

Innovation leadership study

Managing innovation: an insider perspective



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Executive summary

This innovation leadership study carried out jointly by IESE Business School and Capgemini Consulting is Capgemini's third report in the innovation leader versus laggard series. It aims to understand how those leading and managing innovation in their organizations think about the innovation function and offers an insider perspective into both the formal and informal mechanisms for managing innovation. It covers five key areas that affect a company's innovation success: the innovation function, innovation strategy and innovation governance (formal mechanisms), innovation leadership and innovation culture (informal mechanisms). The study offers a unique perspective by looking at the differences in behavior of innovation leaders versus laggards across these key areas - allowing to uncover good practices in managing innovation. Finally, the report offers an overview of the most important implications for innovation executives that seek to improve their innovation success rate.

Our study revealed that the absence of a well-articulated innovation strategy is by far the most important constraint for companies to reach their innovation targets, followed by a lack of understanding of the external environment. There is a need for innovation strategy development in a more bottom-up manner, focused on people as the key source of competitive advantage. One needs to capture all those individual insights from managers and employees to better incorporate an understanding of the external environment in the strategy development process. The findings also suggest that there is a correlation between having a formalized innovation governance and the reported innovation success rate, implying that there is much to gain by improving the formal mechanisms for managing innovation.

Furthermore, large organizations create so much distance between the executives and those that are tasked to innovate that a disconnect exists between them. Real innovation leadership requires executives to reduce the level of disconnect between themselves and employees when it comes to motivation for innovation. Also, our research on innovation culture shows that agility in behavior is considered a key cultural element of innovation. Behaviors that enable better responsiveness to the external environment are required in our present-day society in order to be successful in innovation. Such a culture springs from both formal and informal sources. The CEO is the most important source of innovation culture but it has to take root informally as well.

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

With innovation an emerging functional area within organizations the innovation function is becoming increasingly important as a source for innovation leadership.

- Forty-three percent of respondents say they have a formally accountable innovation executive, versus 57 percent without such a formalized role. This is significantly higher than the 33 percent who said so in last year's innovation leader versus laggard study.
- Building and nurturing an innovation ecosystem (32 percent of respondents) and formulating and communicating the innovation strategy (31 percent) are considered the top roles of the innovation function.
- Companies consider the absence of a well-articulated and/or communicated innovation strategy as the most important constraint for their organization's ability to achieve its innovation targets (24 percent of respondents). It is followed by a lack of understanding of the external environment as indicated by 13 percent of survey respondents.

The majority of companies do not have an explicit innovation strategy - those who have one mostly develop it top-down.

- Only 42 percent of respondents have an explicit innovation strategy, leaving 58 percent without such a strategy.
- Innovation strategy development is mainly a top-down exercise. Most respondents (30 percent) indicate their innovation strategy is developed by a combination of top management, business unit heads, and internal innovation experts. Only 11 percent of respondents explicitly involve employees in the strategy development process.
- The majority of companies communicate their innovation strategy widely in the organization. Seventy-eight percent of respondents say their innovation strategy is communicated widely inside the organization providing employees with a direction on how to act in the context of innovation.

Across the board the governance levers for the formal management of innovation are largely overlooked or underdeveloped.

- Only 30 percent of respondents agree they have an effective organizational structure for innovation. This is mainly due to not having a formal organizational structure for innovation (45 percent), not having a well-defined governance structure (45 percent), or lack of clear roles and responsibilities for innovation (40 percent of respondents).
- Thirty-nine percent of respondents say they do not have an effective decision-making process for innovation. This is largely due to not having a well defined process to prioritize and allocate time and funding to innovation projects (49 percent).
- The KPI system is the least developed governance lever when it comes to innovation. A stunning 54 percent of survey participants indicate that they do not have a formal KPI system for promoting innovation. Only 21 percent of innovation leaders and managers agree they have an effective KPI system for innovation.
- Less than a quarter (24 percent) of the respondents believes they have an effective organizational alignment of innovation efforts.

Executives are mainly motivated by extrinsic transactional drives whereas employees are driven by high intrinsic transformational motivations for innovation.

- Accountability for realizing growth is considered the main motivation for senior executives to be involved in innovation (46 percent of survey respondents), compared to only 15 percent who believe intrinsic creative motivation plays a role here.
- Respondents believe that employees are primarily motivated for innovation because of intrinsic drives. Innovation is considered to be exciting work (91 percent), employees have a desire to improve things (89 percent), and like being part of a team or task force for something new (87 percent).

Companies recognize the need to create a strong innovation culture that enables organizational agility.

- Two-thirds of respondents (66 percent) say they have been tasked with creating a culture of innovation.
- Respondents indicate openness to others' ideas, to change, to exchange (84 percent), innovation considered a core value of the company (74 percent), and sharing information, ideas and results (69 percent) as the most important cultural elements for innovation.
- The CEO is considered the most important source of an innovation culture (69 percent of respondents), followed by peers (59 percent) and managers in general (51 percent).

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An insider perspective

What drives innovation leadership? For many years IESE Business School and Capgemini Consulting have been studying the topic of managing innovation within organizations. Both address the topic from their own angles and perspectives. This innovation leadership study aims to understand how those leading and managing innovation in their organizations think about the innovation function. It offers you an insider perspective on the formal and informal mechanisms for managing innovation.

The study is based on both qualitative and quantitative research. We have conducted in-depth interviews with innovation leaders from various industries on how they lead and manage innovation. Subsequently an online survey targeting innovation executives has been carried out to validate our research hypotheses and provide further insights. The survey methodology allows us to uncover good practices in managing innovation. 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 have a positive material impact on the company's business results.

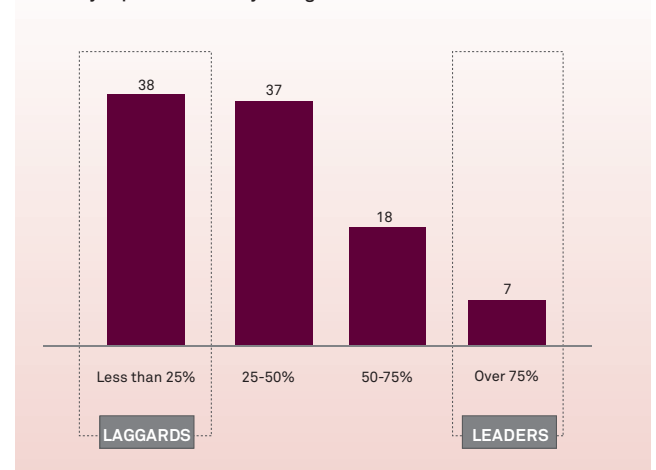
We distinguish between four categories of innovation success based on this rate, namely: 'Less than 25%', '25-50%', '50-75%' and 'Over 75%' of innovation efforts having a positive material impact on the company's business results. The 'Less than 25%' category represents the innovation laggard group and the 'Over 75%' category the innovation leader group of analysis. Exhibit 1 shows how respondents are distributed over these four categories. Thirty-eight percent of respondents fit the innovation laggard profile, whereas 7 percent belong to the innovation leaders group. In addition to the overall findings on innovation leadership this report highlights the differences between innovation leaders and laggards in managing innovation.

This report is organized as follows: As innovation is becoming more ingrained as a corporate function we will start off with taking a closer look at the innovation function itself. Then we will proceed to look at formal mechanisms for managing innovation, namely strategy and governance. This is followed by our findings regarding informal mechanisms for managing innovation, which is leadership and culture. The study is concluded with a top five of implications executives need to take into account with respect to managing innovation.

Exhibit 1: Innovation success rate

% of respondents, n = 260

Could you please estimate your organization's innovation success rate?



1 Innovation function

With innovation an emerging functional area within organizations, this study recognizes the importance of the innovation function as a source for innovation leadership. We asked interviewees and survey respondents about the formal accountability for innovation within their organizations; what they considered to be the innovation function's main role; and what most constrains their organization's ability to achieve its innovation targets.

From our conversations with innovation leaders it has become clear that the innovation function within companies can take many different forms and that there is an ongoing movement towards further formalization of the innovation function. As one interviewee commented: "We're moving from working locally to start working globally, from innovating in a disorganized way, to innovating in a formalized organized way, with clear standards." With respect to the position of the innovation function within the organizational structure, several forms are highlighted by our interviewees. They range from having an innovation board at the top level of the organization, to a full-fledged global innovation function across all business units, to an independent central innovation office that acts as a center of excellence, to being embedded in another organizational function such as marketing or R&D. Often the innovation function has emerged from another corporate function as the company's leadership acknowledges the importance of innovation for future growth.

Most of the innovation leaders we interviewed mention that their innovation function reports directly to a C-level executive. We will discuss the accountability for innovation in more detail in the next section. Also, the role of the innovation executive - as well as the innovation function at large - is elaborated upon in this chapter. Finally, we will take a closer look at the innovation function in the light of the most important constraints for reaching innovation targets.

1.1 Accountability

One of the best indicators of the importance of a certain topic within companies is whether or not someone at the top of the organization is accountable for it. We asked our respondents if their organization has someone at the executive level that is formally accountable for innovation (see exhibit 2). Forty-three percent of respondents indicated they have a formally accountable innovation executive, versus 57 percent without such a formalized role. This is significantly higher than the 33 percent who said so in last year's innovation leader versus laggard study, an indicator that companies are increasingly formalizing the innovation function, hoping to achieve higher innovation success rates.

