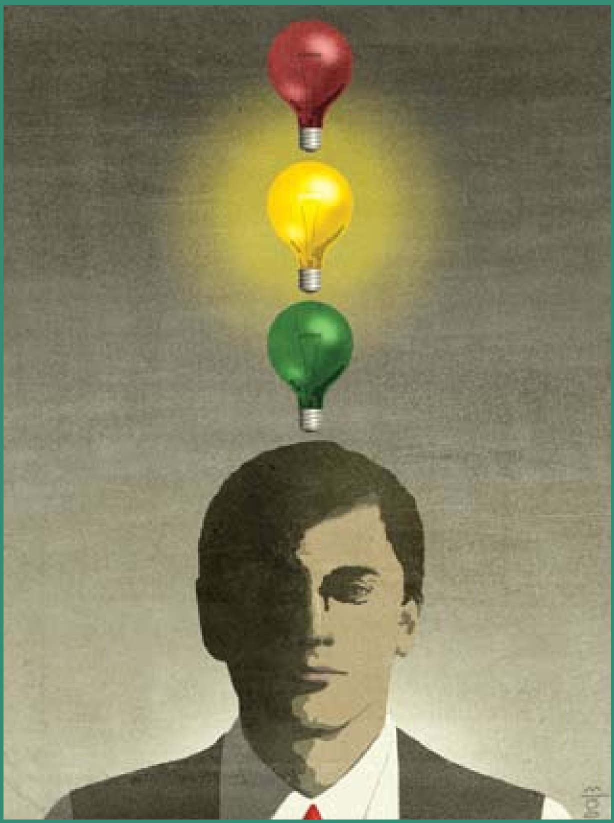
BCG

Report

A BCG Senior Management Survey

Innovation 2008

Is the Tide Turning?



The Boston Consulting Group

Innovation 2008

Is the Tide Turning?

A BCG Senior Management Survey

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Note to the Reader

The Boston Consulting Group, working in partnership with *BusinessWeek,* recently completed its fifth annual global survey of senior executives on their innovation practices. This report summarizes the survey's results. It covers the full suite of interrelated activities involved in turning ideas into financial returns, going well beyond idea generation and new-product development to include such issues as portfolio and life-cycle management, organizational alignment, and demands on leaders. It discusses what works and what doesn't and the actions companies are taking to make innovation happen. Finally, the report offers pragmatic advice for individuals who want to make a difference in their organizations.

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Acknowledgments

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Executive Summary

Innovation, our latest survey on the topic reveals, is highly valued by most companies, and most organizations continue to spend aggressively to pursue it. But few companies are satisfied with the return on that spending. And there are signs that this dissatisfaction, which has been rising for the past several years, may be starting to cause executives to rethink their priorities. The potential significance of this is huge.

This report addresses these and many other issues central to corporate innovation. The report's key findings include the following:

- Innovation remains at or near the top of most companies' agendas, with the majority—66 percent of respondents—considering it one of their three most important strategic priorities. Consistent with this emphasis, the majority of companies will raise their spending on innovation in 2008.

- Simultaneously, fewer than half of executives are satisfied with the financial return on their investment in innovation. The percentage of satisfied executives has fallen in each of the last three years—from 52 percent in 2006, to 46 percent in 2007, to 43 percent in 2008.

- Rising dissatisfaction with the return on their investments in innovation may be taking a toll on companies' willingness to spend. The percentage of executives who say that their company will raise its investment in innovation in the coming year has also fallen in each of the last three years—from 72 percent in 2006, to 67 percent in 2007, to 63 percent in 2008.

- Dissatisfaction with the return on spending is broadly shared by rank across most organizations, with only the very top executives—chairpersons, CEOs, and presidents—expressing overall satisfaction.

- Executives consider lengthy development times, a risk-averse corporate culture, difficulty selecting the right ideas to commercialize, and a lack of internal coordination—all of which are directly under their control—to be the biggest factors driving down the return on innovation spending.

- Companies are not looking to conquer new worlds but rather to expand their share of existing customers' spending. They believe that innovation leading to new products and services for existing customers is the type that is most critical to their future success.

- Companies continue to take a measured approach to the use of rapidly developing economies (RDEs) in their innovation efforts. Thirty-seven percent of respondents said that their company planned to increase its investment in such countries in 2008, virtually the same as in 2007. India and China remain the primary targets of RDE investment, and product development remains the main objective. Most companies are still reluctant to move the early-stage components of innovation—basic research, idea generation, and design—to RDEs.

- For the second straight year, respondents ranked Apple, Google, and Toyota Motor the world's three most innovative companies, with Apple once again on top.

- Most companies have the means to greatly boost their return on innovation spending and, in the process, gain a decisive competitive advantage. But few are acting with the commitment necessary to achieve that.

Innovation in 2008

Is Rising Frustration with Returns Leading to a Rethink on Investment?

Our 2008 survey on corporate innovation drew responses from nearly 3,000 global executives and shed light on many facets of the pursuit of innovation, including attitudes, practices, and perceived capabilities. By far the most significant finding is the strengthening correlation between frustration with the return on innovation spending and companies' decreasing willingness to invest. (See Exhibit 1.) For the third consecutive year, satisfaction with the return on innovation spending has fallen. And for the third straight year, the percentage of companies that plan to raise their spending on innovation, as well as the percentage that plan to raise it significantly (that is, by more than 10 percent), has fallen as well. Are companies starting to think twice?

Of course, there may be no cause for concern. Correlation is not necessarily causality, and the majority of companies do still plan to raise their innovation spending. Yet there is clearly a trend in place, and the implications for corporate competitiveness of a significant or protracted reduction in innovation-focused investment are sizable.

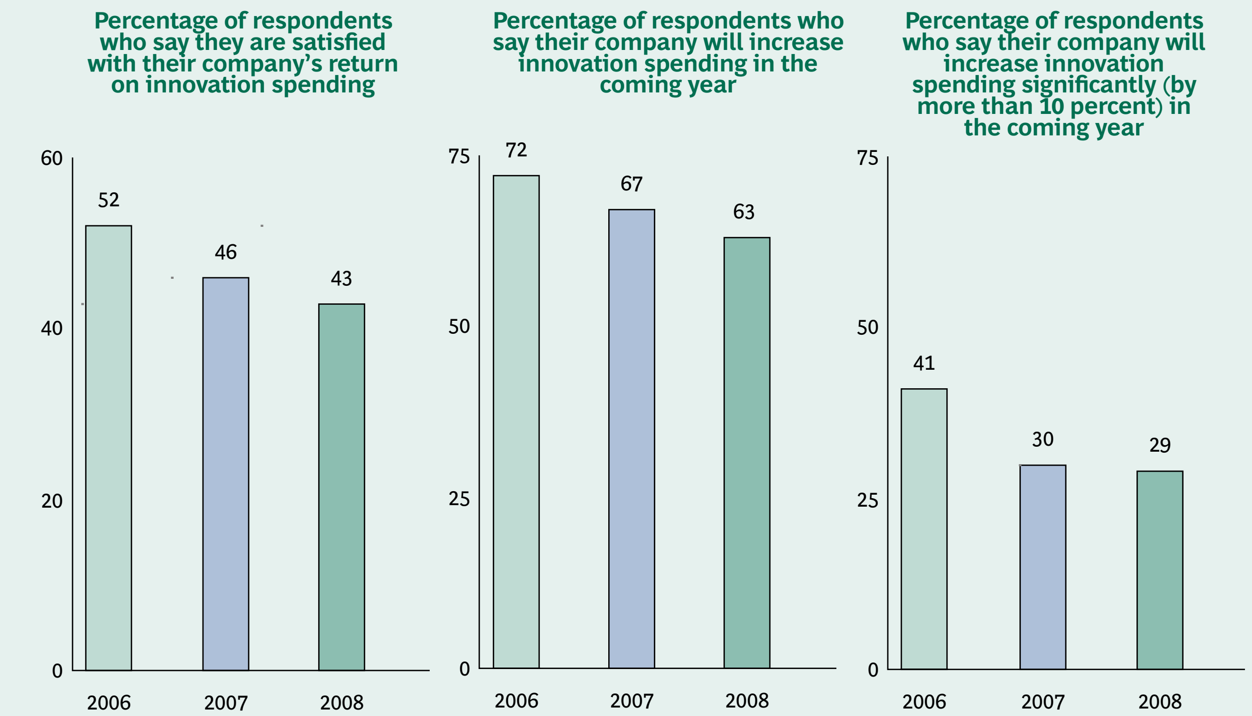
Let's assume for a moment that companies are indeed cutting back on investment out of frustration with returns. For most companies, a pullback would seem quite rational. They've spent considerable sums of money to become more innovative. Yet the expected gains—more (and better) new products and services, more-innovative business models, stronger internal processes, and improved customer experiences—have not materialized. Or if they have materialized, the expected profits haven't.

