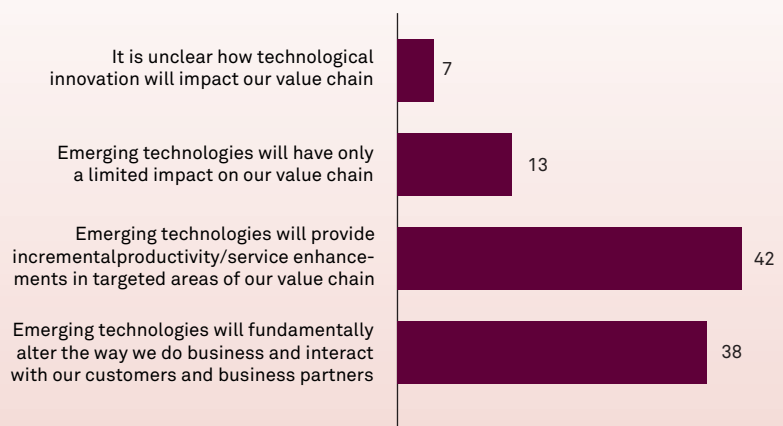
particularly, mobile devices and social media are mentioned to influence interaction with customers by opening new channels and enabling deeper relationships. On the supplier side respondents say the interaction between business partners will be intensified by improved data exchange, for instance in supply chain management and R&D. This can even be taken one step further to the complete outsourcing of R&D and (information) technology to suppliers. The rationale here is that suppliers often are able to deliver the required technologies better or more cheaply than the companies can themselves, due to an increase in complexity or standardization of the technologies in question.

What does this imply? This trend requires companies to be able to quickly scout new technologies and potential partners, become better at managing the interdependencies

Exhibit 11: Impact on value chain

% of respondents, n = 324

What do you anticipate to be the primary impact of technological innovation on your organization's value chain?



between business partners – for instance the alignment of individual technology roadmaps – which in its turn requires reliable partnerships. Also, a targeted acquisition strategy to acquire missing capabilities and technologies might offer a solution to the ever increasing pace with which technological innovation is imposing change on the organization’s value chain.

Capability to Adapt

Being able to anticipate change is one thing, but being capable to adapt rapidly to this change is another. As Exhibit 12 shows, more than half of the innovators surveyed – fifty-six percent – say their organization is somewhat capable of adapting rapidly to emerging technological innovations in the short to mid-term. This fifty-six percent of respondents is evenly distributed across our innovation leader to laggard spectrum.

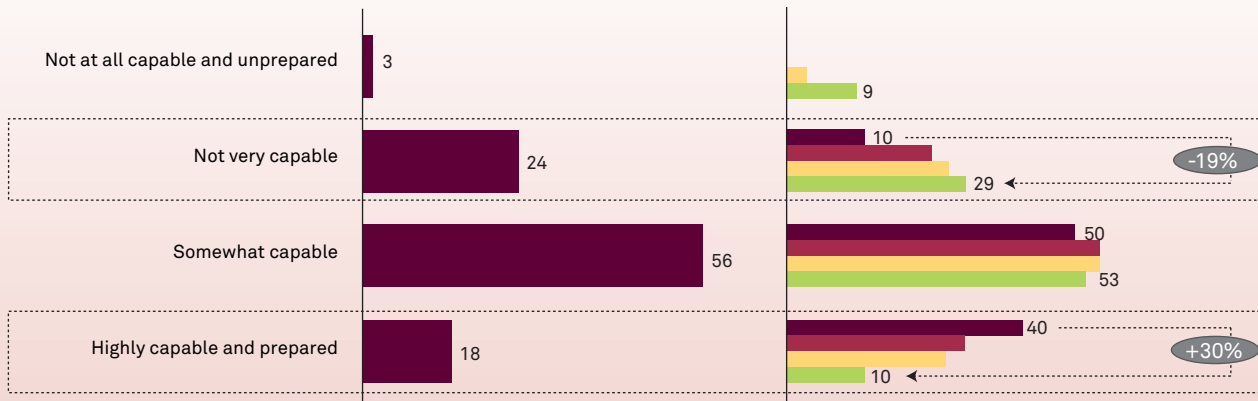
On the lower end, three percent feel unprepared and not at all capable, while twenty-four percent appear to believe their organization is only marginally capable of adapting rapidly. On the higher end, only eighteen percent indicate that their company is highly capable and prepared for technological innovations.

