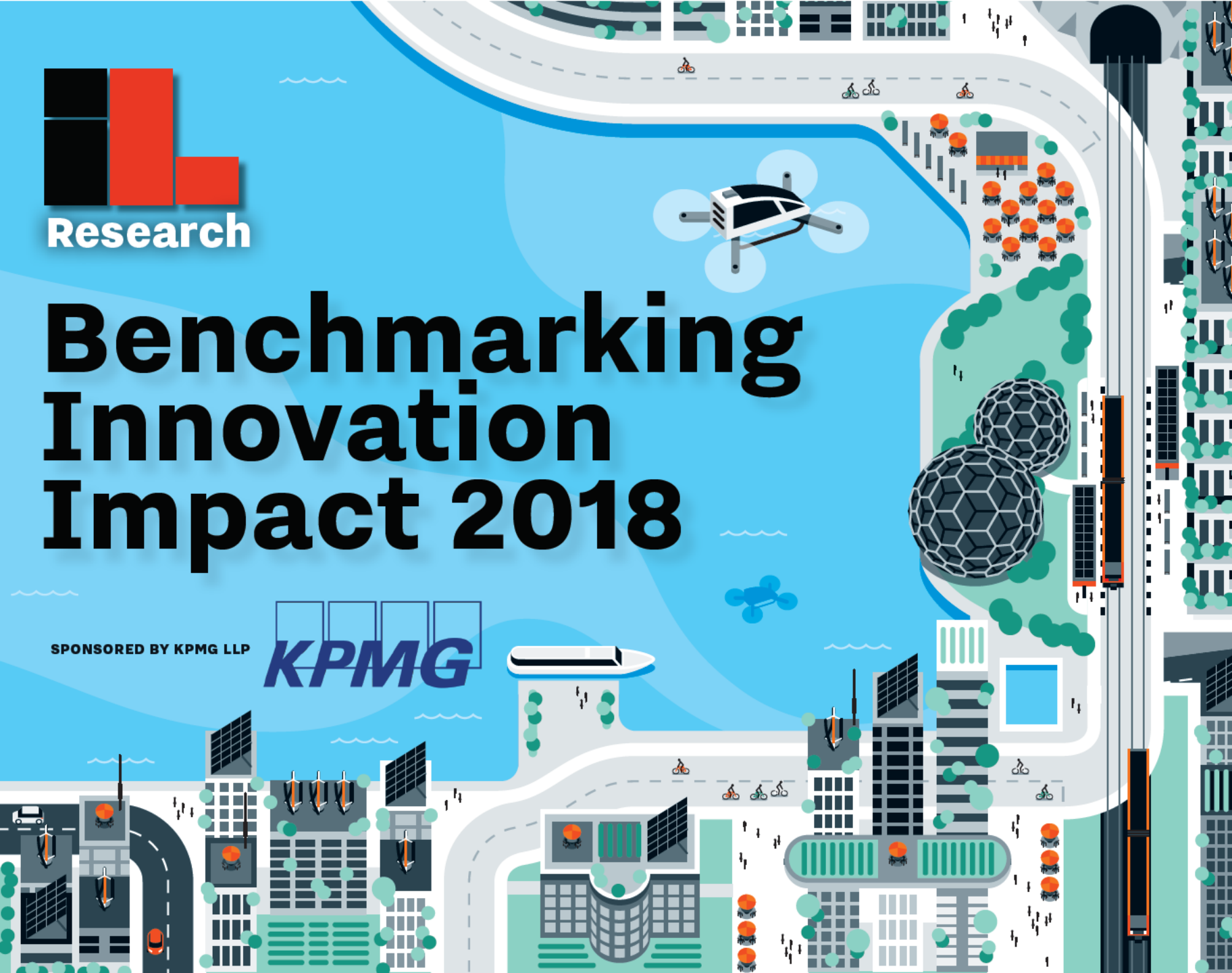




Benchmarking Innovation Impact 2018

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KPMG



About the Cover

We collaborated with artist Nik Schulz of L-Dopa Design + Illustration on our cover, and the illustrations that appear throughout the report. Our goal was to capture some of the ways that innovation is having an impact on the urban landscape, how we live, and how we move around — with a special emphasis on sustainability.

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Editorial Advisory Board

Innovation Leader's Editorial Advisory Board provides direction and input and ensures we remain true to our mission: helping corporate innovation executives deliver impact within their organizations. The group acts as a sounding board for our editorial team; weighs in on survey design and research; helps us create the best events on corporate innovation; and provides input on other ways Innovation Leader can be helpful to our membership. We are extremely grateful to the following members of the Advisory Board for their insight and guidance on this report:

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Welcome

At KPMG LLP, we're pleased to have sponsored Innovation Leader's 2018 benchmarking research, the results of which are detailed in this report. Based on extensive survey data and wide ranging interviews with global executives, the report provides a variety of ideas and considerations for those seeking answers to the question every innovation leader and C-level executive should be asking: Do we have the right strategies, investments, and approaches in place that will make a big enough impact for our future business, and on the right timeline?

We all know that innovation is complex, and organizations can get a lot right and still get innovation wrong. With this research, Innovation Leader provides you with a detailed picture of how innovation is being carried out in companies and leadership teams, like yours, across the country.

The research reflects KPMG's experience that companies pursuing innovation are most successful when they focus on three foundational elements: (1) aligning strategically, (2) funding deliberately, and (3) delivering impact. The appropriate methods and approaches always vary, but finding the right combination is critical.

To help you assess your own efforts and progress, and consider alternative ideas, the report provides:

- Benchmarking data: Survey results and analysis collected by Innovation Leader about what your peers are (and are not) doing today
- Innovator perspectives: Thoughtful commentary from innovation leaders at a range of companies, as elicited in interviews conducted by Innovation Leader
- KPMG insights: Points-of-view based on the work KPMG has done with clients and others leading enterprise-scale innovation efforts

We encourage you to become familiar with the breadth and richness of this content and then return to it as a reference and modular resource whenever you need data, examples, or inspiration. We hope this information will enable you to evaluate your company's unique circumstances and to have greater impact over time.

The world is changing quickly. Many companies are running as fast as they can simply to keep up with the pace of change, but are challenged to move even faster. The question for all of us is, are we being audacious enough? Investing enough in the right things at the right time to make an impact? We hope this report helps you ask the questions that get you to the answers you need for your next steps forward.

- John Farrell, National Managing Partner, Innovation & Enterprise Solutions, KPMG LLP



How to Use This Report

If you work in the realm of innovation inside a large company, you're no doubt already aware of three things:

1. Shepherding new products and services to market is incredibly hard. Deploying new business models is even harder.
2. There's pressure to do all that faster than ever before.
3. Large organizations that can figure out how to make innovation part of what they do every day — rather than just on “Innovation Day” — will win.

We created Innovation Leader to be the essential resource for innovators inside big organizations. And in creating this report, we wanted to capture as much useful data about how large organizations — more than 270 of them — are working to become innovation leaders in their industry.

WHAT'S HERE

There are four components to the report:

1. Our review of the data from a 2018 survey of corporate innovators — including lots of charts and graphs.
2. Perspectives from additional corporate innovation executives at companies like J&J, Fidelity Investments, and Ericsson about the specifics of how they deliver impact for their companies.
3. Insights from KPMG professionals about what this data might mean for you, and alternative approaches.
4. Key questions for you to discuss with your team and your leadership, and additional resources that Innovation Leader has created around topics like making the initial case internally about why an

innovation program may be necessary, or measuring progress once you've set one up.

HOW TO USE IT

This report is designed to provide helpful data and insights, whether you are in the earliest stages of formulating an innovation strategy; building upon and improving one that has been in place for a year or two; or working to upgrade or rethink a more established program — especially in large organizations that have traditionally relied solely on their research and development or technology groups to be responsible for innovation. This report can be a resource as you:

- Discuss setting strategy, allocating the right resources, and measuring the right things.
- Talk with your team about the tactics you will use, the relationships and support you will need, and the obstacles you may face.
- Communicate with collaborators around the business about why a new approach to innovation is necessary, how you want their involvement, and what other large companies are doing.

How else can we be helpful? Drop me a note...

- *Scott Kirsner, Co-Founder and Editor-in-Chief, Innovation Leader*
editor@innovationleader.com

Note: Innovation Leader's staff was responsible for analyzing the data, producing the content, and interviewing the innovators inside; where KPMG's perspective is included throughout the report, we've indicated that clearly.

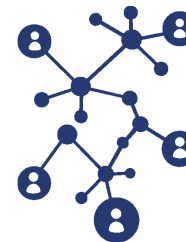
DATA HIGHLIGHTS

We pulled out some of the most interesting data points from our survey of 270 innovation, strategy, and R&D executives.

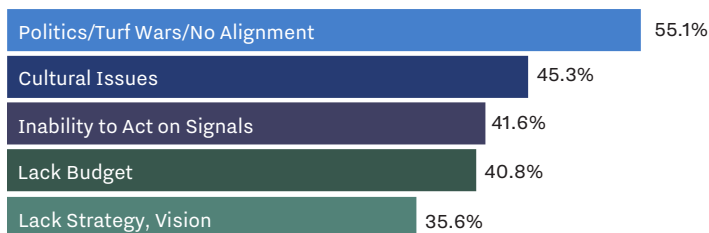
73%

say that **leadership support is the biggest enabler of innovation**. The other big enabler? Developing the ability to test, learn, and iterate.

The least-used innovation tactic among our respondents was **open innovation**. Most commonly used? Crowdsourcing employee ideas and creating networks of innovation champions, which more than **80 percent** of respondents had tried. Respondents told us that building a **network of champions** was the tactic that had delivered the most value.



The biggest barriers to innovation are...



Who's responsible for **transformational innovation**?

#1

Innovation team

#2

R&D team

#3

Outside resources

70%

say innovation is funded as part of the **annual budget**.



20%

have a **separately governed funding process**.

10 percent use a **hybrid or "other"** approach.



Innovation focus:

49 percent of respondents' innovation efforts are focused on incremental innovation.
28 percent are focused on adjacent innovation.
23 percent are focused on transformational innovation.

Executive Summary

Inside many companies, there's a growing sense that they need more innovation. The word is thrown around in meetings; mentioned during Wall Street investor calls; and wedged into job titles. The company may even create an innovation center in the heart of Silicon Valley, or launch a global innovation challenge.