Unless they're content with mediocrity, companies have two choices under these circumstances. They can identify and work hard to resolve the problems constraining their innovation efforts, or they can redirect funds toward more productive investments. Year after year, respondents to our surveys have consistently identified the same obstacles to raising the return on their innovation investment, and they have repeatedly given themselves poor marks for the same key innovation capabilities. Therefore, it may well be that even though many companies know precisely what ails them, they're unable (or unwilling) to fix the root causes. In that case (which, for obvious reasons, no one is likely to acknowledge explicitly), plan B—a reduction in innovation spending in favor of other investments—makes sense. In fact, anything else would be a destroyer of shareholder value.

The problem with deemphasizing innovation, however, is that doing so would be crippling for most companies. Innovation is one of the few and perhaps the only consistent source of long-term competitive advantage in most industries and markets. Note carefully the link between success at innovation, as demonstrated by the companies that top our list of the most innovative, and the ability to generate revenues, profits, market share, and shareholder returns. Innovation really does pay back. And today, when growth in many industries is at a premium and many other traditional sources of advantage are no longer viable, its value is multiplied severalfold. So now is *not* the time to be cutting back on innovation investments.

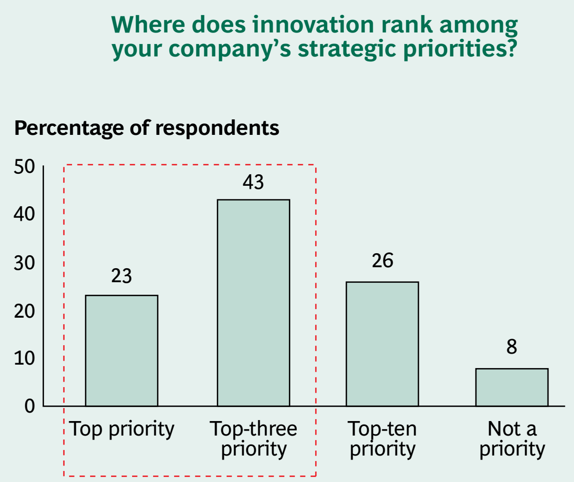
Instead, companies that are wavering need to redouble their efforts and address the root causes of the problems that are holding them back. Our experience and research suggest that these problems can be fixed, although fixing them is not necessarily easy or pain-free. The payoff, however, in virtually all cases, is truly outsized. Simply put, if you plan on remaining a going concern, you need to be able to successfully innovate.

Exhibit 1. As Satisfaction with the Return on Innovation Spending Falls, Are Companies Starting to Pull Back on Spending?



Sources: BCG 2008 Senior Executive Innovation Survey; BCG 2007 Senior Executive Innovation Survey; BCG 2006 Senior Executive Innovation Survey.

Exhibit 2. Sixty-six Percent of Companies Consider Innovation a Top or Top-Three Priority



Source: BCG 2008 Senior Executive Innovation Survey.

Below we take a detailed look at the current state of play of innovation—the good, the bad, and the ugly—as seen through the eyes of our survey respondents. At the report's conclusion, we touch on some of the key issues facing many companies and offer some thoughts on how to take your company's innovation capabilities to the next level.

Innovation Remains a High Strategic Priority

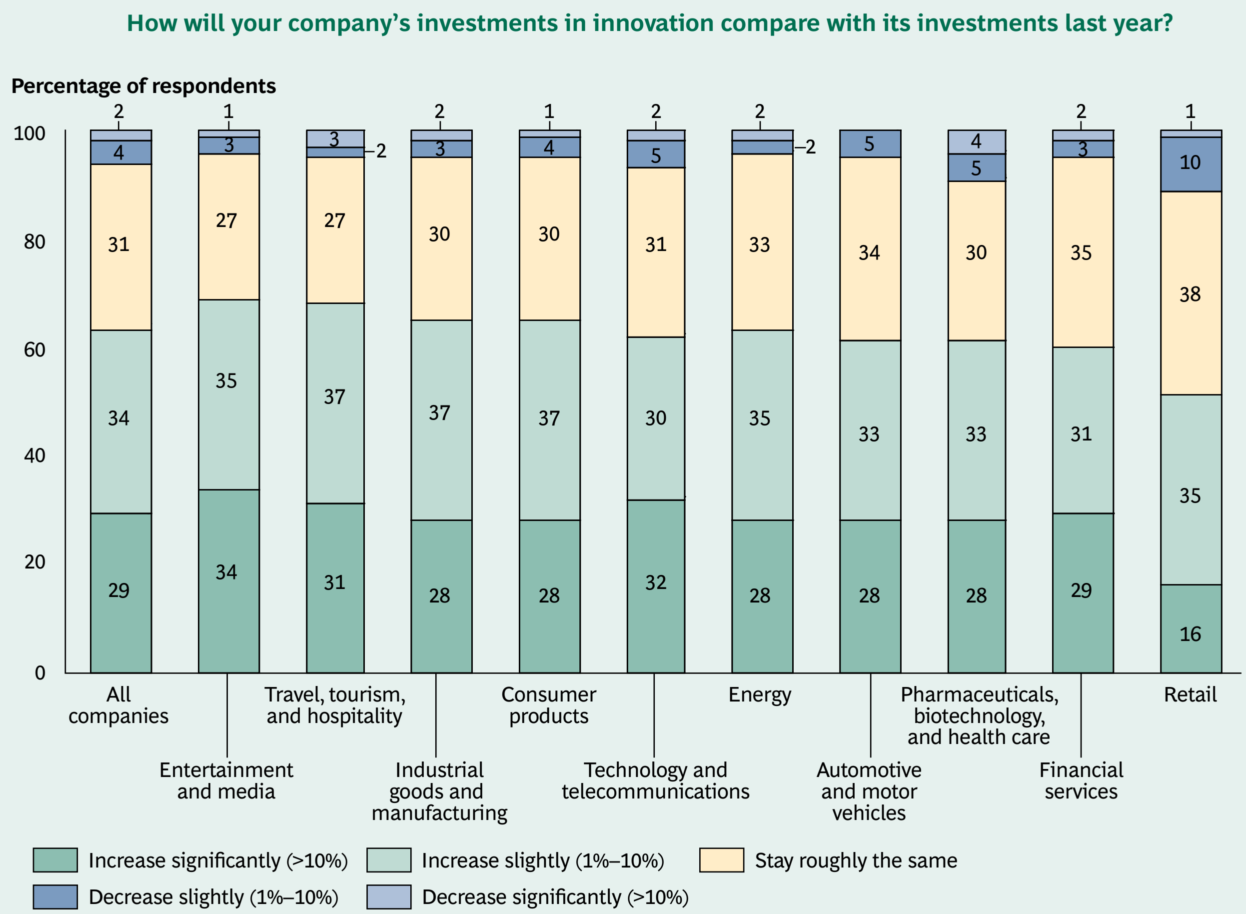
Frustration with investment returns notwithstanding, most companies continue to attach considerable importance to innovation. (See Exhibit 2.) Forty-three percent of executives consider it a top-three strategic priority; 23 percent consider it their most important strategic priority. And while willingness to spend in pursuit of innovation may be falling, the majority of companies—63 percent—still plan to raise their spending on innovation in 2008, and 29 percent plan to raise it significantly (that is, by more than 10 percent).

By region, Asian companies have the most ambitious spending plans, with 69 percent of respondents saying that they anticipated increases and 34 percent saying that their company planned to raise spending significantly. By industry, entertainment and media companies led the way, with 69 percent saying they expected to raise spending, followed closely by travel, tourism, and hospitality companies. (See Exhibit 3.)

The data show that investing in innovation is a very smart move. This is especially true from the vantage point of shareholders, because there is a direct relationship between success at innovation and stock market performance. We looked at the total shareholder returns (TSRs) of the most innovative companies (as identified by survey respondents) versus those of their industry peers for both three- and ten-year periods; the results were striking. (See Exhibit 4.) Globally, innovators outperformed their peers by 530 basis points on an annualized basis over the last three years (ending in December 2007) and by 440 basis points over the last ten years, a sizable premium.

The pattern of substantial outperformance held when we looked at regional performance—for example, how innovators based in Europe did compared with their European industry peers. Clearly, if you are an investor, you'd do well to seek out innovative companies. (In recognition of this fact, Standard & Poor's created the S&P/*BusinessWeek* Global Innovation Index, which tracks the investment results of 25 of the most innovative companies in the world; the index is based on the BCG/*BusinessWeek* survey of senior executives.)