When looking at the leader versus laggard perspective in exhibit 2 we see a consistent pattern compared to previous results. Fifty-nine percent of innovation 'leaders' - based on their innovation success rate - have a formally accountable executive for innovation, versus only 28 percent of our innovation 'laggard' group. This is in line with last year's findings which showed a similar gap between leaders and laggards with respect to accountability for innovation. There seems to be a correlation between having a formally accountable executive for innovation and the reported innovation success rate, suggesting that formalizing the innovation function leads to higher innovation success rates.

1.2 Role

We were also interested in what our study participants considered to be the innovation function's main role.

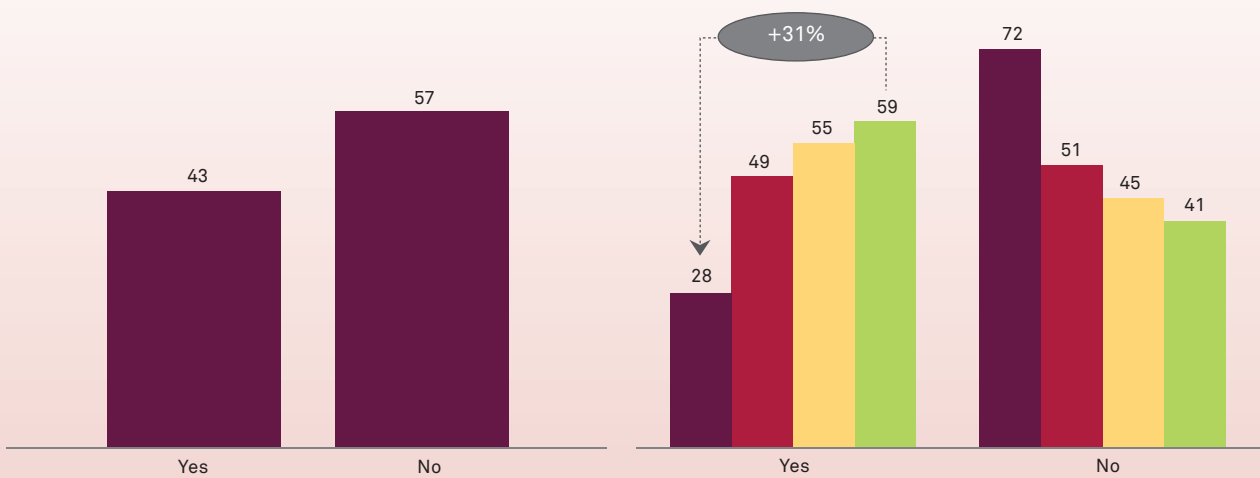
Exhibit 2: Formal accountability for innovation

% of respondents, n = 260

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

Innovation success rate

■ Less than 25% ■ 25-50% ■ 50-75% ■ Over 75%



We started off by asking our interviewees about their personal role as an innovation executive. In line with our finding that companies are increasingly formalizing the innovation function, most innovation executives commented that their role was newly created over the last few years. With respect to their personal role many interviewees mention that much of their role is being a catalyst: “A lot of my role is creating very, very strong strategic alliances and partnerships and bringing new thinking to the table. And then being able to translate that into engagements with our businesses, to really help them make the leap. I spend a lot of time with the venture capitalists, with start-up companies, and then really managing our portfolio of projects that my team has.”

With respect to the role of the innovation function in general we asked

survey respondents to indicate their top three from the list of choices in exhibit 3. ‘Building and nurturing an innovation ecosystem’ and ‘Formulating and communicating the innovation strategy’, scoring respectively 32 and 31 percent, are clearly considered the top roles of the innovation function. ‘Optimizing the innovation processes and governance’ comes in third. These findings concerning the role of the innovation function are largely in line with last year’s findings on innovation decisions to be made by the innovation function. Next, ‘determining the innovation strategy’ and ‘the allocation of funds and innovation portfolio management’ were cited most often as decisions made by the corporate innovation function.

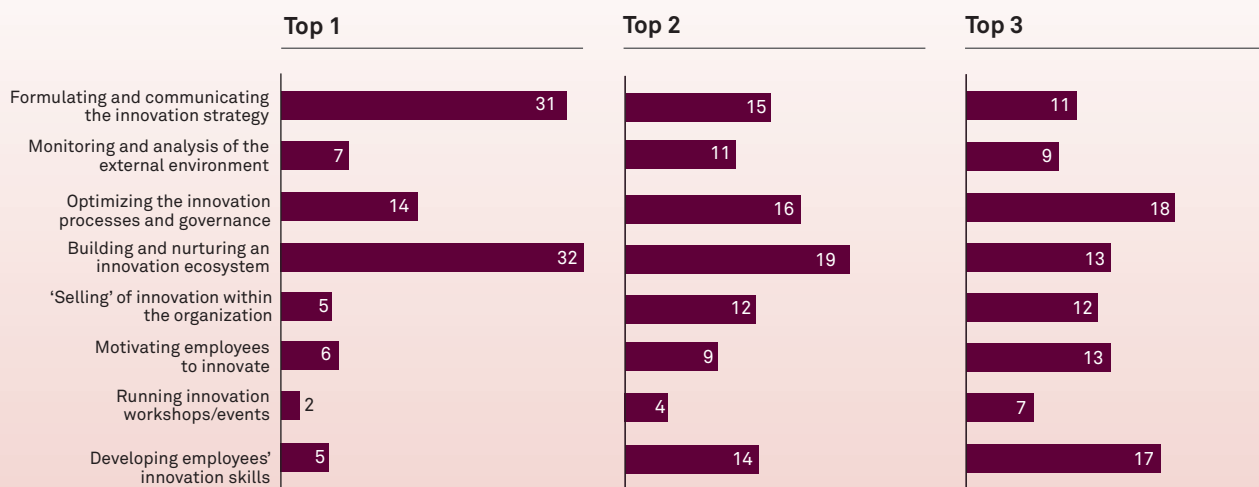
Whereas many innovation leaders are able to explain how they personally build and nurture an innovation

ecosystem within and outside their organizations, few explain how the innovation function at large enables that. Often it boils down to a sort of open innovation center of excellence that supports ‘the business’ by bringing in ideas from the outside. But most of the time the extent to which an innovation function succeeds in building and nurturing an innovation ecosystem seems to depend on the capability of the individuals within the innovation function to network and build relationships for the company as a whole. The second most important role of the innovation function, ‘formulating and communicating the innovation strategy’, will be discussed extensively in chapter two on innovation strategy. In the context of the innovation function’s role, most innovation leaders talked elaborately about how they have optimized the innovation processes and governance. This seems

Exhibit 3: Innovation function's role

% of respondents, n = 260

What do you consider to be the innovation function's main role?



to have been the innovation function's main role in the past - whereas now the fundamentals are in place innovation leaders are shifting the attention of their innovation function increasingly and further outward.

Optimizing the innovation processes and governance is described by one Chief Innovation Officer (CIO) as the responsibility "to embed process, techniques and capacity to sustain rapid innovation", with the company needing to have "a repeatable, ingrained capability internally and externally to rapidly bring ideas forward and prototype things, discard failing ones and double or triple down investment on good ideas." Another interviewee described establishing an innovation process and governance as creating "a set of processes and common language for how we're going to talk about innovation in the company.

We are creating a common language about how these things get discussed and then how they get governed." Another interviewee highlights the importance of implementing a funding mechanism for innovation: "Critical was creating a funding mechanism to get pilots or in some cases actually get the entire product developed, to provide a venture fund that everyone could compete on even ground to get funding from, and to get funding off of budget cycles."

In the next section we will dive into what most constrains organizations in achieving their innovation targets and see how that relates to the innovation function's role as identified here.

1.3 Constraints

Exhibit 4 shows what survey respondents consider to be the biggest constraints for their organization's

ability to achieve its innovation targets. The absence of a well-articulated and/or communicated innovation strategy is by far the most important constraint, with 24 percent of the respondents indicating it as a top 1 constraint. It is followed by a lack of understanding of the external environment (13 percent of respondents naming it a top 1 constraint, 15 percent naming it a top 2 constraint).

Thinking about our findings in the previous chapter on the role of the innovation function, these innovation constraints become even more interesting. 'Building and nurturing an innovation ecosystem' and 'Formulating and communicating the innovation strategy' were considered to be the innovation function's main roles. In order to be able to build and nurture an innovation ecosystem a thorough understanding of the exter-

nal environment is a prerequisite. At least if you want this innovation ecosystem to contribute to your company's innovation success in terms of a positive material impact on the business results. In addition to understanding the external environment, one needs to be able to quickly react to it. We will explain this in more detail in the chapter on innovation culture under improvisation.

Several innovation leaders and managers we interviewed confirmed that they have a limited understanding of the external environment. One Vice President of Innovation says that "the whole global issue is a challenge. Even if people are inclined to be open, different cultures can prevent them from communicating and understanding each other. Also they might not have the same priorities and/or not understand each other's markets and trends." Another

Innovation Director mentions the difficulty of anticipating trends, particularly in technology. "It is challenging to set up directions, to anticipate what clients will need, what markets will need. One needs to balance short-term and long-term research." Also the challenge of generating customer insights is mentioned by one Innovation Director as a lack of understanding the external environment. "People think that if they talk to one customer they know the market. How to get true customer needs on the table?"