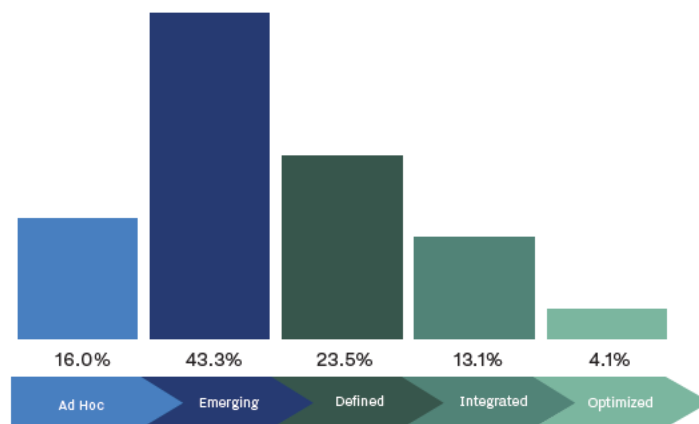
The forces behind this activity are real: commoditization, changing buying behaviors, startups that are increasingly able to challenge incumbents, new digital marketplaces, and more. But our survey of 270 executives responsible for innovation, R&D, and strategy at large companies found that these innovation efforts are still very young at most companies.

The teams driving them are still small. They are largely under-resourced. And they are encountering serious organizational resistance — even when they have the blessing of the CEO or another C-suite executive. For companies seeking to integrate innovation into the way they work — in order to compete with a fast-moving, nimble, hungry pack of competitors — there is much work to be done.

COMPANIES ARE STILL IN THE EARLY STAGES OF THE JOURNEY

Despite all this activity, most companies consider themselves to be in the early stages of innovation maturity. To gauge this, we defined five stages of innovation maturity, from little or no structure around innovation activities to an “optimized” environment where innovation is part of the organization's DNA (stages are outlined in detail on p.90). Nearly 60 percent of companies place themselves into the first or second stages, according to our survey data.

But 17 percent of companies said they were in the two

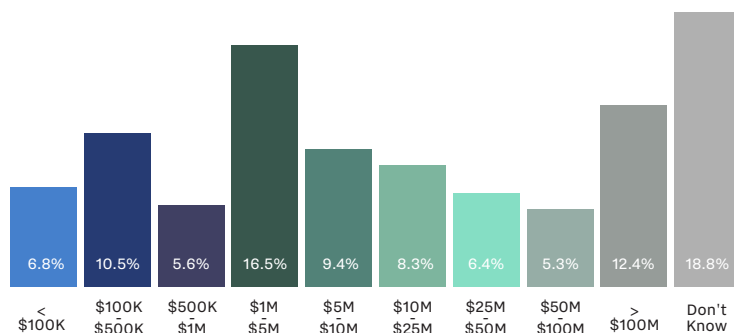


Maturity (All respondents)

furthest-along stages. The three industries that consider themselves to be most sophisticated? Technology, healthcare, and financial services.

AS SOPHISTICATION INCREASES, SO DOES INVESTMENT

Those companies at the more sophisticated end of the spectrum are investing seriously in innovation. That includes financial investment and human resources. Fully one-third of more mature companies describe their annual program budget as \$25 million or more, and 49 percent say it is \$10 million or more. Just 13 percent say it is less than \$1 million annually.



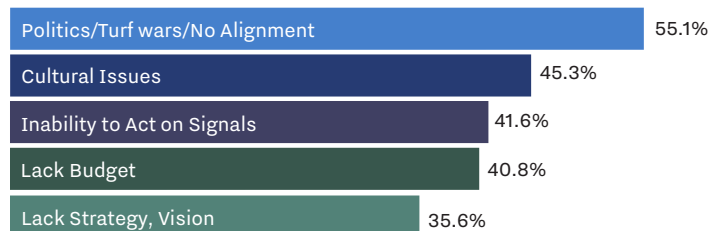
Innovation investment (All respondents)

When it comes to staffing, about one-third of the more mature companies (36 percent) say they have 50 or more people working on innovation, and 47 percent have a staff of at least 25.

On the other end of the spectrum, companies in the two earliest stages of developing an innovation strategy, just 18 percent have a budget of \$25 million or more, and 23 percent have a budget of \$10 million or more. More than one-quarter of these companies (27 percent) are operating with innovation budgets under \$1 million. And half of these companies say they have between zero and 9 full-time employees (or full-time equivalents) focusing on innovation.

PROGRESS IS STYMIED BY POLITICS AND TURF WARS

Survey respondents agree about the biggest obstacles to delivering impact for their organizations. The first is a group of challenges we dubbed “company politics, turf wars, or lack of alignment.” The second most common obstacle was “cultural issues.” For large corporations, infusing the culture with entrepreneurialism and risk-taking is extraordinarily challenging.



Innovation obstacles (All respondents)

The next two obstacles were “inability to act on signals” and changes affecting customers or the marketplace, and insufficient budget. At even the most sophisticated companies, budget is a challenge, and innovation groups must figure out how to balance the need to show shorter-term results with longer-term investments that can create significant new growth for the company, and position it as an innovation leader within its industry.

Many of the comments we received in asking about organizational obstacles to innovation will sound familiar: “we’re extremely risk-averse”...“we’re too busy on urgent issues, with no time for important ones”...“we’d rather analyze again than execute”...“we lack clear governance for innovation efforts.”

And it’s true that at most companies, the focus on this quarter’s activities and next quarter’s plans can crowd out almost everything else. But to have an impact, it’s vital to create the time, focus, and accountability for innovation.

Companies also need to think through the right level of separation — so that innovation isn’t sucked into the vortex of the day-to-day — but also the right connectivity, so that communica-

EXECUTIVE SUMMARY

tion between innovators and operators is happening; expertise on both sides is being shared; and new concepts can be tested and launched in the market.

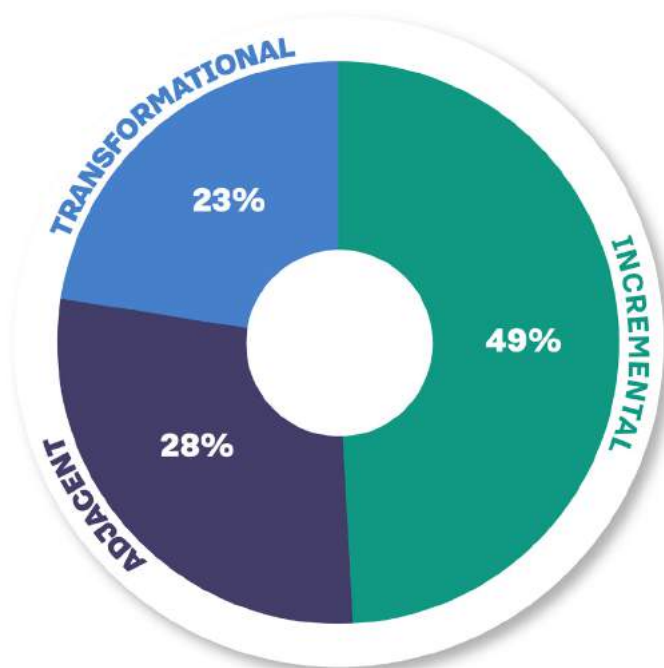
Not surprisingly, executives say that leadership support is the number one enabler of innovation success. But the second most important enabler is the “ability to test, learn, and iterate.” More mature companies indicated the value of setting the right strategy and vision for innovation — what do you hope to achieve? — and putting in place the right team with the right set of skills.

DIALING UP THE EMPHASIS ON TRANSFORMATIONAL

We found that incremental improvements and upgrades are largely the responsibility of the business units and functions.

But the innovation groups themselves — whether an R&D team, new ventures group, or innovation lab — are spending 49 percent of their efforts on supporting or supplementing that incremental, near-term work; helping the businesses to improve existing products and services; or streamlining processes. But 28 percent of their efforts are dedicated to adjacent innovation, like entering related markets or leveraging existing capabilities in new ways, and the remaining 23 percent to transformational innovation — products or services the company doesn’t yet offer, or launching new business models.

Responses from the most mature companies differ, with 40 percent of their efforts focused on incremental work, 30 percent adjacent, and 30 percent transformational. Those companies are not only investing more money and human resources in innovation, but they are committing to exploring opportunities in new markets and new customer sets over a period of years, not months. When it comes to financial metrics, these most mature companies are looking at one metric above all else: how much revenue is being generated by new products and offerings?



What percentage of your innovation efforts are focused on the following strategies? (All respondents)

THE ANSWER IS...

The answer to your company’s innovation dilemma is, unfortunately, that there is no single solution that can be applied to every company. Cultures and business contexts are just too different. But this report collects data to help you understand how the typical

company has structured its innovation program — along with how the most mature companies have done it. It collects examples from your peers at other large companies on how they approach innovation, and insights from KPMG.

Commitment to an initiative over the course of years is the big — and obvious — differentiator between companies that are just

starting to dabble in innovation and those that are using it to drive competitive advantage.

In large organizations, the evolution from innovation laggard to innovation leader is one that requires both a sense of urgency — that hunger for more innovation that we alluded to at the beginning — as well as patience as you build momentum and see results. ♦

THREE DIFFERENT TYPES OF INNOVATION

DEFINING INNOVATION

Much of this report alludes to three types of innovation that have become normative across industries, but are worth defining more clearly:

- 1. Incremental**— Sometimes called “Core” or “Horizon One” (H1) innovations, these typically serve existing customers or markets. They may involve new, improved, refined, or “incrementally better” products or services. These innovations are usually closely tied to the core business. An example of incremental innovation might be Coca-Cola’s recent local flavor launch, which included locally-sourced flavors such as “Georgia Peach” and “California Raspberry”; the company’s “specialty soda” segment was up 8 percent in 2016, while most other carbonated soft drinks stayed flat that year.
- 2. Adjacent** — These innovations, often called “Horizon Two” or H2 innovations, typically involve expansion to an “adjacent” business or customer segment. These innovations usually leverage the company’s expertise, but do so in new or innovative ways. Two examples of

adjacent innovation might be General Motors’ new “Maven” car-sharing subscription service, or Nike’s “NikePlus” membership program. Both offerings leverage their companies’ core expertise, but introduce new business models to appeal to new demographics and new customers.

- 3. Transformational** — Sometimes called “Breakthrough,” “Horizon 3” or disruptive innovation, transformational innovation involves the creation of entirely new businesses to serve new markets and new customers. Considered the most high-risk style of innovation, transformational innovation often requires new capabilities, and yields totally new products and markets. The most frequently cited example of transformational innovation comes from Amazon, which launched a cloud-based service called Amazon Web Services or AWS in 2006. The on-demand computing platform, which was a completely new business unrelated to its core ecommerce business, generated more than \$17 billion in revenue in 2017.

1. CREATING STRATEGIC ALIGNMENT

12 INNOVATION FOCUS: THE BIG SHIFT

19 WHO OWNS INNOVATION, AND WHAT TYPE?

KPMG THOUGHT STARTERS

What is innovation without strategy? Strategy without innovation? Our rapidly-changing world necessitates that companies consider both, together. But the realities of organizational politics and competing priorities can derail the best laid plans. What are you doing as a leader to align innovation and strategy? How do you adjust structure and governance to best suit and foster different types of innovation?

