

The State of Innovation Management in 2015

HYPE Innovation Report

by Paul Hobcraft



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Paul researches across innovation, looking to develop novel innovation solutions and frameworks where appropriate.

His aim is to provide useful knowledge about innovation that builds understanding and supports individuals, teams and organizations in their innovation activity so as to apply what I have learnt to further develop the readers core innovation understanding.

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Introduction

As we look back on 2015, I would argue it has been a year of optimism and change within innovation and our abilities to move it forward. The optimism comes from the belief that growth needs to take on a much higher priority. After many years of pulling back, consolidating and



stripping away costs, the CEO is running out of runway to lift performance and achieve real, sustaining growth. The innovation bird needs to begin to really take off and fly. Many of the innovation factors seem to be coming into a better alignment, even though it seems that each week certain events rock this fragile confidence. We seem to be moving forward.

The economies in many of our bigger innovation countries are in better shape after some difficult times, the performance of many companies has steadied, and we have consolidated much. Optimism is creeping in for the prospect of growth.

The challenges though have not reduced. If anything, they have increased, significantly. The competitive environment has become tougher, new entrants seem everywhere pushing to disrupt existing business models. To compensate for this we seem to see more aggressive growth strategies and geographic expansion emerging to reposition the incumbent. The concerns continually come from the increasing worry that loyalty of the customer is getting less certain, technology is driving changes to alter interactions and customers are demanding more in knowing the relevance and value of what is being provided. Otherwise they are feeling more confident in switching than ever before.

The changes we are undergoing in managing innovation are significantly different and more demanding. Technology has changed the innovation equation. Big data, analytics, the participation in different platforms, and the exploring of more lean innovation principles are pushing those within the innovation hot seat. Ideas may exist in abundance, but turning these from insights into commercial solutions is tougher.

Organizations are demanding more success; leaders continue to be disappointed in many innovation outcomes. You feel a number of things need to change within our management of innovation. And there is some push towards this, but it is moving at a reluctant pace.

This report attempts to summarize some of the 2015 thinking and research that has been undertaken by different consulting and research institutes. There has been a significant increase in offering innovation thinking. It can become overwhelming. We have picked out a few of the reports that can deliver relevancy to what we believe are your issues.

Bringing different strands of thinking together hopefully saves you time and, if needed, can help to investigate more. There is much we decided to exclude as we wanted to contain the report to a certain size, try to offer more visualization as a quick but relevant reference point, so as to offer you swift return from going through the report.

This way, as you are spotting something of specific value or validation to your work, you can choose to take it deeper or just grab what there is and work it into your thinking to help and support your innovation work.

Of course, if there are areas that trigger the need to explore these further, then HYPE and I can certainly help provide deeper connections and insights. This is part of my advisory bag, as well as HYPE's own wish to support you in your innovation advancement. Enjoy the read and I can only apologize if a report you found as particularly relevant failed to make the cut here, no choice is perfect, these were my choices alone. The reports chosen include leadership issues, concerns and needs, the poor way we seem to be spending our innovation budgets, as well as some handy lists of the benefits of collaborating, seen from both the large and small organizations' perspective.

It also features an excellent benchmarking study full of relevant tables that will get you comparing or constructing your own comparisons. In addition, you'll find some aspects of global R&D spending as well as a short view of some innovation leaders, who gathered and debated three choice topics of their top-of-mind concerns around innovation.

I had to include one report looking at the new innovation equation, a report I really felt was not well distributed but chock-full of interesting thoughts and relevant tables to compare where you are with their reported group.

Finally, I have picked up on the need to think in different minds about innovation, to treat exploitation or exploration separately. We need to manage differently going forward into 2016.

KPMG: Leadership

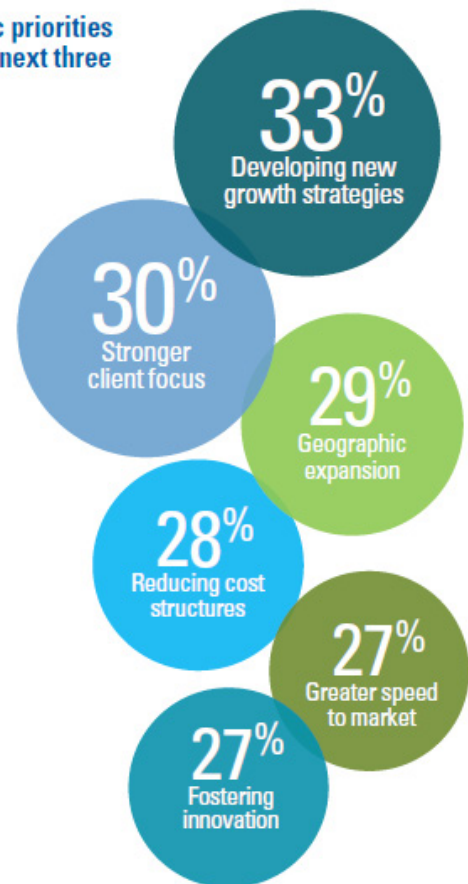
Optimism needs to flow from the top, otherwise innovation gets “dampened down” and even more starved of resources or the funds to allow it to deliver. It is crucial we are engaging constantly and informing our management of the progress within our innovation activities. We need to align them to their thinking and strategic directions.

In a report from KPMG, “Global CEO Outlook 2015: the growth imperative in a more competitive environment”, there is a positive shift within the balance between cost, risk and growth.

The most critical challenges CEOs expect to face over the next three years



Strategic priorities over the next three years



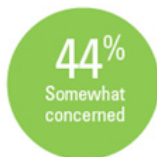
Source: 2015 KPMG CEO Outlook, May 2015

The balance between finding growth and continuing to find efficiencies is going to come from increasing the focus on applying technology. Technology spend is going up, but this is to build scale, gain better insights and deploy these as new ways of working or speeding up through innovation and operational excellence.

The leadership issues are crowding in demanding different solutions

Let's look at some of the views and issues. How do we in innovation relate to these, how can we tap into these concerns or opportunities to promote innovation as essential to resolving many of these issues?

How comfortable are you with your current business model?



Source: 2015 KPMG CEO Outlook, May 2015

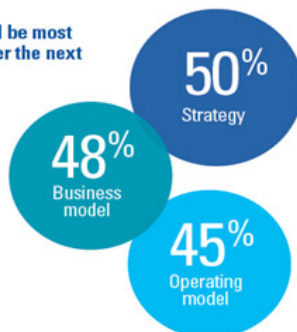
Looking at the next three years, nearly a third of respondents felt their company would be significantly different?



Source: 2015 KPMG CEO Outlook, May 2015

“ Maintaining status quo, while incredibly comfortable, is the most risky thing you can do in today's world. ”

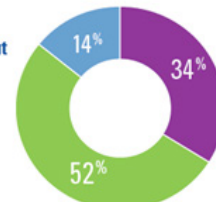
What areas will be most transformed over the next three years?



Source: 2015 KPMG CEO Outlook, May 2015

How concerned are you about your customer's loyalty?

Extremely concerned
Somewhat concerned
Not concerned



Source: 2015 KPMG CEO Outlook, May 2015

Top three barriers to innovation:

- 1) Rapidly changing customer dynamics
- 2) Unsure of which technologies will deliver the greatest return
- 3) Budget constraints

So what implications do these concerns have for innovation and its management? A thought or two...

The emphasis on challenging and developing the current business models will be determined by the abilities to provide validation that a more radical innovation approach needs a new business model. This is becoming an increasing challenge within established companies.

Customers loyalty is being questioned increasingly, so how does the innovation offering anchor them? This will be through greater engagement, participation, and identification.

We need to achieve a better understanding of the customers' jobs-to-be-done, to deal with this challenge of customer loyalty by delivering increasingly against their needs.

The realization that transformation is going to happen supports innovation. New models and different strategies will raise risk. However, the ability to explain potential return, seek out additional resource and budgets at times of real ongoing constraint will bring innovation to the fore. The closer the alignment to the CEO's concerns through innovation, the better.

