Boston Consulting Group Report[1] points out 'hurdles to achieving successful innovation.

Corporate
Innovation
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Ideas, Self-help and News

The Boston Consulting Group (BCG) has just issued its 7th annual report on innovation. The report makes for very interesting reading concerning the culture for innovation. The authors identify a number of 'hurdles' to achieving a financial return on innovation. Many of these 'hurdles' can be traced to the culture in innovative organizations. This White Paper explores the relationship between 'hurdles' and a culture for innovativeness.

The BCG report summarizes the responses of 1590 executives; C.E.O./Presidents, and Chairpersons (accounting for 57% or responses) and others on their opinion on a range of questions related to innovation. U.S. companies accounted for about 1/3 of respondents, Japan – 7%, and European – close to 25%. Fifty highly-innovative companies were identified; the list being similar to the previous year.

Forty-five percent of respondents said that innovation was one of their top three priorities but only 26% indicated that it was their top priority. The top-three priority list has not changed much over the last 5 years.

One of the more interesting findings is BCG's conclusion that there is a strong correlation between 'innovative prowess' and overall business success. According to their analyses, innovative companies outperformed others in their industry sector by 12.4% over a 3-year period but only by 2% over a 10 year period. This minor difference, at least over the 10-year period, makes one stop to think about the return versus the risk associated with being innovative. Is being an innovative company such a good idea? Does a 2% premium make good sense when one considers the risks taken by innovative companies versus the risk of being a follower! Being out front normally entails risk, but then so does being behind!

Another interesting finding is that C.E.O.s/Presidents and Chairpersons, accounting for 57% of the respondents, are more satisfied (59%) with their innovation progress than 'others' (30%); obviously at a lower level in the organization. The statistic suggests that there is a degree of relative self satisfaction at senior levels; potentially dangerous since executive leadership is an essential element of innovativeness. On the other hand, satisfaction with innovation remains low, at just above 50%, but has improved from a previous low in 2008.

Companies remain cautious, according to the report, and choose to emphasize safe bets and not move aggressively to discover, invent, and capitalize on new growth areas. Not a good sign for the long term!

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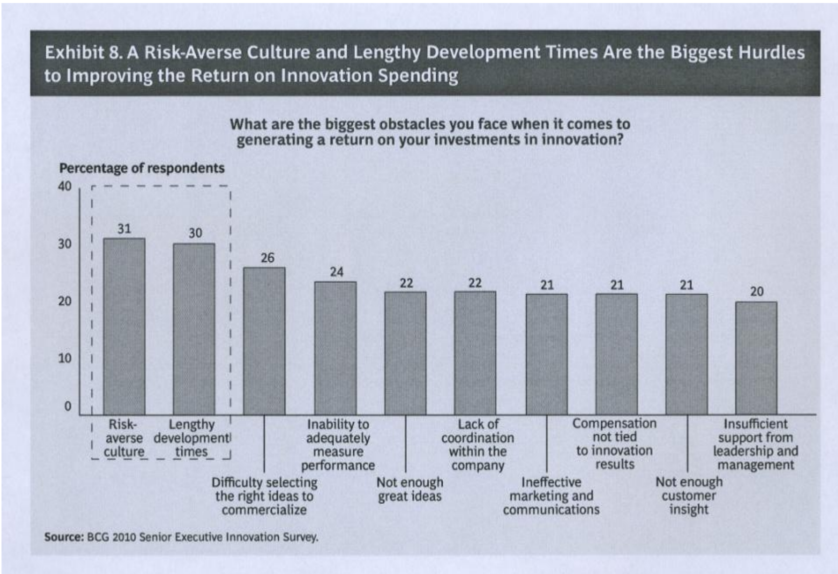
[1] *Boston Consulting Group Report on 'Innovation 2010'. A Return to Prominence – and the Emergence of a New World Order.*

A risk-averse culture is the biggest hurdle to improving return on innovation spending.
Yes, but risk-aversion is the result of something else. We need to learn more about the 'something else' to effect improvement.



The number one contributor to inhibiting a return on investment spending is, according to this latest report, a risk-averse culture. Risk aversion, for a corporation as a whole, is usually the result of past and current management practices, successes and failures, and can often be traced to the founders of the company. Compounded by growth and success the risk profile of larger corporations is difficult to maintain, thus the reason that so many C.E.O.s of these large companies make it a point to encourage risk. Risk aversion is, however, interrelated with a host of other contributing Factors and therefore root causes hard to nail down. What contributes to risk aversion? Cause and effect need some thought.

'Risk-averse culture' is self explanatory, but **'lengthy development times'** can, in part, be attributed to slow decision making caused by people not wishing to take a risk by making a timely decision. **'Not enough good ideas'**, similarly, can result from a fear of risking ones reputation by coming forth with what might be construed, by some, as a crazy idea. **'Compensation not tied to innovation results'** points to the need to have some sort of reward system for innovators making this hurdle part of the culture: an important element for encouraging innovativeness. **'Insufficient support from leadership and management'** seems an obvious hurdle. Without this senior level support, which infuses all matters managerial, there is no hope of having an innovative culture.

