

# The innovators

How successful companies drive business transformation



An Economist Intelligence Unit briefing paper  
Sponsored by SingTel



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## **The innovators:**

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## Preface

*The innovators: How successful companies drive business transformation* is an Economist Intelligence Unit report, sponsored by SingTel. The Economist Intelligence Unit bears sole responsibility for this report.

The Economist Intelligence Unit's editorial team conducted the survey, gathered data, conducted interviews and wrote the report. The findings and views expressed in this report are those of the Economist Intelligence Unit alone. Matthew Shinkman was the author of the report. Claire Beatty was the editor.

Our thanks are due to all survey respondents and interviewees for their time and insights.

September 2008



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# Executive summary

**I**nnovation has become a popular term in the corporate vocabulary. Innovating, in a company setting, is to create or change something—be it a product, a route to market, or even a back-office business process—to generate revenue or provide a cost-savings opportunity. In a highly globalised and commoditised world, companies must fiercely defend their market position, continuously streamline business processes and aggressively pursue new opportunities for growth. Having an effective innovation process is vital to remaining competitive.

Browsing corporate websites, it would be easy to believe that when it comes to innovation, companies have it cracked. However, as this research shows, the real picture is not quite so rosy. Innovation success rates are very mixed and executives reveal that innovating well is as challenging as ever. Nonetheless, there are also many success stories of firms that do drive innovation throughout their organisation and have been able to overcome the barriers to bringing about change.

This report, sponsored by SingTel, analyses the main challenges that companies face with regard to innovation; assesses where they are focusing their efforts over the next two years; and asks what executives consider to be the most crucial factors necessary to support their innovation initiatives. The research, based on a survey of 261 senior executives globally, also compares the responses of those companies that report the most success at innovating—“the leaders”—against those respondents that acknowledge less success. The research reveals the following key findings:

- **Customer-facing business processes are the main targets for innovation.** When asked to

identify the business areas on which they would be focusing their innovation efforts, survey respondents most frequently cite those that directly affect their clients and customers: new product development, sales and marketing and customer service. Despite a gloomy outlook for the global economy, executives are maintaining a focus on growth and innovation.

- **Generating good innovation ideas is hard; getting them to adoption is even harder.** Some 60% of survey respondents report a shortfall of ideas in their innovation pipeline, but only 14% cite this as the most challenging part of the innovation process. Most companies see the process of bringing ideas through to adoption as the highest hurdle. The greatest barriers in this process include resistance to change, shifting strategic priorities and a lack of project ownership.

- **Survey respondents say that a culture of innovation is critical, yet they disagree over what exactly it means.** There are significant differences of opinion across the survey sample over what are the most important elements of an innovation culture. Innovation leaders place more importance on cross-functional collaboration than other respondents. Respondents based in Asia prioritise appetite for risk as an important element of a culture of innovation, while those in Europe and North America emphasise learning and cross-functional collaboration.

- **Technology investments are being directed towards tools that will increase information sharing and boost productivity.** Executives report that they will be looking to deploy content management and business intelligence tools over the next two years. Workflow automation



technologies are also in demand for enabling employees to concentrate on core business processes. From their investments, executives are mostly hoping to reduce business process complexity and achieve scale in processes. Survey respondents are more interested in maximising productivity than they are in reducing upfront investment costs or lowering headcount.

- **Inability to prove return on investment (ROI) continues to prevent wider deployment of innovation tools.** Survey data shows that executives based in Asia find proving ROI on technology investments to be a far greater challenge than those in other regions. However, Asia respondents say that their workforces are more technology savvy and they report fewer difficulties in encouraging the use of new technologies. In North America, executives were twice as likely to find employees resisting newly introduced tools and technologies. In Europe,

the greatest barrier is that senior executives are unsure about the benefits of technologies. Innovation leaders (as well as executives in Asia) are more concerned about security implications of deploying technologies than the rest of the survey sample.

- **Companies are looking to increase their level of collaboration with research bodies and universities, while scaling back their consulting expenditure.** Companies will continue to partner with customers, competitors, consultants and suppliers for innovation projects, although several trends are emerging. Joining forces with universities is a far more established practice in Europe than in North America or Asia, but companies will be more active in this area in the future. With the exception of those based in Asia, survey respondents plan to scale back their involvement with consulting firms, most noticeably in North America.

## Who took the survey?

In March 2008, the Economist Intelligence Unit conducted an online survey of 261 executives worldwide to understand better how they drive innovation in their organisations and the challenges they face in this process. Of the respondents to our survey, 45% were senior executives (board-level or C-level), and 55% were directors, business unit heads and other managers. Worldwide, 23% of respondents were based in North

America, 27% in Europe, 36% in Asia-Pacific, and 14% in Latin America, the Middle East and Africa. Approximately 60% of respondents worked at organisations with annual revenue of more than US\$500m, while the other 40% came from companies with revenue below that amount. In addition to the survey, qualitative interviews were conducted with senior executives in Europe, North America and Asia.



## Introduction

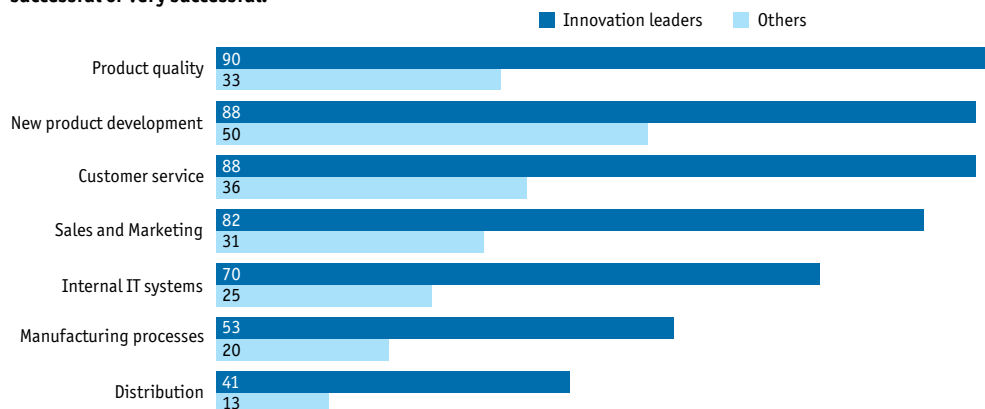
With storm clouds gathering over the global economy in 2008, and the world's blue-chip companies signalling profit warnings in increasing numbers, it would be understandable if senior executives were becoming more wary of making investments into projects with speculative returns—as required in all aspects of innovation. However, the opposite appears to be the case; forced into a corner by the combination of a tougher trading environment and rising competition in both developed and emerging markets, executives today increasingly see innovation as the only way to protect profit margins. Rather than adopting a defensive stance, market leaders like Google and Amazon are vocal about plans to increase investment in their firms' innovation capabilities in the current downturn.

Respondents to a survey conducted by the Economist Intelligence Unit on this subject in March 2008 agree. Despite the fact that almost 80% of the senior executives who took part in the survey expect their firms to be either severely or moderately affected by the current economic

slowdown in the US, six out of ten still believe that increasing top-line growth and sales is more important to them than cutting costs—and three out of four say that innovation is crucial to the competitiveness of their businesses.

Having an effective internal innovation engine can generate both substantial cost savings and lucrative customer opportunities. The term "innovation" tends to conjure up images of iPods, Xboxes and other technological gadgets. Indeed, 70% of survey respondents say product innovation is critical or very important to maintaining corporate competitiveness. However, an even higher proportion (74%) suggest that business process innovation—rethinking the internal systems and processes for how their firms operate and deliver goods and services to customers—is a crucial driver of success. Ram Charan, a strategy consultant and author of several management books, including *The Game Changer*, says that "companies simply aren't going to be able to protect their margins in the current environment without being able to innovate effectively."

**How successful are the following areas of your company in driving innovation? Percentage of respondents selecting successful or very successful.**



Source: Economist Intelligence Unit



What is clear from this research is that success at innovation varies greatly across the companies that took part in this survey. The survey asked respondents to rate how effective they are at driving innovation in seven business areas: sales and marketing, new product development,

product quality, distribution, customer service, manufacturing processes and internal IT systems. Of all the respondents, we isolated the 50 companies that are most successful across the board to compare their responses with the rest of the sample in this report.

## Who are the leaders?

Of the 261 respondents to the survey, we separated the responses of the 50 companies who ranked themselves as most successful at innovating across seven business areas. Financial services and technology companies are highly represented amongst the leaders. In terms of size, the leader companies are not necessarily any larger or smaller than the rest of the sample, but one significant

difference is that the successful innovators have a more global reach than the others. Some 70% of the leaders have operations in North America compared to 58% of the rest of the sample; 54% have operations in the Middle East and Africa compared to 41% of the rest, and 44% conduct business in Australia and New Zealand compared to 35% of the rest.



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## Burning platforms

Companies that innovate most successfully make it a top corporate priority. However, this change in mindset often does not happen without a burning platform—meaning that companies are forced to innovate because they are losing market share, or the competitive landscape of their industry or product is changing so rapidly that it is threatening the existence of their business. It is often forgotten that in the pre-iPod days, Apple lost almost half its market share and posted a loss of over US\$700m in early 1997.