PA: Facing up to some harsh innovation realities

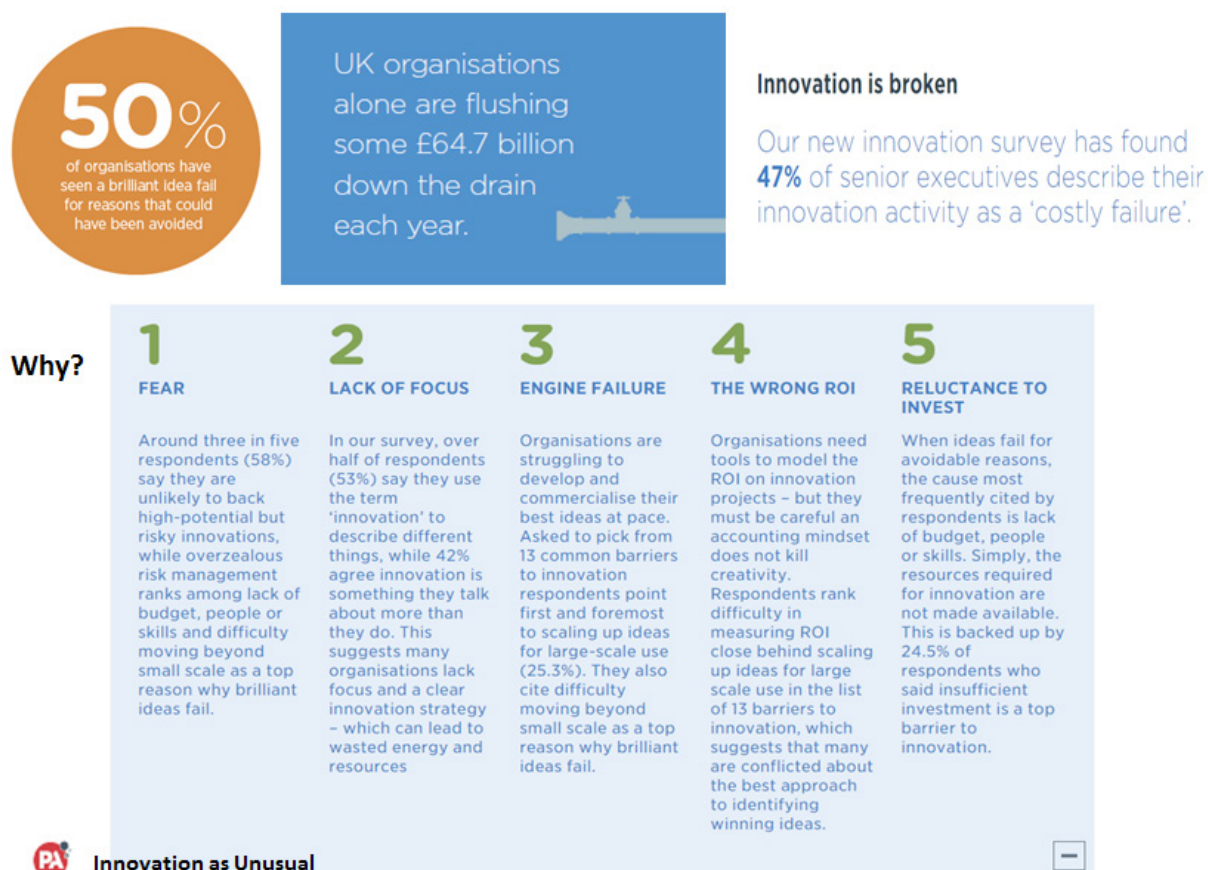
PA Consulting Group produced a really useful report entitled "Innovation as Unusual".

Although innovation is often suggested as a solution to different global and organizational crises, getting innovation right is far more complex than many appreciate. Innovation needs to become firmly embedded in the culture, strategy, and mindset of the organization, which still seems not to be the case.

Organizations are struggling to realize the real value of their innovation investments.

According to PA's research, half of the senior executives told them that 50% of their innovation failed for entirely avoidable reasons and 47% described their innovation activity as a costly failure.

Still only half of the organizations studied try to be pioneers in innovation. Many good ideas are wasted as PA estimated that in the UK alone, organizations are flushing some £64.7 billion down the drain each year. To put this into context, £64.7 billion is over half of the EU's annual budget (€145 billion), equivalent to the global spend on cancer drugs (over \$100 billion) and greater than the US Department of Education's budget (\$67.1 billion).



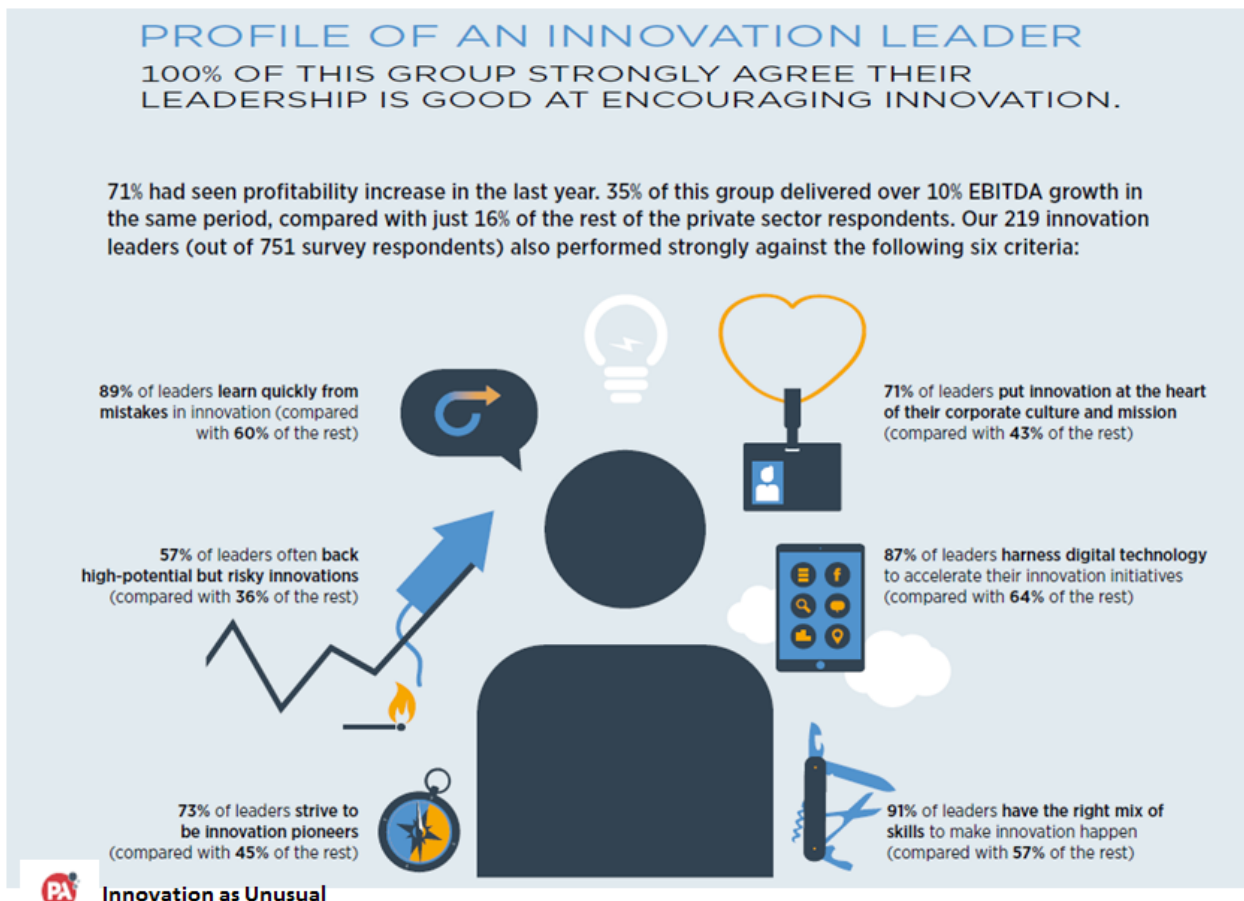
So it is the “five innovation killers” of fear, lack of focus, engine failure, the wrong ROI and reluctance to invest that create these staggering losses within innovation. How can this be changed?