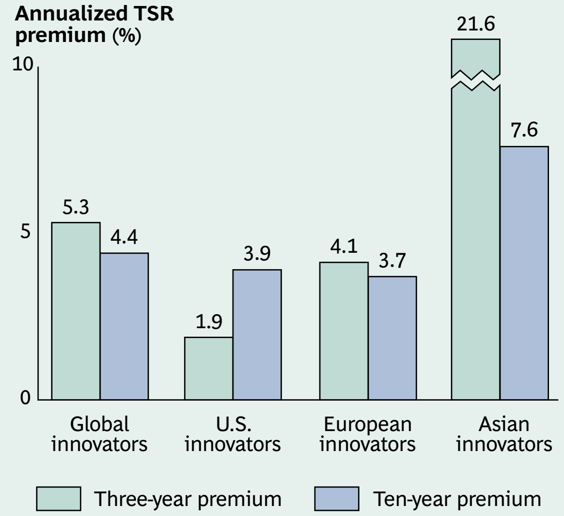
Exhibit 3. Innovation Spending Continues to Rise Across All Industries



Source: BCG 2008 Senior Executive Innovation Survey.

Exhibit 4. Innovation Pays Off for Shareholders

Three- and ten-year annualized total-shareholder-return (TSR) premiums of innovative companies compared with their industry peers



Sources: BCG 2008 Senior Executive Innovation Survey; BCG Value-Science Center analysis.
Note: Returns were annualized for December 31, 2004, to December 31, 2007, for the three-year comparison, and for December 31, 1997, to December 31, 2007, for the ten-year comparison, and account for price appreciation and dividends. To generate the comparison data, we compared the TSR of each innovative company, as identified by survey respondents, with the TSR of its industry overall and averaged the differences globally and by region.

Most Companies Are Dissatisfied with Their Return on Innovation Investment

How do businesses determine whether investments in innovation are paying off? Most companies use a short list of gauges—far too short, in our view, which is undoubtedly part of the reason why so few companies are satisfied with their measurement practices. (See our companion report, *Measuring Innovation 2008: Squandered Opportunities,* for a detailed look at metrics and measurement.) The most widely used metrics are customer satisfaction (identified by 54 percent of respondents), the percentage of total sales from new products or services (47 percent), and overall revenue growth (44 percent). (See Exhibit 5.) Among the least popular metrics, interestingly, are new-product success ratios and time to market, each of which was identified by only 18 percent of respondents as a measure employed by their company. The infrequent use of the latter, in particular, is striking, given that respondents identified speed as the single biggest weakness in their company's innovation capabilities. (See the chapter on execution for a discussion of companies' weaknesses.)

Views on the relative merits of specific metrics were fairly consistent across industries, although there were some noteworthy variations:

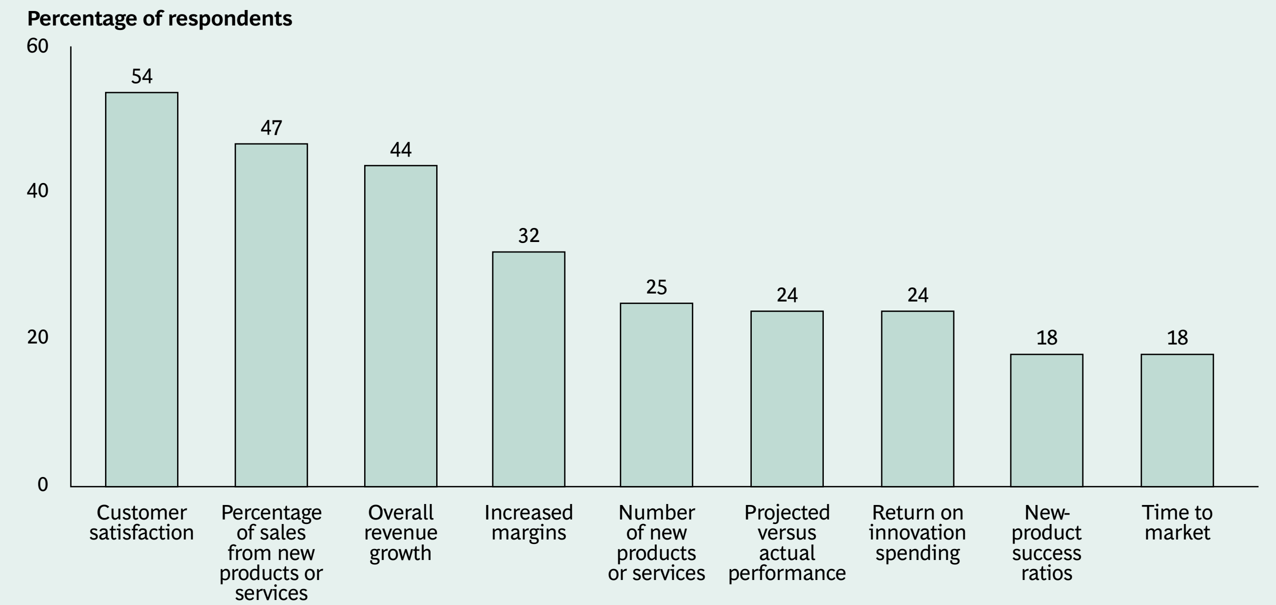
- Consumer products companies place particular value on the percentage of sales from new products and services, with fully 70 percent of respondents saying that their company uses this metric, compared with a 47 percent global average
- Travel, tourism, and hospitality companies look more carefully at new-product success ratios than do most other companies (32 percent of respondents from that industry say that they use this metric, compared with an 18 percent global average)

Regardless of how innovation success is measured, though, it's clear that most companies feel they are coming up short in terms of results. As noted, only 43 percent of respondents said they are satisfied with the return on their company's innovation investments, down from 46 percent in 2007 and 52 percent in 2006. By industry, dissatisfaction was greatest among pharmaceutical, biotechnology, and health care companies and among travel, tourism, and hospitality companies. (See Exhibit 6.) Energy companies also expressed a high degree of dissatisfaction; only 38 percent of respondents from that industry said they are content with the payback that their innovations are generating.

Satisfaction with the return on innovation spending was highest at the top ranks of companies, consistent with what we've seen since we launched our first survey five years ago. (See Exhibit 7.) Overall, nearly half (49 percent) of C-level executives said they are satisfied, versus 40 percent of non-C-level executives. Chairpersons, CEOs, and presidents were the most positive of all. Given the role that these executives, particularly the CEO, play in their organizations' innovation efforts—our surveys consistently identify the CEO as the biggest force driving innovation—perhaps this enthusiasm isn't surprising. (See Exhibit 8.) In fact, it's probably essential to have a bullish CEO in a company where innovation is critical.

Exhibit 5. Customer Satisfaction and the Percentage of Sales from New Offerings Are the Most Popular Metrics

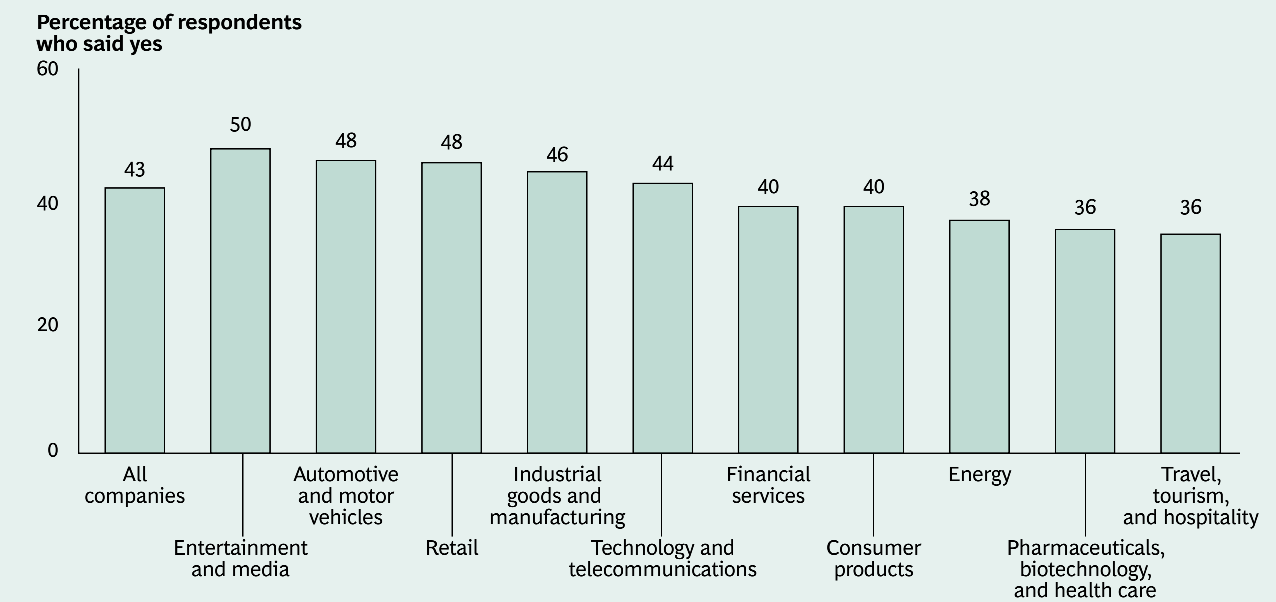
How does your company measure its success at innovation?