There is some truth in the mantra “innovate or die”. One of the companies examined in this report, Denmark’s LEGO Group, a leading toy manufacturer, found itself in just that position after racking up huge losses over several quarters due to overstretching itself in product lines and inefficient manufacturing processes. While this provided the impetus for a global restructuring of its manufacturing and logistics functions, cutting costs was not the only driver. Of crucial importance was that the restructuring provided a benefit to the customer too.

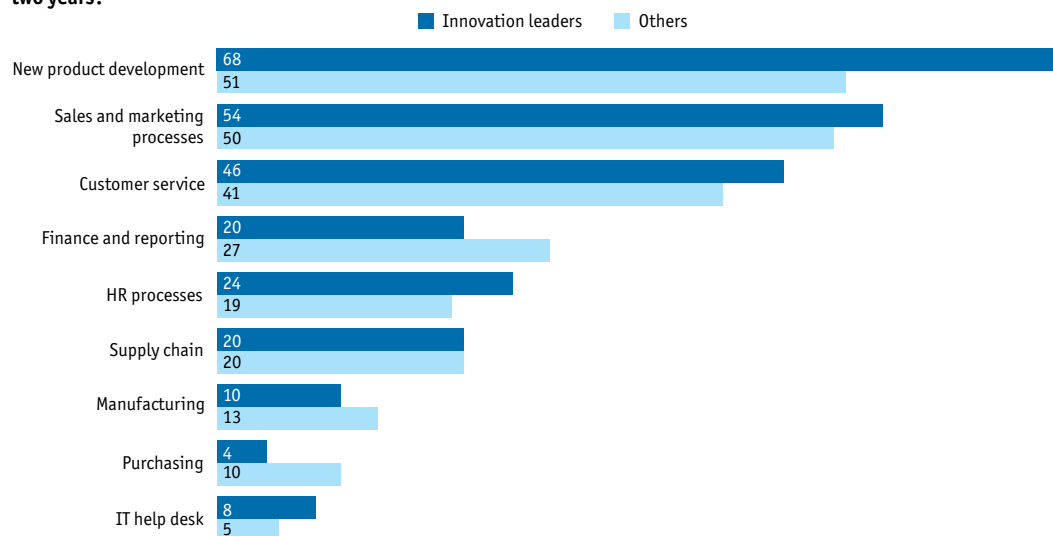
Successful companies use innovation to respond to trends that affect consumer behaviour and buying patterns—take General Electric’s ecoimagination initiative, which aims to focus all parts of the US\$330bn company on innovative solutions to the world’s growing environmental challenges, or Tata Motors’ much-hyped US\$2500 car.

**How important are the following types of innovation to maintaining your company’s competitiveness? Respondents answering critical or important.**



Source: Economist Intelligence Unit

**Which processes or functions will be the main target areas for innovation or re-engineering at your company in the next two years?**



Source: Economist Intelligence Unit

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When asked which areas of the business are most likely to be the focus of innovation efforts in the coming two years, respondents overwhelmingly pointed to those processes that touch customers, such as new product

development, customer service, and sales and marketing. This trend is universal, although the leaders seem to be more focused on invigorating new product development than firms that are less successful at innovating overall.



## Mountains beyond mountains

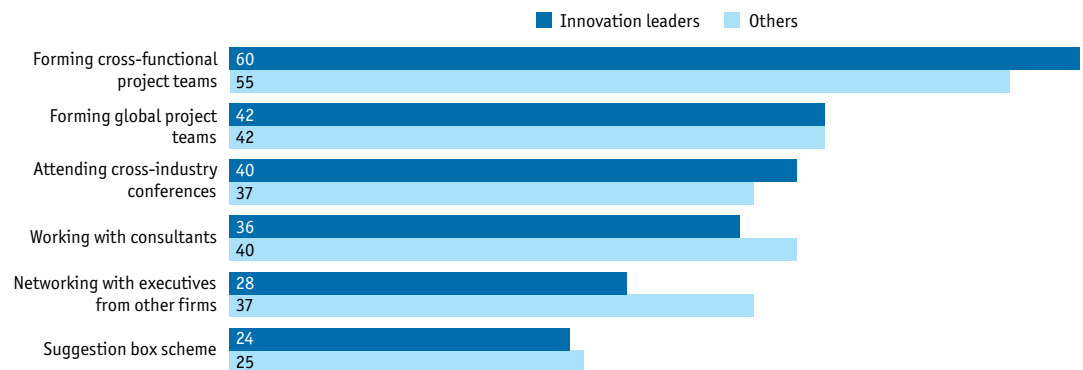
The wildly varying success rates that companies report for their innovation efforts demonstrate how difficult this process is. Short-term focus and shifting strategic priorities make it difficult for companies to allow staff enough freedom to do things differently. Frequently, the natural process of organisational growth throws up barriers to change. As companies expand, hierarchies emerge to control the way work is carried out and ensure that processes are followed—preventing agility and flexibility.

One of the first challenges in the innovation process is to generate ideas. Almost 60% of respondents suggest that they are unable to

generate enough innovative ideas to build a pipeline of new products or support ongoing process change. To fill this pipeline, 56% of respondents suggest that their organisations rely on cross-functional teams, while some 40% work with consultants. But even with these teams in place, results are often disappointing.

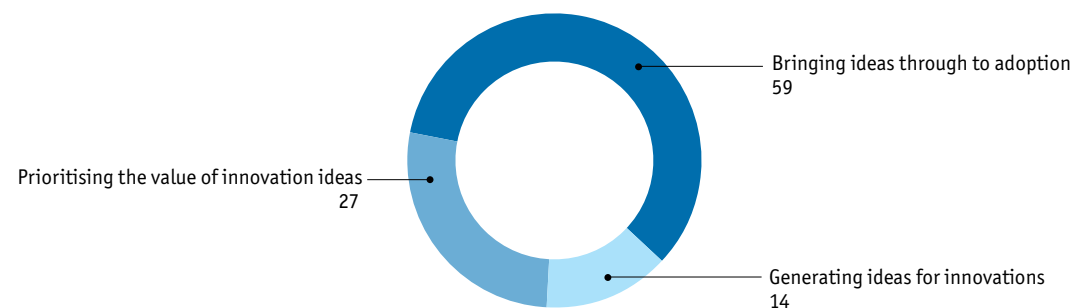
But it gets worse: when asked about the most difficult part of the innovation process, very few companies suggest that ideation is the biggest bottleneck. Almost 60% of respondents report that taking good ideas and bringing them to implementation—whether introducing a new product or transforming a business process—is by far the most challenging aspect of corporate

### How do you generate ideas for innovation?



Source: Economist Intelligence Unit

### Which stage of the innovation process is most challenging in your view? (% respondents)





innovation.

Patrick Gelsinger, senior vice president at Intel Corporation and general manager of the company’s Digital Enterprise Group—its largest business group, accounting for more than half of the corporation’s revenue—agrees. The process of turning great concepts into sellable products is “agonisingly painful,” according to Mr Gelsinger. “We work hard to get the commercialisation process right, but it’s an area that can always use improvement.” In part, the difficulty is driven by the size and scope of the research being done at Intel. “We run technology research investments of anywhere from a few hundred thousand dollars up to US\$15m, and when turned into products these can yield revenues of anywhere from US\$5m to US\$300m, so it’s important we get it right. It’s tough when we’ve got a full product schedule and a sudden disruptive idea comes along which forces us to adjust at short notice.”

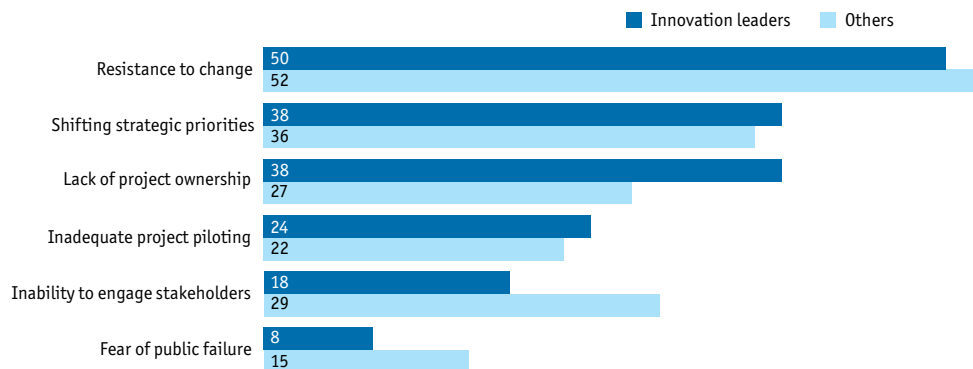
In addition to the inherent complexity in the innovation process, basic organisational issues get in the way. The biggest barrier to innovation, according to 52% of survey respondents (not including innovation leaders), is resistance to change, followed by shifting strategic priorities (36%) and a lack of project ownership (29%). The leaders cite a lack of project ownership as more of a challenge than the rest of the survey

respondents, but they have less difficulty in engaging stakeholders.