Maybe it's the approach to idea generation and realization

- tolerance for mavericks (F#3)
- tolerance for failure (F#5)
- tolerance for variances from a defined or undefined corporation norm(F#8)
- availability of reward mechanisms for innovators/innovations (F#14)
- a sense that resources are available should attractive ideas/projects be identified (F#19)
- R&D spending levels as compared to the competition (F#23)

F#'s refer to a 25-Factor analysis used to profile the innovative culture in a corporation.

'Not enough great ideas' is also identified as one of the major hurdles to achieving a sufficient return on innovation spending. Idea generation, or lack of it, can be traced to a number of Factors, some not so clearly identified in the Boston Consulting Group study but which are important. Tolerance, and the exhibition of it, is important to a culture for innovation. That resources are seen to be available for good projects is related to how leadership goes about planning and sending the message of innovation to all parties. Not to be forgotten is the message carried by spending levels on R&D. While innovation is now recognized as covering a vast range of functional and activity areas within any organization, and not just related to R&D spending, it is still a fact that innovative companies, focussed on new product innovation, need to invest in order to come up with the right, commercially-successful products.

Leadership is the key to effective innovation.
Founder's influence is significant!

In an earlier White Paper we had reported[2] that, in addition to idea generation and realization, the issue of leadership, and the management of day-to-day affairs, were two other 'themes' which, when well addressed, could improve corporate innovativeness.

Of the three most important three most important 'themes' contributing to a culture for innovation, the most important is leadership. Four of the 25 Factors (see chart) relate directly to leadership. Without leadership committed to innovation in there is no chance for innovation. The BCG report puts **'Insufficient support from leadership and management'** behind 9 other 'hurdles'. One wonders if this ranking may be due to the fact that 57% of responses were from Chairpersons, C.E.O.s or Presidents. Our respondents ranking would be different.

It is significant that the vast majority of the companies named as 'Most Innovative' have a tradition of innovation. Not one was never an innovative company – excuse the double negative. Their founders imbued a sense of innovation from the very start:

- Apple – Jobs,
- General Electric – Edison,
- Toyota – Toyoda,
- 3M – McKnight,
- Microsoft – Gates,
- The Walt Disney Company – Walt Disney.

There is an argument to be made that goes like this: 'if the founders of a company did not install a sense of innovation in the company, and subsequent leaders, for whatever reason, squandered the legacy of innovation, the company cannot survive. Without innovation a company becomes simply a player in a particular industry segment – more a follower than a leader. Expressed in different terms, it also means that it is very difficult to implant an innovative culture in a company which does

Perhaps it's leadership

- management (and Board level people) do not explicitly look for innovation (F#2), the subject is not high on the agenda for Board meetings, management meetings, conferences, etc.
- the emphasis by senior management is on achieving short-term profit at the expense and priority of long-term goals (F#1)
- planning; business/strategic/planning/budgeting all emphasize cost cutting or rationing of resources rather than finding opportunities (F#4)
- little tolerance for risk in the planning process (F#9)

F#'s refer to a 25-Factor analysis used to profile the innovative culture in a corporation.

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[2] See http://www.corporateinnovationonline.com. 'Three themes for improving corporate innovativeness': leadership, idea generation and realization, and managing day-to-day affairs.

not have a tradition for innovation. Analysts should look at the personal and managerial characteristics of the founders to really understand the organization's culture!

Deciding how to organize and manage is the glue that makes innovation work.

Moving beyond the leadership and idea generation issue, there are a number of management practices which are found in innovative companies which contribute to BCG's hurdles. The lack of these practices can contribute to **'lengthy development times'**, **'lack of coordination within a company'**, two of the other 'hurdles' identified by BCG.

Maybe it's how the company organizes and manages day-to-day affairs

- the emphasis which management places on people – human resources and interaction (F#6)
- degree of formal communication in the company (F#10)
- use of independent (groups with authority to make changes) work groups to accomplish projects and special tasks (F#11)
- the degree to which decisions are made with input from several sources in the company – or is decision making unilateral and driven from the top (F#12)
- the formality of the decision process (F#13)
- the approach to organization; centralized decision making or decentralization (F#18)
- is the organization action oriented or lost in planning processes (F#15)

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Basic organization should emphasize minimal hierarchy, maximum decentralization, use of special project groups to get things done, and more action-orientation than planning. All of these would contribute to reducing development times and coordination problems.

Conclusions

Our own survey results support most of BCG's findings but the priorities might be different. Much of this discontinuity might be related to the heavy emphasis on senior levels in the BCG survey.

The 'hurdles' which are *relatively* easily addressed are; support from leadership and management, compensation for innovation results, co-ordination in the company and lengthy development times. More difficult, because of their subtle nature, would be; getting good ideas, selecting the right ideas, tolerance on a broad range of issues, and indeed the risk-averse culture.

Conclusion

The message is clear. To improve innovation and hope to achieve a financial return takes a combination of initiatives; well implemented. What makes innovative companies successful is that they have the right mix of initiatives and in many ways they can thank their founders, past and/or present.