Clearly, our innovation leader group is the best equipped for emerging technological innovations, scoring thirty percent higher in the category ‘highly capable and prepared’ compared with their lagging peers.

Exhibit 12: Capability to adapt

% of respondents, n = 326

How capable is your organization of adapting rapidly to emerging technological innovations in the short / mid-term?



Innovation Function

How is the innovation function within companies fulfilled? This global innovation survey also addresses the innovation function – as an emerging functional area within organizations – as a key area for innovation leadership. Do companies have an accountable innovation executive, what types of innovation decisions are made by the corporate innovation function and which constraints do respondents experience that inhibit their organization from achieving business innovation targets?

Innovation Executive

Exhibit 13 shows that only one-third of respondents say their organization has an executive who is formally accountable for innovation, versus almost sixty-seven percent without such a formalized role. This seems very unusual in light of the importance and therefore strategic priority given to innovation as found earlier. This can be partly explained by the fact that often the CEO is the driving force, and in that role, serves as the accountable executive for innovation. Survey respondents indicated the following executives to be in charge of innovation: (in order of times mentioned, n=90)

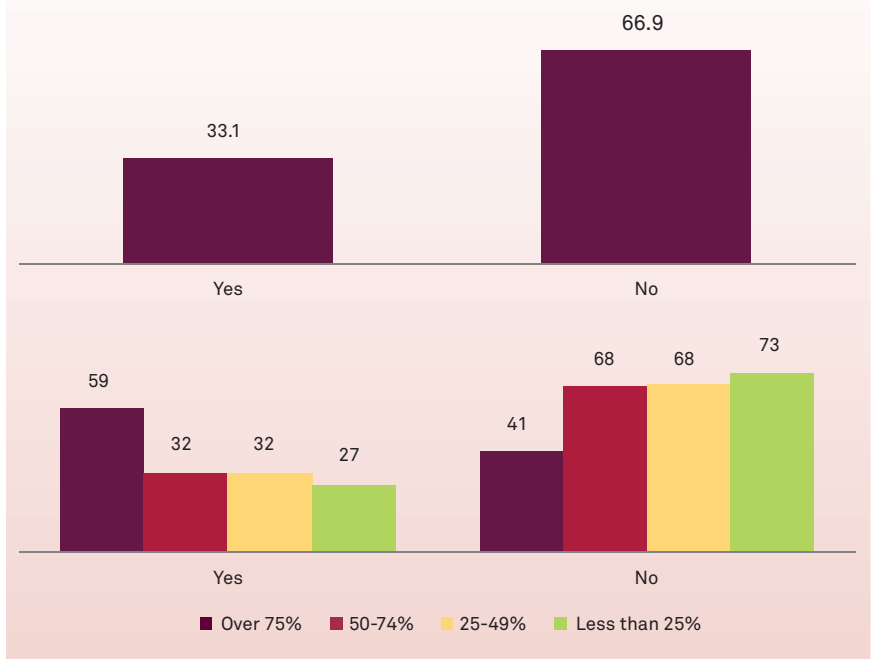
- Chief Innovation Officer
- Chief Executive Officer
- Vice President Innovation

Nevertheless it seems both logical and sensible, as with most other vital business functions, to have a dedicated and accountable executive in charge of it. This is further evidenced by the leader versus laggard comparison: when making the split by innovation success rate it becomes clear that nearly 60 percent of innovation leaders have an accountable executive versus only 27 percent in the laggard peer group. Even the difference with the next best performing peer group – 50-75% success rate – is striking. Although this also suggests that relatively high success rates can be attained without such an executive, it is clear that in order to become a true innovation leader this might just make the difference.

Exhibit 13: Innovation executive

% of respondents, n = 314

Does your organization have someone at the executive level who is formally accountable for innovation?



Decision-making

What types of innovation decisions are made by the corporate innovation function or executive? (Exhibit 14). Determining the focus of innovation efforts – the innovation strategy – is mentioned most often as a decision taken by the corporate innovation function or executive (by eighty percent of the respondents). The allocation of funds and innovation portfolio management as the second most often cited innovation decision (67 percent of the respondents).