Perhaps most fundamental barriers to innovation in large companies are the implications of growth itself. Shona Brown, senior vice president for business operations at Google, considered one of the world’s most innovative companies, describes the enviable situation as Google managed rapid growth. “When we were on one floor in one building, it was easy to make decisions. Spreading across two floors made it tougher. The big change, though, was when we moved into more than one building. This is when most companies see a step change in their ability to stay co-ordinated, manage information flow, and the like. In most cases, the natural response is to impose hierarchy and structure,” she says. “Companies at this stage of growth get highly stressed and want to maintain some control over the situation, and so they introduce strict reporting structures, bureaucracy and hierarchy. It’s the simplest way of making sure things continue to get done—but it squelches innovation.”

This view is supported by the survey respondents, 47% of whom say that “lack of visibility across business units or geographies” is either a significant or very significant barrier to innovation.

**What are the main challenges to bringing ideas through to adoption?**



Source: Economist Intelligence Unit



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Innovation is also more firmly etched in the ethos of smaller companies, according to Ms Brown. Start-ups are, by definition, born out of an innovative idea and are intimately tied to their customers. As the company grows, this customer focus and emphasis on regeneration can be more difficult to maintain. In the survey, when asked about the most important elements of a

culture of innovation, the smallest companies are substantially more likely to cite “customer-centric mentality” and “emphasis on learning”, while respondents from the largest companies point to risk appetite and cross-functional collaboration (concepts which are part of the everyday experience of most small companies).

## Rebuilding LEGO: a case study in overcoming resistance to change

In 2004, Denmark’s LEGO Group was in trouble. The family-owned toy company, which produces one of the world’s most well-known and loved products, had posted its biggest-ever loss of nearly US\$300m in the financial year 2003, and it registered an even larger loss in 2004. The firm had strayed unsuccessfully into several new areas and product lines that resulted in unprofitable growth.

At the same time, the company’s manufacturing and distribution operations were outdated and expensive to run, forcing management to radically rethink both the product it was delivering to customers and the way that it gets those products from concept to market.

Egil Møller Nielsen, the LEGO Group’s senior director of logistics for Europe and Asia, joined the company in 2004 and was tasked with developing a strategy for turning around the logistics function. In part, that meant going around to all of the company’s logistics and transport suppliers and convincing them to squeeze out cost savings for the company. The bigger issue, though, says Mr Nielsen was that “within the company there was just too much complexity.” Managing product flow, inventories and intelligence across the Group’s ten European distribution centres was creating a major headache—

and was leading to sizeable losses.

The solution was a radical one: the firm opted to close the ten European distribution centres, replacing them with one centralised distribution centre for Europe in Prague (at the same time as the company was planning to streamline its manufacturing operations in Europe) and in North America the firm moved manufacturing to Mexico with a distribution centre in Dallas. The LEGO Group outsourced logistics to DHL, and part of its manufacturing to a US firm, Flextronics, and other manufacturing partners. This allowed the company to focus on its core competency: the design and creation of children’s toys.

Mr Nielsen also believes that switching to centralised but regional sourcing will be a great source of competitive advantage in the future. “Being closer to the market [relative to competitors who largely source from China] means we have less inventory tied up in shipment at any given moment, but more importantly it means we are closer to our customers. We can react to the latest fad in the market more quickly,” Mr Nielsen says.

These process innovations led the company from record losses to profits of over US\$200m in both 2006 and 2007. At the same time, though, they meant

trimming headcount to 5,000 employees, down from 6,500 in 2003.

“It was a difficult process,” says Mr Nielsen, “but the fact that we had a burning platform made all the difference.” That the company was almost facing extinction was crucial in focusing the minds of senior executives and those working within the operations centres, whose own jobs were at risk.

Mr Nielsen points to two factors which helped underpin the successful strategic transformation and overcome the resistance to change within the organisation. First, “we were very active in communicating with all staff what we were doing: we needed to generate awareness of the need to change, otherwise we wouldn’t have got anywhere.” Second, he suggests that bringing new blood in to the organisation was important. “I and several others came in with a clean slate, which made it easier to see what needed to change. If the process had been left only to those who had grown up with the company, it would have been harder for them to step outside their own experiences and really look for radical solutions.”



## Innovation enablers

The challenge for large companies is how to emulate their more spritely smaller competitors. Survey respondents and senior leaders at the world’s most innovative companies agree that having a leadership group and corporate culture that support innovation is most important. While companies that are heavy on bureaucracy, hierarchy, structure and process tend to suppress innovation, the right set of shared values among company staff, along with appropriate messages coming from senior leaders, can have the opposite effect.

### Culture

Companies like Google and Apple best typify the corporate culture that actively generates innovative activity. At Google, says Ms Brown, one of the key factors is the ability to accept some loss of control. “All companies face a trade-off between control and adaptability. At Google, we are explicit about our willingness to live with a bit less control in exchange for more flexibility.” This loss of control isn’t really a loss—it’s largely a transfer from senior managers to the wider Google community. As responsibility for coming up with exciting new process and product ideas gets pushed out further into the organisation—

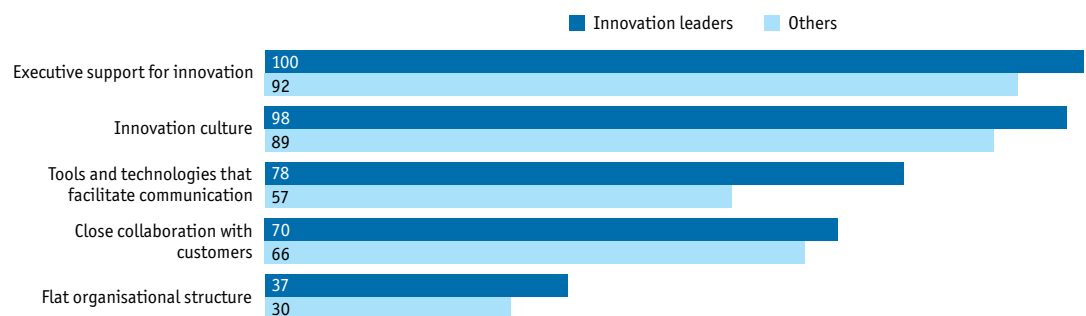
although Ms Brown points out that even in Google’s case “not everybody gets to make all decisions”—it also becomes more important to tolerate mistakes. “We have an approach of deliberate experimentation, which means we need to be more tolerant of failure.”

This appetite for risk is another recognised element of a successful innovation culture, especially in the technology field, says Mr Gelsinger of Intel. “Risk-taking is one of our core values. The day we stop taking risks is the day we know that some other technology company will take advantage of technology innovation better than we do.”

Cultural transformation has to start at the top. Culture is a function of how senior management thinks and acts—64% of survey respondents say that leadership commitment is the most important element of a culture of innovation. And this can be as much about what leaders don’t do as what they do. “At Google, we’re blessed to have company leaders who are comfortable getting out of the way of the smart people they’ve hired. They’re comfortable with a degree of messiness,” says Ms Brown.

While leading is important, it’s also crucial to get the right people in the door in the first place—

How important are the following as enablers of innovation? Respondents answering critical or important



Source: Economist Intelligence Unit



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staff who are flexible and enthusiastic about change. At Genentech, a leading biotechnology company, research staff are allowed to publish their studies in academic journals—a rare practice across most scientific industries, given firms’ fears of losing control over their intellectual property. Genentech’s opinion is that by offering research staff this benefit, and allowing scientists to maintain a reputation within academia, the company is better able to compete with the top universities for talent.

The critical ingredient to a culture of innovation is the remuneration and incentive structure. Mr Charan, the innovation author, puts it this way: “What is company culture? It’s what people do routinely without being told. Once innovation is integrated into the firm’s main decision-making process, and people are being evaluated on and praised for their innovative activities on a regular basis, a culture of innovation will emerge naturally.” Having worked with the CEOs of many of the world’s largest companies, he suggests that this is something few companies do well—and survey respondents agree. Just under half listed a mismatch between staff incentives and operational metrics as either a “very significant” or “significant” barrier to

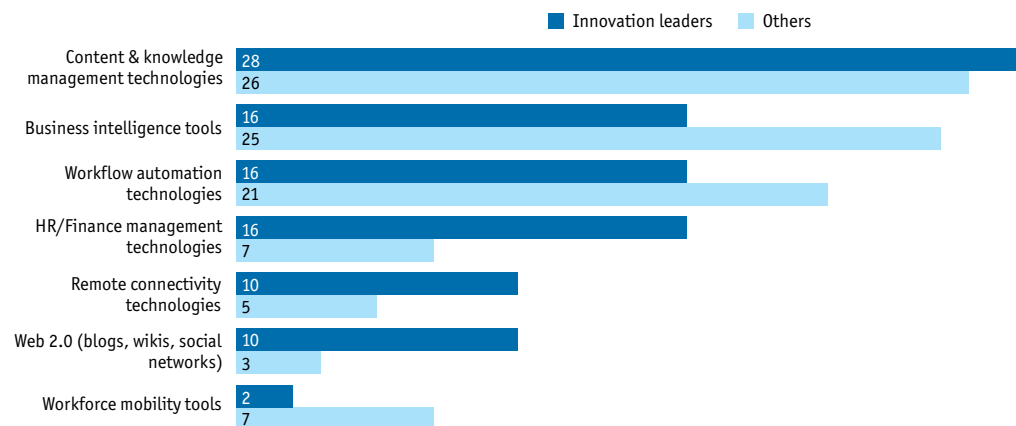
innovation.