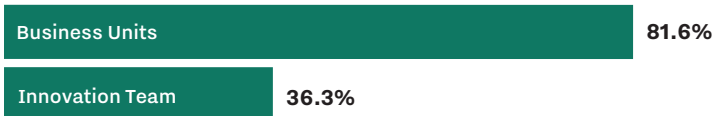
DATA HIGHLIGHTS

50-30-20

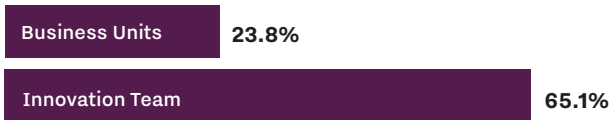
The ratio of efforts dedicated to **incremental, adjacent, and transformational innovation**. The largest companies (\$50B in revenue and up) spend even more energy on transformational work: 25 percent.

Who helps execute:

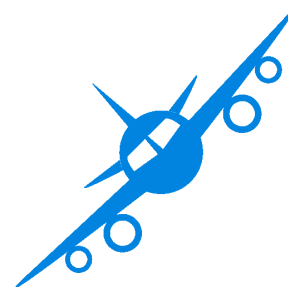
Incremental Innovation



Transformational Innovation



Note: Respondents were allowed to select all that apply.



35%

Aerospace and defense companies are devoting the largest amount of time and effort to **transformational innovation**.

Innovation Focus: The Big Shift

Perhaps the most essential innovation question for corporations is this: Where should we focus our energies and resources?

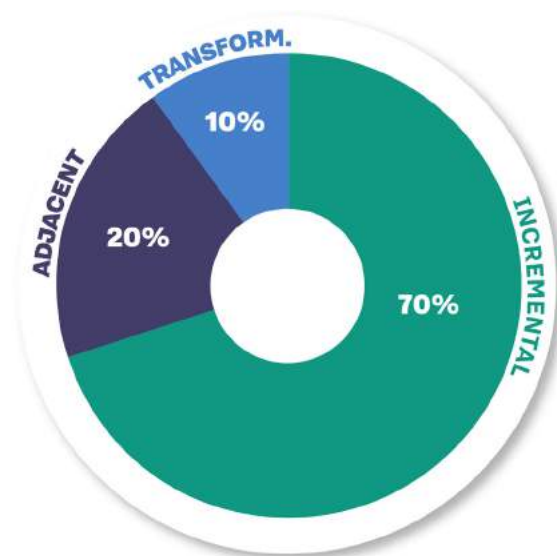
The answer is particularly critical for large, publicly-traded multi-nationals, which need to balance Wall Street's growth expectations with longer-term investments in transformational innovations that will position the company for continued growth and insulate it from disruption.

Achieving that balance assumes an investment in three types of innovation, which we have defined this way:

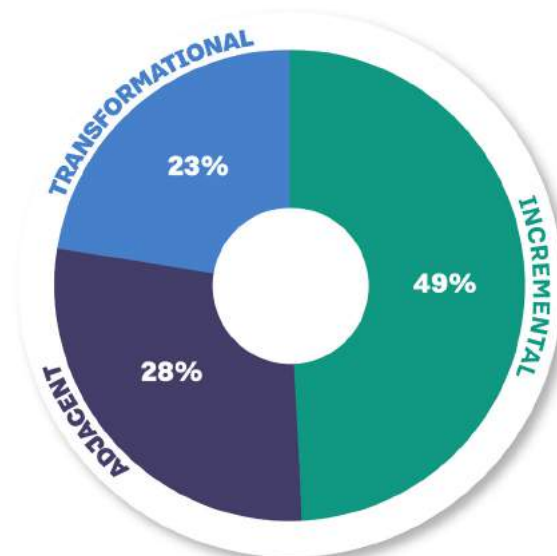
1. **Incremental innovation** (improving existing products/services)
2. **Adjacent innovation** (i.e., expanding existing products, services, and expertise into new spaces)
3. **Transformational innovation** (i.e., entirely new products, services, business models)

We describe these different innovation types in detail on p.9, and provide examples of each. But, while much has been written on this topic, there

Conventional wisdom



Today's reality



hasn't been data available to help companies understand how their peers were actually investing. A commonly-accepted ratio over the past decade has been a 70-20-10 balance among incremental, adjacent, and transformational work.

According to our data, among the executives leading innovation programs in large companies, there is a very different ratio in 2018, and it's 50-30-20. In other words, according to respondents, 50 percent of their innovation efforts are focused on incremental innovation, 30 percent are focused on adjacent innovation, and 20 percent of innovation efforts are devoted to transformational innovation.

But it's important to note that this is how the innovation group is spending its time — not all employees of the company overall. Still, the ratio is significantly different from what executives may have assumed, or what some advisors are recommending. “This is actually quite fascinating and even alarming,” one innovation executive told us. “Based on these numbers, I'd say we're underinvesting in transformational innovation, which is really a problem.”

The data is a wake-up call, indicating that our respondent companies are dedicating more time to transformational innovation than expected. Firms that are underinvesting may wind up at a strategic disadvantage, more likely to be rendered irrelevant by rivals making a more serious commitment to innovation, or by fast-moving new entrants.

THE RATIO REMAINS THE SAME DESPITE SIZE

That 50-30-20 ratio appears to hold true regardless of company size. As you can see from the analysis by company size (at right), the variations in focus are relatively small.

For example, respondents at the largest companies, with revenue greater than \$50 billion, say that a slightly larger percentage of their focus is on transformational innovation, while respondents at firms with revenue between \$500 million and \$999 million have slightly less of a focus on transformational innovation.

Innovation focus by company size

Company Size	Incremental	Adjacent	Transform.
\$50B or more	49.1%	25.5%	25.4%
\$25B - \$49.9B	50.2%	27.5%	22.3%
\$10B - \$24.9B	48.4%	27.6%	23.9%
\$5B - \$9.9B	53.7%	26.4%	20.0%
\$1B - \$4.9B	48.0%	30.0%	22.0%
\$500M - \$999.9M	48.9%	31.3%	19.7%
\$499.9M or less	47.8%	28.5%	23.7%

Note: Circled data is described in the text

INDUSTRY VARIATIONS

Perhaps more interesting is the view of innovation focus by industry. The data in the table on the next page provide insight into the particular focus of specific industries. Note how some industries, including automotive, hospitality, and mining & metals, appear to have a greater focus on incremental innovation than other industries. Some may not have created the case or built up the teams to work on adjacent or transformational projects. But in other cases, for example the automotive industry, there may be definitional differences. To industry outsiders, battery-powered and self-driving vehicles may be seen as disruptive or transformational, spurred by players such as Tesla, Uber, and Waymo. But to executives in the automotive industry itself, those changes may be considered incremental or adjacent.

“We've been working on those technologies for years,” one automotive R&D executive told us, noting that his company had filed patents on many fundamental technologies decades ago. “So you may consider them transformational, but we don't.” That may explain why respondents in the auto industry described most of their focus as incremental.

INNOVATION FOCUS

Innovation focus by industry

Industry	Incremental	Adjacent	Transform.
Aerospace & Defense	36.0%	29.0%	35.0%
Automotive	64.4%	23.0%	12.6%
Consumer Products	46.9%	27.4%	25.7%
Energy & Utilities	46.3%	31.4%	22.3%
Engineering	46.0%	41.0%	13.0%
Financial Services	53.7%	25.6%	20.6%
Forest & Packaging	39.0%	36.0%	25.0%
Government	46.3%	29.2%	24.6%
Higher Education	38.3%	29.2%	32.5%
Hospitality & Leisure	60.0%	19.0%	21.0%
Mining & Metals	80.0%	15.0%	5.0%
Pharmaceuticals	45.6%	29.4%	25.0%
Professional Services	60.0%	26.7%	13.3%
Retail	42.9%	32.9%	24.3%

Note: Circled data is described in the text

More Data: Your Industry

For information on your particular industry, Innovation Leader members should contact research@innovationleader.com.

Respondents in the hospitality industry also cited a greater focus on incremental innovation, but their reasoning may be different. “We’re a physical asset company,” noted one executive at a global hospitality firm. “It’s much harder for us to completely disrupt our own model like Airbnb would,” she added, “but we can definitely innovate incrementally, and differentiate ourselves through an innovative customer focus.” The forest, paper & packaging industry had the largest focus on adjacent innovation, largely driven by consumer-products companies and retailers seeking new technologies and formats, as well as environmental and sustainability demands. Respondents in the retail industry also cited a greater focus on adjacent innovation, driven in part by the shift to omnichannel commerce.

The aerospace & defense industry was one that is increasing its focus on transformational innovation. That may, in part, have been due to the fact that the respondents from that industry were typically part of the corporate venture capital group. “We’re specifically looking for disruptive technologies,” said one survey respondent at a global aerospace firm. “For us, as with a lot of industrial manufacturers, transformation will require work within a broader ecosystem.”

FOCUS CHANGES AS PROGRAMS MATURE

Companies that identified themselves as being further along the maturity curve appeared to have a slightly more balanced approach to their innovation focus. Specifically, respondents who claimed their companies fit into the two most mature categories (which we call Integrated and Optimized; see p. 80 for descriptions) had less of a focus on incremental work, and more of a focus on transformational work than others. There may be several reasons for this. First, as is noted later in this report, larger companies with revenue above \$50 billion are the ones that typically consider themselves more mature. Those companies generally have more resources to deploy against innovation, and hence can afford to focus on transformational projects with longer time horizons.

Innovation focus by maturity

Maturity Stage	Incremental	Adjacent	Transform.
Stage 1: Ad Hoc	48.3%	30.3%	21.4%
Stage 2: Emerging	50.9%	27.3%	21.8%
Stage 3: Defined	53.1%	27.3%	19.5%
Stage 4: Integrated	40.2%	31.5%	28.3%
Stage 5: Optimized	39.9%	25.5%	34.5%

Note: Circled data is described in the text

Second, a large percentage of the most mature companies operate in industries like technology, which is traditionally more focused on disruption, and healthcare, which typically has a well-staffed R&D function, especially in the pharmaceutical and medical device fields. That may

help explain why respondents at mature companies are putting more resources into transformational innovation.

THE NEAR-TERM DOMINATES

The lion's share of work being done inside companies (59 percent) is being done with the “near-term” in mind, or the next 18 months. However, as one would imagine, the time frame is influenced by innovation focus. For example, when we looked at respondents who claimed that more than half of their efforts are dedicated to incremental work, we found that their focus on the “near-term” jumped to 69 percent.