The Profile of an Innovation Leader

The PA report offers a profile of an innovation leader and then compares this profile within the different industries analyzed in this research. The majority of the report shows the specifics of that applied within the respective sector PA cover in their consulting practice. They also provide an overview by country, and examples for the eight focal sectors of companies taking their best ideas to market.

The PA research shows that innovation leaders:

- strive to be innovation pioneers (73% of leaders' vs 45% of the rest)
- often back high-potential but risky innovations (57% of leaders vs 36% of the rest)
- learn quickly from mistakes in innovation (89% vs 60%)
- have the right mix of skills to make innovation happen (91% vs 57%)
- harness digital technology to accelerate their innovation initiatives (87% vs 64%)
- put innovation at the heart of their corporate culture and mission (71% vs 43%).



Leaders in innovation are seemingly far more willing to take on high-risk innovation and are prepared to bet on breakthrough innovations. The question here is where do you fit in?

Innosight: Taking measured steps and tackling key challenges to help innovation

Innosight hold an executive innovation summit each year. Invited leaders engaged in innovation come together to debate and exchange on a selection of topics. This year's discussion focused on tackling three critical questions around overcoming the human dynamics that persistently stand in the way of innovation and change at large organizations. Their report "Leading Transformation: 2015 CEO Summit" discusses:

Q: How do we bring a "real people" lens to innovation?

Why are so many organizations so persistently disappointed by their innovation results? Here the summit explored one of the most underestimated barriers to innovation: the cognitive biases that cause people—and the systems and networks they work in—to favour exploiting what exists today versus exploring what could be possible in the future. We collectively worked towards ways leaders can redesign these complex systems so they promote rather than constrain innovation.

"For our company, we get a lot of incentive and push from our customers to innovate. It's a natural force that causes us to be more innovative, and I assume this is true for most of the companies here."

STEVE VOORHEES, WESTROCK

"We know we need a balance of innovations that evolve our core business and those that create new ones. Both are equally important to our business's longevity and relevance and we are spending a fair amount of time deliberately thinking about how to get the balance right. You have to invest to exploit what the company is built on to extract predictable, sustainable value for a long time. But you also have to invest to explore areas of potential new growth beyond the core business. In addition to investment balance, we need to understand how we measure the performance of those different activities. Today, typical business metrics are more suited for the predictable exploit-type activities and near-term business planning (ROI, RONA, etc.) but perhaps not so well suited for longer-term explorations.

TRACEY COWAN, BOEING

How do you deal with this exploiting and exploring within your organization?

Are you addressing this?

Our company yields good ideas in exploration, but doesn't implement them well, because we revert back to the exploitation model thereafter

INNOSIGHT

One key insight for all innovation professionals is to think about how you can change the conversation. How do you start changing the nature of the dialogue that you have about strategic planning around new areas of market-creating opportunity? Who do you include in the conversation? How do you challenge the existing and suggest a new set of dynamics?

Addressing those often chronic diseases holding innovation back

“Organizations can do three things to deal with these corporate diseases. Number one is, improve their appreciation of qualities versus quantities. This will help them stay closer to the customer, help differentiate their products, and create new business models—because focusing on qualities allows you to be more focused on inventing the future than extrapolating the past. Two, organizations need to have more of a prototyping bias. So rather than ask, ‘Should we do this or not?’ you ask, ‘How could we test this out quickly, cheaply and in a way that we’ll learn?’ Three, we need better indicators of qualitative understandings in our attempts to create something new. I don’t use the word ‘metrics,’ because that’s biasing it toward analytics. I use indicators like the reviews of a new play or a new show at a museum. Unless we have indicators that take into account qualitative appreciation, we won’t try new business models that can’t be quantified immediately.”

– Roger Martin

Q: How do we cure and prevent corporate “innovation diseases?”

For example, there’s often a mismatch between what the customer is buying and what they company thinks it is selling—due to a lack of understanding of “**jobs to be done**” theory.

“Organizing the company around the customer job-to-be-done is the most fundamental organizing principle of marketing”

“So we did two things: We started running experiments and creating minimal viable products to address the job, and secondly, began teaching the language and the methods of identifying jobs-to-be-done so that eventually the new business which addresses the core job just seeps into what we think the product should be.”

“I think large companies risk getting disrupted when they don’t recognize quickly enough that the job-to-be-done itself is changing. This happens in two ways. One is that the specifics within the job changes, solutions needs to keep pace with this change. A second way companies can get disrupted is when the way the job gets done starts to change”

“People don’t consume our product out of choice, they do it out of need, and if we can avoid having that need, I think that’s the more important job.”

“You don’t really have a choice. If you don’t do efficiency innovations, your core business will erode. So the question is how do you do this well AND also invest in market-creating innovations?”

INNOVATION

Large organizations are often infected by chronic “diseases” that inhibit innovation, says Harvard Business School Professor and Innosight cofounder Clay Christensen.

So what’s going on in many of our companies, we’re investing in the kind of innovation that actually reduces jobs and doesn’t create growth. And there are all these opportunities to grow but because of the metrics that we use we can’t invest in things that we want to invest in. And so that’s basically a disease.” Clayton Christensen

“Could it be that relatively mature organizations are just not organized to be effective at market-creating innovations? Wholesale change could put the core business at risk and so they hand off to a skunk works or essentially outsource R&D by buying small bits of equity in emerging solutions or innovations.”

DAVID DARRAGH, REILY FOODS

“I have tried, and sometimes failed, at both centralizing and decentralizing areas of our organization.

Can corporate diseases can be resolved.” Can they? How are you addressing common diseases?

So a couple of questions to you:

Do you have a deep understanding of the jobs-to-be-done of both today’s and tomorrow’s customer? How can you resolve your corporate disease?

Disruption, reinvention or simply taking hold of your future?

Q: How can we own the future, rather than be disrupted by it?

“The biggest take away for me is that even with great frameworks and content and strategy, you still need to have the leadership that will support and drive growth and create a culture where risk taking and failure are actually rewarded. That’s really the only way you can create an engine of innovation rather than a one-time event. When we invest in portfolio companies, the most important question we ask is, “Who’s the CEO of the company?” Because if you don’t have the right CEO, it’s not only innovation that doesn’t happen, the regular business doesn’t go well either.”

ALEXANDER NAVAB, KKR

 **INNOSIGHT**

Sooner or later, most companies will need to reinvent themselves in response to disruptive market shifts, technologies, or start-ups.

When business leaders undertake strategic transformation—significantly changing their core offering or business model—they wrestle with a series of challenges.

- How do you set out a vision for the future organization?
- How do you make sure investment for long-term innovation is prioritized and protected?
- How do you ensure your stated transformation strategy isn’t undermined by a “shadow strategy” that perpetuates the way things have always been done?
- How do you inspire your people to change while attracting new talent?

How do you explore the leadership qualities and methodologies needed to successfully envision and drive transformation.



“My key insight to all of you is to think about how you change the conversation. How do you start changing the nature of the dialogue that you have about strategic planning around new areas of market-creating opportunity? How do you create alignment amongst the team and the commitment for resource allocation, so that you are able to sponsor and govern properly the teams as they go off and develop these market creating innovations? How do you forge that link between strategy and innovation through your leadership?”