Interestingly, as noted earlier, defining the innovation strategy and an appropriate funding mechanism for the innovation portfolio pose serious challenges for many companies. Since these are exactly the kind of decisions made by a formally accountable innovation function or executive, these survey results suggest that establishing such executive leadership is part of the solution towards attaining innovation leadership.

Constraints

The most frequently mentioned hurdles to innovation success by survey respondents are urgency of pressing day-to-day business demands – 54 percent of respondents – and financial constraints - 41 percent. (See Exhibit 15). Follow-up interview results offer additional insights into what constrains organizations to achieve their innovation targets.

Interview respondents say that in addition to the constraints displayed in Exhibit 15, they also experience the lack of clear innovation portfolio targets, and inadequate monitoring of progress towards these them, as a barrier to achieving their innovation targets. How to manage the portfolio of innovation projects in order to

get the most value from innovation efforts? How to make sure that the organization is investing money in the right initiatives? How to assess and prioritize innovation efforts on an ongoing basis during the innovation process? These are the kinds of questions innovation executives struggle with.

They also mention too rigid operating models that hamper their innovation efforts and success. Inflexible operations are limiting the ability to innovate and adjust to the new

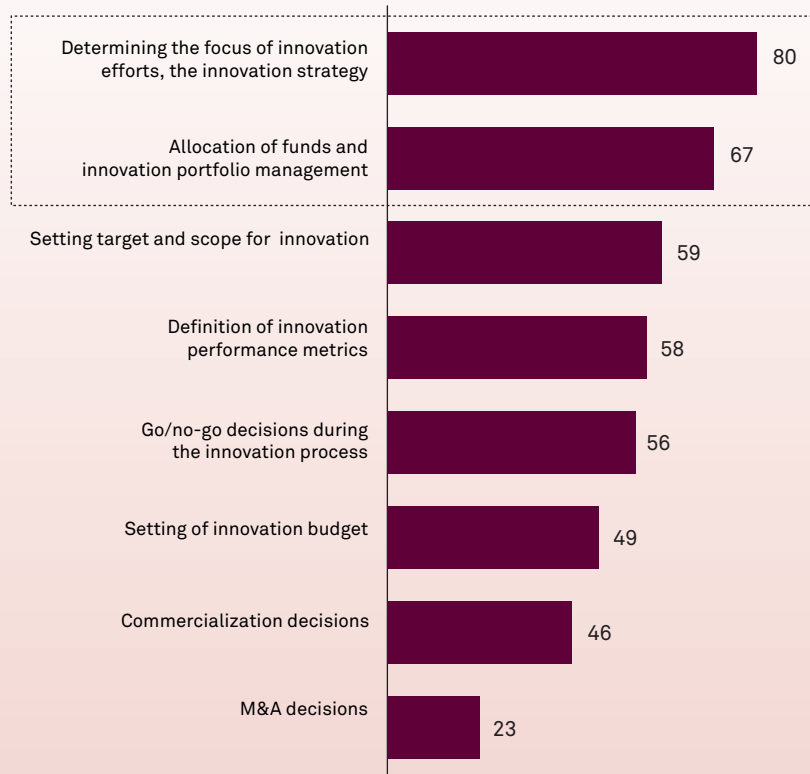
requirements imposed on the organization from ongoing innovation. Respondents say they need more flexibility to scale up their innovation capacity where it is needed. The impact on the organization of new business and operating models is difficult to manage due to lack of time, knowledge and capabilities in this area.

Finally, respondents say they have a challenge with respect to attaining and keeping the right talent for innovation. Bringing in and keeping

Exhibit 14: Decision-making

% of respondents,¹ n = 99

What types of innovation decisions are made by the corporate innovation function / executive?



¹Multiple answers possible.

enough talented individuals who can truly make a difference is hard. Innovation personnel need to show entrepreneurship and be able to drive change, while also having specific content knowledge relevant to the business. Additional complicating factors are the lack of financial resources for training of key staff and the need to stay flexible in terms of headcount.