Conversely, when we examined respondents who said that more than 30 percent of their focus is on transformational innovation, we found that their “long-term” focus (looking past 36 months) jumped from the 15 percent average to 23 percent. So the type of innovation being pursued aligns with the time frames during which the work is being conducted. ♦

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Is leadership at your company using the same definition when it comes to what incremental, adjacent, and transformational innovation mean?
2. Are you underinvesting in longer-term transformational innovation? Now that we know 20 percent of respondents' focus is on transformational innovation, could you make a case to spend more energy and effort there?
3. If there isn't the appetite to invest seriously in transformational innovation internally, have you considered making investments in startups, university research, or participation in an accelerator program as a way to envision possible future directions for your business?

RESOURCES

1. Video: Harvard Business School professor Len Schlesinger on how CEOs spend their time on near-term, mid-term, and long-term innovation: www.innovationleader.com/il-confidential-video-advice-on-innovation
2. Need definitions for common innovation terms that you can circulate (or adapt) in your company? See our corporate innovation glossary: www.innovationleader.com/corporate-innovation-glossary

INNOVATOR PERSPECTIVES

**CAMBIA HEALTH:** Home Runs Change How People View the World

"I think that to survive as an innovation organization, you need to go for the home runs. Home runs are very transformational. They actually change the way people view the world. But to satisfy the operating teams with their problems, you sometimes have to help them using innovative techniques. I interpret [the data from this question] as reflecting that requirement. 'I have to do incremental work because it's in the eyesight of my operating teams, and I need to solve problems. If not, I don't want to become a cost center to them. I want to be a center that generates value for them.'" - Mohan Nair, Chief Innovation Officer, Cambia Health

**SOUTHERN COMPANY:** Incremental Work Drives Funding

"Twenty [percent] is a very healthy allocation of time [on transformational innovation] — anywhere between 20 to 30 percent. But incremental is where you can actually make money. It increases your operational performance, or your financial performance, which drives a lot of the funding." - Michael Britt, SVP, Energy Innovation Center, Southern Company

**GENERAL MOTORS:** Transformation Doesn't Happen Overnight

"From General Motors' perspective, the concept of self-driving vehicles is transformational in the industry. However, automotive development cycles typically foster a greater focus on 'incremental' business innovations, because full-out transformation doesn't happen overnight. One way GM uniquely tackled this dichotomy was through our acquisition of [the autonomous driving startup] Cruise to enable the business to accelerate greater transformation in the self-driving space." - Frankie James, Managing Director, General Motors Advanced Technology Silicon Valley Office

**CARDINAL HEALTH:** The Right Ratio? It Depends

"It's a lot easier for us to do incremental innovation with existing customers and things that are already in flight. It's easier to work with a customer, add new capabilities, launch them, and see the fruits of your labor much faster. The transformational stuff is...many years out, and I think that [Cardinal Health is] not afraid to invest in it. But it's a lot easier to invest in things that are happening in the near-term... I think the right ratio depends on what you want your innovation center to be. Our innovation center is connected to our business and works closely with the lines of business. I've heard of some innovation centers where it's off completely to the side. Those are [more focused] on transformational [innovation.]" - Brent Stutz, Chief Technology Officer, Cardinal Health



NRG: Five or Ten Percent Transformational Makes Sense

"The transformational number [in the survey data] was shocking. It brought me to the question of, how do you define transformational innovation? Is it 23 percent of your time, or 23 percent of your budget? In my mind, the portfolio should probably be at 70/20/10, or even arguably at 5 percent transformational. Doing 23 percent might make sense at [at an aerospace or pharma company with a large R&D investment] who is working hard to keep up with these other companies. But NRG operates in a commodity business." - Stacey Butler, Director of Innovation, NRG



AMSURG CORP: Innovating in Three Areas

"My reaction to seeing 23 percent are focused on transformational work was, that sounded high. For us, it absolutely is high, as we're zero percent there. We've kind of bucketed our innovation in three different areas. One is new medical procedures that you can perform in an outpatient setting. A second is new models of care. The third is around digital health — tools and resources that would benefit the provider community, and make life easier for the patient." - Eric Thrallkill, CIO, AmSurg Corp.



FIDELITY INVESTMENTS: The Way I Define Transformational is...

"I'm a little stunned that people are doing that much transformational work. The way I define transformational is a completely new business, with new customers, than you are selling to today. Most of what Fidelity Labs works on is adjacent, and I'd say some stuff we're doing on blockchain — very little — would be categorized as transformational." - Sean Belka, Senior Vice President and Head of Fidelity Labs, Fidelity Investments



CLOROX: The Natural Innovation Cycle

"I think this is a number that fluctuates based on what the company needs. You may go into a cycle where it looks like all of our innovation is cannibalistic, and we need something farther out. It's the natural innovation cycle within a company. In Clorox, the [amount of transformational stuff we're working on] goes from 0-25 percent." - Lynne Dujmovich, VP of Marketing, Clorox

INNOVATION IS YOUR STRATEGY

KEVIN R. BOLEN, *PRINCIPAL, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP*
ALEX MILLER, *PRINCIPAL, ADVISORY, KPMG LLP*

Today, the notion of a stable core business is almost quaint. Seemingly overnight, the disruptive influences of platform business models, mobile and Wi-Fi penetration, APIs and near-zero data storage costs, advances in artificial intelligence and analytics are together fundamentally redefining all aspects of every enterprise.

In this environment, leaders need to focus less on optimizing the ratio of their innovation investments and instead ask themselves how they're going to drive the next short sprint of innovative transformation across the front, middle and back office functions. Companies that have already seen the need for new, digitally transformed business models are taking on new risks and beginning to drive a far more ambitious innovation mix than those that remain under-resourced or more conservative. To stay competitive, corporate executives need to align their innovation efforts with their overall strategic plans so they can make sure they have the appropriate capital, resources, and leadership to enable the possibility of innovation success.

At this point it's worth asking, if you believed that your core business model would be obsolete in three years, how differently would you approach innovation planning and investment? Would discussions of a 50/30/20 ratio even be relevant? Keep in mind, digitally native and data-enabled attackers are emerging from outside your traditional competitor set with value propositions and economic models you can't match. Hard assets that were traditionally valued in your core markets are now seen as costly, inflexible liabilities.

Today, innovation is your strategy. Continuous re-evaluation and reinvention of financial models, business models, and operating models is mandatory. Once leaders recognize these

imperatives, they must prepare their enterprises for a new pace of transformation. Specifically, you need to:

- **Democratize your innovation efforts.** Take steps to encourage employees across all levels to look for the signals of change that are going to impact their market, offering, function, or role.
- **Develop systems to allow small, local experiments to scale rapidly.** You want to capture competitive advantage and market value before it is commoditized and eroded. Embedding a customer-centric point of view and streamlining these processes will allow you to quickly assess new ideas and identify winners for future investment.
- **Pursue M&A efforts early.** We've seen companies use M&A as a catalyst for transformation, so be sure you've acquired the necessary capabilities, talent, data and technology at the outset of your efforts.

In this ever-evolving landscape, innovation investment allocations cannot be annual and cannot conform to norms defined in a bygone era. Strategic goals, identified in the context of current and future market conditions, have always been the basis for an optimal investment portfolio. But now, strategic goals must also enable innovation.

Today, innovation is your strategy. Continuous re-evaluation and reinvention of financial models, business models, and operating models is mandatory.



KEVIN R. BOLEN



ALEX MILLER

Who Owns Innovation, and What Type?

Because most corporations are so large, diversified, and complex, there are often several different groups that are involved, in some way, in innovation strategy and execution. And their involvement may change depending on whether the focus is on incremental, adjacent, or transformational innovation.

In an effort to help you compare and contrast your approach to others, we asked survey respondents, “Who is executing each type of innovation?” The results were fascinating.

INCREMENTAL: WHERE BUSINESS UNITS TAKE THE LEAD

The vast majority of respondents (82 percent) said that business units “owned” incremental innovation. Since incremental innovation involves looking for ways to improve today’s products, services, and internal processes, that makes sense. Incremental innovation work often can be deployed in a few months or quarters, and so it aligns with the horizons of many business unit leaders, since it can be rolled out quickly and have

an impact in the current or next fiscal year.

At the same time, business units are not the only group responsible for incremental activities. A central innovation team was involved at 36 percent of respondents’ companies, and 35 percent said the R&D team was involved (respondents could cite more than one group).

Interestingly, nearly 20 percent of respondents said they relied on an outside resource for incremental innovation. That includes a mix of rapid-prototyping shops, digital development agencies, and consulting firms to assist with execution or strategy. When it comes to incremental innovation, survey respondents tell us they rely on third parties to augment their teams; fast-track projects that require technical expertise they might not have in-house; or move things forward that would get stuck for months in the IT department’s project queue.

Reviewing the teams responsible for incremental innovation by industry sheds light on some interesting differences. For example, 97 percent of respondents in the financial services industry claimed that their business units were responsible for executing on incremental innovation.

Innovation focus by who is executing

	Business Units	Innovation Team	R&D Team	Skunkworks Team*	Corporate VC Group	Challenge Winners	Outside Resources
Incremental	81.6%	36.3%	34.8%	10.5%	7.1%	15.0%	19.9%
Adjacent	58.6%	57.5%	41.4%	23.4%	14.2%	17.6%	21.5%
Transformational	23.8%	65.1%	33.0%	30.3%	26.1%	15.7%	31.8%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

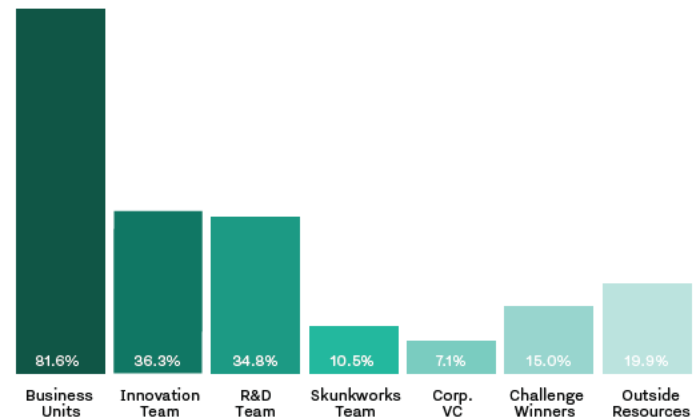
* Skunkworks are typically defined as small (and sometimes secretive) development groups insulated from the core business which have their own mission and funding.

WHO OWNS INNOVATION?

In the consumer goods and aerospace industries, however, R&D was likely to be involved. Both the CPG [consumer packaged goods] and aerospace industries have long track records of building up R&D infrastructure that is involved in all stages of product development, from incremental to transformational.

ADJACENT: BRINGING IN ADDITIONAL RESOURCES

While execution of incremental innovation work “lives” in the business units in many companies, execution of adjacent innovation is a bit more diverse. Business units were cited as the group responsible by 59 percent of respondents, but nearly that many (58 percent) say that a central innovation team supports or leads this work. And involvement of the R&D team edged up from 35 percent for incremental innovation to 41 percent for execution of adjacent innovation.