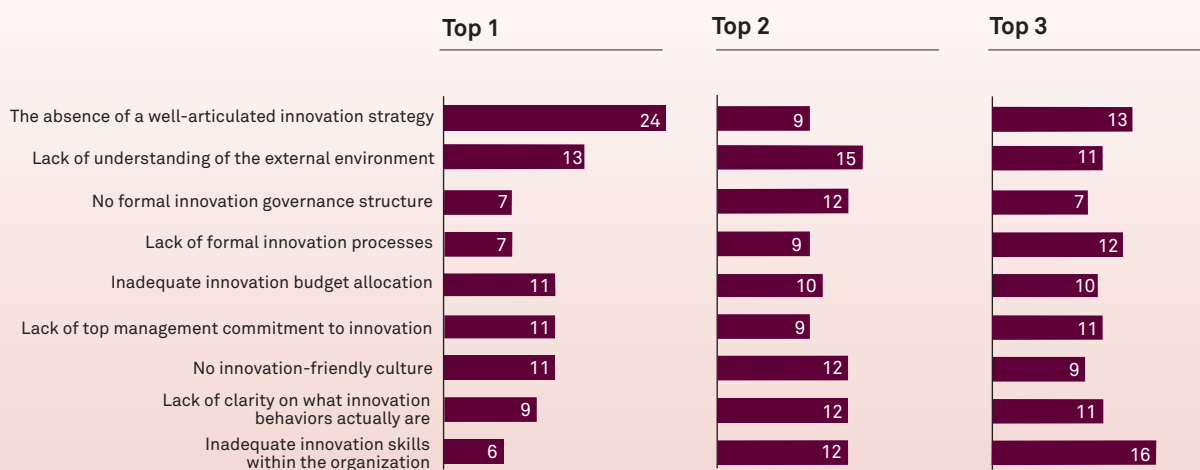
The relationship between the number one constraint ("The absence of a well-articulated and/or communicated innovation strategy") and one of the main roles of the innovation function ("Formulating and communicating the innovation strategy") is even more pronounced. The innovation

function is in the spotlight to improve the organization's ability to achieve its innovation targets by formulating and communicating a well-articulated innovation strategy. The next chapter will shed more light on the innovation strategy.

Exhibit 4: Innovation constraints

% of respondents, n = 260

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



2 Innovation strategy

Managing innovation requires having both formal and informal mechanisms in place. As a formal mechanism for managing innovation the innovation strategy plays an important part. We asked innovation executives if they have an innovation strategy; what elements it consists of; and how it is developed and communicated within the organization.

As concluded in the previous chapter on the innovation function, the innovation strategy plays a major role in achieving one's innovation targets. Moreover it is expected from the innovation function - and therewith ultimately from the accountable executive for innovation - to formulate and communicate such a strategy. In our previous research on innovation leadership we found that many innovation leaders have difficulties in describing what an innovation strategy actually is, what it includes, and how it is developed. This innovation leadership study's findings provide further insight and context for the concept of innovation strategy.

2.1 Strategy

First and foremost - the majority of respondents do not have an explicit innovation strategy (exhibit 5). Only 42 percent of respondents have an

explicit innovation strategy, leaving 58 percent without such a strategy. This is in line with the earlier finding that the absence of a well-articulated and/or communicated innovation strategy is by far the most important constraint for achieving one's innovation targets. The absence of such a strategy is explained as follows by an Innovation Director we interviewed: "It's taken for granted and done 'from the gut'. I think people would benefit from understanding the strategy to be more efficient and more innovative."

Taking the leader versus laggard perspective we note that 65 percent of innovation 'leaders' have an explicit innovation strategy versus only 29 percent of the 'laggards'. The correlation between having an innovation strategy and the reported innovation success rate suggests that indeed the absence of an innovation strategy is a

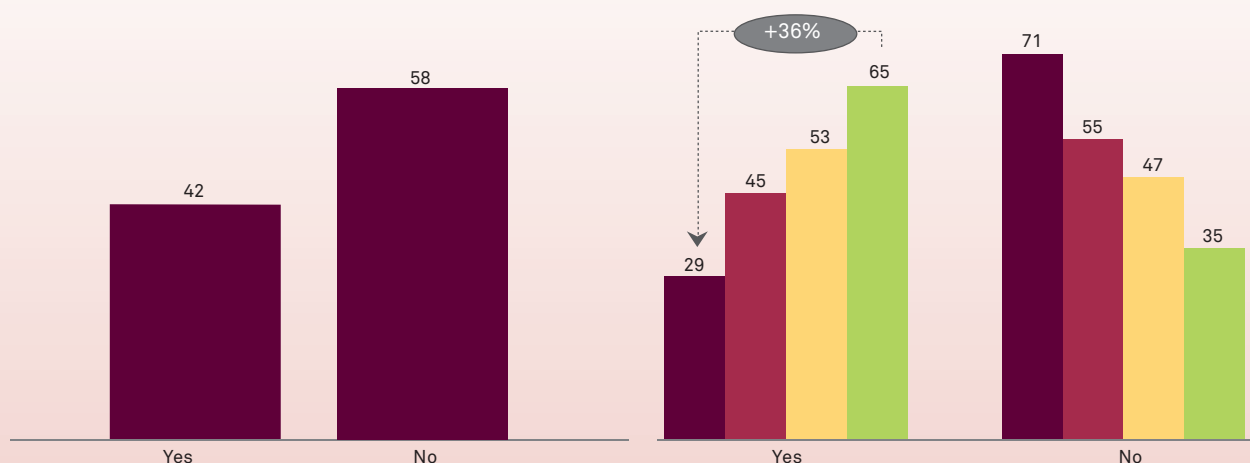
Exhibit 5: Innovation strategy

% of respondents, n = 241

Does your organization have an explicit innovation strategy?

Innovation success rate

■ Less than 25% ■ 25-50% ■ 50-75% ■ Over 75%



big constraint for achieving one's innovation targets. Companies need to start acting to articulate an innovation strategy.

2.2 Elements of strategy

We asked respondents what elements an innovation strategy includes. Exhibit 6 shows the outcome. Clearly a broad variety of elements is included in company's innovation strategies, ranging from the alignment with corporate strategy to statements on the role of partners in this strategy. 'Alignment with corporate strategy' is cited most often, namely by 80 percent of the respondents. The other two elements in the top three include statements on 'Technology,' chosen by 64 percent, and 'Markets,' mentioned by 62 percent.

Talking about how the innovation strategy is aligned with corporate strategy, interview respondents mention the following. One Chief Innovation Officer we spoke with explains how the innovation office is informed by the corporate strategy, while it in turn helps to inform the corporate strategy's focus areas. In other words, it is an interactive process. Another innovation leader we spoke with says it is important to think through all the different elements and that ultimately everything is aligned and driven toward creating value. Some interviewees stress the need for a separate innovation strategy (in addition to corporate strategy) because of the difficulty of matching short- and long-term strategic objectives. One mentions the company has a meeting of functional heads to align the innovation strategy to the

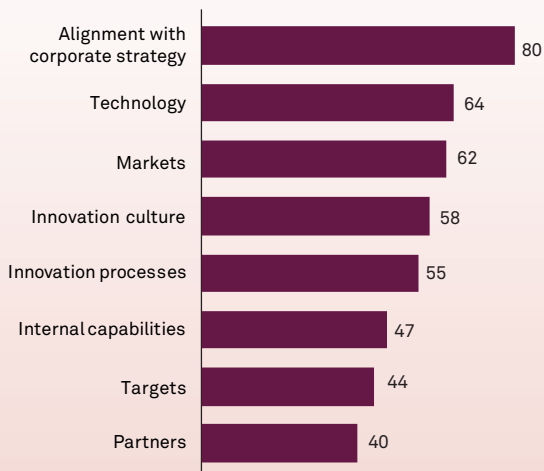
business strategy. Along similar lines an innovation manager we interviewed talks of deciding whether a new technology is strategically a good fit for the company's overall strategy and mission. Even if it's a good idea that can be profitable, from a focus standpoint it may not be something to pursue.

Worth noting is the relatively strong score of innovation culture as an element of the innovation strategy. Fifty-eight percent of the companies surveyed include statements on what is desired from a cultural perspective in their innovation strategy. In our conversations with innovation leaders agility was brought up: "In discussions on strategy, a frequent point that has come up is the need for more agility in the department." This remark bridges the need for

Exhibit 6: Innovation strategy elements

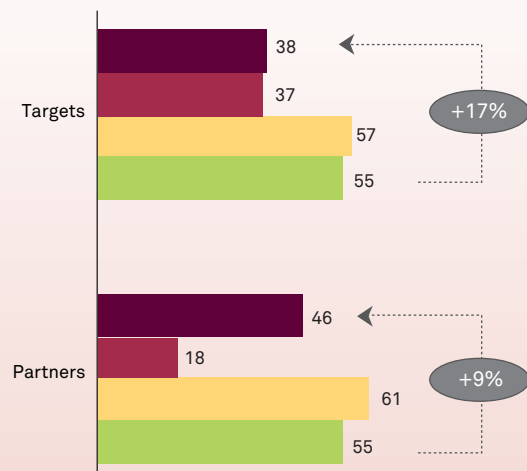
% of respondents,¹ n = 98

Does it include statements on any of the following?