What constitutes a culture of innovation differs depending on geography. Europe and the Asia-Pacific region showed the greatest differences. While European executives prize cross-functional collaboration and emphasis on learning, executives based in the Asia-Pacific region value an appetite for risk as a foundational enabler for innovation to take place. Having a customer-centric mentality was considered more important by executives in North America than by respondents in other regions.

## Tools and technologies

Companies that are most successful at innovation—the leaders—consider tools and technologies to be of greater importance for enabling innovation than rest of the survey sample. The trends relating to where companies are investing in technology are broadly the same across the two groups. The highest areas of investment are around technologies that ease information sharing and boost productivity. Eric Lauzon, chief information officer (CIO) of Nortel Networks for Asia, says: “In Nortel, initially we piloted Unified Communication [integration of fixed and mobile voice, e-mail, instant messaging,

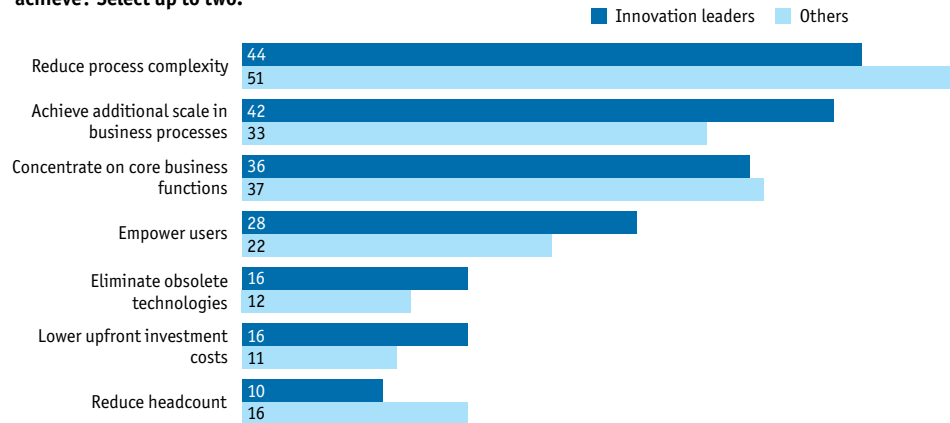
**In which technology areas do you think improvements and wider deployment are most necessary now? Select up to two.**



Source: Economist Intelligence Unit



**When redesigning business processes, what do you think are the most important benefits that your company is hoping to achieve? Select up to two.**



Source: Economist Intelligence Unit

desktop and other applications] across 5,000 lead adopters in the organisation globally before making the service available to all employees. We estimate that the new technology has increased productivity by 15%. And we'd probably see even bigger gains if suppliers and customers were opened up to multimedia convergence; this is only the start."

At the moment they are only just appearing on the radar, but as technologies that facilitate interaction—wikis, virtual team environments, and the like—become as ubiquitous as computers and mobile phones today, high-performing companies will look to these tools to create new ways for individuals and teams to interact, and ultimately to create value for the enterprise. Embryonic technologies that are touted as the "next big thing" include prediction market applications (statistical models for assessing risk and linking asset values to specific dates and events) to forecast sales, product launch dates, market share growth rates, manage manufacturing capacity and influence business decisions. Companies as diverse as Hewlett-Packard, Renault, Pfizer, Masterfoods and Arcelor Mittal are known to be using predictive market applications.

When redesigning business processes, the most important benefit that survey respondents hope to achieve is to reduce process complexity. The leaders placed more importance on achieving scale in business processes, whereas companies that are less successful at innovation chose the ability to concentrate on core business functions as the second most critical benefit. Fears of process reengineering as a Trojan horse for cost-cutting and layoffs appear less well-founded in today's market—only 15% of respondents suggest that reducing headcount is among the most important benefits of their process innovation efforts. And cost cutting isn't the primary motivator either, as proved by its low ranking on the list of reengineering benefits. Again, as with innovation more broadly, a focus on improving the organisation's ability to understand and meet customer needs is the key driver—not cost.

Like innovation in general, it can be difficult to measure the benefits of implementing new technologies. Of all the barriers to deploying new technologies, it is the inability to prove ROI on these investments that is the greatest obstacle. Survey data shows this to be a far greater challenge for executives based in Asia than elsewhere in the world. However, when they



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# Technology-led innovation at Actelion

Innovation isn't always about achieving the biggest shake-up possible. With resource constraints and the inevitable resistance to seismic change, sometimes it's more useful to tinker "under the hood" while minimising the disruption to the daily work of a set employees engaged in a vital business process. The example of Actelion, a Swiss pharmaceutical company which focuses on the discovery, development and commercialisation of synthetic small-molecule drugs, provides a case in point. The company has won several innovation awards, including the 2007 Process Innovation Vision Award for its collaboration with Anoto Group AB, a world leader in digital pen and paper technology.

Actelion collects large amounts of data

from patients involved in clinical drug trials and was seeking a way to increase the speed of collecting and processing this information while maintaining full compliance with strict regulatory requirements about how data can be gathered. There was a challenge to doing this, as Massimo Raineri, Actelion's head of systems development, explains: "Our goal was to reduce data collection time without changing the way that the doctors who are conducting the trials are used to working. Many doctors told us that they felt uncomfortable typing data on a keyboard during trials; the use of pen and paper was actually an important part of developing a natural and relaxed interaction between the nurse and subject, so we decided to propose a

solution that was the least 'invasive' possible."

The company chose to introduce Anoto's digital pen and paper technology, providing its clinical trial investigators with pre-printed case report forms on Anoto's digital paper and a special digital pen for entering data. The information captured by the 500 pens is uploaded daily, integrated and processed. Regulatory requirements mean that the data must later be re-entered manually into Actelion's systems, but the increased speed and accuracy with which Actelion gets a first look at the trial data can shave precious days off the approval process. For a blockbuster drug, cutting the time to approve by one week can mean a savings of US\$1.5m or more, says Mr Raineri.

do introduce technologies, they experience fewer problems around encouraging staff to use them. In North America, executives were twice as likely to find employees resisting newly introduced tools and technologies. Innovation leaders appear far more concerned about the security implications of deploying technologies than the rest of the survey sample.

## Looking outside

Successful innovators know that to bring about change in products, processes and technologies they must draw on the best skills and knowledge available, whether inside or outside the organisation. They rely on collaborative but carefully structured relationships with a range of third parties, including customers, consultants and even competitors.

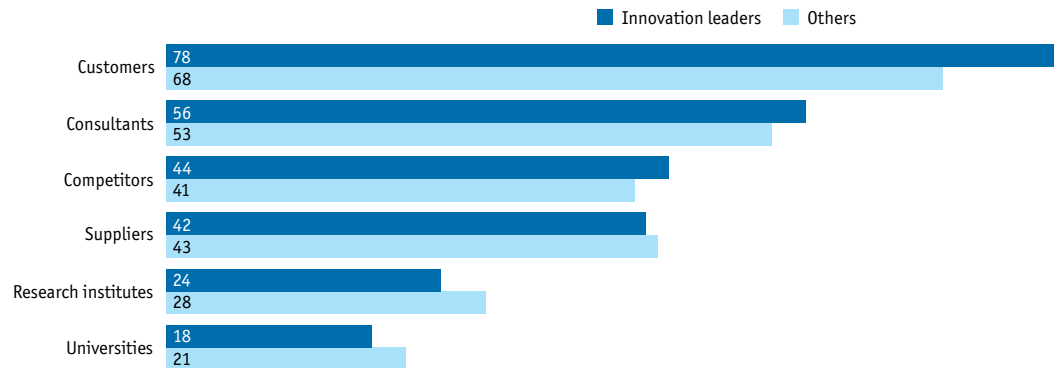
Over the past decade there has been an

increasing willingness to look outside the four walls of the company for help. "We are well aware that not all of the brightest people work at Intel, so we are very aggressive in our engagement with external partners," says Mr Gelsinger of Intel. The thousands of external projects Intel shares with the academic community and smaller corporate partners "provide a rich set of ideas and prevent the 'not invented here' syndrome from developing." He also notes that working with universities—Intel has small laboratories on a number of campuses around the world—helps keep the company accountable. "If the academic community is consistently getting better results than us, we'd better do something different!"

Companies are putting ever greater burden on their suppliers to find innovative solutions to their business problems. Loncin, a motorcycle company from China, sets broad specifications for



**Which of the following parties is involved in product and/or process innovation at your company?**



Source: Economist Intelligence Unit

its products and leaves it to its suppliers to work together to design the actual components in a cost-effective way. And in this case, technological advances have also been vital: the rise in open-standards computing has made it easier for Loncin’s suppliers to collaborate with each other and with their end customer, and for Loncin to maintain control over the process in real time.