Who is executing incremental innovation?

Respondents were allowed to select all that apply.

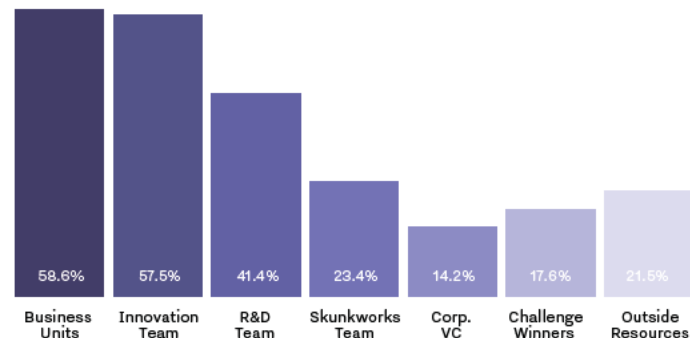
Industry	Business Units	Innovation Team	R&D Team	Skunkworks Team	Corporate VC Group	Challenge Winners	Outside Resources
Aerospace & Defense	60.0%	0.0%	60.0%	0.0%	0.0%	20.0%	20.0%
Automotive	88.9%	33.3%	44.4%	22.2%	0.0%	22.2%	11.1%
Consumer Goods	74.4%	25.6%	61.5%	5.1%	2.6%	5.1%	20.5%
Energy & Utilities	91.3%	47.8%	17.4%	13.0%	8.7%	26.1%	26.1%
Financial Services	96.8%	58.1%	29.0%	6.5%	16.1%	16.1%	32.3%
Forest & Packaging	60.0%	40.0%	80.0%	0.0%	0.0%	0.0%	0.0%
Government	75.0%	50.0%	25.0%	25.0%	0.0%	25.0%	16.7%
Healthcare	80.0%	46.7%	26.7%	13.3%	16.7%	20.0%	23.3%
Higher Education	83.3%	16.7%	33.3%	33.3%	16.7%	16.7%	0.0%

Who is executing incremental innovation in select industries

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

Pursuing adjacencies is more complex, and requires a more diverse set of skills and strategic insights; business units may have the time to help with certain aspects of the work — like conducting customer research or running in-market tests — but they often need additional support here. And because adjacent innovation often leverages new technologies, marketing approaches, and production lines, this frequently requires deep collaboration with IT, marketing, manufacturing, and more.

An industry view of the parties executing on adjacent innovation again provides interesting insight into focus and priority. In financial services, when it comes to adjacent innovation, business unit participation slides down to 68 percent, and a central innovation team picks up the mantle. That is the case at companies like MasterCard, Capital One, and Fidelity Investments (not all of whom participated in the survey), where well-staffed innovation labs have been created to help with adjacent product development and the exploration of “not yet ready for prime time”



Who is executing adjacent innovation?

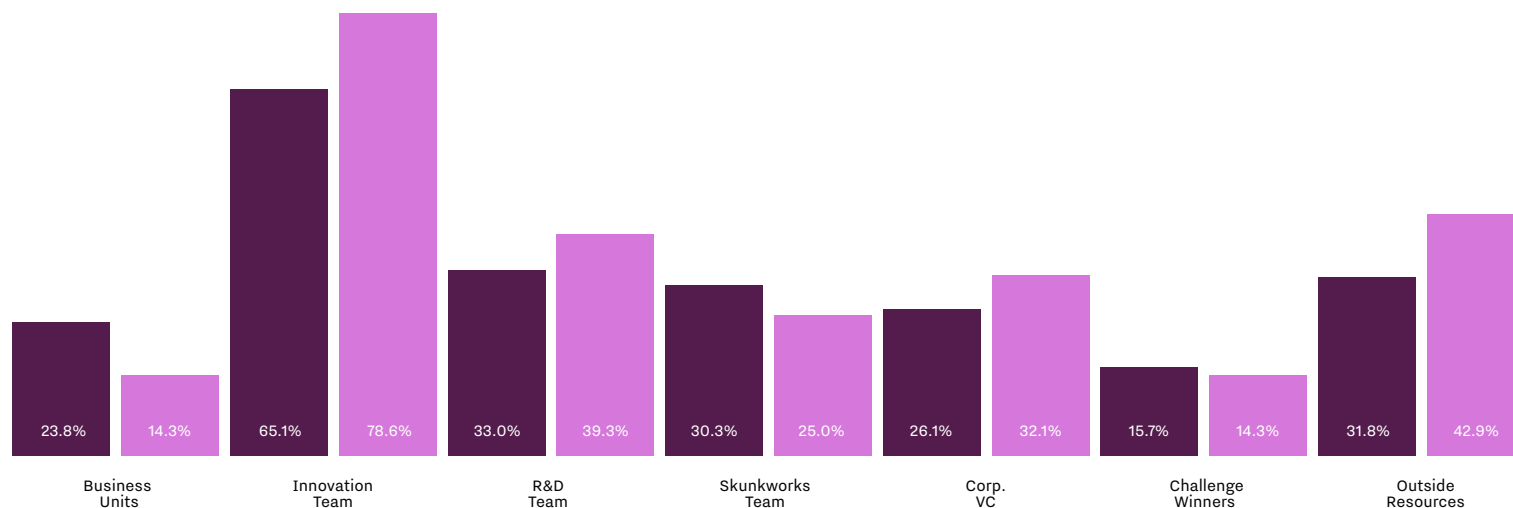
Respondents were allowed to select all that apply.

Industry	Business Units	Innovation Team	R&D Team	Skunkworks Team	Corporate VC Group	Challenge Winners	Outside Resources
Financial Services	67.7%	80.6%	35.5%	22.6%	35.5%	22.6%	22.6%
Forest, Paper & Packaging	40.0%	60.0%	80.0%	40.0%	20.0%	0.0%	0.0%
Government / Public Sector	54.5%	45.5%	0.0%	27.3%	0.0%	36.4%	45.5%
Healthcare	65.5%	65.5%	31.0%	17.2%	20.7%	20.7%	13.8%
Higher Education	83.3%	33.3%	50.0%	33.3%	0.0%	0.0%	16.7%
Industrial Manufacturing	55.0%	35.0%	70.0%	25.0%	15.0%	0.0%	25.0%
Media & Telecom	75.0%	68.8%	18.8%	18.8%	12.5%	18.8%	25.0%
Pharmaceuticals	25.0%	43.8%	62.5%	0.0%	18.8%	12.5%	31.3%
Retail	28.6%	71.4%	14.3%	14.3%	14.3%	14.3%	42.9%

Who is executing adjacent innovation in select industries

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

WHO OWNS INNOVATION?



Who is executing transformational innovation? (All respondents in dark purple, respondents from \$50B + companies in light purple)

Note: Respondents were allowed to select all that apply.

technologies.

Industries with established R&D departments, such as industrial manufacturing and pharmaceuticals, really start relying on those groups when they are attempting adjacent innovation; other sectors that don't have that internal resource, like retail and government agencies, turn to outside resources more frequently than other industries.

TRANSFORMATIONAL: DISTANCE AND INSULATION

Here is where the business units overwhelmingly get removed from the equation. According to the survey results, less than one quarter of respondents (24 percent) said their business units were involved in transforma-

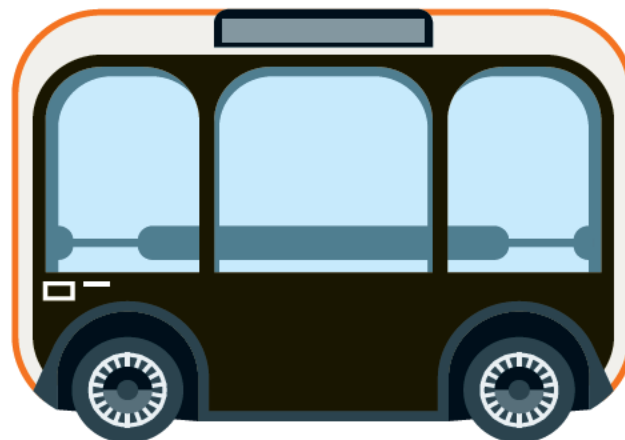
tional innovation. Some would say that number should be zero, since it's extraordinarily hard to work on transformational innovation when you're responsible for delivering quarterly results and near-term growth to the company. In some industries, such as pharmaceuticals and life sciences, the involvement of the business units did drop to almost nothing. But in other industries, such as retail and hospitality, business unit involvement was still quite high. Overall, however, the majority of transformational activity appeared to be the province of central innovation teams and R&D teams, which were cited by 65 percent and 33 percent of respondents, respectively.

Here also we saw a major uptick in the involvement of the corporate venture capital group, from only 7 percent involvement in incremental

innovation, to 26 percent in transformational innovation. In scouting the startup world for investment opportunities, many corporate venture groups take on the responsibility for identifying new products, services, or brands that will be relevant to the “mother ship” in the years ahead.

Interestingly, the “who is doing transformational innovation” answer varies by company size. For example, the largest segment in our survey was companies with more than \$50 billion in revenue. Those companies seemed to have business units even less involved in transformational innovation (14 percent, as compared to all companies at about 24 percent).

At those largest of companies, which likely have more resources at their disposal, central innovation teams, R&D teams, and outside advisors/consultants have even more of an outsized role in executing transformational innovation. ♦



INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Who is executing on each type of innovation at your company? How does that compare to your industry? Are the “right” teams focused in the right initiatives? What work needs to be done to realign those efforts?
2. Is your transformational innovation activity leveraging the right groups and skills across the enterprise? Are they appropriately removed from the monthly or quarterly pressures of the business units?
3. What type of coordination is there between your innovation, R&D, and corporate ventures groups? Would you say your objectives and missions are aligned? Is there overlap? Are roles clear and defined? What would help improve alignment and clarify roles?

RESOURCES

1. We created an “ecosystem” map highlighting the key players involved in innovation in a large company — and some of the conflicts that can emerge. It’s available in PDF form at: www.innovationleader.com/corporate-innovation-ecosystem
2. Working with a former SVP of Innovation from the insurance industry, we created a document that describes different roles and functions in the company — and the different things they may hear when you say the word “innovation.” It’s at: www.innovationleader.com/defining-innovation-new-resource

WHO OWNS INNOVATION?