MARK JOHNSON, INNOSIGHT

SIX QUESTIONS you can bring to your teams about leading long-term innovation and strategic transformation:

- 1 What is our balance of exploitation vs. exploration (e.g. 60%-40%) and is it consistent with our strategic objectives?
- 2 Do we have a deep understanding of the jobs-to-be-done of both today and tomorrow’s customer?
- 3 Do we understand our unique capabilities and assets that could give us unfair advantage as we search for new growth?
- 4 Are our metrics unintentionally leading to us shortchanging investment in disruptive, market-creating innovation?
- 5 What do we as leaders have to do to role-model behaviors consistent with market-creating innovation?
- 6 Are we properly organized to protect our innovation investments from the normal resource allocation process?

Innovation Leader: Hitting brick walls, demolishing them, and building the innovation case

One of two standout reports for me in 2015 was the “Innovation Benchmarking Report 2015” conducted by Innovation Leaders along with Innosight.

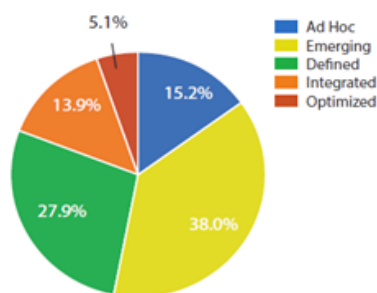
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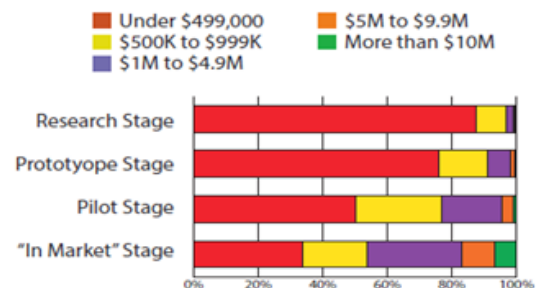
We all love benchmarking; it pushes us along or makes us feel a little more secure.

This is a report that provides a really significant guidance to resolving our “need to know and relate too”. It is worth investing in the report. Some examples:

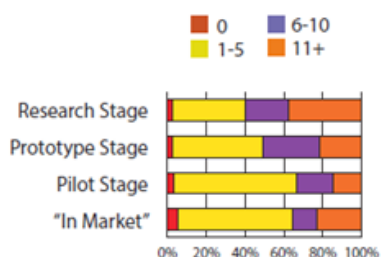
How Mature is your Innovation Program?



What is the average spend-per-project at each stage?

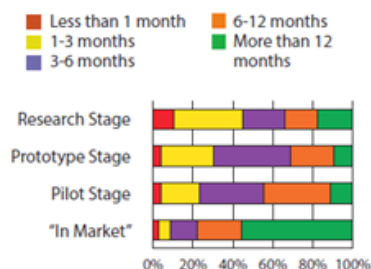


How many projects are typically in your key innovation stages?

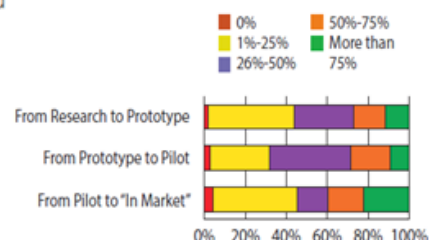


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What is the average time (in months) that projects typically spend in each stage?



What percentage of projects typically advance through each stage?

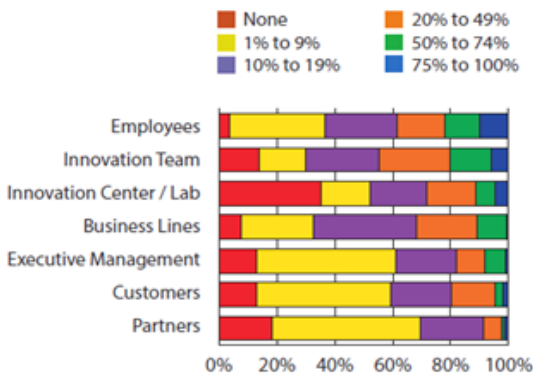


We all struggle with showing where we are, in relationship to others. To be able to quickly benchmark and gauge where you are can be very valuable when you are “fighting the innovation corner” for budgets, resources, or demonstrating progress.

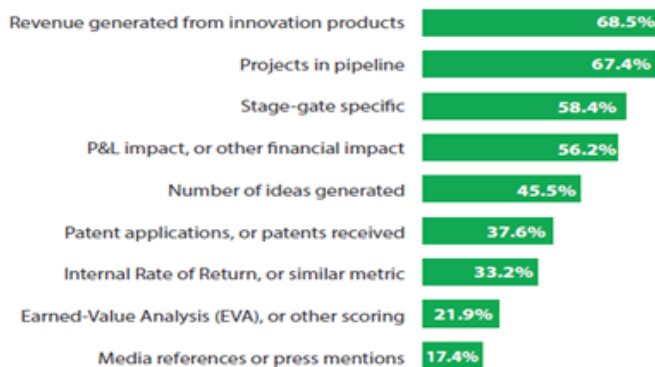
A way to validate, shape, and improve your own program

In this Innovation Leader report, they address 25 questions around program structure, innovation projects and measurements, and analysis. They can give you an overview of budgets, typically used tools, levels of maturity, training, sources of ideas, metrics used, as well as cost, time and kill of projects, and project times for each stage; they also show how to advance projects, and provide budgets and staffing allocation.

How many of the company’s innovation ideas are generated by each group, below?



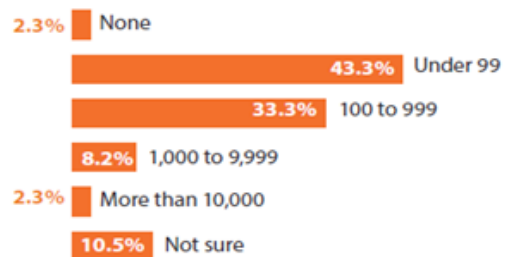
Metrics Used



Total exceeds 100% as many respondents cited more than one metric.

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Number of Ideas Generated Annually



Tools Used as Part of Innovation Program



This report really does provide hard evidence for where we can begin to compare ourselves as well as offers a really handy set of metrics and measuring criteria.

Of course innovation maturity is not just relative to your position in an industry or geography and it is really hard to compare with the exact competitor you would like to have competitive understanding of. However, this goes a long way in figuring out your own maturity.

The report offers you much so you can explore where you are in your innovation maturity as well as provide a solid outline indication of how you can validate, shape, and improve your own innovation program and then communicate this in useful ways.

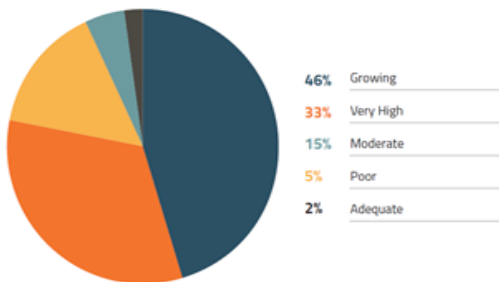
BPI: Innovation – the new competitive equation

The other “stand-out” report of 2015 comes from BPI. The Business Performance Innovation (BPI) Network is a peer-driven thought leadership and professional networking organization, dedicated to advancing the emerging roles of the Chief Innovation Officer and Innovation Strategist within today's enterprise. For more information, visit the BPI Network at www.bpinetwork.com.

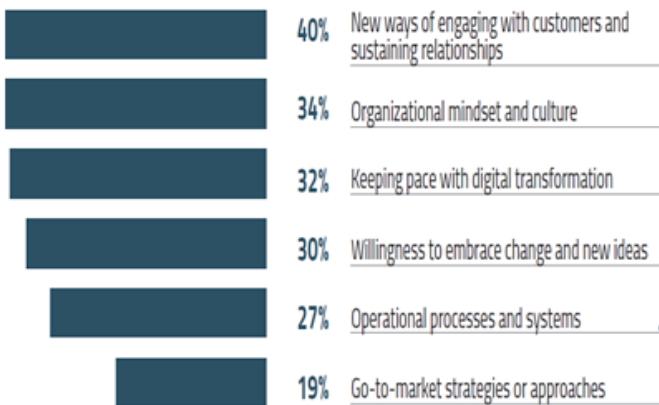
Their report “Innovation: the New Competitive Equation” looks at what their members and other leading executives around the world are saying and doing about innovation within their organizations and the roadblocks, accelerants, challenges, and opportunities they see in the year ahead.