When asked how they plan to change the mix of collaboration arrangements in two years, all respondents agree that customers will remain the most important of collaborators. Ways of working with customers may be as simple as soliciting product feedback and advice, or in the case of high-performing innovator companies, implementing defined processes for regular sharing of insights with key customers. “Working with our customers is particularly crucial for Intel, because ours is a building-block business—the experience of our end users is determined by the input and expertise of our customers. With that in mind, Intel has initiated a broad set of customer-Intel activities to help foster mutual innovation, including ‘CTO to CTO’ and ‘lab to lab’ engagements in which our CTO [chief technology officer] meets regularly with his counterparts to look for mutual laboratory research programmes.”

Services companies are getting in on the act

as well. “We established an IT Laboratory, and invited customers to come and do experiments together,” says Dr Bai Sho, CTO of the Shanghai Stock Exchange, describing a recent collaboration initiative. “After the launch of our new trading system, our customers were required to make some adjustments to their front-end systems, and they did it on site with us at the IT Laboratory. This is a new model of cooperation—opening up our systems to customers, as we have, will continue to be the key to even better offerings.”

In the future, survey respondents report that they plan to significantly increase their levels of collaboration with research institutes and universities, but scale back their level of use of consultants. Among the innovation leaders, there was an 18% drop in the number of respondents who said they would work with consultants in two years time compared to current usage.

Globally, there are some differences in how companies collaborate with third parties. Respondents in Asia work most closely with their customers (78%), but are much less used to partnering with consultants and suppliers for innovation than respondents in North America or Europe. Partnering with universities is a far more established practice for companies in Europe (35%) than for those in North America



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(20%) or the Asia-Pacific region (12%). That said, respondents in Asia do have plans to build these

relationships in the future; by 2010, 34% say they will be collaborating with universities.

## A commercial approach: Business process reengineering and technology at DHL

Germany's Deutsche Post World Net (DPWN) is one of the world's leading mail and integrated logistics companies, and is the parent company for DHL. The firm has two strategies for innovation: a "blue sky" approach to thinking of ideas for radical change and fine-grained process-improvement initiatives across its operations. "Given the massive throughput we deal with, any small reduction in the cost of our processes, or improvement in speed, can make a big difference to the bottom line," says Stephan Muench, the head of the company's in-house consulting arm in Asia.

The company relies on its DHL Innovation Centre (DHL is one of DPWN's three brands) in Troisdorf, Germany to scour the academic and technology worlds for exciting new technologies that can be adapted and applied to the company's core mail and logistics businesses. The centre collaborates with the Massachusetts Institute of Technology (MIT) and a host of other

research bodies and technology companies. Staff at the Innovation Centre, a futuristic building emblazoned in DHL's signature red and yellow livery—"it's like a science museum," says Mr Muench—are currently working with technologies like RFID (radio-frequency identification), satellite navigation and emissions-free engines to find ways to integrate them into DPWN's operations.

One of the keys to the Innovation Centre's success, says Mr Muench, is that it's run on a commercial basis. "The Innovation Centre has to go out and find a business unit that is willing to buy the solutions they develop. That keeps them on their toes."

While the Innovation Centre takes care of the science of DPWN's innovation efforts, the company also realises the importance of getting all employees involved in the less glamorous end of the innovation spectrum. The company-wide process improvement programme, First Choice, ties the incentives of every

employee to a measurable improvement in customer satisfaction—be it internal or external customers—and provides staff with a structured methodology for thinking about their own processes and how to make them better. First Choice relies on DPWN staff themselves to create and implement solutions. "This is a culture change for our company and key for ensuring that our staff really engages with the change being made," says Tom Schaefer, a communications manager in the firm's Singapore office.

The portfolio approach taken by DPWN to its innovation efforts is partly a function of its size. Mr Muench says "we call it slicing the elephant. This company is so big [500,000 employees, the sixth-largest employer in the world] that we're not going to be able to tackle it all with big-bang innovation. We need to break the problem of process improvement and innovation down into manageable pieces."



## Conclusion

Companies that innovate most successfully don't rely on it solely for "big bang" product or process revolutions. "Innovation is often evolutionary, not a 'rip and replace' process," says Mr Lauzon of Nortel. The best integrate innovation activities fully into their everyday way of doing business and link any process improvement to a genuine customer benefit. Process and product changes must be focused on improving customer satisfaction and increasing revenue and organisational growth.

To achieve this, innovation isn't something that's done just by a small group of high-flyers with privileged access to the CEO (although in many cases such structures are useful). It must be embedded in the company culture, such that all employees see the value of, and are rewarded for, taking risks and speaking up to propose change. Creating this culture is not easy and managers

need to learn to tolerate things being done differently around the world. For those firms that do have it, resisting the urge to impose too much hierarchy or structure in periods of rapid expansion is vital to keeping the culture in place.

At the same time as having an open and risk-tolerant culture internally, firms have to tap external sources of expertise in order to provide customers with the best solutions available. Being open and sharing knowledge or strategy with outside parties such as research institutes, suppliers, consultants and customers is increasingly necessary for driving innovation. The concerns companies have about maintaining competitive advantage, minimising security threats and loss of control over the innovation process are natural, but accepting these risks is all part of the mindset shift required to innovate effectively.



## Appendix: Survey results

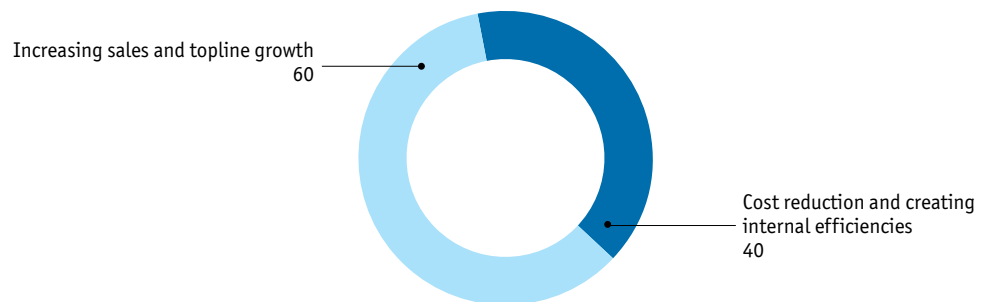
**1. To what extent do you think the credit crunch and prospect of a recession in the US will affect your company's revenue growth?**

(% respondents)



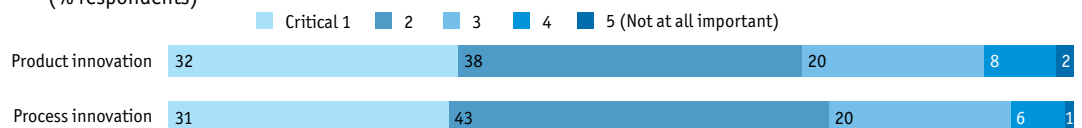
**2. Which of the following is more of a priority for your company over the next two years?**

(% respondents)

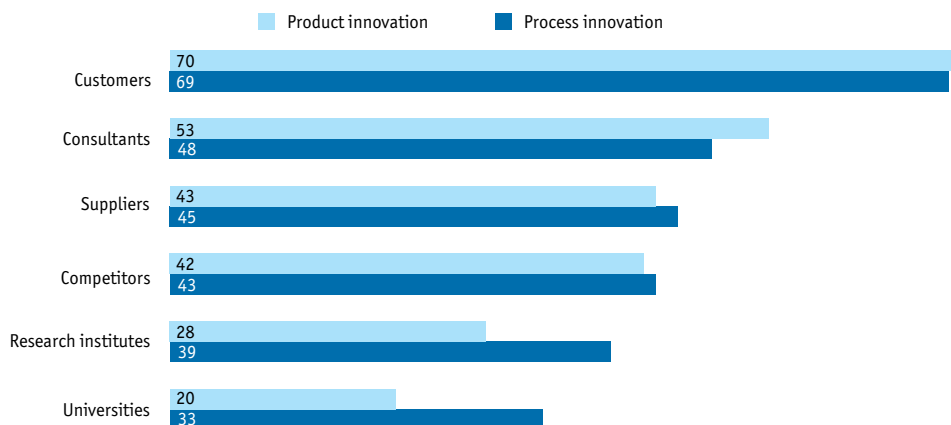


**3. How important is product and process innovation to your company in maintaining your competitiveness?**

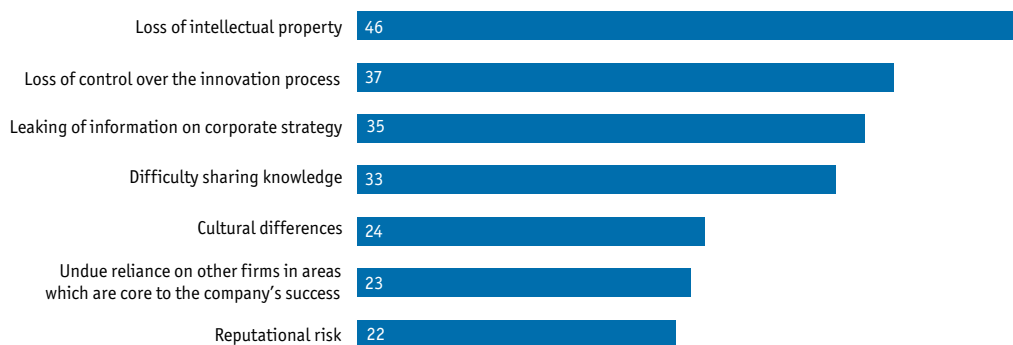
(% respondents)



