

How the role of innovation within the business and the way companies innovate are being transformed.

Unleashing the power of innovation





Gauging changing perspectives



246

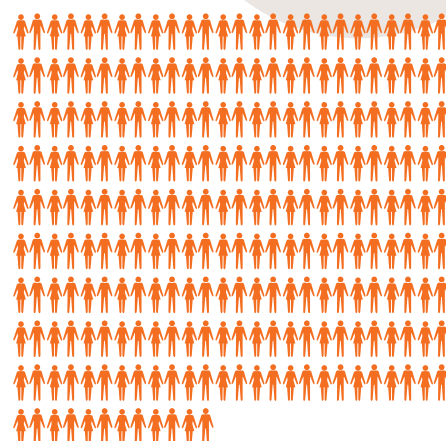
Unleashing the power of innovation.

Drawing on a survey of 246 CEOs from around the world, the report explores the changing role and nature of innovation in today's businesses¹. To see how innovation is evolving, we've compared the findings to a similar study we carried out in 2009².

What emerges from the latest survey is that CEOs are now taking personal responsibility for directing and inspiring innovation as it becomes an ever more vital element of business survival and success. How companies innovate is also being transformed. Companies might once have been satisfied with incremental product improvements. Now, they're increasingly looking for breakthrough developments in their business models and the solutions they provide for customers.

The problem is that while the eyes of the CEO are fixed on innovation, the body of the organisation may not be following. The 'antibodies' that inhibit innovation include a culture that sees it as separate from the mainstream operations of the business and is slow to commercialise new ideas.

We surveyed 246 CEOs from around the world



The days when innovation was the preserve of research and development (R&D) units at the sidelines of the business have gone. Successful companies recognise that innovation is a mainstream process, which brings together frontline teams, customers and a range of different partners from beyond the organisation. At the heart of these developments is the realisation that how you innovate determines what innovations you deliver.

We hope that you find this report useful and interesting. If you'd like to discuss any of the issues raised and how to address them in more detail please feel free to contact your usual PwC representative or one of the authors listed on page 13.

¹ The primary research includes the views of 246 CEOs from PwC's Global CEO panel, who were polled in May 2013. PwC's panel is made up of a cross-section of multinational companies across all sectors, company sizes and home locations (both from developed and emerging economies).

² *Caught in the crossfire*: <http://www.pwc.com/gx/en/consulting-services/innovation.jhtml>

“Innovation is a prerequisite for survival... I make sure my management team has the right attitude towards change and challenges the norm.”

CEO, Western Europe

Increasing appetite for innovation

Innovation is moving up the boardroom agenda as companies recognise its vital importance in sustaining growth.

Almost all the CEOs taking part in our survey recognise the value of innovation for their companies, with most seeing it as either a priority or a primary focus (see Figure 1). This is a step change from our survey in 2009. Back then, sharpening operational effectiveness was the overriding objective as companies sought to survive the sudden loss of revenue caused by the financial crisis. Now, three-quarters of CEOs regard innovation as at least equally important to operational effectiveness (see Figure 2). The strategic importance of innovation is further reflected in the fact that CEOs see their role as leader or visionary rather than delegating responsibility down the line (see Figure 3).

Innovation's rise up the CEO agenda reflects the changing business environment. Growth is now exceptionally hard won and simply doing what you're doing a little better may not be enough to sustain it. The competitive climate has also been transformed as the internet, social media and new digital devices, revolutionise the way consumers buy products and services and what they expect from them.