Innovation success rate

■ Less than 25% ■ 25-50% ■ 50-75% ■ Over 75%



¹Multiple answers possible; Respondents who answered 'Other' are not shown.

understanding the external environment - a constraint according to our respondents - and the ability to act upon changes in that environment. We will discuss how innovation culture enables agility in chapter 5 (5.2 Elements of culture).

Finally, it is important to note that our innovation 'leader' group of analysis more often includes statements about targets and partners in their innovation strategy than 'laggards'. One of the main implications from our previous research on innovation leaders and laggards was that the ability to work effectively with external partners will determine who will be the new innovation leaders and laggards. Few companies had yet mastered the skill of working together effectively with external partners to improve their innovation

results. 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 difference between leaders and laggards as illustrated by exhibit 6 seems to emphasize that innovation 'leaders' think more strategically about involving partners than their lagging counterparts. The gap between leaders and laggards with respect to the use of targets in their innovation strategies is even more pronounced. It suggests that innovation leaders are keener to frame their innovation ambitions and plans in terms of strategic targets.

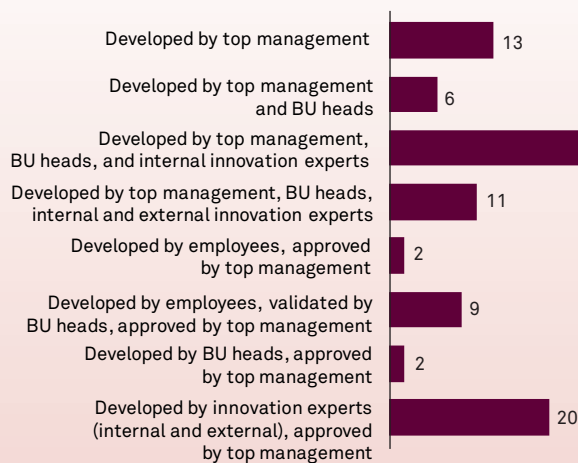
2.3 Development and communication

Exhibit 7 shows how the innovation strategy is developed and communicated within respondents' organizations. Regarding innovation strategy development most respondents (30 percent) indicate their innovation strategy is developed by a combination of top management, business unit heads, and internal innovation experts. Another 20 percent indicate that their innovation strategy is developed by innovation experts - both internal and external experts - and then approved by top management. Thirteen percent say their innovation strategy is developed by top management only. If we look at the split between top-down versus bottom-up development of the innovation strategy we can conclude that it is

Exhibit 7: Innovation strategy development and communication

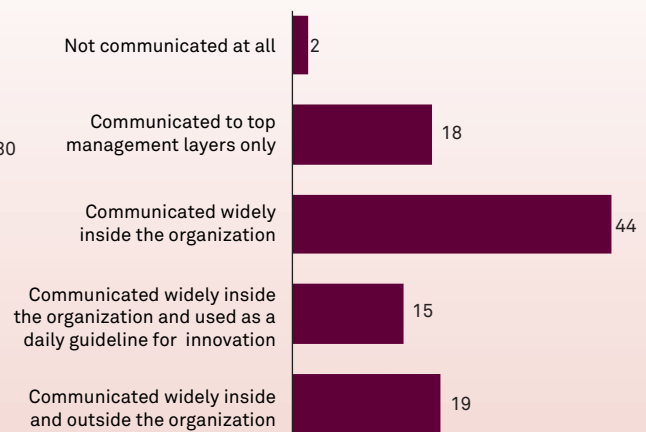
% of respondents,¹ n = 98

How is your innovation strategy developed?



% of respondents,¹ n = 98

How is your innovation strategy communicated in your organization?



¹ Respondents who answered 'Other' are not shown.

mainly a top-down happening. Only 11 percent of respondents have their innovation strategy developed by employees.

One innovation leader we spoke with highlighted the fact that often innovation and corporate strategy are closely intertwined. “The CIO comes up with the strategy, along with a person who works on corporate strategy in the company. The CIO suggests the strategy to the innovation board and the CEO, and upon approval it is deployed throughout the organization.” Other interviewees explain how top-down meets bottom-up development and how the process evolves after the strategy has been defined: “Innovation strategy is created by a combination of top-down and bottom-up. Corporate strategy is top-down, but some innovations are adapted to local markets and are bottom-up.” And “At an abstract level the innovation strategy is defined at the top but the way to the end is pretty much not defined, the people have the freedom to organize themselves to get the results they want.”

Looking at the results for how the innovation strategy is communicated within organizations we find that most respondents (44 percent) communicate the innovation strategy widely inside the organization, 19 percent communicate it widely inside and outside the organization, and 15 percent communicate it widely inside the organization and use it as a daily guideline for innovation. Thus 78 percent of respondents say their innovation strategy is communicated widely inside the organization, providing employees with a direction on how to act in the context of innovation.

Summing up, innovation strategy development is mainly a top-down exercise (only 11% explicitly involve employees) and the defined strategy is communicated widely within the company. Our in-depth interviews with innovation leaders identified some of the complexities related to this kind of practice. One leader stated that with regard to innovation strategy, working in a matrix organization is difficult. “The company has to guarantee that everybody shares the strategy. Because of the need to have a global view of the company, they realized they needed full involvement of people who take decisions in the company.”

In our experience traditional strategy development no longer suffices in the pursuit of sustainable growth under high uncertainty. We believe that business circumstances that are radically new or rapidly changing ask for a new way of strategy development focused on people. There is a need to move strategy development to the outer peripheries of the company in order to capture all those individual insights from managers and employees relevant for defining the right innovation strategy. In section 1.3 Constraints we found that not having a well-articulated and/or communicated innovation strategy is the biggest constraint for achieving one’s innovation targets. However, developing an innovation strategy will only get you half way. It is the way in which you incorporate an understanding of the external environment in your strategy development process that will really set you apart from your competition when it comes to innovation.

3 Innovation governance

One of the main implications from our previous innovation leader versus laggard study was the need to match the importance of innovation with the degree of formal governance allocated to it. This year we asked survey respondents to agree or disagree with statements regarding organizational structure, decision-making, their KPI system, and organizational alignment.

Given the strategic importance companies allocate to innovation it is remarkable that few companies have organized innovation in the mature fashion it deserves. In our last innovation leadership study we already concluded that many innovation bottlenecks can be solved by establishing a formal innovation governance structure that deals with issues such as internal alignment, prioritization, funding, and the balancing of long- and short-term objectives. Many innovation executives see it as the role of the innovation function to optimize these processes and governance.

Although we have seen some positive signals that companies acknowledge this need and are acting accordingly - such as the advent of a formally accountable executive for innovation - still much needs to be done in the area of innovation governance. We asked respondents a wide array of questions regarding various aspects that help to govern the innovation process. The overall tendency is negative. Survey respondents see plenty of room for improvement when it comes to effective governance of the innovation process. Across the board our innovation 'leader' group of analysis agrees more with the statements on formal innovation governance than the innovation 'laggards'. This correlation between having a formalized innovation governance and the reported innovation success rate suggests that there is much to gain by improving the formal mechanisms for managing innovation.

3.1 Organizational structure

Only 30 percent of respondents agree they have an effective organizational structure for innovation

(exhibit 8). Looking a bit deeper we find that 45 percent of respondents do not have a formal organizational structure for innovation, and an equal percentage of respondents do not have a well-defined governance structure for managing innovation. Forty percent have no clear roles and responsibilities for innovation. With such a limited organizational design for innovation it is almost a matter of luck whether or not successful new products and services will be developed and brought to market at these companies.

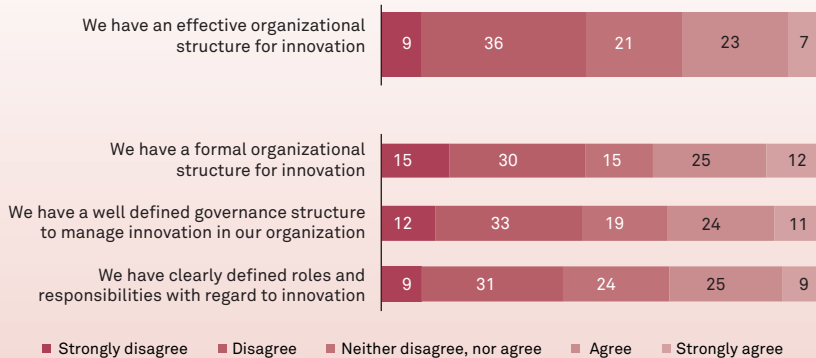
With respect to the organizational structure of innovation we see that companies organize innovation in various places across the organization. Depending on the type of innovation (e.g. product/service, process, business model) and its nature (e.g. incremental, radical, short-term, long-term), companies choose to organize it in different places. This can be within sectors, business units or centrally, within corporate functions such as R&D, marketing, or IT, but also within the strategy department or in a separate innovation office. Often it is a combination of the aforementioned leading to an increase in complexity and a decrease in the effectiveness of the innovation function.

In our conversations with innovation leaders about their organizational structure for innovation, they mentioned the following. An executive said: "I hope that one thing has become clear, that in a big company like ours there are many layers of organization also in the sectors and the business units. Crossing those layers for an idea or something like that is sometimes very difficult. This huge organization is just

Exhibit 8: Organizational structure

% of respondents,¹ n = 227

How strongly do you agree or disagree with the following statements regarding your organizational structure for innovation?