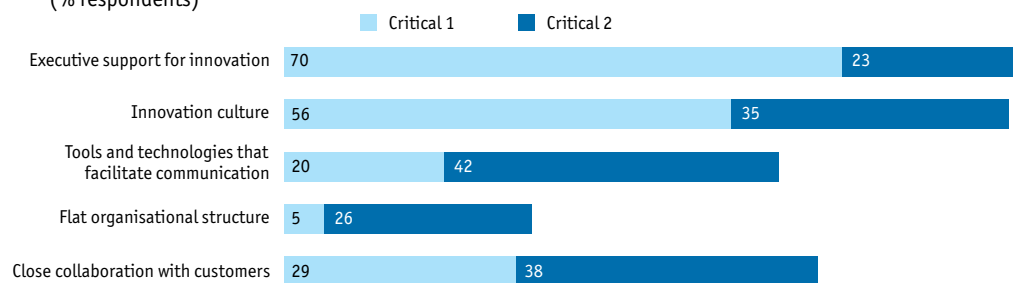
**4. Which of the following parties is involved in product and/or process innovation at your company?**  
(% respondents)



**5. Which of the following pose the greatest risks in collaborating with third parties for innovation?**  
(% respondents)



**6. How important do you think the following are as enablers of innovation?**  
(% respondents)

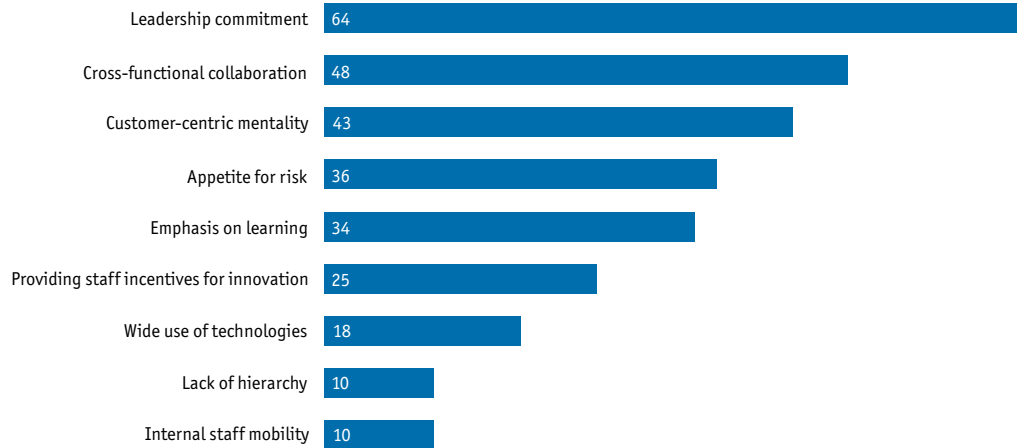


## Survey results

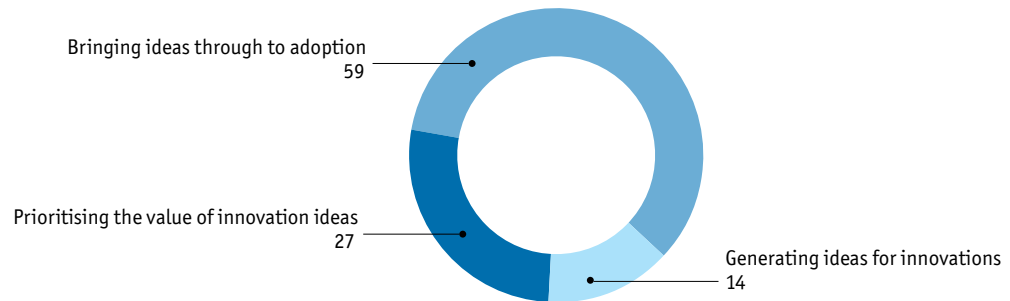
The innovators:

How successful companies drive business transformation

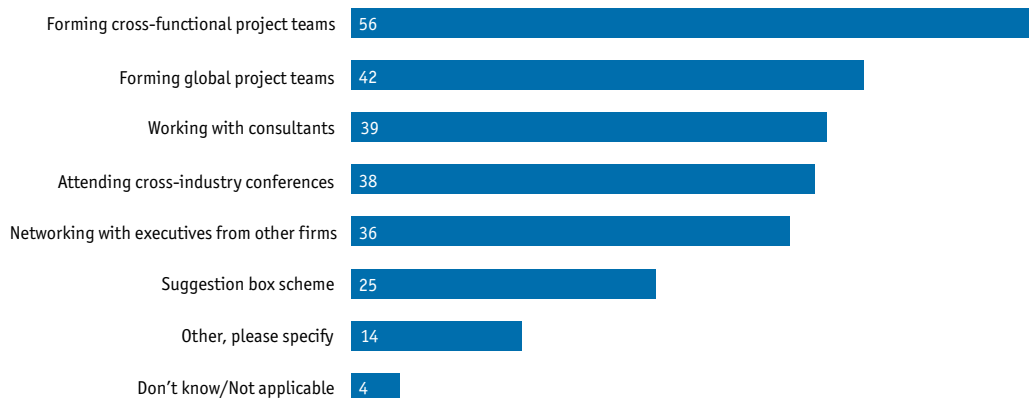
### 7. What do you think are the most important elements of a culture of innovation? (% respondents)



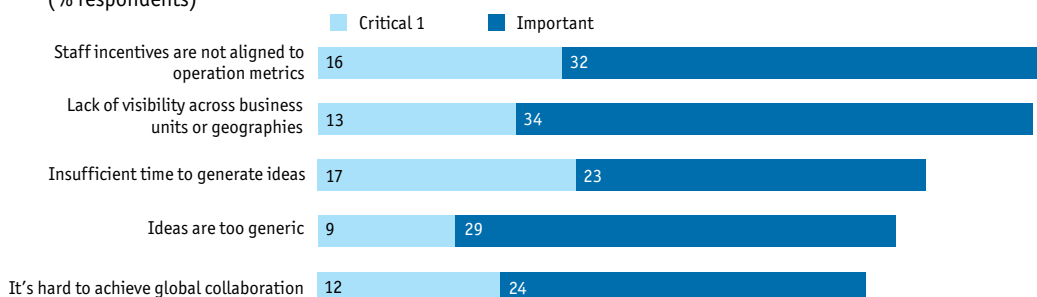
### 8. Which stage of the innovation process is the most difficult, in your view? (% respondents)



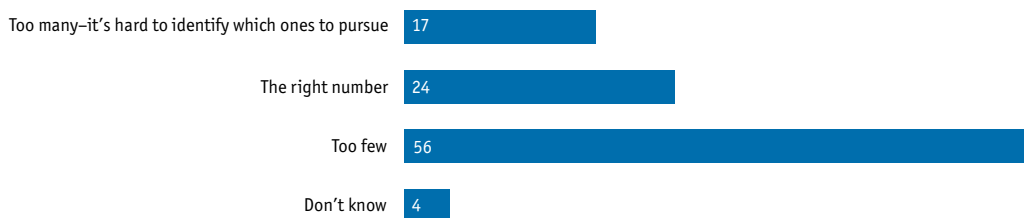
### 9. How does your company generate ideas for innovations? (% respondents)



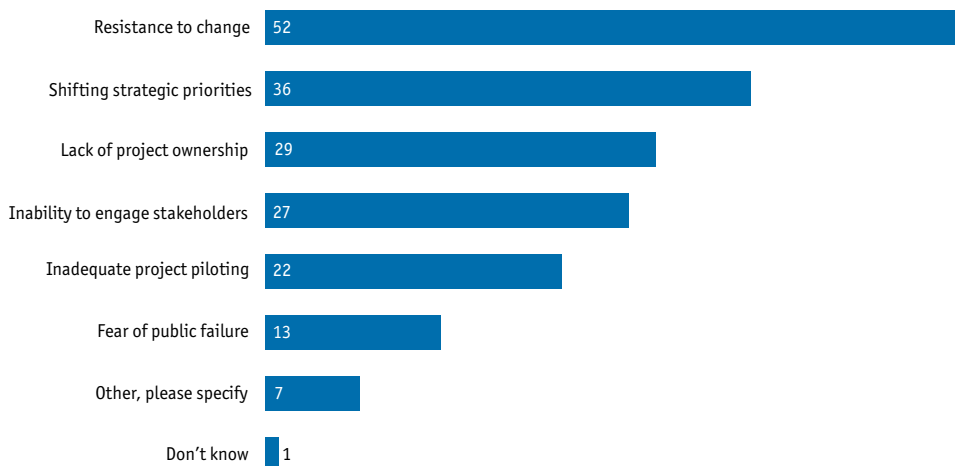
**10. How significant are the following as barriers to generating ideas for innovations at your company?**  
(% respondents)