Source: BCG 2008 Senior Executive Innovation Survey.

Exhibit 6. Lack of Satisfaction with the Return on Innovation Spending Is Common Across Industries

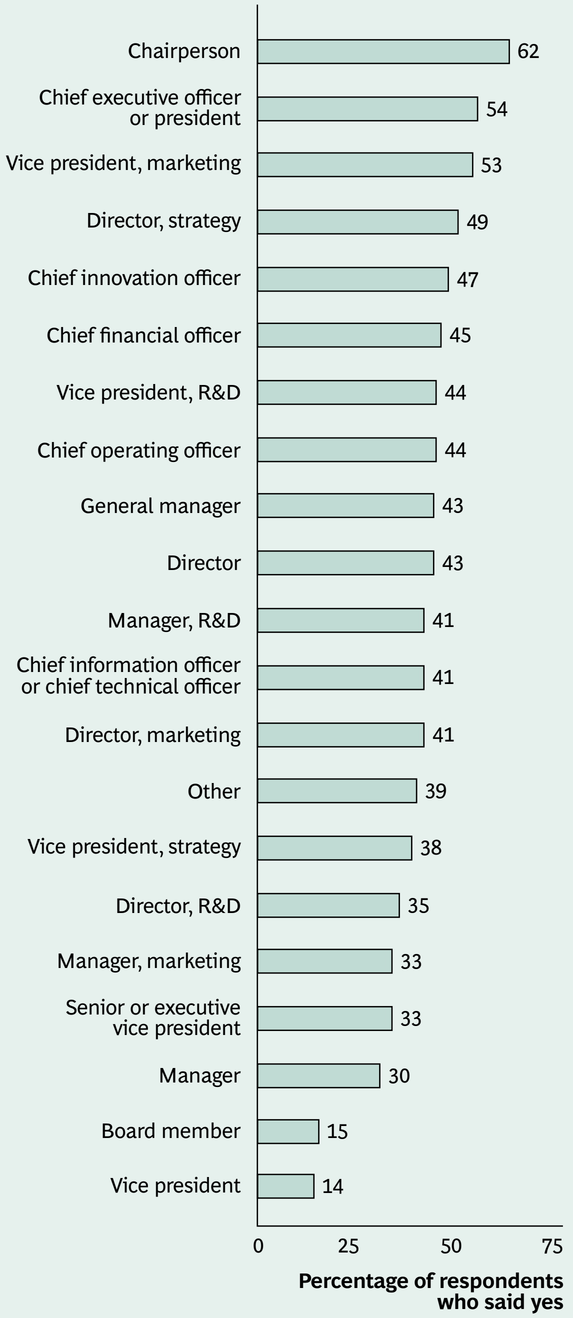
Are you satisfied with the financial return on your investments in innovation?



Source: BCG 2008 Senior Executive Innovation Survey.

Exhibit 7: Top Executives Are Among the Few Who Are Satisfied with the Return on Innovation Spending

Are you satisfied with the financial return on your investment in innovation?



Source: BCG 2008 Senior Executive Innovation Survey.

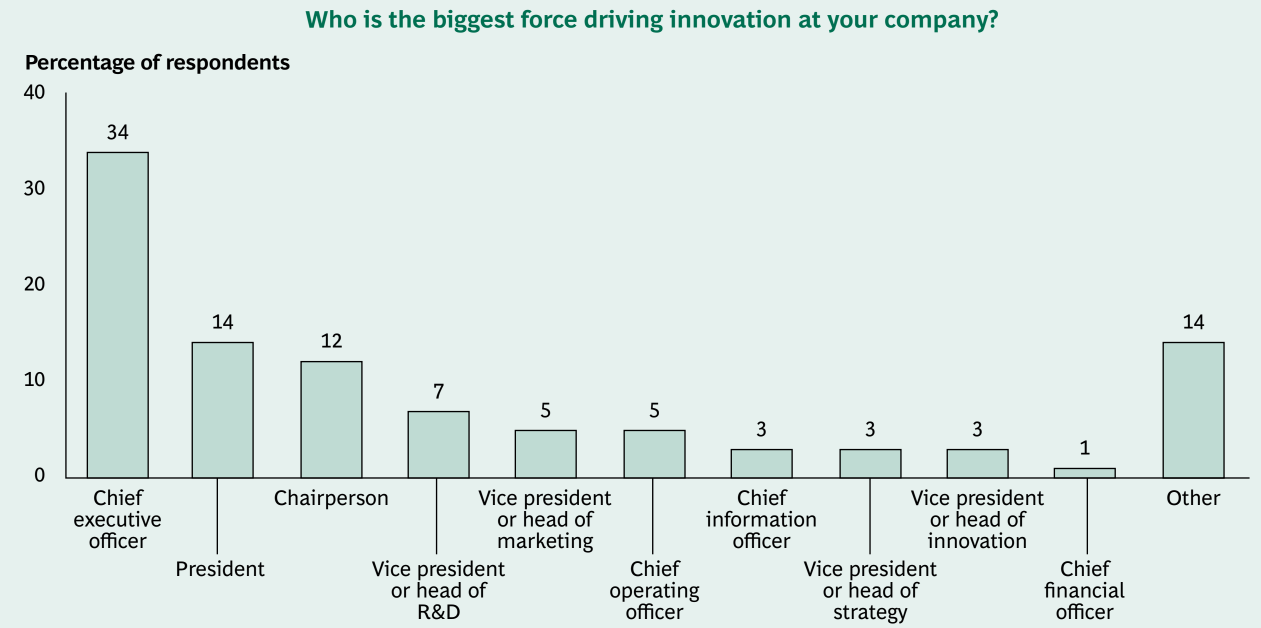
Nonetheless, the persistent gap in perspective between top executives and the rest of the organization may be indicative of problems—or problems to come. Assuming that a CEO's positive assessment is, in fact, accurate, he or she should ultimately be able to sell that vision to the rest of the company. But clearly this hasn't happened. Could it be that CEOs and other top executives are wrong? Do the rank and file have a firmer handle on what's really happening? Obviously both sides can't be right.

When asked to identify the factors that they thought were hurting their company's innovation returns, respondents identified lengthy product-development times (36 percent of respondents), a risk-averse corporate culture (36 percent), difficulty choosing the right ideas to commercialize (33 percent), and a lack of coordination within the company (33 percent) as the biggest obstacles. (See Exhibit 9.) These were the top four obstacles identified in our 2007 survey as well, suggesting that little has changed. (We will address what this lack of progress means in the chapter on execution.) Yet there was some interesting variation in this year's results by industry:

- Idea selection is the biggest hurdle for technology and telecommunications companies (39 percent considered it a significant barrier, versus a 33 percent global average)
- Manufacturing companies struggle most with a lack of insight into customers (31 percent, versus a 24 percent global average)
- Consumer products companies are hindered most by a shortage of great ideas (29 percent, versus a 20 percent global average)
- Automotive companies wrestle most with an inability to market and publicize their innovations (32 percent, versus a 21 percent global average)