¹ Respondents who answered 'Not applicable' are not shown.

impairing innovation to grow very fast.” Another executive explains why they chose to set up a central innovation office: “The whole idea of trying to find new areas where we potentially can develop new business for our company, calls for a more focused approach. That’s the reason why we installed, 5-6 years ago, the Innovation Center. Which actually is a separate unit, and basically what we try and do there is develop what we call emerging business areas.” Additionally he mentions that having one centralized innovation center helps to exchange expertise and a standard way of working, as well as to get much more synergy.

Yet another innovation officer comments on the need to clearly define roles and responsibilities with regard to innovation. “So what we’re trying to do is build both people and structural capability to let people be broader and see broader.” In that context the company is trying to make the scientists more accountable

for what they’re able to accomplish but also giving them the freedom to do it their way. The officer linked this to innovation leadership and culture - both informal mechanisms for managing innovation - which will be addressed extensively in the next two chapters: “The key is for them to believe you when you say that you are truly giving accountability and freedom. The point is that they have to feel empowered and trusted to do this kind of thing and to feel comfortable stepping out and that they are going be protected if they step out.”

3.2 Decision-making

When it comes to the decision-making process for innovation (exhibit 9) we see a slightly more positive picture. However, still a large percentage of respondents (39 percent) say they do not have an effective decision-making process for innovation. This is largely due to not having a well defined process to prioritize

and allocate time and funding to innovation projects (49 percent). Respondents are most happy with their process for stage gating and the making of go/no-go decisions (45 percent agreeing versus 35 percent disagreeing with this statement).

Zooming in on the process to prioritize and allocate time and funding to innovation projects interviewees highlight some recurring issues. Concerning the allocation of time they mention that ‘the business’ is often completely occupied with their daily operations. Therefore innovative topics often have to wait until the daily business has given more room to engage on these topics. And the more radical these topics are, the less likely they are to get the attention they need and perhaps deserve.

Also funding of innovation projects remains a problem, especially when the benefits are not expected in the short run. “Of course it’s not easy when you are faced with the old thinking or let’s say business plan thinking, where they’re very operative, focusing on the next year. When it comes to looking for opportunities to save money, then these projects are very often challenged. It’s easier to stop projects or initiatives which are not bringing output in the next year but maybe in 5-10 years, it’s more difficult to justify this...” Or as another innovation leader summarizes it: “Our biggest problem is just getting the consistency of funding for long-term projects.”

Some of the innovation leaders we interviewed advocate an approach where there is a differentiation within the prioritization process in order to tackle some of its deficiencies. “There are certain things that have to

be sequestered, because if you hold these up to the conventional tools for prioritization, you'd kill these projects before they get started. These are sort of in a protected environment. And what we do here is, we have what we call a new business board of half a dozen of the top-top people, and they make calls on this, separate from their actual job.”

3.3 KPI system

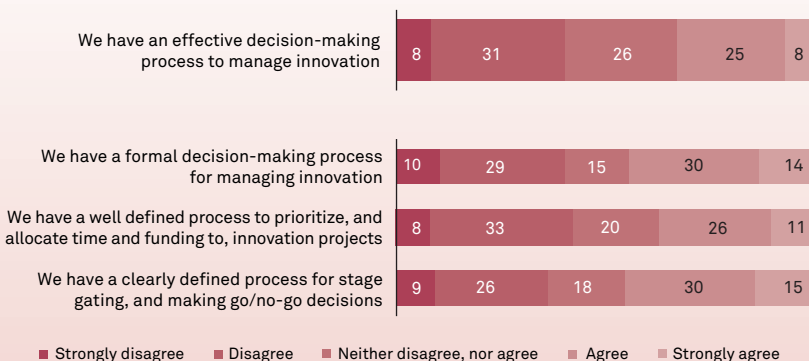
Exhibit 10 illustrates the sentiment with respect to the KPI system for innovation. A stunning 54 percent of survey participants indicate that they do not have a formal KPI system for promoting innovation. Only 21 percent of innovation leaders and managers that answered this question agree they have an effective KPI system for innovation. Of all the governance levers, the KPI system is the least developed one when it comes to innovation.

Innovation leaders and managers struggle to define an effective KPI system to promote innovation. One interviewee indicates the difficulty - and perceived limitations - of selecting appropriate indicators for innovation: “How do you track innovation? There’s only a limited set of things you can do. The number of partners you have, the number of projects you have, the amount of spend you have, the innovation sales you have, the number of patents you have issued, in any given business this is pretty much the type of thing.” Another interviewee addresses the fact that across the board executives have difficulties with getting their head around the definition of targets for innovation. “We help the board with setting performance objectives around innovation, like the innovation percentage of sales.”

Exhibit 9: Decision-making process

% of respondents,¹ n = 227

How strongly do you agree or disagree with the following statements regarding your decision-making process for innovation?

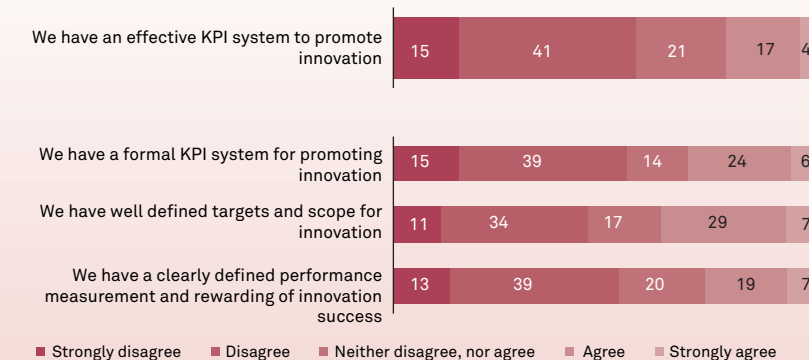


¹Respondents who answered 'Not applicable' are not shown.

Exhibit 10: KPI system

% of respondents,¹ n = 227

How strongly do you agree or disagree with the following statements regarding your KPI system for innovation?

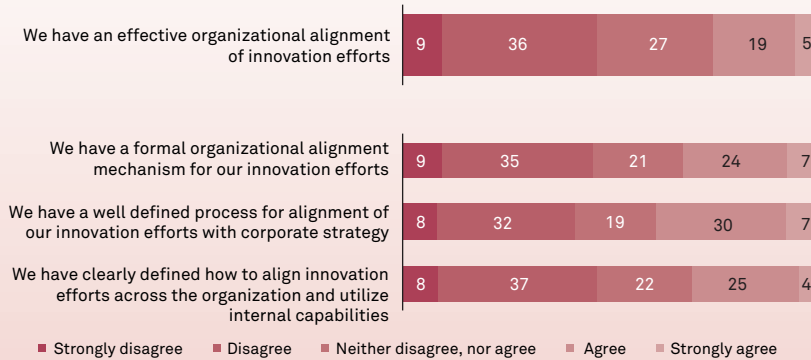


¹Respondents who answered 'Not applicable' are not shown.

Exhibit 11: Organizational alignment

% of respondents,¹ n = 227

How strongly do you agree or disagree with the following statements regarding your organizational alignment of innovation?



¹ Respondents who answered 'Not applicable' are not shown.

3.4 Organizational alignment

Finally, we were interested in the extent to which companies have succeeded in aligning the innovation efforts across their organizations (see exhibit 11). Again, a rather negative picture emerges. Less than a quarter (24 percent) of the respondents believes they have an effective organizational alignment of innovation efforts. The innovation executives we surveyed are most positive about the alignment of innovation efforts with corporate strategy (37 percent agreeing versus 40 percent disagreeing with this statement). But the lack of a formal organizational alignment mechanism for innovation, and an unclear view of how internal capabilities can be utilized to align innovation efforts, seems to negatively influence the successful alignment of innovation efforts across the organization.

We got some insights into how innovation leaders attempt to align

their innovation efforts across the organization. One leader explains that they have created a list of the top 50 innovation projects across the organization which they continuously support, boost, and monitor in order to increase their chance of success. In addition they organize alignment events as an intervention tool to make sure that they stay aligned with respect to their innovation ambitions. Another innovation executive says they use their innovation council - with representatives from all business groups - as a formal mechanism for the organizational alignment of innovation efforts. Within this council they discuss portfolio choices as well as how to improve innovativeness throughout the company.

Sometimes, all it takes is a bit of creativity and the right positioning in order to increase alignment of innovation within the organization. As one interviewee comments: “We created a lexicon for a big project

that we want to have as a big bet. Where we give our top scientists the opportunity to lead, not only as an individual project but leading this as a field, and creating projects across the company, across category.” He explains how this serves as a tool to increase the breadth of focus within the organization of innovation, resulting in people running around and talking about these projects. It being “a way to bring innovation as a topic to a higher level in the company on a more regular basis.”

In sum, innovation governance - as a formal mechanism for managing innovation - offers a great opportunity to innovation executives aspiring to improve their innovation success rate. It is still largely underdeveloped with respect to all four aspects of it we surveyed in this study: organizational structure, decision-making process, KPI system, and organizational alignment. Innovation ‘leaders’ have already adopted innovation governance as a good practice for managing innovation - it is up to others to follow in their footsteps.