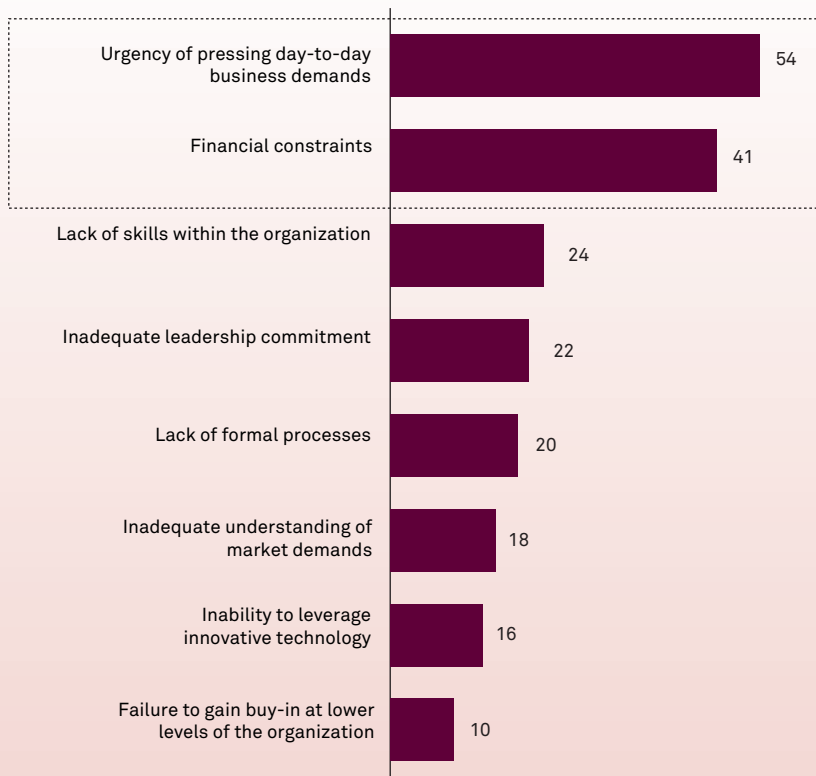
The findings also offer some suggestions on how to overcome these constraints. With regard to improving innovation portfolio management, the setting of clear innovation targets and key performance indicators seems obvious. Furthermore, monitoring against these KPI's and installing a decision-making mechanism which allows for the actual stopping of innovation projects, when appropriate, makes all the difference.

The hurdles with respect to inflexible operating models and lack of talent for innovation could be addressed through various forms of partnerships. Respondents say they are looking at the possibilities for the in-sourcing of talent and entrepreneurship through M&A and other ways of working with partners to get access to the specific resources and capabilities they are lacking themselves, or that are difficult to change within their existing operating model.

Exhibit 15: Constraints

% of respondents,¹ n = 338

What most constrains your organization's ability to achieve its innovation targets?



¹Multiple answers possible.



Spending Outlook

Having looked at the current state of affairs regarding the strategic outlook, capabilities, technology and the innovation function of our survey respondents, the spending outlook for innovation is the final chapter to complete this innovation leadership study. Again, the leader versus laggard perspective will help to unveil what drives the success of companies that view themselves as successful innovators, in this specific area. It addresses the anticipated change in innovation spending, planned investments in rapidly developing economies, innovation focus areas and finally spending plans with regard to M&A.

Anticipated Change in Spending

Sixty-three percent of respondents indicate they anticipate increased innovation spending over the next 12 months. (Exhibit 16). More than forty-one percent expect an increase in spending of up to 10%, whereas twenty-one percent expect to be spending even more than an additional 10% on innovation in the coming year.

Only 3,6 percent of the executives surveyed expect their organization to decrease spending on innovation in the coming period. Clearly, a positive economic outlook leads organizations to increase their spending on innovation in order to prepare for new business opportunities in the economic upswing.

Rapidly Developing Economies

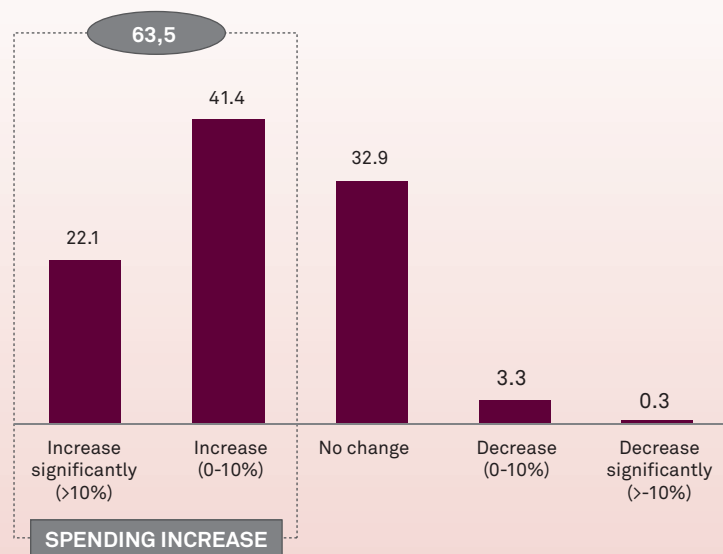
When we asked respondents about their innovation investment plans in rapidly developing economies, fifty-six percent of respondents indicate plans to increase innovation investments in rapidly developing economies versus forty-four percent not planning to do so. (See Exhibit 17). China and India are considered the most attractive economies to invest in, for innovation purposes, with respectively 37 and 30 percent of survey participants indicating these as areas of focus.