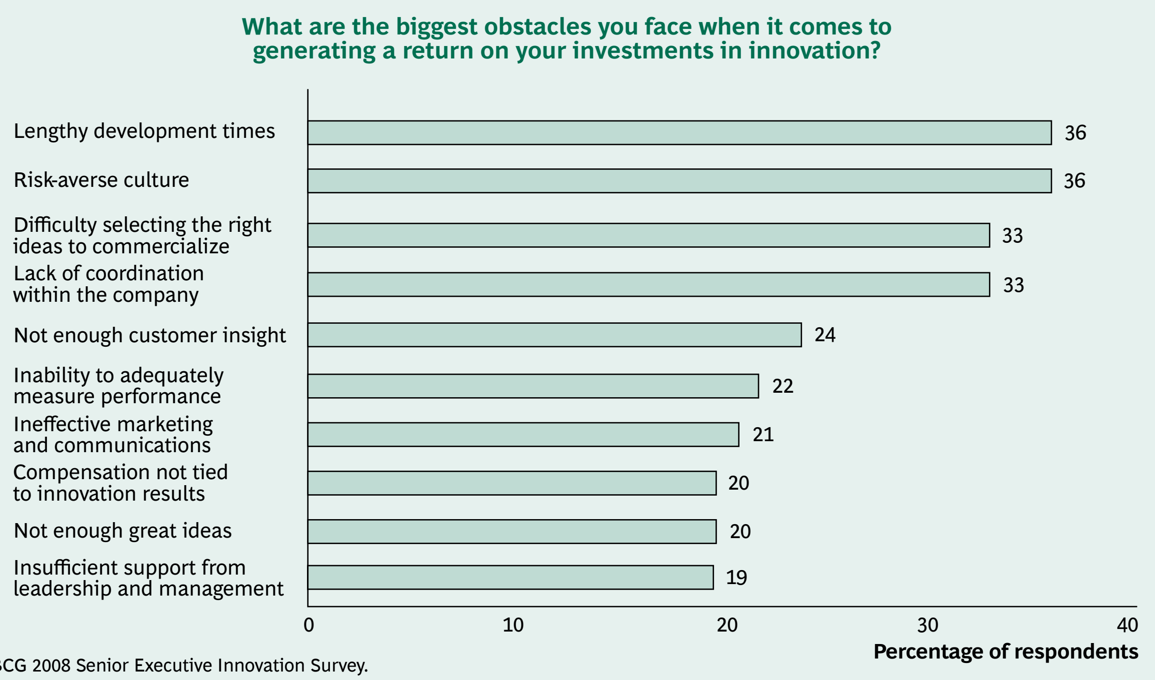
It's worth pointing out that only 20 percent of companies considered a shortage of great ideas to be a problem. This supports a recurring theme of our innovation surveys over the last five years. Most companies, in fact, have an abundance of good, even great, ideas. But having ideas and turning those ideas into cash are two entirely different things. Innovation is often equated with the former, when in reality it's all about the latter.

Exhibit 8. The CEO Is the Biggest Driver of Innovation



Source: BCG 2008 Senior Executive Innovation Survey.

Exhibit 9. Long Development Times and a Risk-Averse Culture Are the Biggest Barriers to Higher Returns



Source: BCG 2008 Senior Executive Innovation Survey.

Driving Innovation

Targets and Tactics

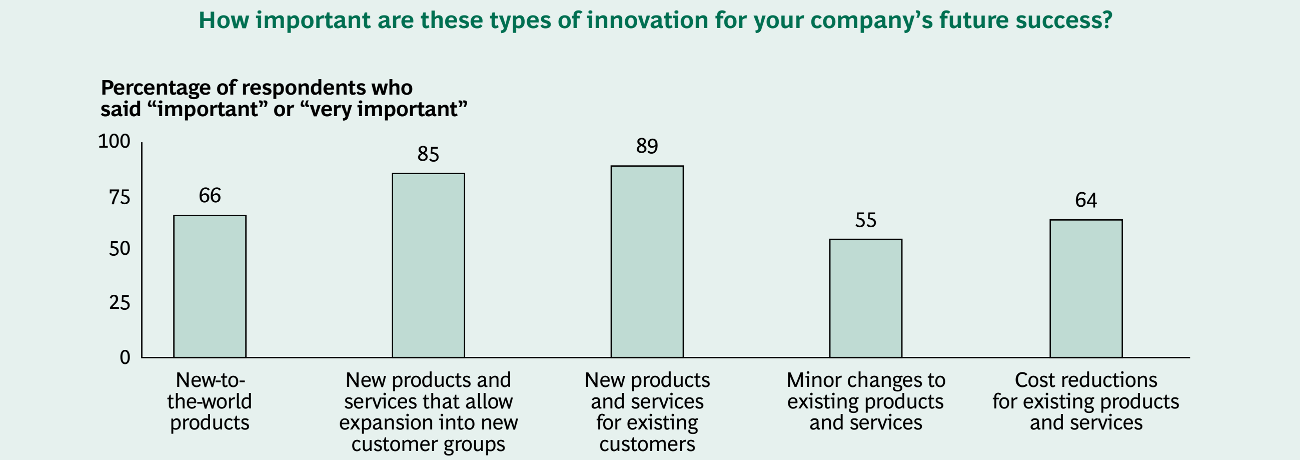
Companies are pursuing a variety of ends with their innovation efforts. And they are doing so by a variety of means. We polled executives on two specific ends-and-means topics: the types of innovation that they deem most critical to their company's success, and the use of rapidly developing economies to achieve their innovation goals.

What Kind of Innovation?

Innovation comes in a wide range of forms, from the creation of entirely new industries, to category-defining "killer apps," to relatively small adjustments to existing offerings. What type or degree of innovation do companies consider most vital to their business?

Not surprisingly, respondents considered all five of the choices offered—"new to the world" products that create entirely new markets, new offerings that allow a company to expand into new customer groups, new offerings for existing customers, incremental changes to existing offerings, and cost reductions in the production of existing offerings—to be at least somewhat important. (See Exhibit 10.) New offerings for existing customers was the most popular choice (89 percent of respondents) and was considered particularly critical by consumer products and automotive companies (95 percent and 93 percent, respectively). The second most popular choice was new offerings that allow for expansion into new customer groups (85 percent), deemed especially valuable by consumer goods companies (90 percent) and by technology and telecommunications companies (89 percent).

Exhibit 10. New Offerings for Existing Customers Are Deemed the Most Critical Type of Innovation



Source: BCG 2008 Senior Executive Innovation Survey.

Among the other choices, new-to-the-world products were considered most valuable by automotive companies (76 percent), by travel, tourism, and hospitality companies (75 percent), and by Asia-Pacific companies generally (75 percent, versus a global average of 66 percent). Cost reductions to existing offerings were identified as key by industrial goods and manufacturing companies (72 percent) and by automotive companies (72 percent). Minor changes to existing offerings were considered particularly important to travel, tourism, and hospitality businesses (67 percent).

Leveraging RDEs

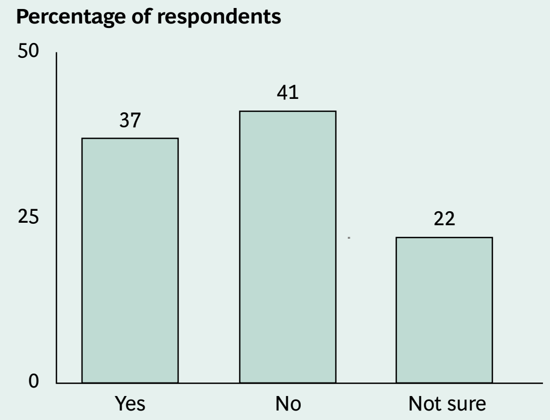
The advantages afforded by RDEs—foremost among them being low labor costs, a wealth of talent, and ready access to local markets—continue to appeal to many businesses seeking to enhance their innovation capabilities.[1] Yet companies are investing at a measured pace. (See Exhibit 11.) Thirty-seven percent of respondents said that their company would increase its innovation spending in RDEs in 2008, versus 38 percent in 2007. By region, Asia-Pacific companies had the most aggressive plans, with 47 percent of respondents saying they planned to raise their RDE allocation. The biggest enthusiasts by industry were automotive and motor vehicle companies (51 percent of respondents said they planned to increase their RDE investments), industrial goods and manufacturing businesses (48 percent), and technology and telecommunications companies (46 percent).

Not surprisingly, India and China, cited by 67 percent and 61 percent of respondents, respectively, remain the primary targets of incremental RDE investment. (See Exhibit 12.) India was the primary choice of technology and telecommunications companies (79 percent of industry respondents who planned to increase their RDE investment said they would invest there) and automotive companies (76 percent). China was particularly popular among automotive companies (85 percent) and consumer products companies (80 percent).

Eastern Europe and Latin America remain far behind in terms of popularity. But it's worth noting that one industry—consumer products—is an early and relatively aggressive investor in both regions. Fully 51 percent of respondents from that industry said their company would raise its investment in Eastern Europe in 2008; 48 percent said the same about Latin America. It is also notable that

Exhibit 11. Companies Are Investing in RDEs at a Measured Pace

Is your company planning to increase its innovation investment in RDEs in 2008?



Source: BCG 2008 Senior Executive Innovation Survey.

general interest in Eastern Europe is rising: 33 percent of all respondents said that their company would raise its investment in the region, compared with 26 percent in 2007. This may be occurring at the expense of Latin America: 28 percent of respondents said their company planned to raise its stake there in 2008, down from 33 percent in 2007.