BPI surveyed over 200 top executives across the globe to get a deeper understanding of the state of innovation in the enterprise today. To supplement those findings, they also interviewed some of their top board members to paint a full picture of how enterprises can drive hard outcomes from their innovation processes.

How do you rate your company's level of commitment to innovation?

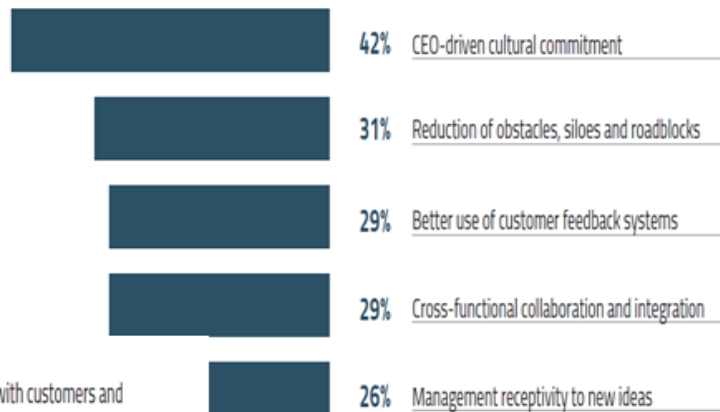


Where is innovation most needed in your organization?



What can help advance innovation across the enterprise (in 2015).....and beyond

** Top 5 responses only shown here.*



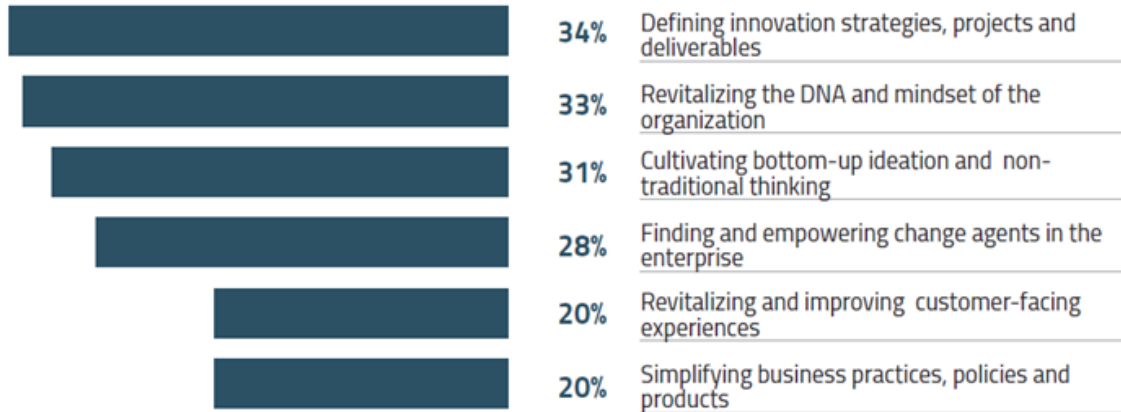
- Top-down mandates are required for bottom-up inspiration for new initiatives.
- CEOs remain the most effective catalyst for a game-changing mind-set
- Barriers to ideas simply have to go.

- "New ways of engaging with customers" should be a primary target.
- 32% of survey respondents also stress "keeping pace with digital transformation" as an equally urgent area for new thinking

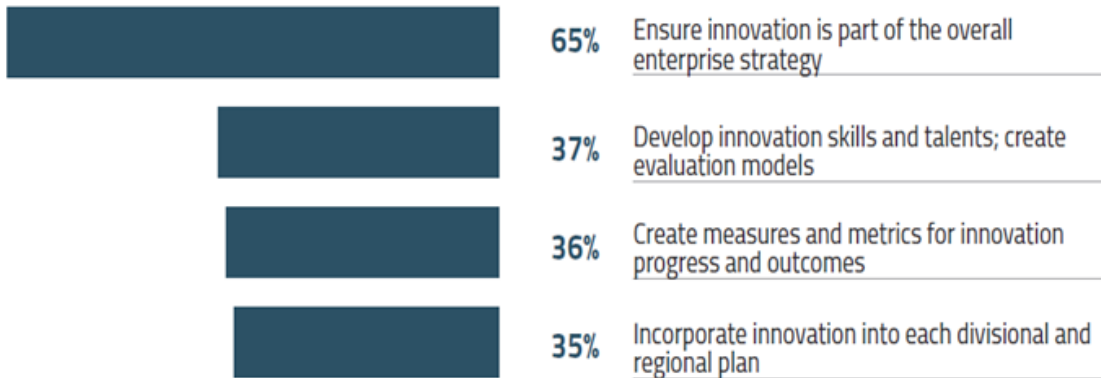
For each of the findings shown and for the sake of simplicity, I have only included the top five or six responses. However if you want to read the report seeing all of them makes for a much richer set of insights and evaluations to compare with your own thinking.

Addressing key questions on focus and making innovation actionable

Where should companies focus innovation resources?



How do you make innovation actionable and accountable?

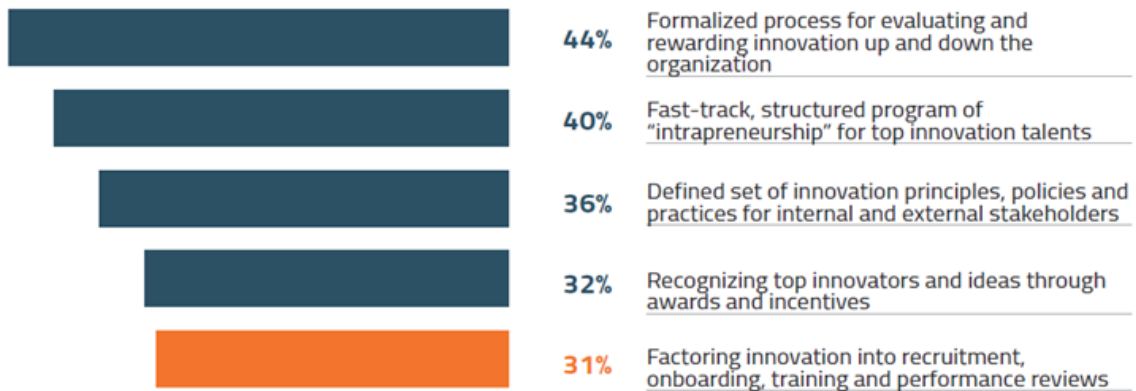


So what is holding innovation back, how can you achieve a better focus?

What is holding back innovation in the enterprise?



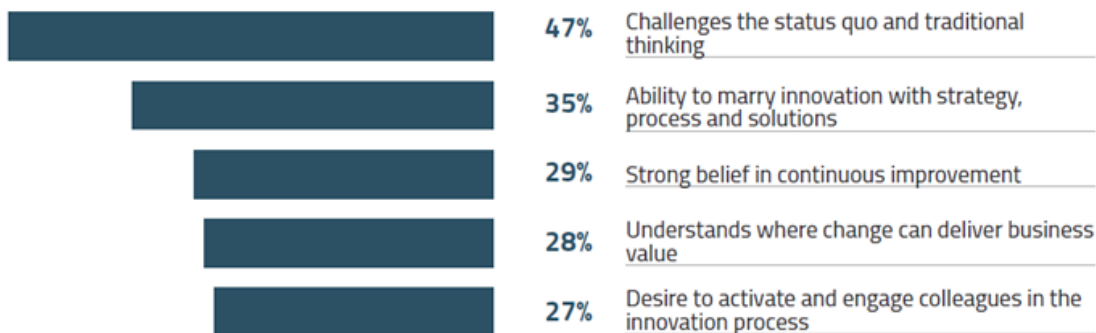
How could you better focus and encourage innovation in the organization?