Furthermore, it becomes clear from the leader versus laggard comparison that innovation laggards are less willing to invest in RDE's in general, with 36 percent of laggards saying they are not planning to increase

Exhibit 16: Anticipated change in spending

% of respondents, n = 307

How do you anticipate that your organization will change its innovation spending over the next 12 months?



investments in RDE's, versus only 19 percent in the most successful innovators' group. Leaders focus in particular on China (24 percent of the leader group) as a rapidly developing economy target for innovation investment. Also, it should be noted that the laggard group lags behind when it comes to investment plans in Southeast Asia, with only 8 percent of laggards versus 15 percent of leaders planning to increase innovation investments there.

Investment Areas

When it comes to innovation investment our group of respondents is not intending to change the focus of their innovation efforts. New product development and customer focused innovation come out on top with fifty-nine and fifty-four percent of respondents respectively (Exhibit 18). Although they have swapped places, this is in line with earlier findings that most innovation efforts are allocated to these two forms of innovation, implying that respondents are not intending to change the focus of their innovation efforts.

Another consistent finding is that business model innovation ranks last on the innovator's agenda when it comes to the extent to which companies are willing to invest in this area, both now and in the near future. What is also consistent is that innovation leaders tend to invest less in incremental product improvement and more in business model innovation than others. This also implies that the gap in this area between the leaders and laggards will continue to grow moving forward.

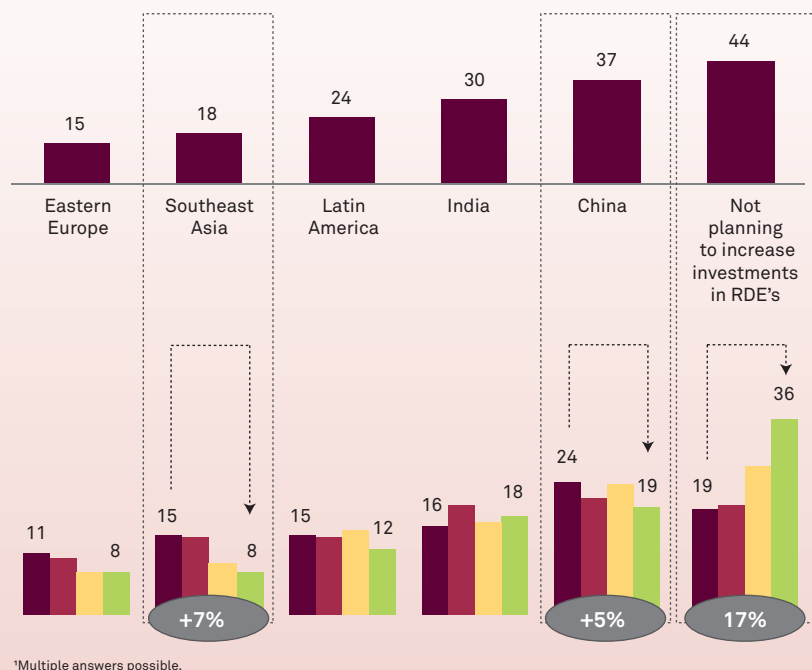
M&A Investments

Looking at the field of mergers and acquisitions as a means to improve

Exhibit 17: Rapidly developing economies

% of respondents,¹ n = 340

In which rapidly developing economies is your organization planning to increase its innovation investments?



innovation capabilities, our survey shows that 30,4 percent are not likely to utilize M&A for this purpose and 20,9 percent do not know if their organization is considering M&A activity to this end. (See Exhibit 19).