Product development remains the most common objective for innovation investments in RDEs, with nearly three-quarters of respondents citing it as a key goal. Product testing is a distant second, at 46 percent of respondents. It is also apparent that most companies remain reluctant to move the early-stage components of innovation—basic research, idea generation, and design—to RDEs, preferring instead to keep those activities in-house or close to home. But there are exceptions to that rule:

- Automotive companies with regard to design
- Consumer products businesses with regard to idea generation

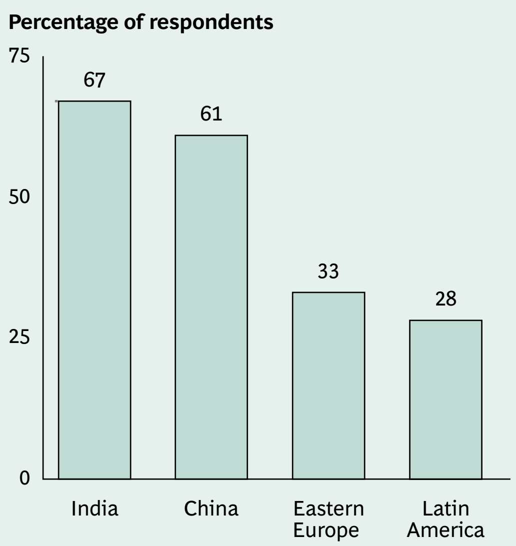
1. For a look at how some leading companies are leveraging and competing in RDEs, see *GLOBALITY: Competing with Everyone from Everywhere for Everything,* Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya (New York: Business Plus, 2008).

◇ Pharmaceutical, biotechnology, and health care companies with regard to basic research

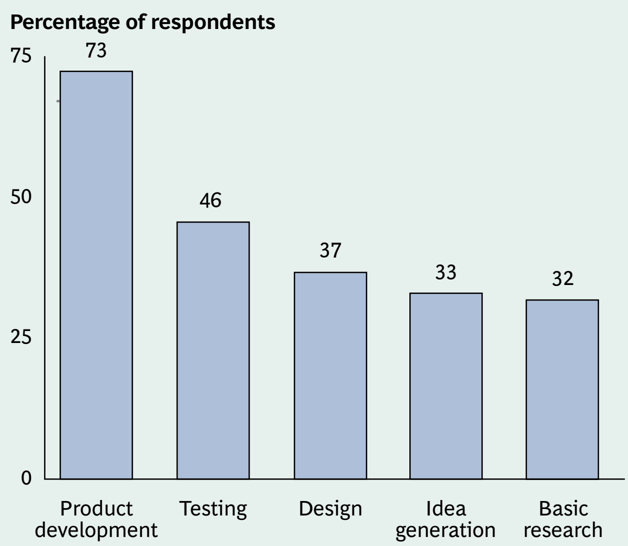
While there may be a case for keeping basic research close to home, the rationale for doing so with idea generation is less clear. In fact, in our experience, companies have much to gain by establishing idea-generation capabilities in RDEs. For one thing, the more ideas, sources of ideas, and, critically, perspectives that you have, the better your odds of developing a truly powerful and compelling idea. Further, if you plan on growing your business in these markets, you'll need to be developing ideas that are relevant and will "work" there. Rarely, for example, will a business model from a developed country translate directly to an RDE. Familiarity with local cultures and business practices is a real asset and one that you need to exploit.

Exhibit 12. RDE Investment Remains Centered in India and China, and Product Development Remains the Focus

If you plan on raising your allocation to RDEs, where will you increase your investment?



Which of the following types of innovation investment will you be making in these countries or regions?



Source: BCG 2008 Senior Executive Innovation Survey.

Execution

What's Working and What's Not

The most successful innovators are typically strong in most if not all of the capabilities that make up the innovation-to-cash process, from idea generation and R&D through product launch and portfolio management. But most companies have weaknesses. We asked respondents to gauge their organization's performance from excellent to poor in a number of specific capabilities that are critical to innovation success:

- Developing a deep understanding of customers and their preferences
- Partnering effectively with suppliers and others for new ideas
- Ensuring executive-level sponsorship of projects
- Enforcing timelines and milestones
- Earmarking sufficient funds for projects
- Moving quickly from idea generation to initial market entry
- Balancing risks, time frames, and returns across an entire portfolio of projects
- Fostering a corporate culture that promotes innovation

Overall, the responses were similar to what we've seen over the last several years, which indicates both consistency and, in the case of many companies that are attempting to address weaknesses, the possibility of stagnation.

Strengths: Customer Knowledge and Executive Sponsorship

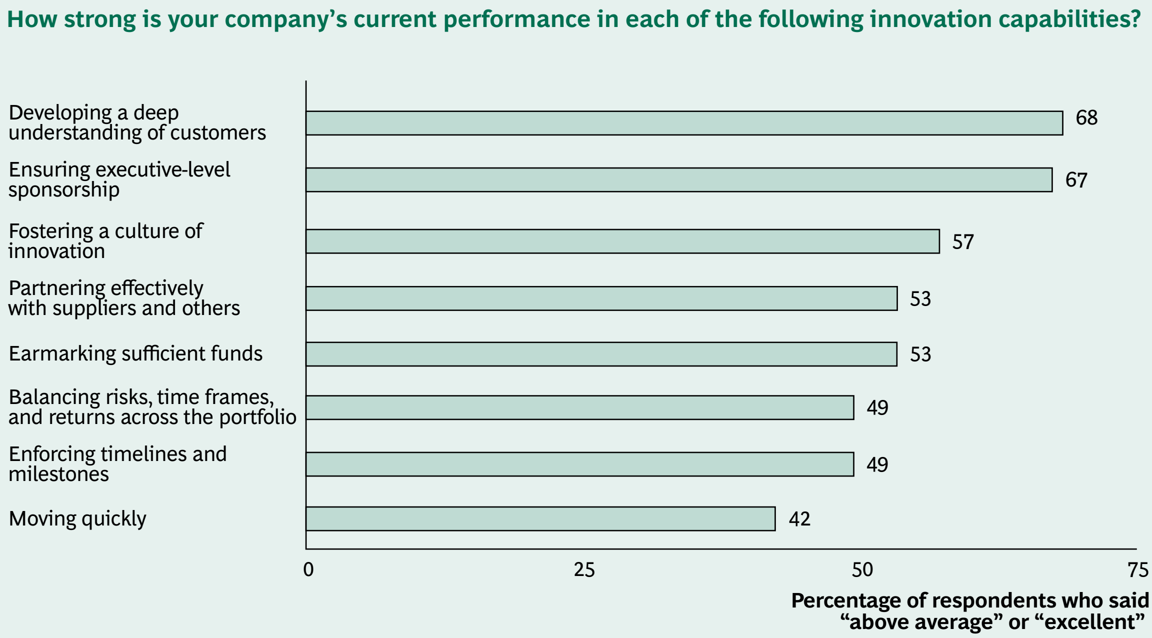
What do companies consider their greatest strengths? As in 2007 and 2006, respondents gave their companies the highest marks in two areas—developing a deep understanding of customers (68 percent) and ensuring executive-level sponsorship of projects (67 percent). (See Exhibit 13.) Customer understanding was considered a particular strength by respondents in three industries: travel, tourism, and hospitality (75 percent); pharmaceuticals, biotechnology, and health care (73 percent); and entertainment and media (72 percent).

A fair number of respondents (57 percent) deemed their company excellent or above average at fostering a culture that supports innovation—which is noteworthy given that a risk-averse culture was cited as one of the two largest obstacles to maximizing the return on innovation investment. Culture was judged a particular strong suit by entertainment and media companies (69 percent) as well as by technology and telecommunications companies (63 percent).