**11. How would you describe the number of innovation ideas generated at your company?**  
(% respondents)



**12. What are the main challenges for your company in bringing ideas through to adoption? Select up to two.**  
(% respondents)

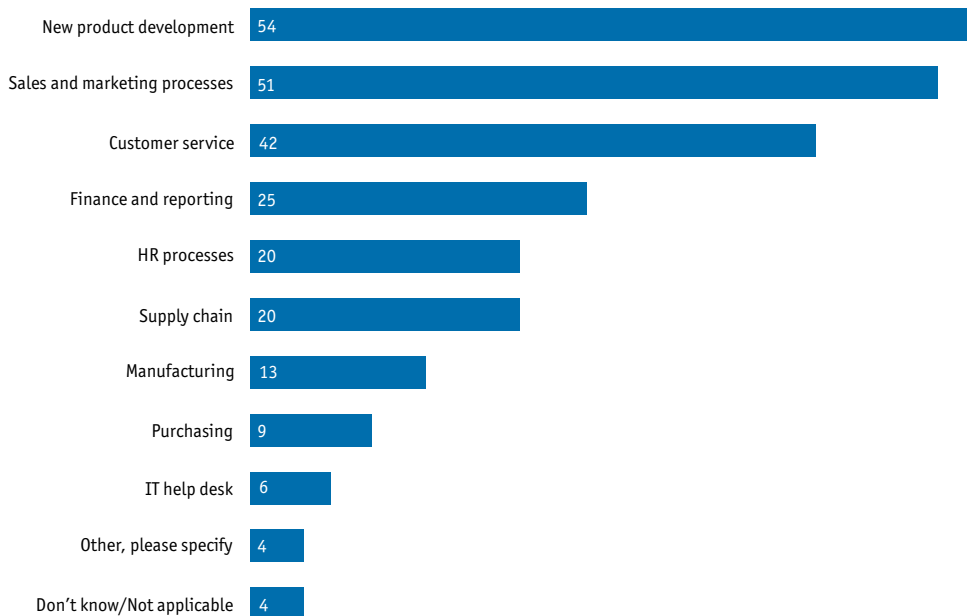


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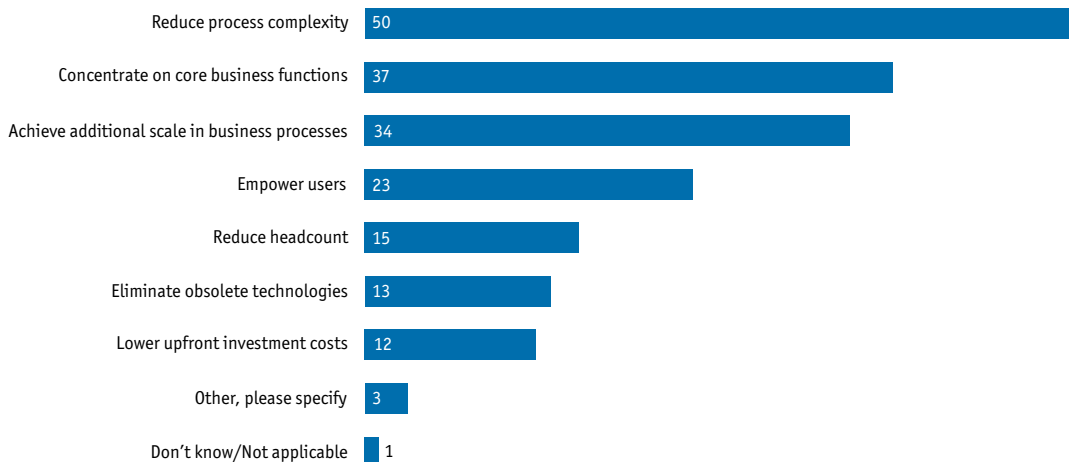
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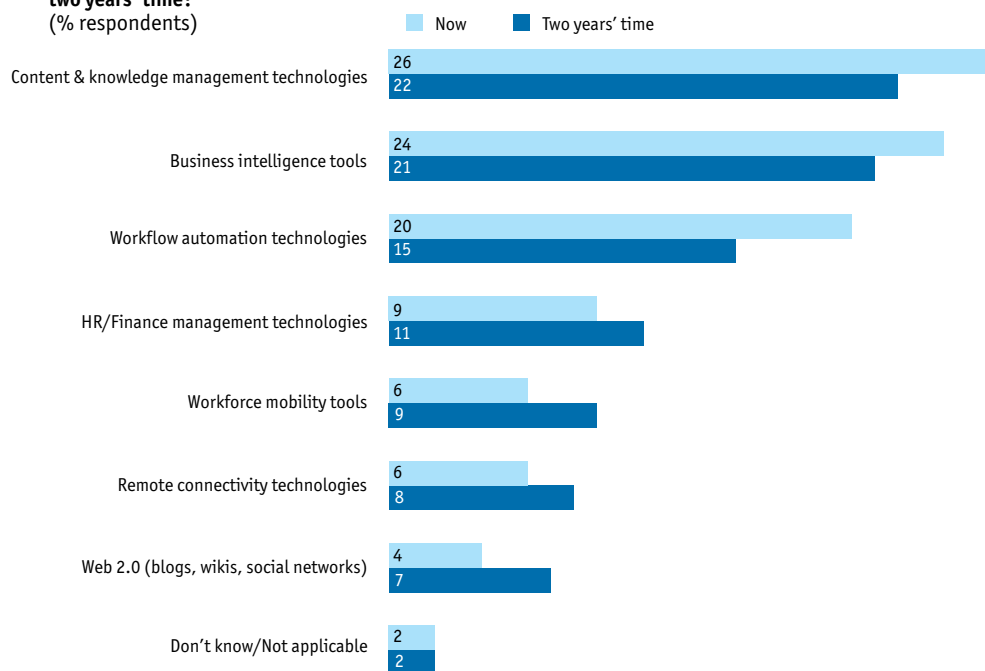
### 13. Which business processes or functions will be the main target areas for innovation or re-engineering at your company over the next two years? Select up to three. (% respondents)



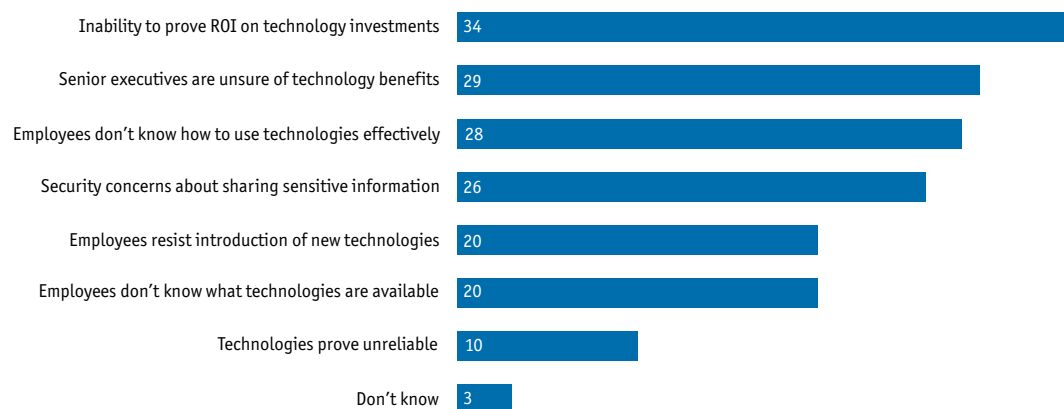
### 14. When redesigning business processes, what do you think are the most important benefits that your company is hoping to achieve? Select up to two. (% respondents)



**15. In which technology area do you think improvements and wider deployment are the most necessary now and in two years' time?**  
(% respondents)



**16. What do you think are the main factors that prevent technologies from being deployed more widely at your company?**  
Select up to two.  
(% respondents)