This leads us to the finding that nearly half of the respondents are likely to invest in M&A to improve their innovation capabilities. Most of this investment will aim at acquiring access to new markets (32,7 percent) followed by gaining access to new technologies (26,8 percent) and to a lesser extent to gain access to talented people (19,3 percent).

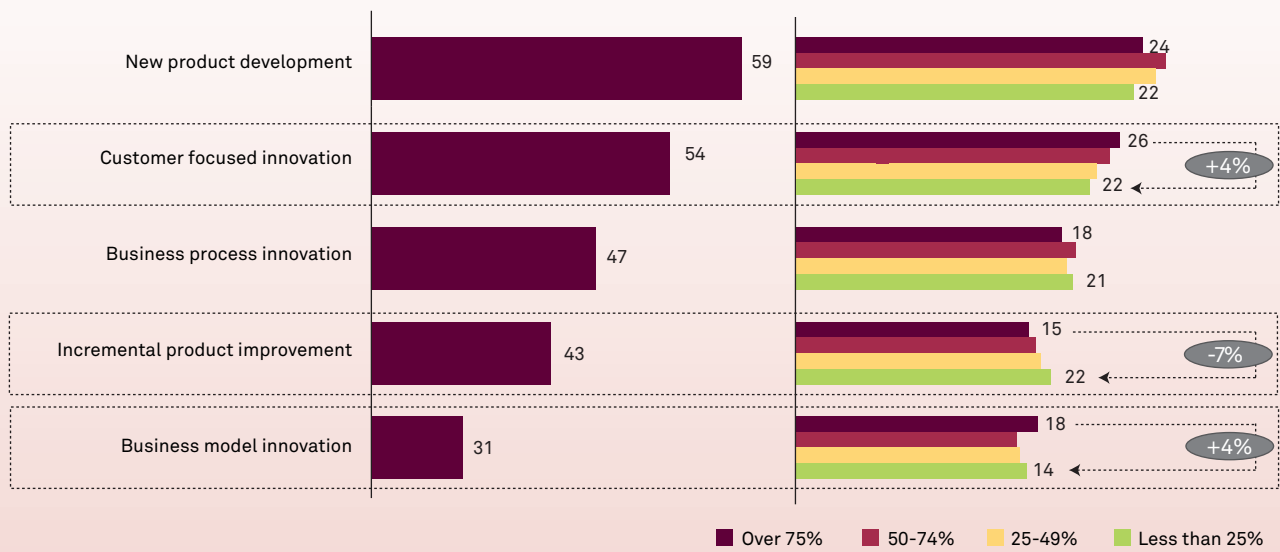
Innovators with a success rate higher than 50% are particularly keen on

investing in M&A to gain access to new markets. The most successful innovators (top quartile) anticipate using M&A mainly to get access to new technologies (27,5 percent of innovation leaders).

Exhibit 18: Investment areas

% of respondents,¹ n = 307

In which innovation areas is your organization most likely to invest?

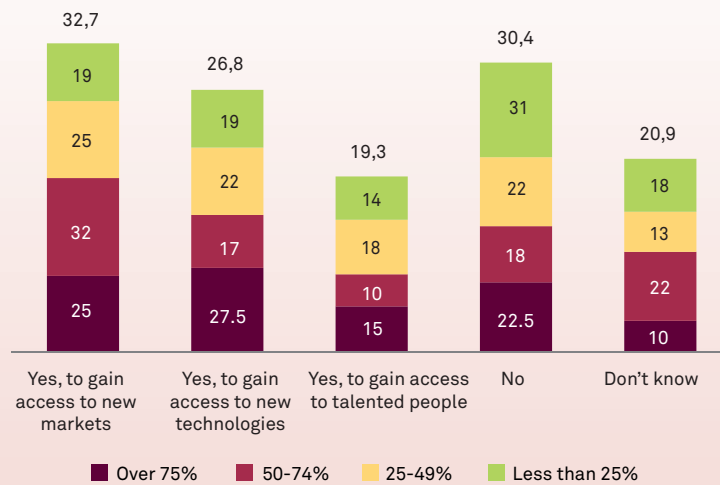


¹Multiple answers possible.

Exhibit 19: M&A investments

% of respondents,¹ n = 306

Is your organization likely to invest in M&A to improve its innovation capabilities?