There were outliers by industry in terms of perceived strengths, including the following:

- Travel, tourism, and hospitality companies consider themselves particularly adept at partnering with suppliers (66 percent of respondents from that industry consider their company excellent or above average at that capability, compared with a 53 percent global average)
- Energy companies and industrial goods and manufacturing companies consider themselves relatively strong

Exhibit 13. Deep Customer Understanding and Executive Support Are the Most Commonly Identified Strengths



Source: BCG 2008 Senior Executive Innovation Survey.

at securing sufficient funds, with 60 percent of respondents from both industries viewing it as a strength, compared with a 53 percent global average

- A majority of both entertainment and media companies (57 percent) and travel, tourism, and hospitality companies (56 percent) consider themselves strong at moving quickly, compared with a 42 percent global average

Weaknesses: Speed and Discipline

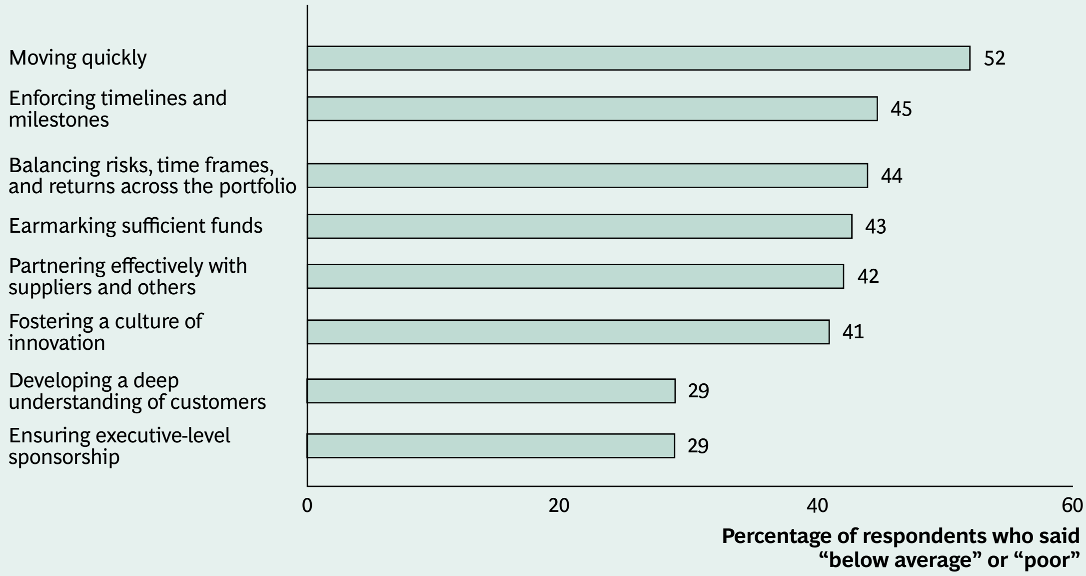
Respondents also identified weaknesses in their innovation capabilities. (See Exhibit 14.) Foremost among them was speed—the time it takes to move from idea generation to initial sales. Fully 52 percent of respondents said that their company was below average or poor at moving quickly enough. Many executives (45 percent) also cited the enforcement of timelines and milestones as a weakness. Financial services players and retailers, in particular, consider themselves behind where they should be on that criterion. Given that these two capabilities were identified as the top two weaknesses in our 2007 survey and ranked high in previous surveys as well, the question must be asked: Are companies targeting the right things in their self-improvement efforts? If not, what *are* they focusing on?

Four other capabilities—balancing risks, time frames, and returns across the portfolio; earmarking sufficient funds; partnering effectively with suppliers and others; and fostering a culture of innovation—are also problem areas for many companies. Over 40 percent of respondents rated their company poor or below average at each of those.

There were some noteworthy results by industry. Particularly interesting was the harsh self-assessment by retailers. Respondents from that industry rated themselves below average not just at discipline but on a range of other capabilities as well, including the earmarking of sufficient funds; the balancing of risks, time frames, and returns across the portfolio; and the development of a deep understanding of customers.

Exhibit 14. Speed and Discipline Are the Most Commonly Identified Weaknesses

How strong is your company's current performance in each of the following innovation capabilities?



Source: BCG 2008 Senior Executive Innovation Survey.

Setting the Pace

The World's Most Innovative Companies

For this year's ranking of the most innovative companies, we supplemented last year's sole measure—respondents' votes—with three financial measures: three-year shareholder returns, three-year revenue growth, and three-year margin growth. (Respondents' votes counted for 80 percent of the ranking, shareholder returns for 10 percent, and revenue and margin growth for 5 percent each.) We also asked respondents to specify, from the following five general criteria, their primary reason for picking each company (they could also choose "other"):

- The company employs innovative operational *processes* that give it an advantage
- The company's *business models* for revenue streams are new and differentiated
- The company has created unique *customer experiences* that create loyalty
- The company has developed breakthrough *products*
- The company has developed breakthrough *services*

The results are presented in Exhibit 15. Apple, Google, and Toyota Motor once again took the top three slots, as they did in 2007. There were some significant changes elsewhere in the rankings, however, driven both by the new metrics and by the larger and geographically more diverse pool of respondents to our survey this year. Most noteworthy is the rise of Tata Group and Nintendo to the top-ten list. (Neither company was ranked in the top 20 in 2007 or 2006.)

Exhibit 16 presents rankings for the top-five most innovative companies by industry. These industry-level results are based solely on respondents' votes (no financial criteria were employed).

Exhibit 15. Apple, Google, and Toyota Motor Remain the Leaders

Which three global companies do you consider the most innovative and why?

Rank	Company	Primary reason for selection
1.	Apple	Breakthrough products
2.	Google	Unique customer experiences
3.	Toyota Motor	Innovative processes
4.	General Electric Company	Innovative processes
5.	Microsoft Corporation	Breakthrough products
6.	Tata Group	Breakthrough products
7.	Nintendo	Breakthrough products
8.	Procter & Gamble	Innovative processes
9.	Sony Corporation	Breakthrough products
10.	Nokia Corporation	Breakthrough products
11.	Amazon.com	Unique customer experiences
12.	IBM Corporation	Innovative processes
13.	Research in Motion	Breakthrough products
14.	BMW Group	Unique customer experiences
15.	Hewlett-Packard Development Company	Innovative processes, new and differentiated business models, and unique customer experiences (tie)
16.	Honda Motor Company	Breakthrough products
17.	The Walt Disney Company	Unique customer experiences
18.	General Motors Corporation	Breakthrough products
19.	Reliance Industries	New and differentiated business models
20.	The Boeing Company	Breakthrough products
21.	The Goldman Sachs Group	Innovative processes and new and differentiated business models (tie)
22.	3M	Breakthrough products
23.	Wal-Mart	Innovative processes
24.	Target Corporation	Unique customer experiences
25.	Facebook	Unique customer experiences
26.	Samsung Electronics	Breakthrough products
27.	AT&T	Unique customer experiences
28.	Virgin Group	Unique customer experiences
29.	Audi	Breakthrough products
30.	McDonald’s	Unique customer experiences
31.	DaimlerChrysler Corporation	Breakthrough products
32.	Starbucks Corporation	Unique customer experiences
33.	eBay	New and differentiated business models
34.	Verizon Communications	Breakthrough services
35.	Cisco Systems	Breakthrough products
36.	ING Group	Breakthrough services
37.	Singapore Airlines	Unique customer experiences
38.	Siemens Corporation	Breakthrough products
39.	Costco Wholesale Corporation	Unique customer experiences
40.	HSBC Group	Breakthrough services
41.	Bank of America Corporation	Unique customer experiences and breakthrough services (tie)
42.	Exxon Mobil Corporation	Innovative processes
43.	News Corporation	New and differentiated business models
44.	BP	Innovative processes
45.	Nike	Unique customer experiences
46.	Dell	New and differentiated business models
47.	Vodafone Group	New and differentiated business models
48.	Intel Corporation	Breakthrough products
49.	Southwest Airlines	Unique customer experiences
50.	American Express Company	Unique customer experiences

Source: BCG 2008 Senior Executive Innovation Survey.
Note: Rankings are based on a combination of survey responses (80 percent weighting), three-year TSR (10 percent), three-year revenue growth (5 percent), and three-year margin growth (5 percent).

Exhibit 16. Respondents Named the Most Innovative Companies by Industry

Industry	Companies	Industry	Companies
Financial services	1. The Goldman Sachs Group 2. Bank of America Corporation 3. Citigroup 4. ING Group 5. JPMorgan Chase & Company	Automotive and motor vehicles	1. Toyota Motor 2. General Motors Corporation 3. Tata Group 4. BMW Group 5. Honda Motor Company
Pharmaceuticals, biotechnology, and health care	1. Pfizer 2. Merck & Company 3. Genentech 4. GlaxoSmithKline 5. Johnson & Johnson	Industrial goods and manufacturing	1. General Electric Company 2. 3M 3. The Boeing Company 4. Caterpillar 5. ArcelorMittal
Technology and telecommunications	1. Apple 2. Google 3. AT&T 4. Verizon Communications 5. Microsoft Corporation	Retail	1. Wal-Mart 2. Target Corporation 3. Amazon.com 4. Apple 5. Tesco
Entertainment and media	1. The Walt Disney Company 2. Apple 3. News Corporation 4. Google 5. Sony Corporation	Energy	1. BP 2. Exxon Mobil Corporation 3. Royal Dutch Shell 4. General Electric Company 5. Chevron Corporation
Consumer products	1. Apple 2. Procter & Gamble 3. Sony Corporation 4. Unilever 5. Johnson & Johnson	Travel, tourism, and hospitality	1. Marriott International 2. Hilton Hotels Group 3. Virgin Group 4. Starwood Hotels & Resorts Worldwide 5. The Walt Disney Company

Source: BCG 2008 Senior Executive Innovation Survey.
Note: Rankings are based on responses to the question, “Please name the company you believe is the most innovative in the world within the following industries”; ties were broken using three-year TSR performance.