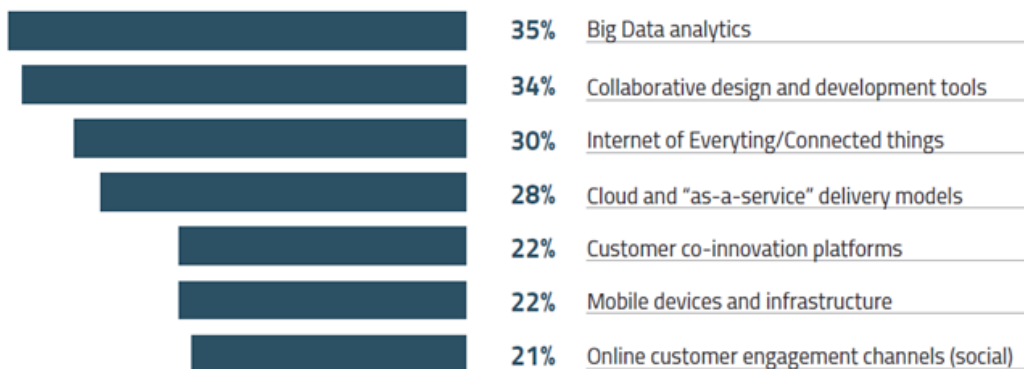
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What qualities do we need in our change agents and what technologies will help us drive innovation in the short-term?

What are the essential qualities of a change agent?



What technologies will help drive innovation during the next 24 months?



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This BPI report offers some significant insights in how we should be constructing and driving our innovation. It rightly points out that “in today’s innovation economy, institutions of all types and sizes are challenged to rethink and redesign the future. To do so, they must embrace innovation-driven business cultures, processes and platforms, break down barriers to change, and empower innovation leaders and thinkers across and beyond corporate boundaries.” There are real barriers to innovation. The report mentions that “while the intention is there, companies are still experiencing significant roadblocks. Outdated business models and technologies prohibit them from achieving the shift they need to stay competitive in this rapidly changing environment. Responses reveal a significant tension between this rampant aspiration for growth based on new ideas, and a risk-averse, turf-based corporate culture.”

Innovation is still occurring in pockets that are not leveraged effectively to produce sustaining outcomes across the enterprise. The “New Competitive Equation” report from BPI does offer significant insights and guidance on how to address this challenge.

Accenture: Open innovation continues to be important

Accenture often write some good innovation reports. One that might have slipped under your radar screen this year was “Harnessing the Power of Entrepreneurs To Open Innovation.” It continues to add to the journey we all travel for open innovation.

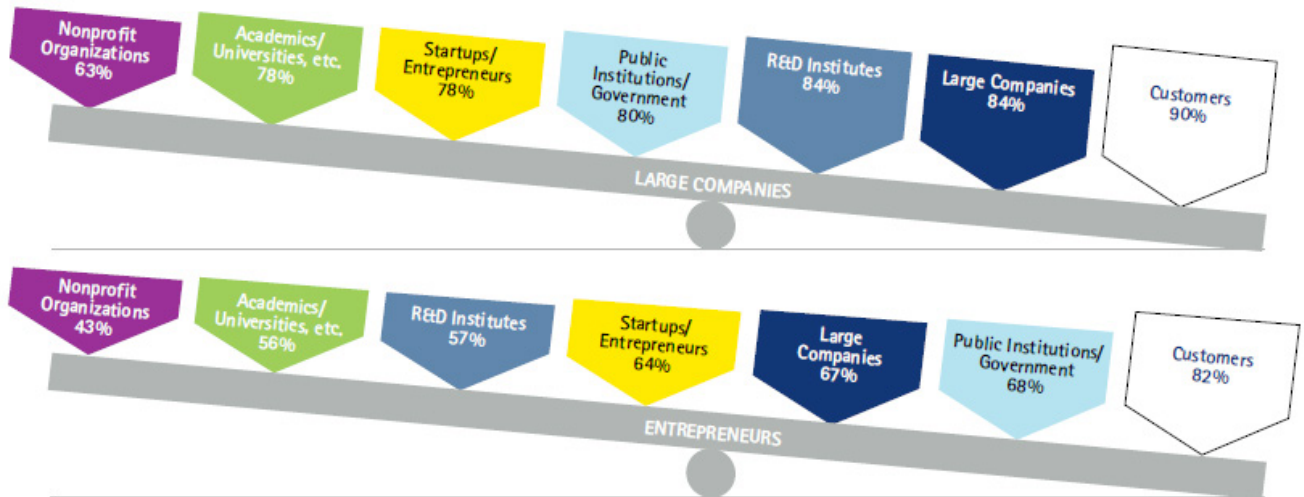
They open with this:

“In an increasingly digital and connected world, large enterprises and small entrepreneurs alike are exploring the value that can be created by closer and deeper collaboration with each other. Enterprises gain access to new skills, ideas, talent and markets, while entrepreneurs tap into large companies’ distribution networks and customer bases.

In fact, new Accenture research conducted for this report found that in a survey of 1,000 large companies and 1,000 entrepreneurs, 82 percent of large companies say they can learn from entrepreneurs about how to become a digital business. And 50 percent believe they need to work with entrepreneurs to be sufficiently innovative.

Yet obstacles to effective collaboration remain. Entrepreneurs often question their partners’ commitment to supporting the growth of their businesses. At the same time, large enterprises often lack confidence in a start-up’s ability to move from idea to marketability in the context of a broader business strategy.”

How important will collaborating with each of the following be in driving your company's innovation and growth in the next three years?



Source: Accenture Research

The promise of collaboration is indeed appealing, large companies see collaboration with entrepreneurs as a way to inject new approaches, including technology and talent, into their innovation processes. On the other side, entrepreneurs embrace the promise of accelerated commercialization of their products and services through collaboration with large companies. Although the difference between those expectations creates potential misalignments in strategic objectives, each side can clearly learn from the other.

The journey to more trust is appreciating each-others point of view.

The Accenture report points out that:

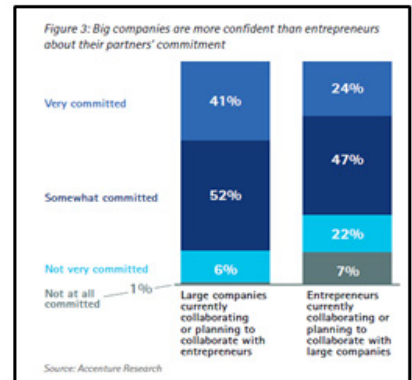
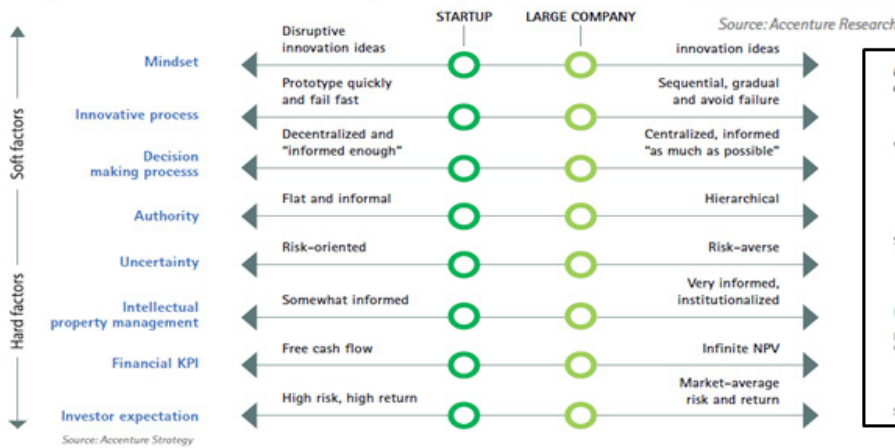
“Companies will need to shift their mind-sets away from collaboration oriented to a predetermined goal or business idea to an approach that is more open and entrepreneurial.