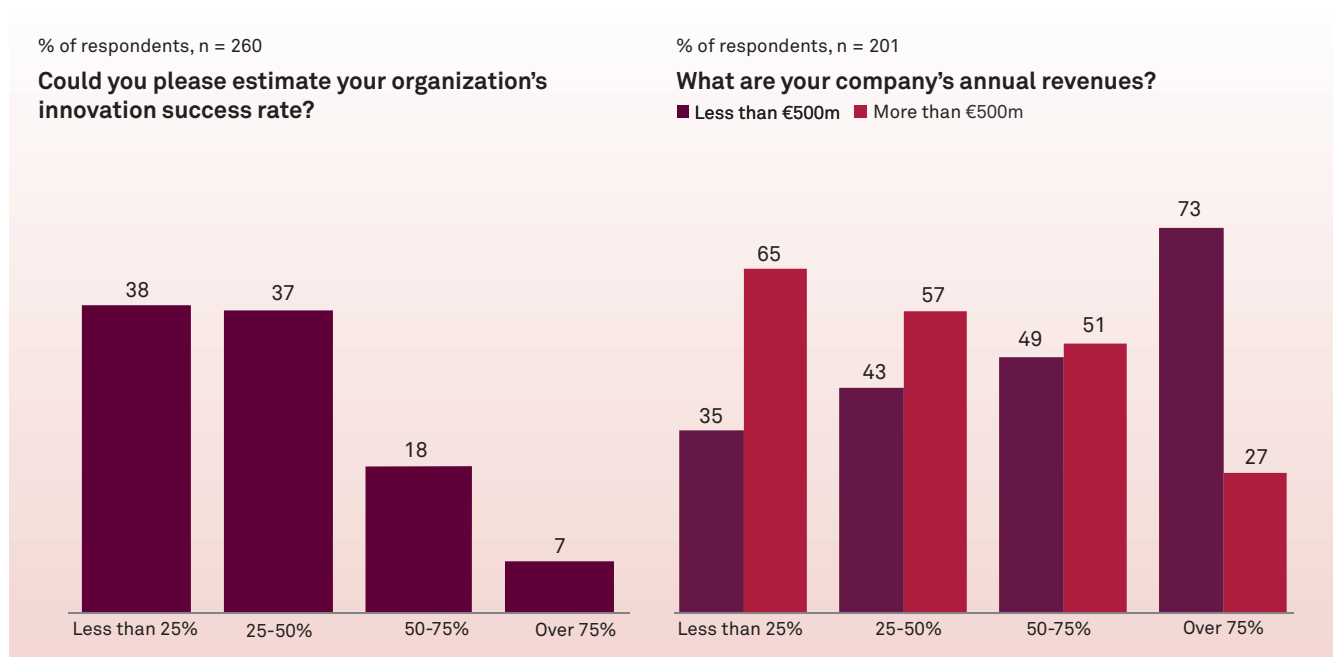
4 Innovation leadership

As an important informal mechanism for managing innovation, innovation leadership has been researched extensively for this study. We asked our respondents about who leads innovation in their organizations; what they think motivates senior executives to be involved in innovation leadership; and what motivates employees to be involved in innovation.

By their very nature organizations seek stability and predictability and will tend not to spontaneously drive innovation that destabilizes. This means that real disruptive innovation has to be driven by the leadership. This is true even where bottom-up systems may be implemented in attempts to democratize innovation. Our survey further suggests that the CEO must be seen to be driving the strategy for innovation though others in the leadership team may take on that responsibility. One innovation officer we interviewed described the responsibility this way, “The strategy we have is to influence people who have to make things happen, who do not report directly to me. So as a leader you have to develop political skills, and influence skills, because you have to motivate people to move towards this direction.”

Exhibit 12 shows that the innovation leader group of analysis is dominated by small firms (less than €500m in annual revenues). The correlation between company size and reported innovation success rate suggests that it is much easier to drive innovation in small organizations. Large organizations create so much distance between the executives and those that are tasked to innovate that a disconnect exists between them. The issue of the status level of innovation is seen differently from a leader to laggard perspective. If one considers that most of the leaders are small firms it is clear that one has a better chance of creating a culture of innovation in a smaller organizational unit. In order to achieve that, leadership in large organizations needs to develop skills that tap into the belief system of employees.

Exhibit 12: Innovation success rate and company size



4.1 Executive motivation

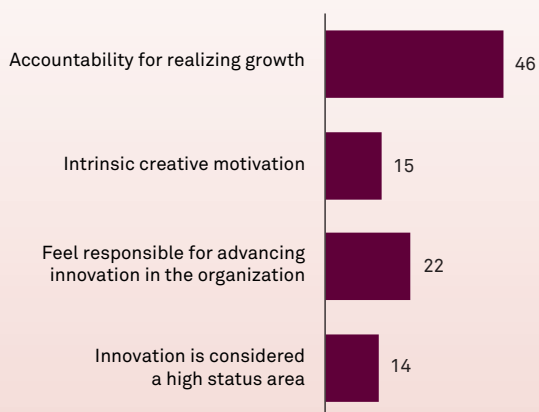
Starting from the simple premise that it is the responsibility of executives to create and develop innovation ecosystems which they shape through determining KPIs, structure and incentives, the link between low executive motivation and poorly articulated KPIs is self-evident. Our survey demonstrates that driving innovation is seen largely as a duty for many executives. Interviews suggest that inspirational leadership motivation is fairly rare. From our in-depth interviews with CIOs as well as from survey respondents a picture emerges: when asked who actually drives innovation the reality is that quite often it is driven by all sorts of managers and often all at the same time thereby making responsibility and accountability more difficult. Executives are left in a position

of driving their own motivation; however acting in a responsible and accountable way - or as one interviewee termed it “doing the right thing” - is not exactly inspirational. In addition, in the comparison of executive and employee motivations (see exhibits 13 and 14) executives have extrinsic transactional drives whereas employees are driven by high transformation intrinsic drives such the excitement of innovation, the team focus and the need to help the organization. Our survey results seem to suggest that this softer element of motivational drive eludes executives, except in exceptional organizations. There is a suggestion here that were executive motivations of a high intrinsic nature, KPIs, strategy and ecosystem could be better articulated. One can only assume that in the prevailing economic conditions the constant focusing on bottom line

Exhibit 13: Executive motivation for innovation

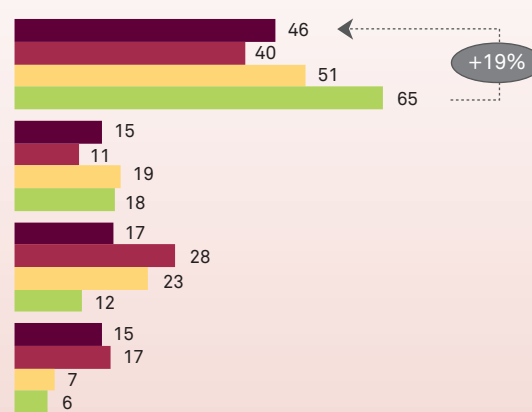
% of respondents,¹ n = 241

What do you think motivates senior executives to be involved in innovation leadership?



Innovation success rate

■ Less than 25% ■ 25-50% ■ 50-75% ■ Over 75%



¹ Respondents who answered 'Other' are not shown.

results and cut-backs has led to a fairly uninspiring leadership. Those tasked with enabling innovation in the organization invariably find themselves having to develop a culture of innovation, which is discussed in more detail in the next chapter.

4.2 Employee motivation

The disconnect between leadership and employees couldn't be more clearly demonstrated than in the difference between executive and employee motivation. Employees believe innovation to be exciting (91 percent), aimed at improving things (89 percent) and better delivered in teams formed apart from the usual workplace (87 percent). In our interviews we found that 'self motivation' was perceived as important: "very important for innovation is a relentless self-motivation, relentless drive

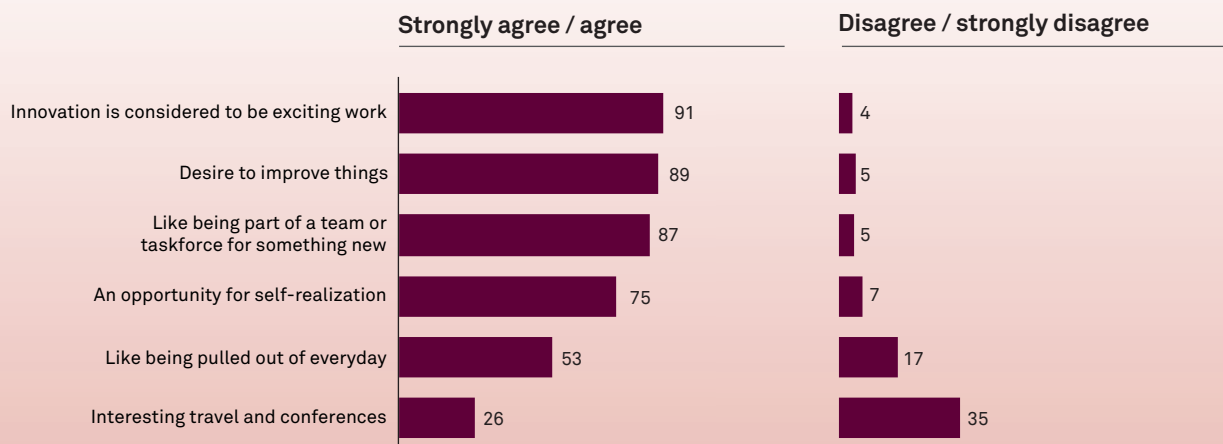
to achieve something." In contrast we did not find that executives perceive these motivators to be of importance. Many executives who we interview will insist that low rates of success are due to a lack of a 'culture of innovation' failing to see the link between motivation, drive of employees, and perceived culture. Successful companies feature differently in our interviews where we found the leadership has a broader interpretation of employee motivation. As one interviewee put it, "If you have an ethical, high-trust type of organization, it generally also means that you have people who want to do the right thing and do it well. If you simply recognize them and acknowledge them for having done that, that gets you 75 percent of the way there." Low-trust organizations or highly-fragmented ones that are "an agglomeration of many acquisitions

that were never really integrated" are hard because absent are "those networks of relationships, you've kind of got everybody in their bunker, peering out, thinking, if I work with another business unit, it'll just mean resources will flow to them and not to me." More than anything else this quote captures the contrast in many large organizations of a pervading culture where distance, self-interest and disconnect overwhelm any motivation for innovation.