INNOVATOR PERSPECTIVES



CARDINAL HEALTH: Build, Buy, or Partner

“For transformational innovation, we work with third parties all the time. We have a three-pronged approach: build, buy, or partner. Earlier on in [the history of] our innovation center, we’d bring smaller startups in to talk to them. In many cases, the engineering and R&D folks would say, ‘Hey, we could build that too.’ We actually track how many of the new ideas that come through our pipeline are C&D, connect and deliver, instead of R&D. Connect and deliver [means we get it from outside], versus thinking we have to do it all ourselves... It’s us looking for people who are innovating in spaces that we’re innovating in.” - Brent Stutz, Chief Technology Officer, Cardinal Health



FIDELITY INVESTMENTS: Plug Capacity, Skill, or Domain Knowledge Gaps

“It’d be interesting if corporates concluded they weren’t good at [some kinds of innovation], and they need outside help. But similar to the early days of the web, there’s a question of whether this is a transitional phase or the new normal. Companies may be using outside resources to be a bridge to figuring out what their model should be when they grow up, and when they bring in additional full-timers. We’ve tried to use outside parties to help us get smart about markets, and we’ve used some design consultancies to help us with capacity. Our approach has been trying to plug capacity, skill, or domain knowledge gaps.” - Sean Belka, SVP and Head of Fidelity Labs, Fidelity Investments



SOUTHERN COMPANY: A Suite of Solutions

“We have consulting firms, strategy firms that are design-thinking based... Using a suite of solutions [to provide capabilities] we haven’t had before really helps us grow...” - Michael Britt, SVP of the Energy Innovation Center, Southern Company



NRG: Harness Employee Intelligence and Ideas

“The NRG approach has been that we don’t innovate in a box. It’s really a grassroots effort. If we say that only these special innovators that sit over here are the ones coming up with the ideas, then we’re going to miss the boat. With all our people across the US, we need to be harnessing their intelligence and ideas.” - Stacey Butler, Director of Innovation, NRG

INNOVATING ACROSS THE ENTERPRISE

MICHAEL J. NOLAN, VICE CHAIR, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP

We are leading in an age of change that is unprecedented in the history of the modern corporation. Success in these times will not be achieved by ad-hoc innovation teams attacking only the threats they see in their unit or function. As the scope and scale of your innovation mandate changes in response to disruptive market forces, success at transformational innovation demands the focused leadership of a team empowered with driving efforts over the long term across the whole organization.

Conditions today call for a specialized team, unencumbered by daily revenue and profit goals, with specific competencies and the relevant experience to lead large, transformation-level investments. The right team will know how to experiment and drive rapid development. It will collaborate with the business units and synthesize their diverse needs into the right investments, with the right execution approach, led by the right people.

When looking to establish such a team, start by considering what is most efficiently and effectively done as a unified effort compared with what should be democratized. Emerging technologies, for example, often benefit at the outset from an enterprise-wide approach. Sheltered from day-to-day pressures, such investments can explore a variety of use cases and scenarios as technology, business, and operating models mature. These investments concentrate talent, vendors, and experimentation efforts allowing for rapid learning and iteration. Incremental innovation investments are often made most effectively at the business-unit level where customer feedback can be incorporated near real-time in development and deployment.

We know from our own firm's experience the value of enterprise-wide coordination and leadership. Our Innovation & Enter-

prise Solutions team has developed shared technology platforms and experimentation architectures for digital transformation, data and analytics, and artificial intelligence, which are being leveraged by our business units. Our signal scanning capabilities, Ignition Centers, Innovation Lab team, and design thinking protocols could not have been built and deployed as rapidly across the enterprise without the specialized talent of this dedicated team.

This type of approach also provides a vehicle for efficient allocation and governance of innovation funding and resources. Given the breadth of competing priorities, those in the business units struggle with the balancing act between making money today and investing for the future. Companies limit those risks by adopting a cross-enterprise view, informed by external trend analysis and longer-term objectives, and executed through a portfolio management system.

While traditional corporate attitudes often equate "centralization" with "bureaucracy," sustaining innovation at scale calls for redefining the resourcing and execution approach. To be successful at scale, with the scope of transformation facing today's leaders, efforts to innovate require the discipline, focus, and senior leadership support that can only come from an organization-wide approach.

Conditions today call for a specialized team, unencumbered by daily revenue and profit goals, with specific core competencies and the relevant experience to lead large, transformation-level investments.



MICHAEL J. NOLAN

2. FUNDING INNOVATION

28 FUNDING MECHANISM

31 FUNDING SOURCES

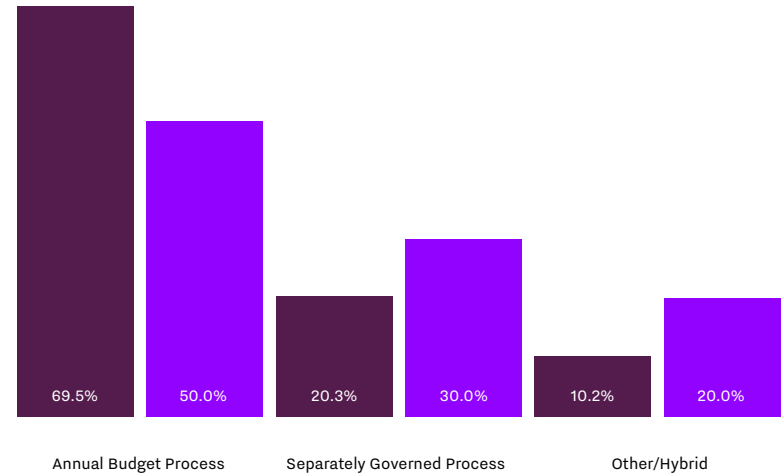
35 INNOVATION INVESTMENT

KPMG THOUGHT STARTERS

Strategically, how do you invest to innovate? How is your organization structured to invest for future growth and relevance? Those holding the purse strings set direction by their funding decisions, whether they intend to or not. How prepared are you to rapidly activate funding when required? It can mean the difference between capturing an opportunity and losing ground.

DATA HIGHLIGHTS

Nearly 75 percent of respondents said their funding for **incremental innovation** comes from the business units.



How does innovation get its budget? (All respondents in **dark purple** vs. Stage 5 most mature companies in **light purple**).

19%

of respondents said they **didn't know their total innovation expenditure** or that their budget was "too complicated to calculate."

Funding Mechanism

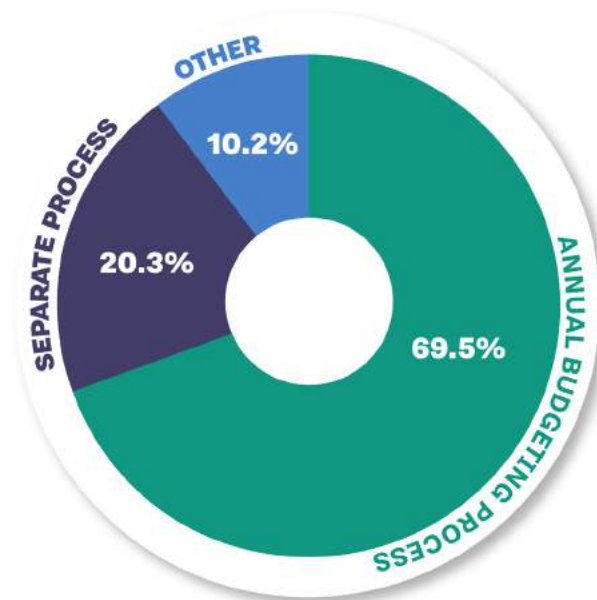
Closely linked to the issues of where budget comes from, and how much money innovation efforts get, is the budget allocation process. Specifically, when does the funding happen? Is it part of the company's annual budget process, or do companies have a separately governed investment process for innovation? The majority of respondents (70 percent) told us that their innovation budgets are funded as part of the annual budget process. Only 20 percent of respondents said their innovation budgets come from a separately governed investment process, which can perhaps respond more quickly to emerging needs.

Interestingly, roughly 10 percent of respondents said they had a different process. Nearly half of those were a hybrid of annual and separately governed processes (5 percent of all responses); a few others stated that they were funding projects on an "ad hoc" or "case-by-case" basis, perhaps with contributions from business units or functional groups that see value in a particular project. One respondent at a global telecommunications firm noted that his company had what he called a "standby budget," which is set during the annual budget process, but is not released until approved; getting access to the funds requires a green light through a formal process.

A SHIFT AT MORE MATURE COMPANIES

The funding story is different at the most mature companies. For companies that described themselves as Optimized (the most sophisticated end of our five-stage spectrum; see p. 80 for details), the number of respondents who say they have a separately governed innovation investment process jumps to 30 percent. Just as we saw more mature companies getting funding from their executive team, so too do we see some of these same companies getting funding allocated outside of the annual process.

With companies like Amazon and Tesla releasing product upgrades and new offerings continually, and with startups disrupting markets daily, the pace of change in many industries may necessitate being able to react in real-time, scaling a new concept that is gaining traction, without waiting for the annual budgeting cycle to roll around. ♦



How are your innovation efforts funded?

BREAKING THE CYCLE: INNOVATION FUNDING REIMAGINED

COLLEEN DRUMMOND, PARTNER, INNOVATION LABS AT KPMG IGNITION, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP

MITCH SIEGEL, PRINCIPAL, FINANCIAL SERVICES, KPMG STRATEGY PRACTICE LEAD, KPMG LLP

Do you know where your revenue will be coming from three years from now, and how are you investing to make it happen? Given the rapid pace of change, can organizations effectively invest in innovation through the annual budgeting process? We doubt it, yet respondents to the survey indicate that almost 70 percent of innovation efforts are funded this way. The fundamental problem with this approach is affirmed by our clients, many of whom have told us that the traditional annual budgeting cycle tends to favor operational and legacy line items. The constant tension between funding the core and investing in emerging capabilities can tip the balance against established companies.

Leaders responsible for strategy, innovation, and newly created CxO roles often express frustration with the limitations of the annual budget cycle. Many innovation investments cross organizational boundaries. And new CxO roles do not necessarily fit neatly in the organizational hierarchy, so those leaders often struggle with politics around new initiatives and budgets. They see the signals of change, and identify key areas where innovation is needed, but legacy consumes much of the budget and innovation investments often suffer “death by a thousand cuts.” Or, by the time the annual cycle rolls around, the window of competitive differentiation has closed.

We believe that the right way to invest in innovation – especially adjacent and transformational efforts – requires a process separate from annual operational budgeting. By creating the conditions for off-cycle funding, organizations can improve their own agility. In essence, this process calls for “lifting out” innovation investments, funding them with a separate pool of resources, and

subjecting them to a governance structure and metrics appropriate for an innovation portfolio. A separately funded and governed innovation process can:

- Enable rapid response to market and signal changes
- Position the organization to establish pockets of competitive differentiation
- Provide a mechanism to rapidly activate funding when required
- Create budget tolerances to enable both short- and long-wave innovation investment cycles

When considering how best to invest for innovation, leaders should ask questions including:

- How is your organization structured to invest for future growth and relevance?
- Are innovation investment decisions made as part of your annual budgeting process?
- What percentage of your organization's investments are consumed by legacy challenges?
- Do you have an innovation investment portfolio, or is innovation scattered around the organization?