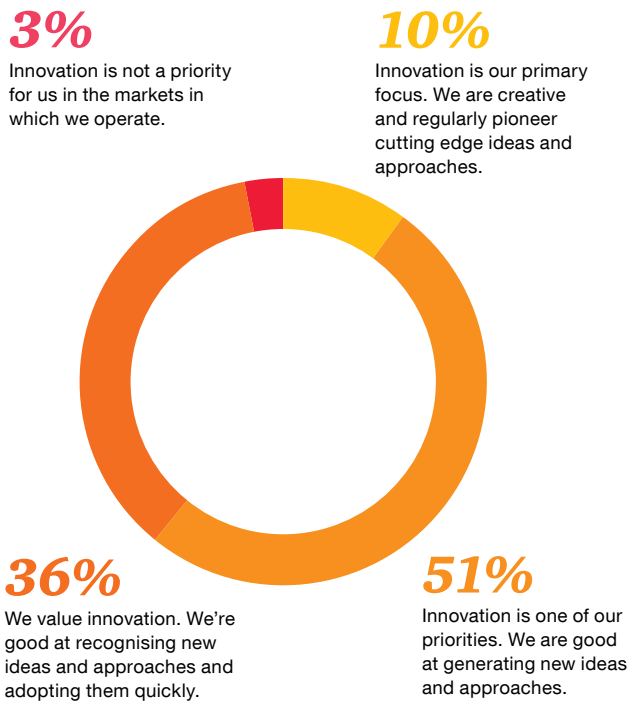


64%

64% say innovation and operational effectiveness are equally important to the success of my company.

Figure 1

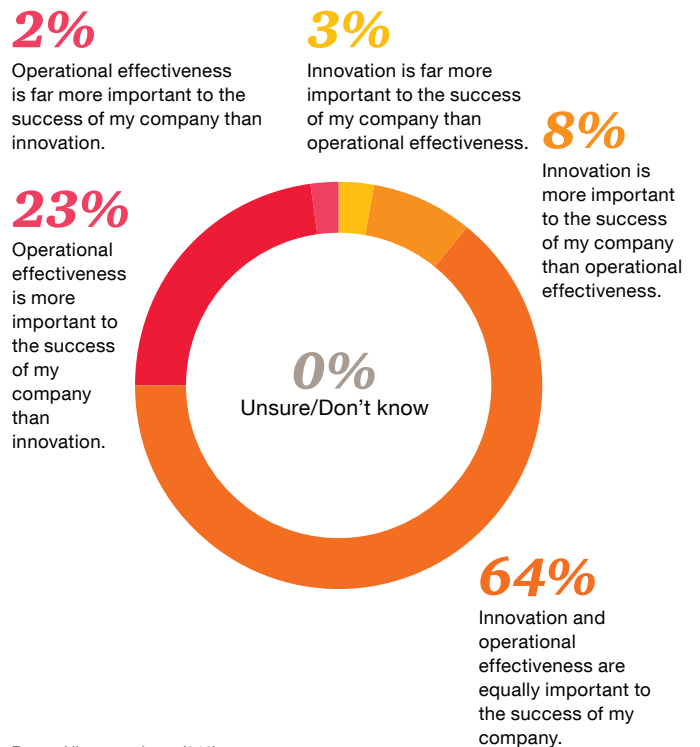
Which of the following statements best describes your company's appetite for innovation?