Becoming a More Innovative Enterprise

Innovation clearly pays, and pays well. Yet more than half of the respondents to our survey are not satisfied with their financial results. Why is there a dichotomy, for so many, between what can happen and what does? More important, what can companies do to improve their ability to take ideas and turn them into cash? We don't have all the answers, but based on our client work and research, we do know some of the things that companies that are successful at innovation—and have the financial results to show for it—do that others don't. Two we'll highlight here are leadership that supports innovation and proper organizational alignment.

Leadership That Supports Innovation

Strong leadership is a prerequisite for success at innovation. If you are not able or willing to assume the mantle of innovation leader yourself, you must appoint someone who is and give that person both your support and the ability to take action. It doesn't necessarily matter what the leader's title is; what matters is that he or she has power and credibility throughout the organization. Without a leader who can see and act across organizational boundaries, and who has the resources and authority to influence the process, capturing the full potential return on your company's innovation investments will be impossible. There needs to be someone who wakes up every morning worrying about how the organization is going to become more innovative—and who is able to do something about it.

Successful innovation leaders are a special breed. They are not necessarily the most creative people (that they are is a common misperception), nor are they always the ones who everyone thinks is the logical choice. What they are is effective at moving large, complex organizations forward, instilling a new culture and a new set of processes, and providing the organizational tools that can focus the company on how innovation can support its business strategy. We have found five common characteristics that distinguish the best innovation leaders:

- *The Ability to Tolerate Ambiguity.* The innovation process is filled with unknown outcomes, complex relationships, multiple possibilities, and conflicting ideas. Effective leaders are able to accept a high degree of uncertainty and function well in spite of it. They are also able to inspire confidence and trust as things change and the new culture takes hold.

- *The Ability to Assess and Be Comfortable with Risk.* Risk is inherent in innovation, and the most effective leaders are able to embrace it and encourage others to do the same. Leaders must also be ready to suffer a few hits during the innovation process and be prepared for the second-guessing that they are likely to encounter. At the same time, they have to be effective at helping the organization take on appropriate levels of risk—levels that are often perceived to be (but in fact often are not) higher than, or types of risk that are different from, what the organization is comfortable with—and manage the inevitable ups and downs that will result.

- *The Ability to Balance Passion and Objectivity.* Passion for an idea is usually necessary to drive it forward. But passion can blind an idea's champion to its flaws. An effective leader is able to balance passion with objectivity.

- *The Ability to Change.* Effective leaders can make the organizational changes needed to make innovation succeed. They can also adapt appropriately when it appears that their attitudes, opinions, actions, and behaviors are no longer fostering innovation.

- *The Ability to Command Respect, Even from Those Who Are Skeptical.* Trust is important in leading any change, especially change that requires people to take on new and different ways of thinking. An effective leader will be able to earn and maintain trust and keep the organization focused on the potential rewards.

Proper Organizational Alignment

We believe—or rather, we *know*—that almost any company, regardless of size, culture, or hierarchical structure, can be truly innovative. The critical ingredient is *proper alignment*—having the entire organization on the same page concerning objectives, tactics, metrics, and, ultimately, commitment to innovation.

Creating that type of alignment can be a difficult task. But you can start the ball rolling by focusing on several key areas. The first is the *objective* of your innovation efforts. Most companies would be well served to step back and ask themselves a seemingly obvious question: What are we trying to accomplish with our innovation activities? In our experience, many companies can't come up with an answer that is directly linked to how they plan to use innovation to compete and win in the marketplace.

Innovation does not exist in a vacuum. If it is to be effective, motivating, and successful, it must help a company advance its business strategy. One key thing you need to decide is where innovation should have its biggest impact—for example, in the development of new products or business models, or in improved processes? You also need to determine the types of innovation (breakthrough, maintenance, or expansionary) that you're targeting. The answers will have a fundamental impact on how you go about the process of innovation.

The second area that you need to focus on in order to foster proper organizational alignment is *people.* What are your most important people working on? Most leaders have a few team members to whom they give the job when something really needs to be done and done right. If none of those people is working on innovation, it means that you're not really serious about driving innovation in your company. Allocating your key people to innovation is one of the most visible ways to signal your commitment to the rest of the organization.

A third area to focus on, and one in which most companies could do considerably better, is *metrics.* If you don't measure innovation, it tends to get overwhelmed by things that have an immediate impact on the bottom line and that *do* get measured—a case of the urgent crowding out the important. Companies should institute—and use—a range of measures to evaluate all the key aspects of their innovation processes: inputs (for example, staffing and capital and operating expenditures); performance (for example, cycle times and success ratios at different process gates); cash payback; and indirect benefits, such as impact on the brand. (See our companion report, *Measuring Innovation 2008: Squandered Opportunities,* for a much more detailed treatment of this important topic.) Even more important than creating exactly the right measures, however, is finding—and beginning to use—measures that simply are not too "wrong." Pick a few and get started tracking. Look at them over time and you'll see what's working and what isn't. You'll then have the necessary knowledge to act effectively.

Helping your organization achieve greater payback from its innovation efforts is a major undertaking. To facilitate the first steps, we close with a set of questions for leaders that we included in previous survey reports. The questions are evergreen and a good place to start your self-assessment. They will help you think about where your organization is on its innovation journey and where you, as a leader, can help.

- Is innovation really one of the critical elements of my company's overall business strategy? What role does it need to play?

If innovation is not a top strategic priority, that's okay. But you shouldn't then expect to be very innovative.

- Do I rigorously track the cash payback from my major innovations? Do I make key assumptions clear and invite rigorous debate? Is my management team in agreement on what's important to drive returns?

Innovation is all about cash payback. Drawing and discussing cash curves—depictions of the cumulative cash investments *and returns (both expected and actual) of an investment over time, from the very beginning of development to the point when the product or service is removed from the market—can help keep the focus there.*

- Do I understand the impact that globalization is having, and will have over the next one to three years, on my innovation activities?

RDEs offer sizable advantages and are underexploited by most companies. The most innovative companies realize the potential and carefully but aggressively leverage it.

- Do the people in my company believe that our organization is aligned around innovation? If not, what specific elements are out of alignment? What are we aligned around?

Lack of organizational alignment is one of the biggest obstacles most companies face. A confused organization—one that receives mixed messages—is very unlikely to be innovative.

- What specific actions have I taken today, this week, and this month to improve my organization's ability to innovate and generate the required payback from that investment? What do my actions say about my priorities?

Innovation requires and flourishes under strong leadership. The most innovative companies have a leader who wants to make a difference and leave a legacy of innovation.

Survey Methodology

In November 2007, BCG sent this year's survey electronically to the 2,500 largest global companies (determined by market capitalization) for distribution to their top-ten executives in charge of innovation. We also sent the survey to senior management members of the *BusinessWeek* Market Advisory Board, an online reader panel. Participation was voluntary and anonymous. The survey closed in February 2008.

In total, 2,957 executives responded, representing all major markets and industries. The responses broke down as follows:

Region

North America	1,259
Europe	1,037
Asia-Pacific	601
Other	60
Total	**2,957**

Industry

Technology and telecommunications	575
Financial services	521
Industrial goods and manufacturing	473
Pharmaceuticals, biotechnology, and health care	293
Consumer products	222
Entertainment and media	167
Energy	104
Travel, tourism, and hospitality	88
Retail	85
Automotive and motor vehicles	71
Other	358
Total	**2,957**

Position

C level	
Chief executive officer or president	394
Chief information officer or chief technology officer	155
Chief operating officer	148
Chief financial officer	124
Chairperson	78
Chief innovation officer or other head of innovation	50
Board member or chairperson	31
Subtotal	**980**
Director	441
Manager of marketing	170
Director of marketing	104
Vice president of marketing	100
Director of strategy	99
Vice president of strategy	96
Director of R&D	66
Manager of R&D	59
Vice president of R&D	58
Vice president	54
Manager	24
Senior or executive vice president	22
General manager	16
Other	668
Total	**2,957**

For Further Reading

This survey is a part of BCG's extensive work and research on innovation and the innovation-to-cash process. A sample of related publications includes the following:

Measuring Innovation 2008: Squandered Opportunities
A BCG Senior Management Survey, August 2008

Innovation 2007: A BCG Senior Management Survey
A report by The Boston Consulting Group, July 2007

Measuring Innovation 2007: A BCG Senior Management Survey
A report by The Boston Consulting Group, July 2007

Payback: Reaping the Rewards of Innovation
James P. Andrew and Harold L. Sirkin (Boston: Harvard Business School Press, 2007)

"The Secret of Innovation"
BCG Perspectives, December 2006

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