This, in turn, will require cultural transformation – creating an environment of more trust, and more equal commitment to risks and rewards. Finally, large companies and entrepreneurs alike need to commit to using digital technologies and platforms to reach and work with a greater range of talent, ideas and business models.”

Large companies see a range of benefits to collaborating with entrepreneurs	
What are the top benefits to collaborating with startups/ entrepreneurs on innovation? (Ranked within top three)	
Accessing specific skills and talent	53%
Entering new markets	50%
Improving return on in-house R&D investment	48%
Accelerating disruptive innovation in your company	42%
Designing new products and services	40%
Enhancing company's brand/image	39%
Enhancing the entrepreneurial culture of your company	17%

Entrepreneurs expect a large range of benefits to collaborating with large companies on innovation	
What are the top benefits to collaborating with large companies on innovation? (Ranked within top three)	
Getting access to a large company's distribution network and customer base	49%
Being a supplier for large companies	45%
Securing investment from corporate venture funds	43%
Getting access to a large company's market knowledge	42%
Working together on joint innovation to develop new products and services	39%
Getting access to experts with specialized skills	34%
Benefiting from mentorship under accelerator/incubation programs	31%
Benefits from brand legitimization	17%

Comparative cultural trends between startups and large companies



This report offers a very helpful guidance to approaching open innovation and provides a balanced perspective of both the large and small company.

The real message within the report states, "too seldom do large companies collaborate in a spirit of joint innovation. Even more rarely do they participate in truly entrepreneurial innovation— collaboration among a broader ecosystem of players who are focused less on specific goals and more on continuous idea generation, testing and learning."

Where are you in your open innovation efforts? How do you relate to others?

PWC: The 2015 global innovation study on R&D spending

Strategy&, PWC's strategy consulting business, have provided an annual report over a number of years offering an analysis on the flows and spends that occur in R&D. R&D is becoming less dominant as the place to invest in innovation. Technology throwing up insights and new customer needs is shaping the inventing part differently. Also, open innovation and greater partnership collaborations are reducing the research that is going on inside, being increasingly replaced by scaling and development in more collaborative ways. Yet R&D is still one of our essential barometers that boardrooms fixate upon, perhaps far more than monitoring the innovation process or even measuring the commercial outcomes.

In Summary for 2015 the top level picture for R&D delivers these key messages

1. Led by dynamic growth in China and India, Asia is now the number one region for corporate R&D spending
2. The US holds its position as the largest in-country R&D spender.
3. Europe falls from largest to third-largest region for corporate spending
4. R&D spending is back on track after the post-financial crisis dip.

A whopping \$680 billion is spent on R&D with R&D intensity spiked at 3.7% showing companies are sticking to their R&D innovation programs.

Apple & Google continue to lead the Most Innovative list, while Tesla has moved up to third

10 Most Innovative Companies

Rank	2010	2011	2012	2013	2014	2015
1	Apple	Apple	Apple	Apple	Apple	Apple
2	Google	Google	Google	Google	Google	Google
3	3M	3M	3M	Samsung	Amazon	Tesla
4	General Electric	General Electric	Samsung	Amazon	Samsung	Samsung
5	Toyota	Microsoft	General Electric	3M	Tesla	Amazon
6	Microsoft	IBM	Microsoft	General Electric	3M	3M
7	Procter & Gamble	Samsung	Toyota	Microsoft	General Electric	General Electric
8	IBM	Procter & Gamble	Procter & Gamble	IBM	Microsoft	Microsoft
9	Samsung	Toyota	IBM	Tesla	IBM	IBM
10	Intel	Facebook	Amazon	Facebook	Procter & Gamble	Toyota

Source: Strategy& 2015 Global Innovation 1000 survey data and analysis

Strategy& | PwC

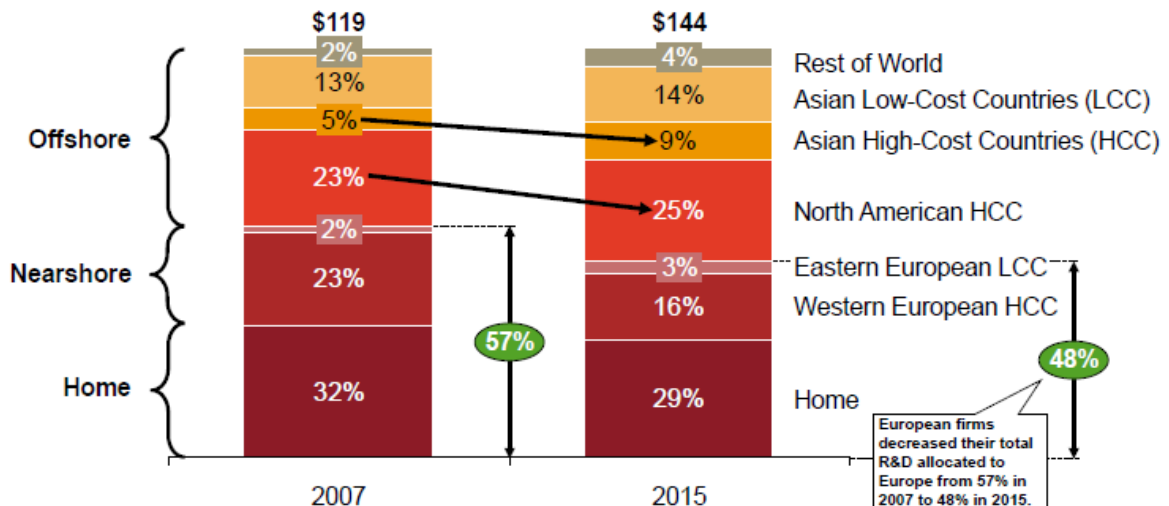
October 2015

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The serious declines taking place in Europe, all the hot money is heading towards Asia

European firms increased their R&D allocation to Asian and North American high-cost countries

European HQ Firms' R&D Allocation 2007 vs. 2015 \$US Billions



Source: Strategy& 2015 Global Innovation 1000 analysis

Note: High-cost countries (HCC) refers to countries with an average engineering wage > \$35,000. All countries with an average engineering wage of less than or equal to \$35,000 are low-cost countries (LCC).

Strategy& | PwC

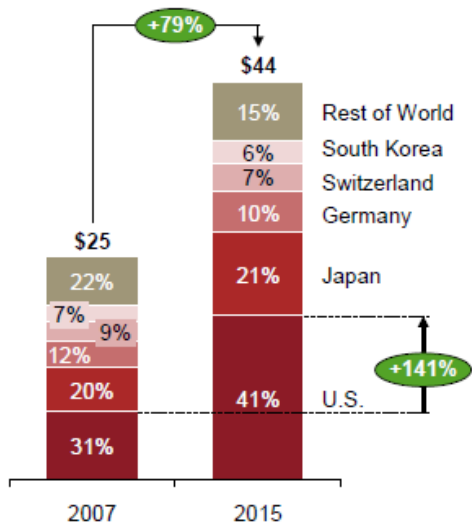
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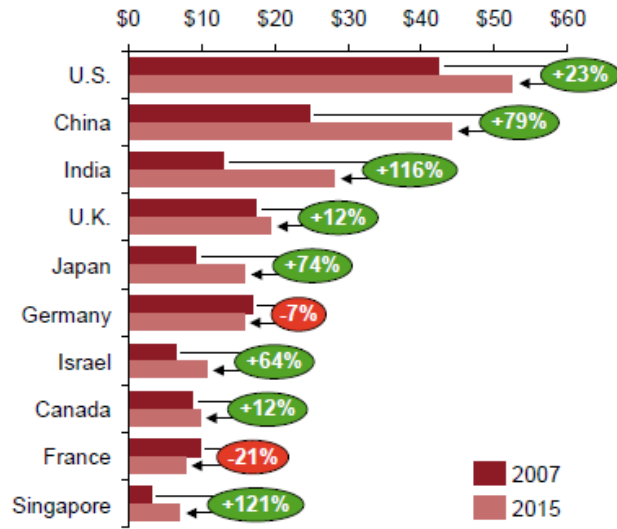
The race for future R&D leadership is between the US and China