¹Multiple answers possible; Figures do not sum to 100% because of rounding; Respondents who answered 'Other' are not shown.



Implications for Innovation Executives

What does all this mean for innovation executives? If you take away only three findings from this innovation leader versus laggard study, we recommend you take away the following implications:

1. It is time to match the importance of innovation with the degree of formal governance allocated to it.

Given the strategic priority companies allocate to innovation and their corresponding spending plans, it is highly remarkable that only a few companies have organized innovation in the mature fashion it deserves. Many of the innovation bottlenecks regarding internal alignment, prioritization, funding, balancing long- and short-term objectives and the definition of an innovation strategy can be solved by establishing a formally accountable innovation function. Our innovation leader versus laggard comparison shows that innovation leaders have advanced beyond other innovators by having an accountable innovation executive or other form of formal innovation governance structure that deals with this kind of decision-making.

2. The ability to work effectively with external partners will determine who will be the new innovation leaders and laggards.

If one thing became clear in this innovation leadership study, it is the enormous underutilized potential for innovation hidden in the involvement of external parties into the innovation process. Although not a new phenomenon, very few companies have yet mastered the skill of working together effectively with external partners to improve their innovation results. This can take many forms: from the involvement of suppliers, customers and other third parties in the innovation process, up to the acquisition of missing capabilities or resources – such as technology and talent.

Innovation leaders may have outpaced their peers by simply being better at integrating external parties into their innovation process, leveraging the broader innovation potential as a result. The good news is that there is much to gain for innovation laggards. Improving capabilities in this area offers a unique opportunity to catch up without making huge investments in developing a company's internal innovation capabilities, but focusing on what it does best.

3. Business model innovation will be the next big differentiator for companies aspiring to innovation leadership.

Innovation leaders are slowly but steadily breaking away from the pack by allocating increasingly more resources to business model innovation. And there is a good reason for that. Our findings suggest that more value, in terms of impact on business results, is to be expected from business model innovation than from any other form of innovation. Targeting new business opportunities in emerging markets – whether these are geographical or digital – is much more likely to be successful when approached outside of the traditional competitive landscape by means of new, game-changing models for value creation.

However, new ways of doing business often require changes to the way a company currently operates. Therefore one prerequisite for successful business model innovation is the ability to follow up with adequate changes to the existing operating model, in order to deliver the value as designed by the new business model(s). Companies should be very concerned with developing the capability to transform their operating models when required.

Appendix

Survey Methodology

As the knowledge partner for the World Innovation Forum, Capgemini Consulting conducted an online survey using HSM's network of conference participants and attendees, plus a selection of Capgemini Consulting's client base.

The online survey, in the field from April 07 to May 07, 2010, generated responses from 375 executives around the world, representing the full range of industries, regions, functional specialties, and seniority. In addition, 13 follow-up interviews were conducted to get an even better understanding of the context of the survey findings and to add depth to the survey result interpretation.

The methodology differentiates between innovation leaders and laggards based on a self-assessment by survey respondents of their innovation success rate. The innovation success rate is determined by the percentage of innovation efforts that has a positive material impact on the company's business results.

We distinguish between 4 categories of innovation success based on this rate, namely: 'Less than 25%', '25-49%', '50-74%' and 'Over 75%' of innovation efforts having a positive material impact on the company's business results. The 'Less than 25%' category represents the innovation laggard group and the 'Over 75%' category the innovation leader group of analysis.

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We would specifically like to acknowledge the innovation executives who generously shared their time and insights with us in the follow-up interviews.

Finally, we would like to thank Koen Klokgieters, Eline Vermeulen, Rachida Bouzidi and the entire Business Innovation team for their support and contribution to the development of this survey. Also, we would like to acknowledge Roy Lenders and Michael Schulte for their executive support.

For Further Contact

For additional information regarding this study or Capgemini Consulting's thinking on innovation, please contact one of the following innovation experts:

Europe

Freek Duppen
Managing Consultant
+31 6 2900 7957
Capgemini Consulting – The Netherlands
freek.duppen@capgemini.com

The Americas

Dianne Inniss
Managing Consultant
+1 404 806 4986
Capgemini Consulting – North America
dianne.inniss@capgemini.com



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Headquarters

40 Holborn Viaduct

London EC1N 2PB

United Kingdom

Tel: +44 20 7936 3800

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