## Survey results

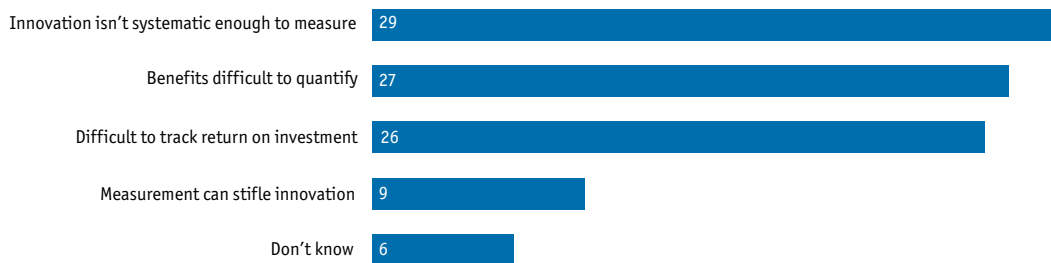
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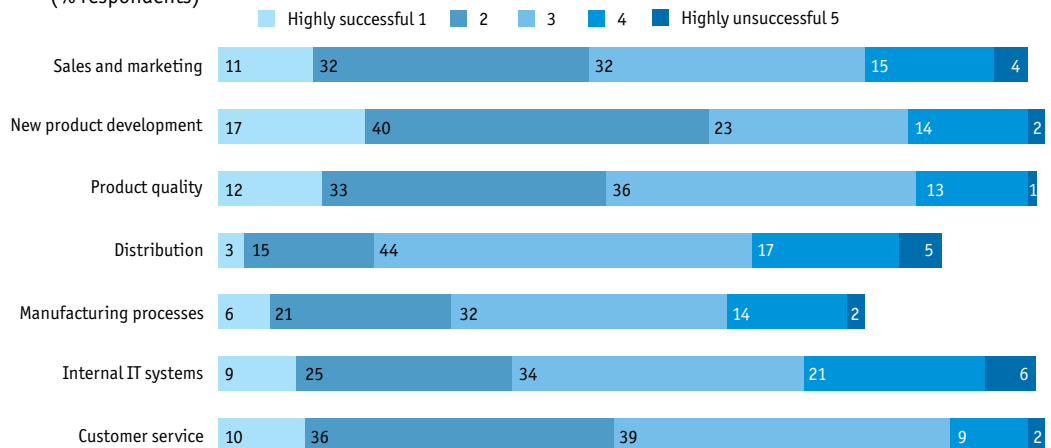
### 17. How does your company measure the effectiveness of innovation efforts? Select all that apply. (% respondents)



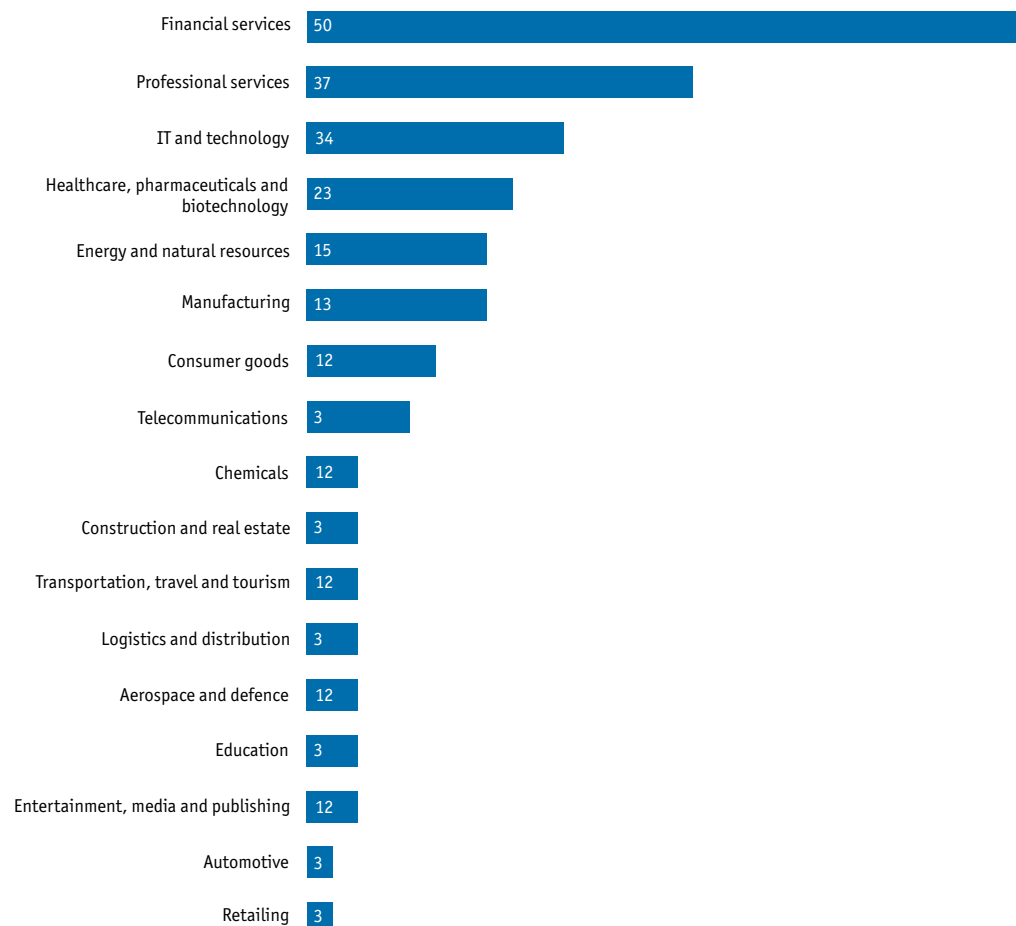
### 18. What is the greatest challenge to measuring the effectiveness of innovation efforts? (% respondents)



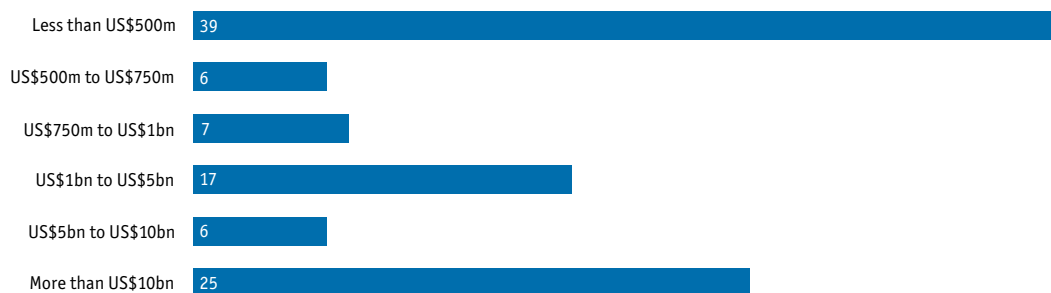
### 19. How successful are the following areas of your company in driving innovation? Rate on a scale of 1 to 5, where 1=Highly successful and 5=Highly unsuccessful. (% respondents)



**Which is your company's main business?**  
(% respondents)



**What is your company's annual revenue?**  
(% respondents)



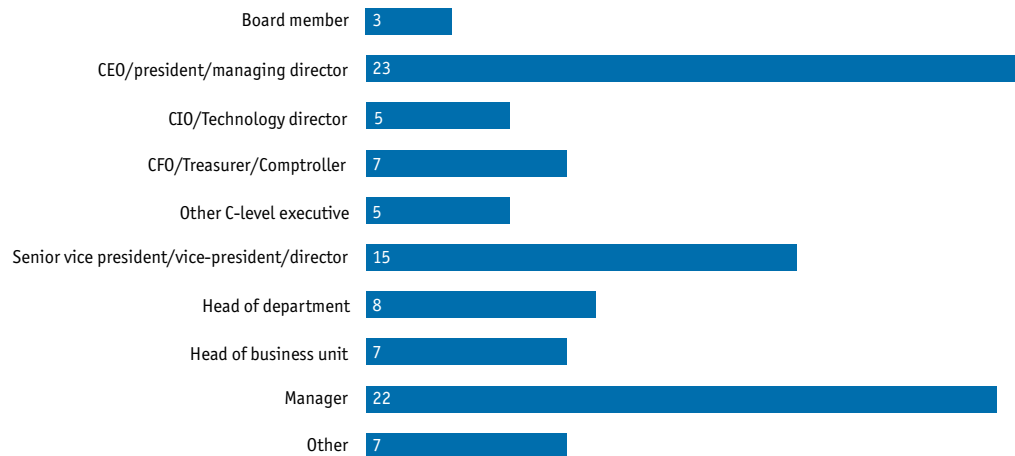
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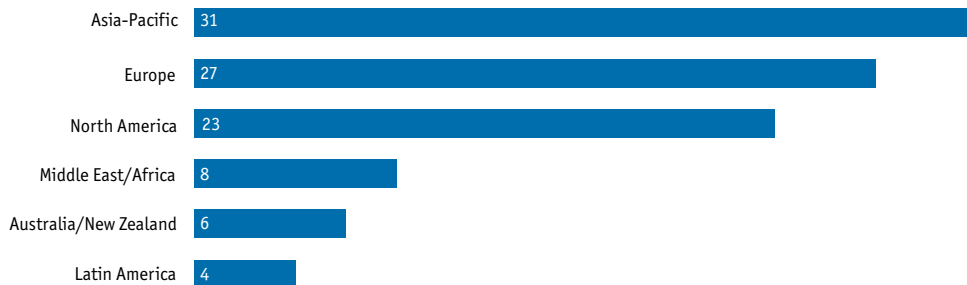
### Which of the following best describes your job title?

(% respondents)



### In which geography are you located?

(% respondents)



### In which geography does your company have business operations? Select all that apply.

(% respondents)



LONDON

26 Red Lion Square

London

WC1R 4HQ

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8500

E-mail: london@eiu.com

NEW YORK

111 West 57th Street

New York

NY 10019

United States

Tel: (1.212) 554 0600

Fax: (1.212) 586 1181/2

E-mail: newyork@eiu.com

HONG KONG

6001, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com