Base: All respondents (246)
Source: Global CEO Pulse Survey on Innovation

Figure 2

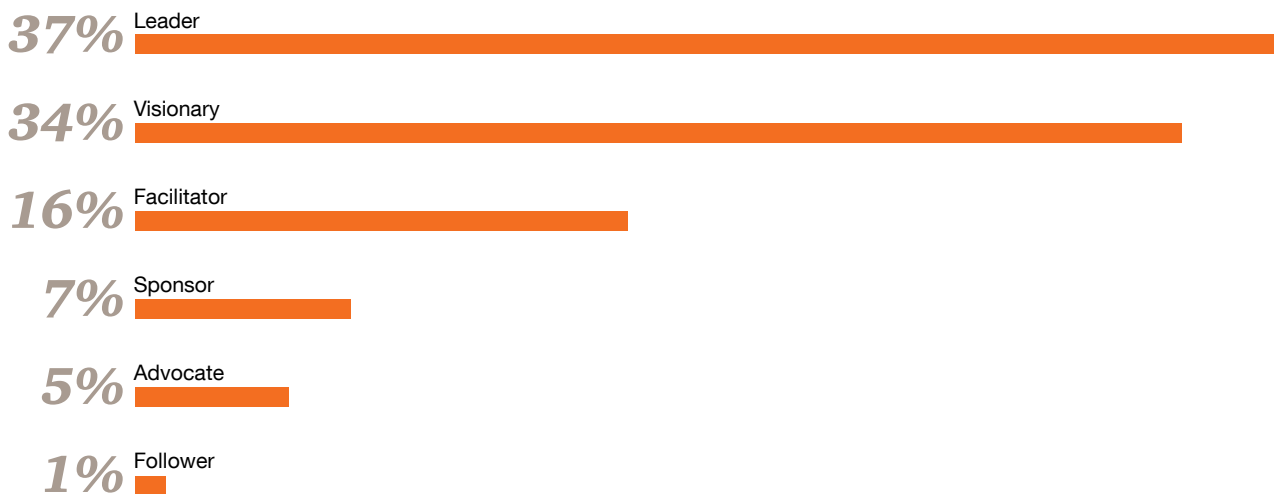
Which is more important to the success of your company – operational effectiveness or innovation?



Base: All respondents (246)
Source: Global CEO Pulse Survey on Innovation

Figure 3

Which of the following do you see as your primary role in driving innovation within your organisation?



Base: All respondents (246)
Source: Global CEO Pulse Survey on Innovation

“I believe that innovation is delivering value in different forms. What really changes is how you deliver that value to the customers, and how you extract that information from them.”

CEO, Latin America

Innovation becomes more radical

The focus of innovation is becoming more radical as CEOs look for whole new sources of revenue rather than just better products.

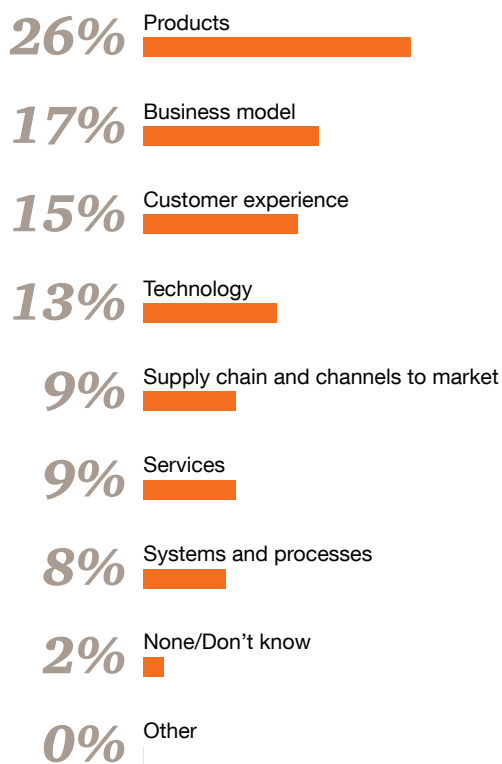
The changing business landscape is reflected in the evolving nature of innovation. Products are still the top priority. But as Figure 4 highlights, business models and customer experience are close behind.

While in the past R&D units would have focused on ways to enhance the product range, many CEOs are looking to go much further by transforming what they sell and how they sell it. A soap powder manufacturer might open up a chain of laundrettes or an engine maker could move from selling engines to charging users for running them, for example. What brings these new business models together is a shift in focus from products to solutions. The product is clearly an important part of the solution, but not everything. In turn, the role of technology goes beyond creating new and improved products towards gaining sharper insights into what customers want and how to deliver it. A common thread in the feedback from participants was the need ‘to spend more time in the marketplace’.