Exhibit 14: Employee motivation for innovation

% of respondents,¹ n = 241

How strongly do you agree or disagree with the following statements with respect to what motivates employees



¹ Respondents who answered 'Neither disagree, nor agree' or 'Not applicable' are not shown.

5 Innovation culture

Managing innovation requires having both formal and informal mechanisms in place. Like leadership, culture is a 'soft' element of organizational change. We asked survey respondents whether they themselves had been tasked with building a culture of innovation; what a culture of innovation consisted of in their minds; and where an innovation culture comes from in their organization.

Speaking with interviewees, we got a refined understanding of how innovation culture is thought about in organizations, and how it is changing. While we heard some interesting remarks on how national culture can figure in innovation - such as a country's culturally putting a premium on creative ideas and things that deliver ordinary experiences in a more creative way - here we focus on corporate culture, which research has shown to trump national culture when it comes to radical innovation.

Our discussion of innovation culture ranged from start-ups characterized as not yet having an innovation culture as compared against a company like Google, whose culture was described as "spilling out of the doors, you can see it everywhere with these Google bikes that everybody rides all over the place", to established technology companies that are trying to change their innovation culture to become more customer-focused. Like technology, IT was seen as needing to get the right innovation culture, and not just technology gadgetry.

"Innovation culture is always an issue when doing projects with customers", an interview respondent said, "because culture is the basis for everything one does in an organization, so it's not only the innovation culture but also the organizational culture which plays a role there." The distinction made by interviewees between organizational culture and innovation culture, as well as among different types of innovation cultures, was instructive in understanding how culture was thought about and experienced in relation to innovation.

Some interviewees, when asked if they personally have to do something

for a culture of innovation said no, the company has quite a good culture of innovation, it is hungry for innovation and very agile in terms of change. Another company was characterized as historically always having an innovation culture and an innovation entity, with the fact that it still makes a lot of money out of innovation that probably took place ten years ago functioning as a key motivator that works well.

Some contrasted previous experiences at companies that had an innovation culture to their current company, where there is not an evident innovation culture and people are not as enthusiastic about coming up with ideas and driving them, but where there's a passion for other things, such as championing and advocating for customer needs, that really motivates people. Another interviewee spoke of a lack of a traditional culture of innovation in the company, where the people who gravitate there are not necessarily the entrepreneurs, but who are motivated by the notion of benefiting the world, which was characterized as a higher order than just a culture of innovation. This was characterized as strengthening the whole execution within the company because even when doing regular work, the people are constantly looking for this bigger picture. Another interviewee spoke of trust and ethics, saying that without those an organization won't get much innovation. These were seen as enabling a free flow of information between the lower levels and middle and senior management and a situation where people are comfortable.

All of this served to clarify what people saw as an innovation culture, a traditional innovation culture, a

technology innovation culture, and cultures that focus on values other than innovation but whose championing of those values aids innovation by helping with execution, collaboration, and the psychology, or climate, of innovation.

5.1 Creating a culture of innovation

We asked respondents whether they personally had been tasked with creating a culture of innovation in their companies. Two-thirds of respondents said they have been tasked with creating a culture of innovation (exhibit 15). The result suggests that many people are being tasked with creating such a culture, which indicates that companies recognize the need to create such a culture and that they want many people involved in doing it. An interviewee spoke of a company trying to make innovation

something that's pervasive, not just done in a team - they have a center of excellence but their expectation is that everybody does it.

On being charged with a mandate to build a culture of innovation, an interviewee said it's a recognition that innovation requires creating another component of how to do business, adding that the future could likely involve needing to think about the business in a very different way, creating partnerships with different kinds of companies than in the past, and seeing a much wider view of the world than just one's own industry. Another interviewee described a company's trying to think less conventionally and building both people and the structural capability to do so.

Not all employees were tasked with creating an innovation culture. An interviewee saw it as a matter of "not

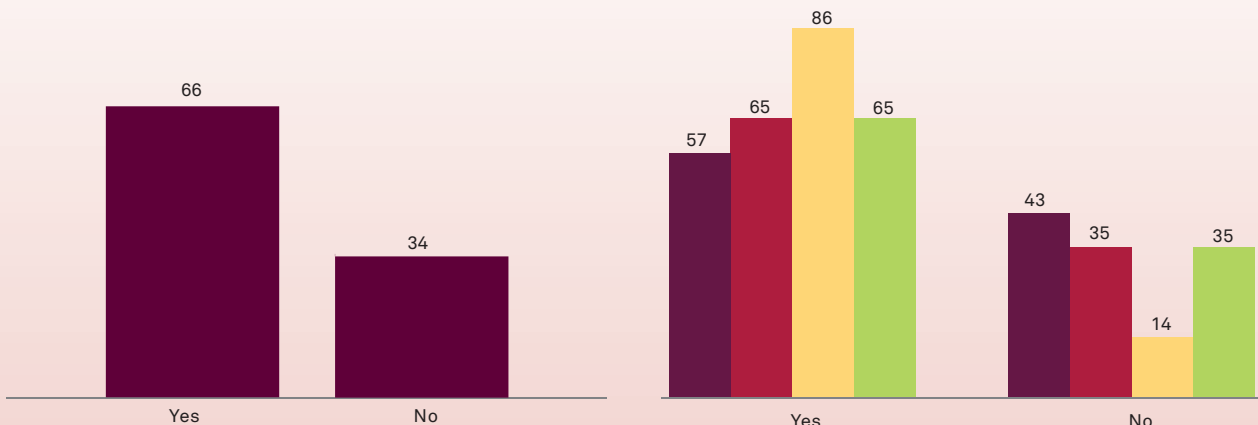
Exhibit 15: Innovation culture

% of respondents, n = 236

Have you been tasked with creating a culture of innovation in your organization?

Innovation success rate

■ Less than 25% ■ 25-50% ■ 50-75% ■ Over 75%



being at the right level of the organization to really affect that”, but trying to influence it in whatever way possible as an individual contributor. With so many being tasked with creating a culture of innovation - and with even those not formally tasked seeking to influence it - it is important to understand what innovation culture consists of, which we address in the next section.

5.2 Elements of culture

To determine how respondents think about and act upon culture, we asked them to indicate the primary elements they think constitute such a culture (see exhibit 16). The responses included creative behaviors and values, and both formal and informal manifestations of culture. As mentioned earlier, within the informal mechanism of culture there is a formal/informal mix. The formal is the desired as presented by the company while the informal is the desirable, according to the employee. A mix of the two scored strongly: ‘Innovation considered a core value of the company’ scored 74 percent; while selections such as ‘People throwing out ideas, discussing them, excited about them’ scored 53 percent; and ‘People are aware that they have to have new ideas and bring them up’ scored 33 percent. In the vein of the informal, a suggested element by respondents was a widespread attitude that everything can be done in different ways, and the need to have bottom-up support and encouragement.

‘Openness (to others’ ideas, to change, to exchange)’ was the most important element at 84 percent. Openness to innovation was seen as necessary to be able to survive in a continuous change environment.

An interviewee said openness was more important than creativity for innovation, explaining that “It’s not that people don’t want to be creative, it’s that they’re not trying to be open. They are willing to participate but they don’t know how to; they are not used to sharing the knowledge they have with their peers in other countries.” Suggested elements here included: openness to people one works with; having an open mind for partners; understanding differences as a strength; and understanding different management styles and personalities.

A selection gaging the importance of informal values, ‘Going in directions you believe in’, scored 28 percent. Suggested elements included the notion of belief, desire, and passion, in driving an innovation culture.

In the innovation function section (1.3 Constraints), ‘Lack of clarity on what innovation behaviors actually are’ scored solidly as a constraint on innovation. The responses that indicated behaviors in this section were therefore helpful to identify said behaviors. An interviewee spoke of helping people brainstorm and to shape new ideas, how to change the way people communicate, what behaviors are critical, and then helping leaders to be able to lead that. The behaviors of ‘Sharing information, ideas and results’ scored a high 69 percent, while those of ‘Listening to ideas, pushing them forward, making sure they’re followed’ scored 59 percent as elements that constitute a culture of innovation.

‘Acting quickly even outside plan to capture opportunities’ scored a strong 55 percent, indicating that agility in behavior is desirable.