Leading the way for Asia was China, which is closing in on the U.S. as the largest country for imported R&D

Top Five Countries That China Imported R&D from
2007 & 2015 \$US Billions



Imported R&D by Country
2007 & 2015 \$US Billions



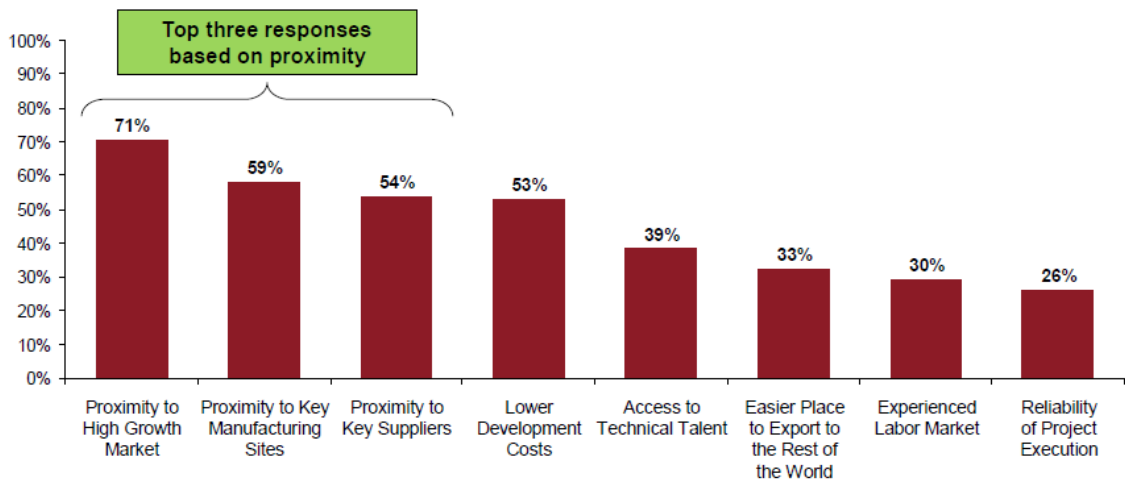
Source: Strategy& 2015 Global Innovation 1000 analysis
Strategy& | PwC

The worry of more of the R&D continuing to move to Asia

R&D professionals ranked strategic reasons higher than cost advantages when moving R&D functions to China

What Are the Benefits of Moving R&D Functions to China?

n = 369



Source: Strategy& 2015 Global Innovation 1000 survey data and analysis

Strategy& | PwC

October 2015

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What are the implications of this flow of R&D spending moving to Asia? Do the innovation teams follow even more than they are today? What is your thinking?

Two innovating heads are better than one

Finally, we do actually have two parts to innovation, they need to be considered separately within our mind sets and treatment of innovation. We need to exploit the existing and we need to explore the potential. We operate in the era of short-term performance but are expected to deliver the longer-term equally. We never have enough budget, resources or leadership attention, or so we often feel.

We need to both renovate and innovate through renewal and new discoveries and this dual mindset is critical to the way forward

Our organizations are in the main searching for equilibrium, yet they need to find ambidexterity to manage innovation. There is considerable pressure to separate incremental innovation from the more radical and potentially disruptive types of innovation. They operate in different time horizons and usually require different resources and management, as most of the new discoveries within our innovations are projected into the future the more they seem to be at risk in the need for short-term performance. There have been numerous reports on this tension occurring around innovation and dealing with the allocation of resources, funds, and different measurement criteria.

In 2015, two reports addressed this duality of innovation: Accenture’s “Running on Empty” and BCG’s “Tomorrow Never Dies” and my prediction is we will see a whole lot more on this dual treatment for innovation in the coming year or two. Let’s separate the two in this opening comparison:

Mainly Renovate	True Innovation	Comments
Speed to market	Speed to learning	Lean, mean, nimble and swift vs gathered, absorbed and acted upon
Risk avoidance	Risk management	Traditional Stage Gate vs Embracing measured risk
Measuring Efficiency	Measuring Effectiveness	Cycle time and adherence vs experiments and prototypes for options
Portfolio Management	Platform Management	Larger numbers, optimize, processes and dashboards vs few or one big bet, higher degree of executive oversight
Excellent Operators	Outstanding Creators	Skilled and efficient operators vs creativity, flexibility, awareness
Exploitation emphasis	Exploring emphasis	The interplay of equilibrium vs ambidexterity for balancing out

How are you treating incremental and radical innovation? Are these “lumped together” or treated separately? We exploit by extending our existing innovation, we explore by discovering our potentially new innovations. We need to think about treating these differently in our innovation management.

Closing Remarks

From my personal perspective I go into reports on innovation to learn, to compare and to clarify. I chose these reports included here, as I felt they gave good insights into the current 'state of play' on innovation in 2015.

As 2015 closes it indicates that demand for innovation will not let up. It is demanded, often poorly understood, or resources are not really adequate. Yet, innovation teams are expected to perform, way beyond the norm.

Those sitting on the inside of innovation feel the pressure; feel constantly having to validate what they are doing. In some ways they are more "under the gun" than others as they are at the very sharp end of delivering new growth, of renovating and firing up the innovation engine.

It often is how we go about innovation and its management that determines whether we gain the appropriate attention or suddenly turn the unwelcome spotlight on things that appear to be going wrong.

However, we need all the help we can get. We may feel we are blazing our own independent path, which others will not understand, but I think this is wrong, totally wrong. Sharing insights, exchanging ideas, exploring different tools, methodologies and thinking is essential. We need to stay alert and open – innovation moves very fast and to be ready, really ready, you need all the help you can get.

Reports like these often can be long and tedious to read through, yet they do offer significant support for your innovation. We miss out as we often cannot find the time. Understandable as this may be, no one forgives you if you miss something essential to your innovation understanding.

We cannot be islands of knowledge, we need to find really creative ways to collaborate and share, we need to connect and explore. We need to be constantly curious; otherwise we shut out much of the possible and revert to “impossible”.

I trust this snapshot of different reports stimulate you to investigate them further. Most of these are available through HYPE but we provide the appropriate links in the appendix to this report.

Enjoy 2016; plenty of innovating waits...for those wanting to show the world.

Appendix

The reports referred too are (in order of appearance):

KPMG

Global CEO Outlook 2015 : The growth imperative in a more competitive environment
<https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/ceo-outlook/Documents/global-ceo-outlook-2015-v2.pdf>

PA Consulting

“Innovation As Unusual”: Innovation is a culture and it starts at the top
<http://www.paconsulting.com/our-thinking/innovation-research/#form1>

Innosight

“Leading Transformation: 2015 CEO Summit”
<http://www.innosight.com/innovation-resources/strategy-innovation/upload/2015-CEO-Summit-Highlights-Discussion.pdf>

Innovation Leader

“Innovation Benchmarking Report 2015”
<https://www.innovationleader.com/benchmarking/>

BPI Business Performance Innovation Network

“Innovation the new Competitive Equation”
<http://www.bpinetwork.org/thought-leadership/studies/52/download-report-innovation-the-new-competitive-equation>

Accenture

“Harnessing the Power of Entrepreneurs to Open Innovation”
<https://www.accenture.com/us-en/insight-b20-digital-collaboration>

Strategy& PwC

“The Global Innovation 1000” Innovation’s New World Order
<http://www.strategyand.pwc.com/innovation1000>

Accenture

“Running on Empty” - Is Your Consumer Packaged Goods Innovation Engine Running on Empty?”
<https://www.accenture.com/us-en/insight-cpg-innovation-engine.aspx>

BCG

“Tomorrow Never Dies” The Art of Staying on Top
<https://www.bcgperspectives.com/content/articles/growth-innovation-tomorrow-never-dies-art-of-staying-on-top/>



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