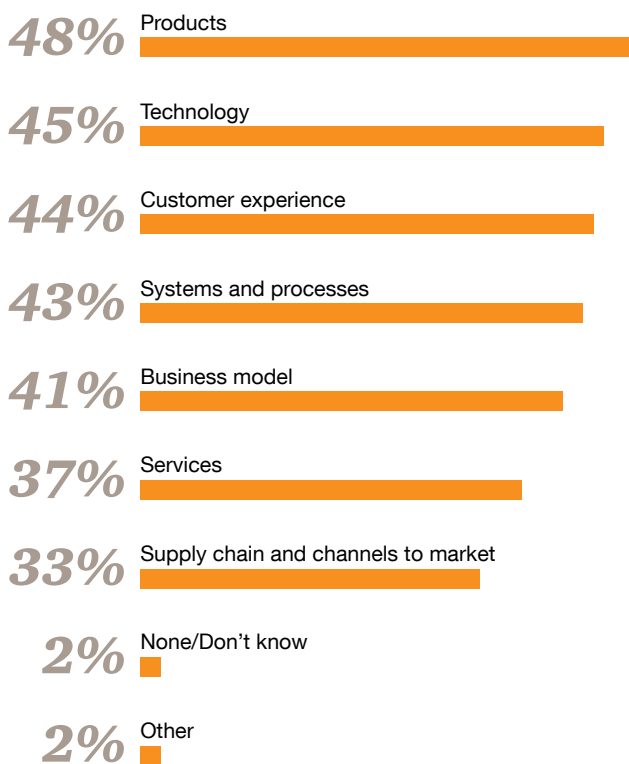
Figure 4

In which of the following areas is your company looking to innovate over the next 3 years?

First choice



Top 3 mentions



Base: All respondents (246)
Source: Global CEO Pulse Survey on Innovation

“Innovation is a part of the overall business process in bringing better operational efficiencies to our clients”

CEO, North America

“The key ingredient is creating an organisational culture that encourages innovation in all areas.”

CEO, Central Europe

The key ingredients for innovation

As what CEOs expect from innovation changes, so is the way it's being delivered and the desired culture that surrounds this.

The importance of putting innovation at the heart of strategic management and involving the frontline of the business is reflected in the fact that CEOs see the right leadership and culture as the most crucial ingredients for success (see Figure 5). Related areas of culture such as the capacity for creativity, willingness to collaborate and readiness to challenge accepted norms are also high on the list.

A clear indication of innovation's move into the mainstream is that many companies now expect staff to allocate at least some of their time to developing and supporting new ideas, rather than simply relying on a few bright sparks. Many participants talked about the need 'to empower frontline staff'. The fact that talent is quite low down the list would further underline the move from innovation being 'alchemy' by the few to 'cooking' by the many.

The importance of collaboration can be seen in the number of companies that are now working with customers or other businesses to co-create new products and solutions. The rapid upsurge in the sale of e-readers and e-books is a good example of how these collaborations can create game changing opportunities for some businesses and the threat of marginalisation for slower moving competitors.