Behaviors that enable better responsiveness to the external environment can be thought of in terms of a capacity to improvise. This responsiveness takes three main forms: one is relating to speed, therefore the ability to move quickly. As an interviewee told us, in the context of the need for IT to become much more agile: “Today the business would love to be even more agile and to be even more reacting to things. Sometimes they just simply do things and then we (the IT department) have to bring them back into all that policy conformance.” The second form of responsiveness has to do with external orientation, and the ability to react better to what’s in the environment and to ideas proffered by customers. As an interviewee said, “External orientation is really something crucial and so important, and how to improve it, how to make sure that people have the right behavior in terms of getting the true customer needs on the table, is one of the biggest challenges marketing faces.” A third way improvisation is relevant is as an ability to work with what’s given. An interviewee pointed to the competition the company faces from the Asia-Pacific area, from completely different innovation that features even more complex machines but which are cheap and robust and completely differently built: “Sometimes the innovation is they can do much the same with much less.”

A number of survey respondents suggested that recognizing that innovation consists of both success and failure was important. Protecting the careers of people, enabling personal satisfaction and advancement, and empowerment were mentioned. These responses

Exhibit 16: Innovation culture elements

% of respondents,¹ n = 236

Which elements do you think constitute a culture of innovation?



¹Multiple answers possible; Respondents who answered 'Other' are not shown.

indicate that psychological elements that comprise the climate of innovation are important to people, and that they mention them when asked about culture. 'Code of trust' scored a relatively low 41 percent, however. A learning culture, desire, and curiosity were also mentioned as elements of an innovation culture.

'Facilitating and guiding ideas' scored 54 percent, with the 'leader' group selecting it more than the 'laggard' group. We discuss this result in more detail in the next section.

5.3 Source

As to where they see innovation culture coming from in their organizations, respondents' replies echoed a split between formal and informal sources (exhibit 17). The CEO was clearly the most important at 69 percent, followed by 'Peers, people you

work with' at 59 percent, and then 'Managers in general' at 51 percent.

The 'Chief Innovation Officer and innovation office' scored 32 percent. By comparison, in an open-ended question on the leadership of innovation itself, the CEO was mentioned the most (27 times), but the CIO scored well too (17). One manner in which leadership is connected with culture is that when people say there is no innovation culture they blame the CEO; therefore the CEO has to be involved. Another takeaway is that it is not the CIO who should be running the culture but managers, meaning the line function rather than the staff function. An interviewee suggested that senior management involvement and leadership is needed to balance people's tendency toward a short-term focus, where the first thing they will lay down is the focus on projects for three years' time; in other words,

Exhibit 17: Innovation culture source

% of respondents,¹ n = 236

Where does an innovation culture come from?



¹Multiple answers possible; Respondents who answered 'Other' are not shown.

to make sure that resources are allocated to long-term activities as well.

'Facilitating and guiding ideas' scored 54 percent as an element of innovation culture, with 'leaders' selecting it more than 'laggards'. The notion of the leader whose function in the culture is to enable the rank-and-file to innovate was supported. "Innovation has to start from the leader and has to be in performance management but it also has to be enabled, so that's the cultural piece, the culture has to enable the innovation", an interviewee said. Leaders can enable innovation by storytelling and, more hands-on, by guiding and facilitating employee ideas. The function of the leader in channeling creativity rather than necessarily bringing it oneself was mentioned. "There is a lot of creativity in the department. I help them sometimes cross the t's, dot the i's," an interviewee said.

Internal social media collaboration, which scored 24 percent, was mentioned in the interviews as a way for people to connect with each other more easily, and to connect their ideas more easily. Its low score may mean that companies are only starting to utilize it.

Several interviewees said that even when innovation was already in the DNA of the company and of the different business units, there was a conscious effort from the top as well. At the same time, an interviewee said, developing the internal talent is key, because without this talent development the company would not be able to deliver on its program. These indications of multiple sources of innovation and of innovation culture as indicated by survey respondents suggest that companies understand that innovation and innovation culture are not just driven

top-down but have to take root informally as well. This is consistent with the increase in - and the widespread nature of - the mandate to create a culture of innovation captured in the survey results.

Implications

What drives innovation leadership? This study aimed to provide you with an insider perspective on the formal and informal mechanisms for managing innovation. In conclusion, we offer a top five of implications every executive responsible for leading and managing innovation should take away.

1. The innovation function is in the spotlight to improve the organization's ability to achieve its innovation targets by formulating a well-articulated innovation strategy and improving its understanding of the external environment.

The absence of a well-articulated innovation strategy is by far the most important constraint for companies to reach their innovation targets. This is followed by a lack of understanding of the external environment. The relationship between the top constraints and the perceived roles of the innovation function - building and nurturing an innovation ecosystem and formulating and communicating the innovation strategy - is pronounced.

In order to be able to formulate a successful innovation strategy, and to build and nurture a value-adding ecosystem, a thorough understanding of the external environment is a prerequisite. The difficulty of anticipating and understanding future trends, particularly with respect to technology and markets, is challenging the innovation function to set directions for the organization at large.

2. Traditional strategy development no longer suffices in the pursuit of sustainable growth under high uncertainty - there is a need to move strategy development to the outer peripheries of the company.

For those who have an innovation strategy we can conclude that the development of this strategy is mainly a top-down happening. Only a small percentage of respondents develops its strategy from the bottom-up. In our experience there is a need for innovation strategy development in a more bottom-up manner, focused on people as the key source of competitive advantage. It is the way in which you incorporate an understanding of the external environment in your strategy development process that will really set you apart from your competition when it comes to innovation. In order to do so, one needs to capture all those individual insights from

managers and employees relevant for defining the right innovation strategy.

In addition to defining the right strategy, agility - the ability to quickly react to changes in the external environment - will become ever more important. This is where the formal mechanisms for managing innovation (strategy, governance) meet the informal ones (leadership, culture) and have to work together as a well-oiled machine to enable your people to be effective and decisive when it counts most.

3. Limited organizational design for innovation is impairing growth at large organizations.

There is no one size fits all when it comes to organizational design for innovation but the correlation between having a formalized innovation governance and the reported innovation success rate suggests that there is much to gain by improving the formal mechanisms for managing innovation. Although there are signs of an increased formalization of the innovation function, such as the increase in the percentage of respondents that have a formally accountable innovation executive, the levers for the formal management of innovation are largely overlooked or underdeveloped.

Especially large organizations are hindered by this absence of innovation governance as their size leads to complexity of the innovation function as it is spread out over the organization. The establishment of a centralized innovation office might help to focus and streamline the innovation efforts across the company, but it will not be sufficient to maximize the innovation potential of the full organization. This asks for a well-designed innovation governance that balances, aligns, and enables both short- and long-term innovation objectives.

4. Real innovation leadership requires executives to reduce the level of disconnect between themselves and employees.

In many large organizations a pervading culture exists where distance, self-interest and disconnect overwhelm any motivation for innovation. In the comparison of executive and employee motivations executives have extrinsic transactional drives whereas employees are driven by high transformation intrinsic drives such

as the excitement of innovation, the team focus and the need to help the organization. In contrast we did not find that executives perceive these motivators to be of importance.

Successful innovation is possible where executives reduce the level of disconnect between themselves and employees. Our leader versus laggard perspective shows the relation between company size and reported innovation success rate, suggesting that it is easier to drive innovation in small organizations. Large organizations create so much distance between the executives and those that are tasked to innovate that a disconnect exists between them.

5. Innovation culture is a highly important mechanism to enable agility and be able to survive in a continuous change environment.

Having a strong innovation culture is necessary to be able to survive in a continuous change environment. Our research on innovation culture shows that - among other things - openness to others' ideas, to change, to exchange, and acting quickly even outside the plan to capture opportunities, are considered important elements of an innovation culture. This indicates that agility in behavior is desirable. Behaviors that enable better responsiveness to the external environment can be thought of in terms of a capacity to improvise. This improvisation takes three main forms: one is relating to speed (the ability to move quickly), the second has to do with external orientation (the ability to react better to changes in the environment), and a third way improvisation is relevant is as an ability to work with what's given (the ability to do more with the same).

Many people are being tasked with creating an innovation culture, indicating that companies recognize the need to create such a culture. Innovation culture springs from both formal and informal sources. The CEO is the most important source of innovation culture followed by peers and managers meaning that innovation and innovation culture are not just driven top-down but have to take root informally as well.

Appendix

Methodology

This innovation leadership study carried out jointly by IESE Business School and Capgemini Consulting is Capgemini's third report in the innovation leader versus laggard series. It aims to understand how those leading and managing innovation in their organizations think about the innovation function and offers an insider perspective into both the formal and informal mechanisms for managing innovation. In order to secure this insider perspective we specifically targeted innovation leaders and managers for participation in this study.

Twenty-five in-depth interviews with innovation leaders have been conducted, most between July and September 2011, to explore their perspectives on the innovation function and mechanisms for managing innovation. The in-depth interview results informed our survey questions, provided a better understanding of the context of the survey findings, and added depth to the survey result interpretation. Subsequently, an online survey in the field from 12 September to 12 October 2011, generated responses from 260 innovation executives around the world representing the full range of industries, regions, functional specialties, and seniority.

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 four categories of innovation success based on this rate, namely: 'Less than 25%', '25-50%', '50-75%' 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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