COLLEEN DRUMMOND



MITCH SIEGEL

Do you know where your revenue will be coming from three years from now, and how are you investing to make it happen?

INNOVATOR PERSPECTIVES



GRAHAM MILNER: *If it's Not in the Budget, is it Real?*

"If it's not in the budget, is it real?" I like being part of the budget, in that it implies innovation is part of the company, and not an adjunct activity. If it's in the budget, it also implies a level of accountability, which is healthy. On the other side, if budgeting is an annual event (typically it is), then the idea that innovation can pay for itself in an annual cycle is unlikely. Once it becomes entrenched, the results of innovation over time will fund its activity — though seldom if ever in a complete annual loop. This suggests that viewing innovation as a longer-term investment may be logical, and the length of that cycle may be dependent on industry." - Graham Milner, Former EVP of Global Innovation, WD-40 Company



RACHEL ANTALEK: *Be a Good Corporate Citizen*

"It's not always realistic to be funded outside of the annual planning process. I've had success asking for a budget that reflects necessary flexibility: 'flex' headcount to bring in subject matter experts on time-limited assignments, and budgets tied to the number of experiments the team plans to run (vs. tied to a specific project) being two examples. I'd also recommend meeting off-budget cycle with your CFO to update him/her on where and how you're spending the budget. And most critical: be a good corporate citizen and give back your unspent budget." - Rachel Antalek, Former Vice President of Concept Innovation, Starbucks



AARON PROIETTI: *Budget Time is Best*

"The best time to identify where the funds will come from is at the same time as everyone else is doing their annual budgeting. The alternative, I suppose, would be to handle innovation investment on a project basis, with funds coming from other sources, such as the IT or marketing budgets. This makes some sense in companies where innovation is a side-of-desk endeavor and is not its own department." - Aaron Proietti, Former SVP & Chief Innovation Officer, major insurance firm



RICK WALDRON: *Longer-Term Work Needs a Different Funding Approach*

"Innovation groups should be funded in a way that tracks to their innovation horizon (H1, H2, H3) — i.e., in accordance with the timing and uncertainty of their outcome. Innovation work that is part and parcel of the core business (Horizon 1) and has near-term deliverables should be funded just like everything else (as part of the budgeting process). The outcome is relatively predictable, and the core business is making plans or forecasting results based on the incorporation of those innovations. Horizon 2 and Horizon 3 call for a funding model outside of the annual (or worse yet, quarterly) budgeting and planning cycle... Setting aside a longer-term 'fund' for investment in Horizon 2 and 3 opportunities and then funding and managing those opportunities as a venture capital firm funds and manages its investments will help give the enterprise the required staying power and investor discipline for the Horizon 2 and 3 opportunities." - Rick Waldron, Former VP, Nike Innovation Accelerator

Funding Sources

“Where does your funding come from?” That question, posed at a recent executive roundtable hosted by Innovation Leader in New York City, fueled an in-depth conversation about how the source of one’s budget can shape the focus, direction, and ultimate success of innovation programs.

And it became the impetus for a survey question that attempted to shed some light on the market at large.

INCREMENTAL: SUPPORT FROM BUSINESS UNITS

Nearly three-quarters of respondents (74 percent) stated that their funding for incremental innovation work comes from the business units.

That’s no surprise, considering a majority of respondents (82 percent) said that business units “owned” incremental innovation (see p.19), and are presumably using the innovation group as an auxiliary resource.

Respondents were given the opportunity to select more than one option, since funding is often provided by more than one group, depending on the initiative. About one-quarter of respondents noted that funding for incremental innovation can also be supplied by the executive team, R&D, IT, or the innovation department’s own budget. A smaller group said that marketing was a source of funding. There were slight variations by industry.

Nearly half (49 percent) of respondents in the consumer products industry said funding came from R&D. A majority of respondents in the pharma industry (56 percent) also said R&D was a big source of funding.

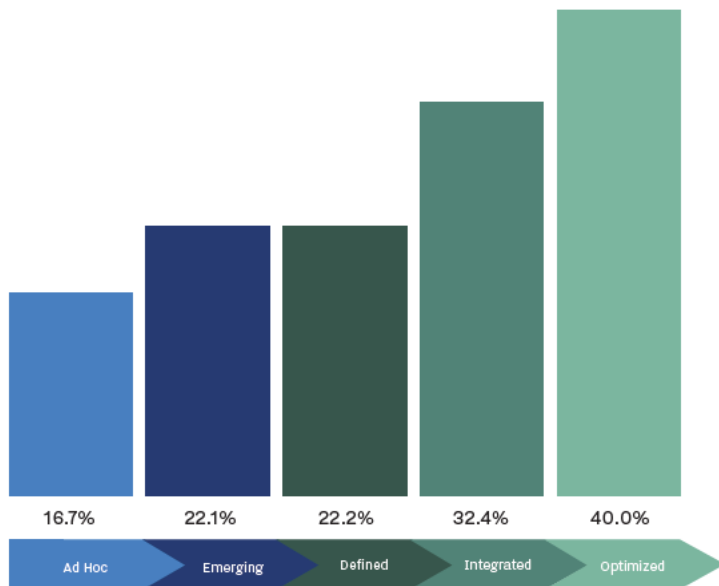
Interestingly, it does appear that respondents at more mature companies increasingly get funding for incremental innovation directly from the executive team.

Funding sources by innovation focus

	Business Units	Executive Team	R&D Dept.	Innovation Dept.	Marketing Dept.	IT/Tech Dept.	Corporate Ventures
Incremental	74.1%	23.2%	25.9%	27.0%	18.3%	25.5%	6.1%
Adjacent	54.0%	36.4%	25.3%	44.4%	14.9%	19.2%	14.2%
Transformational	29.1%	51.6%	24.4%	51.2%	5.8%	11.2%	23.6%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

FUNDING SOURCES



Does the executive team supply funding for incremental innovation? We found that mature companies (those towards the right end of the graph) increasingly get funding for incremental innovation directly from the executive team.

MATURITY AND EXECUTIVE FUNDING

Interestingly, it does appear that respondents at more mature companies increasingly get funding for incremental innovation directly from the executive team. For example, only 17 percent of respondents at the earliest stages of maturity said they get funding for

incremental innovation directly from the executive team; that number climbs to 40 percent for respondents at the most mature companies.

ADJACENT: MORE DEDICATED FUNDING

Funding for innovation projects that expand into new spaces, called adjacent innovation, is more likely to come from a diverse group of sources. Slightly more than half of respondents (54 percent) said that funding for adjacent innovation comes from the business units; that's significantly lower than the 74 percent of respondents who said the business units were involved in funding incremental innovation. While adjacent innovation leverages a company's core competencies, it often requires distance from the day-to-day operations of the business units — and insulation from conflicts that may arise — so it makes sense that fewer business units are involved in funding adjacent innovation activity.

The innovation team's own budget is often allocated to adjacent innovation (44 percent of respondents versus only 27 percent for incremental innovation.) Respondents also cited the executive team (36 percent) and R&D (25 percent) as other key funding sources for adjacent innovation.

Approaches to funding adjacent innovation don't seem to change significantly as companies get more mature. The only notable difference was related to corporate venture capital or corporate development: only 10 percent of respondents at the least-mature companies mentioned corporate ventures as a funding source for adjacent innovation work, but 20 percent of respondents at more mature companies did.

That suggests that at more mature companies, investments in startups or acquisitions may play a bigger role in helping the company expand into new spaces and address new customer groups.

TRANSFORMATIONAL: DOLLARS FROM THE TOP

As would be expected, the business units are far less involved in funding anything that could be categorized as transformational innovation: Only 29 percent of respondents said funding for transformational innovation comes from the business units. That's significantly lower than what they receive for incremental (74 percent) or adjacent innovation work (54 percent). That number drops as maturity increases. For example, 37 percent of respondents at the least-mature companies said business units were in-



involved in funding transformational innovation, but that number sinks to 27 percent once respondents reach the third stage of maturity, which we call Defined (see p.80 for definitions). More than half of respondents (52 percent) said that the executive team funded at least some of their transformational innovation work, and 51 percent said the innovation department relied on its own budget. The innovation group's separation from the business units, and short-term pressures, gives it the ability to pursue higher-risk projects that target entirely new business models, markets, or customer groups. ♦

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Mature companies are more likely to have support and funding from the executive team. How might you gain their buy-in and support? What alliances within the business might prove impactful?
2. The more that mature companies focus on adjacent and transformational innovation, the less the business units are involved. Do your efforts have enough separation from the business units and their financial pressures?
3. How connected is your innovation strategy to the corporate VC and development groups? As innovation teams become more mature, they appear to have stronger relationships with the corporate VC and "corp dev" strategies. How aligned is your organization, and what relationships need to be established to strengthen those ties?

RESOURCES

1. How should you budget for the launch of your innovation program? We posed this question to members of the Innovation Leader community. See their answers here: www.innovationleader.com/how-should-you-budget-for-the-launch-of-your-innovation-program
2. For more data on the funding relationship between innovation teams and business units, and to learn more about creating productive ties between those groups, see our 2017 report: www.innovationleader.com/biz-units-report

INNOVATOR PERSPECTIVES



NRG: A ‘Stringent’ Process

“We have a certain amount we’ve set aside for X number of tests at approximately X dollars per test. It’s fairly rare that we would go back to the well and ask for more money for testing. Our budget process is pretty stringent.” - Stacey Butler, Director of Innovation, NRG



CUNA MUTUAL: Building Trust with the CFO

“The CEO made a comment at the board meeting [in March] offering us more money. Then the CFO chimed in. He agreed. I about fell off my chair. He has worked with all of us over 20 years and he said, ‘I trust you guys to make prudent decisions.’ We’ve all delivered excellent business results for the company. He trusts we know how to navigate the intersection between being innovative in financial services — and being subject to higher levels of regulation and stewardship expectations.” - Dan Kaiser, SVP of Innovation, CUNA Mutual



JOHNSON & JOHNSON: Supporting the Needs of Three Sectors

“All our businesses silo into three sectors: consumer products, medical device, or pharma. What I run is a separate business, an LLC called J&J Innovation, that operates on behalf of all three of those sectors, and is intended to support the investment needs of all those businesses. We have our own budget, teams, and P&L that we use to organize what we do — and a lot of in-kind resources come to us from the businesses. There are two pieces [of our budget]: the operational budget — how do I buy the coffee and hire the people — which is an annual budget that [is allocated] the same as any other business. Then there is the investment funding. That is fungible, and it gets allocated every year. It has never been a constraint for us, but every [investment] deal has to stand on its own two feet, based on the value proposition.” - Robert Urban, Global Head, J&J Innovation

Innovation Investment

Annual investment in innovation is extraordinarily difficult to calculate, especially at large corporations where efforts are distributed across multiple business units, innovation labs, and corporate functions. That's why 19 percent of survey respondents threw up their hands when we asked about their budgets, saying they didn't know their total innovation expenditure or it was "too complicated to calculate."