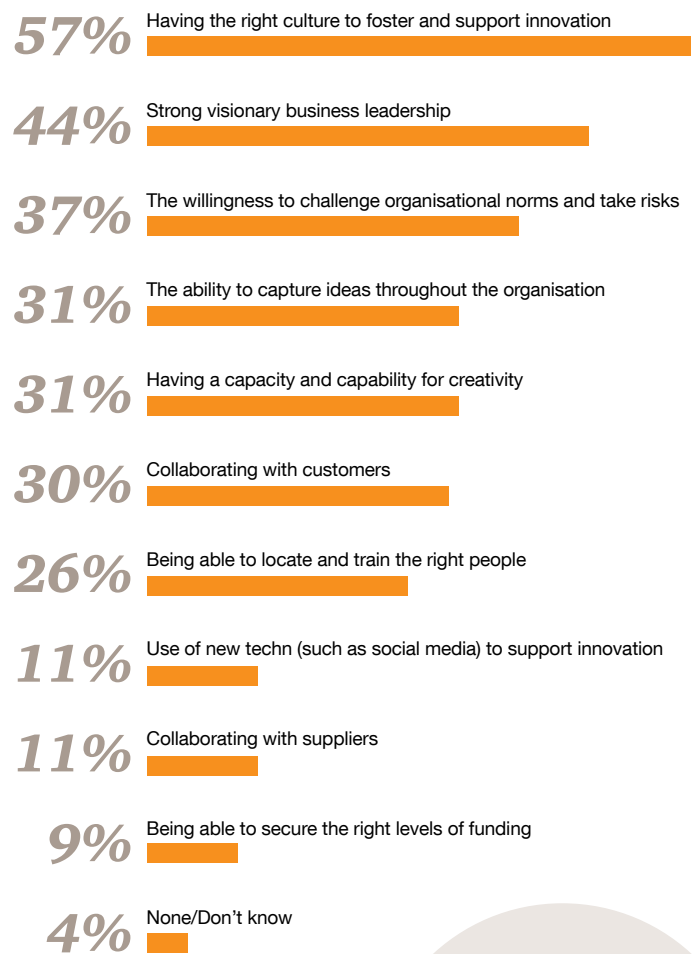
Figure 5

What do you think are the most important ingredients for successful innovation at a company?

First choice



Top 3 mentions



Base: All respondents (246)
Source: Global CEO Pulse Survey on Innovation

26%

26% of CEOs said strong visionary business leadership was the most important ingredient to successful innovation at a company

Overcoming the barriers to innovation

Overcoming the barriers to innovation is likely to require new ways of building it into the strategic and operational management of the business.

The survey highlights a number of barriers to innovation (see Figure 6). The strain on limited financial resources heads the list of constraints, though interestingly funding wasn't in itself seen as a key ingredient for innovation. This suggests that money can't buy you success on its own, but it does still need to be managed in a smart way. This is especially so at a time when the focus is shifting from gradual to more radical innovation. While the potential rewards from new breakthroughs are higher than incremental developments, the chances of success are lower and therefore how to target funding where it can earn its best return is more difficult. One of the keys to addressing this challenge is making sure your appetite for innovation matches your overall targets for growth. For most mature companies this is likely to mean a balance between low risk/return product development and higher return but less certain breakthrough innovation. While the actual balance will vary, it's possible to gauge the right approach for your company and track progress through metrics such as the vitality index.

CEOs also see culture as one of the biggest constraints. This suggests that encouraging people within the organisation to embrace innovation is still proving to be a challenge. An important part of overcoming this barrier is to eliminate the bureaucratic decision making processes that slow down the commercialisation of innovations. A participant went so far as calling for the 'management pyramid to be turned on its head', while accepting that in reality she would have to 'struggle with the existing culture and structure, like most companies.'

Building innovation into everyone's job description and creating opportunities for collaboration that go beyond the traditional functional and organisational boundaries are also important. The most successful companies have gone further in seeking to create a culture of innovation. In keeping with innovation's changing risk/reward profile this includes giving people extra time to create and nurture opportunities and being prepared to tolerate risk and failure.

“Give employees specific time periods to work on something outside of their job description and with other teams to foster cross fertilisation of ideas.”

CEO, Asia Pacific

Figure 6

Which of the following constraints is stopping you from being more innovative?



Base: All respondents (246)

Source: Global CEO Pulse Survey on Innovation



43%

43% of CEOs said financial resources were one of the biggest constraints on being more innovative

Is your organisation creating full value from innovation?

Innovative organisations are marked out by their visionary leadership, licence to explore new ideas, readiness to collaborate and ability to commercialise new ideas quickly.

We believe that there are five key questions your organisation will need to address if it is to become genuinely innovative and generate full value from its investment:

1

Does the way you innovate (collaboration, employee empowerment, customer engagement, time horizons etc.) reflect your vision and appetite for innovation?

2

How effectively are you articulating your vision and appetite for innovation to employees, investors and business partners?

3

Do your employees see creating, promoting and executing new ideas as a crucial part of their job description?

4

Are the processes for decision making and organisational mobilisation quick enough to bring new innovations to market ahead of your competitors?

5

How effectively do you measure and track the return on investment and ability to meet customers' changing expectations?

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