But those who did estimate their innovation budgets provided rich data. For example, 12 percent of respondents said their annual innovation investment — including direct investments and costs of full-time equivalents — was more than \$100 million per year. Twenty percent of

respondents said they spent between \$10 million and \$99.9 million, although the plurality of respondents landed somewhere between \$1 million and \$4.9 million. Roughly 23 percent said they spent less than \$1 million.

LARGE COMPANIES, LARGER BUDGETS

Not surprisingly, financial commitments to innovation increased with company size. For example, more than one-third of companies with \$50 billion or more in revenue spent \$100 million or more per year on innovation, and the majority (62 percent) spent \$10 million or more. Notably, only 3 percent of the \$50+ billion companies spent less than \$1 million per year. Most companies of this scale, it seems, are investing in the future, often by operating R&D or innovation centers around the world.

BIG BUCKS: IN TECH AND AEROSPACE

The largest innovation budgets seemed to be in the technology and aerospace & defense industries, where annual spending exceeded \$100 million for 30 percent and 40 percent of respondents, respectively.

Both industries have innovation in their DNA, and are increasingly

19 percent of survey respondents threw up their hands when we asked about their budgets, saying they didn't know their total innovation expenditure or it was 'too complicated to calculate.'

Innovation investment, all respondents vs. \$50B+ companies

	All Respondents	\$50B Co's
\$100 million or more	12.4%	34.5%
\$50 million to \$99.9 million	5.3%	10.3%
\$25 million to \$49.9 million	6.4%	6.9%
\$10 million to \$24.9 million	8.3%	10.3%
\$5 million to \$9.9 million	9.4%	3.4%
\$1 million to \$4.9 million	16.5%	13.8%
\$500,000 to \$999,999	5.6%	0.0%
\$100,000 to \$499,999	10.5%	3.4%
\$99,999 or less	6.8%	0.0%
Don't know / Too complicated	18.8%	17.2%

Note: Circled data is described in the text

investing not only in attracting top talent and running their own internal labs, but in startup investments and collaborations.

That level of investment can be contrasted with the financial services industry, where a plurality of respondents (19 percent) reported annual innovation investment between \$1 million and \$4.9 million. Respondents in the healthcare industry also had a plurality of respondents in that same range (34 percent). In the consumer products category, the largest grouping of respondents (39 percent) said their annual innovation investment was between \$1 million and \$24.9 million.

MATURE COMPANIES SPEND MORE

It does appear that mature companies are more willing to allocate

capital to innovation. In the table below, we filtered respondents by the maturity of their organizations. The two least mature stages (Ad Hoc and Emerging) are listed as the “Less Mature” column; the two most mature stages (Integrated and Optimized) are listed as the “More Mature” column.

As you can see, expenditures increased in every range above the \$5 million level.

Conversely, respondents at less mature companies seem to be more prevalent in the expense categories below \$4.9 million. Increased budgets tend to come with success and traction. Less mature companies may not have seen those successes yet, or may not have communicated the successes well, which may explain the smaller investment numbers. ♦

Innovation investment by industry

	Tech	Aero & Def	Financial	Healthcare	CPG
\$100M or more	30.0%	40.0%	6.5%	6.3%	12.8%
\$50M to \$99.9M	0.0%	20.0%	9.7%	6.3%	2.6%
\$25M to \$49.9M	20.0%	0.0%	6.5%	9.4%	7.7%
\$10M to \$24.9M	0.0%	0.0%	9.7%	6.3%	12.8%
\$5M to \$9.9M	0.0%	0.0%	12.9%	9.4%	10.3%
\$1M to \$4.9M	15.0%	20.0%	19.4%	34.4%	15.4%
\$500,000 to \$999,999	10.0%	0.0%	6.5%	3.1%	0.0%
\$100,000 to \$499,999	5.0%	20.0%	6.5%	12.5%	12.8%
\$99,999 or less	5.0%	0.0%	0.0%	0.0%	7.7%
Don't know	15.0%	0.0%	22.6%	12.5%	17.9%

Note: Circled data is described in the text

Innovation investment by maturity

	Less Mature	More Mature
\$100M or more	10.1%	17.8%
\$50M to \$99.9M	3.8%	4.4%
\$25M to \$49.9M	4.4%	11.1%
\$10M to \$24.9M	4.4%	15.6%
\$5M to \$9.9M	10.1%	11.1%
\$1M to \$4.9M	17.7%	15.6%
\$500,000 to \$999,999	7.6%	4.4%
\$100,000 to \$499,999	11.4%	4.4%
\$99,999 or less	8.2%	4.4%
Don't know	22.2%	11.1%



RICK WALDRON: Build the Case for Innovation Investment

“[For companies] with a budget of less than \$1M, it seems like the job is to build a case for innovation investment, versus [doing the work of] innovation itself. That means that it’s imperative to engage with senior management and show how and why innovation work beyond [the kind of work being] done in the core business is essential, and why and how it needs to be managed and funded differently. Using the current level of funding to bring senior management along on the journey and educate them through concrete, tangible examples will be the key to unlocking more resources for an innovation program, versus trying to PowerPoint your way to more funding.” - Rick Waldron, Former VP, Nike Innovation Accelerator



AARON PROIETTI: When Expectations Exceed Funding...

“It’s very possible that a \$1M budget is plenty to deliver on the organization’s needs, if they just need a refreshed marketing campaign or a line extension product, for example. In that case, while it may be comforting to get more resources, it simply may not be necessary. The problems arise when someone expects innovation to deliver something that it’s not designed, or defined, or funded to do. If the person who expects it to do more is the CEO or department head, the case for getting a bigger budget is simple. ‘You’ve asked us to deliver X, we’ve analyzed it, and believe that it would cost Y to deliver that.’” - Aaron Proietti, Former SVP & Chief Innovation Officer, major insurance firm

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Nearly 20 percent of respondents didn’t know their annual innovation expenditures. Are you in that category? What would you need to do to understand the costs associated with your portfolio of innovation-related activities? How might those costs be compared to the “Most Valuable Tactics” outlined on p.50 of this report? Could you justify the costs and value of each program?
2. Executives who can justify programs and communicate that value across the enterprise have a higher likelihood of capturing budget. Have you been able to demonstrate success for particular programs? Have those successes been communicated to the right executives and departments?

RESOURCES

1. “19 Signs Your Company is Under-Investing in Innovation”: www.innovation-leader.com/19-signs-your-company-is-under-investing-in-innovation
2. Working with a former SVP of Innovation from the insurance industry, we created an editable PowerPoint presentation, “Making the Case for Innovation.” It’s available to IL members in our resource center, under “Innovation Leader Resources.” See: www.innovationleader.com/resource-center
3. How should you budget for the launch of an innovation program? We collected advice from leaders in a range of industries, at: www.innovationleader.com/how-should-you-budget-for-the-launch-of-your-innovation-program

3. DELIVERING IMPACT

40 MEASURING PROGRESS

46 INCENTIVES FOR INNOVATION

50 MVT (MOST VALUABLE TACTICS)

56 STAFFING

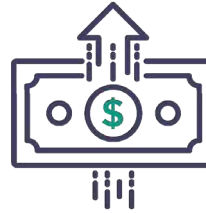
61 OBSTACLES TO INNOVATION

66 ENABLERS OF INNOVATION

KPMG THOUGHT STARTERS

If culture reflects an organization's commitments and priorities, based on its choices and actions, what does your culture reveal? Do your actions reflect innovation as a priority? If not, what is getting in your way? How can you be more action-oriented?

DATA HIGHLIGHTS



The most common way companies measure the impact of their innovation work is **revenue generated by new offerings**.

The three main **obstacles** respondents say they grapple with:



What are the most important **enablers of innovation**?

#1

Leadership
Support

#2

Ability to Test,
Learn, Iterate

#3

Correct Team,
Employees

Nearly half of companies said they've created some kind of **recognition or award program** to incentivize employee participation in innovation programs. But 35% **don't offer any incentives at all**.



Measuring Progress

When attempting to measure the success of innovation programs or R&D activity, companies may rely on a mix of softer measures — patents issued or ideas collected, for example — and harder, quantitative ones.

Those may include “revenue generated by products in-market for less than three years,” or cost savings. For the purposes of our survey, we created two categories of metrics: non-financial metrics and financial metrics.

The former would include tracking activities like “number of startups we’ve met with” or “training workshops held,” while the latter would include more concrete outcomes like market share increases or improved worker efficiency.

Financial metrics

Metric	Response
Revenue Generated From Innovation Products	60.2%
Internal Rate of Return (or similar metric)	27.9%
None (Do not track financial impact)	25.3%
Efficiencies	22.7%
Other Financial Metric	12.3%
Earned Value Analysis	11.2%
Innovation Revenues as % of Total Revenue	0.0%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

FINANCIAL METRICS

By far, the most commonly used financial metric was “revenue generated from innovation products,” which was cited by 60 percent of respondents. (That number was down slightly from our 2015 benchmarking survey, when 69 percent of respondents said they used revenue as a measure of success.) This is an indicator that every CEO and CFO can buy into, so for many companies it is the default data point. But moving the needle significantly on this measure can take years. Slightly more than one-quarter of respondents (28 percent) said they track “internal rate of return (IRR)” or a similar metric; IRR is used to estimate the profitability of internal investments.

A few respondents provided additional detail on their metrics, noting they specifically track “margin generated from innovation products,” project profitability, or cost of development.

But one-quarter of respondents told us they do not collect financial metrics related to their innovation program at all. That number, however, was 31 percent among the least mature companies; only 11 percent of respondents at the most mature companies said they aren’t gathering financial metrics.

WITH MATURITY, REVENUE GROWS IN IMPORTANCE

A few other points become clear when comparing respondents at the two least mature stages with respondents at the two most mature stages. First, as can be seen in the first row in the chart at right, it’s much more likely that mature companies track revenue generated from innovation products or activity.

Financial metrics by maturity

Metric	Least Mature	Most Mature
Revenue From Innovation Products	53.5%	80.4%
Internal Rate of Return (or similar metric)	25.8%	34.8%
None (Do not track financial impact)	30.8%	10.9%
Efficiencies	21.4%	30.4%
Other Financial Metric	13.8%	8.7%
Earned Value Analysis	10.7%	21.7%
Innovation Revenues as % of Total Revenue	0.0%	0.0%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

This is a classic measure of how well a new product development engine is operating. But based on the company's definition of what counts as a "new" product, it may reward line extensions and creating Version 2.0 of existing products, rather than activity in the adjacent or transformational arenas.

Second, the number of companies that don't track any financial metrics at all is significantly higher for less mature companies. Companies that are early in their innovation journeys often don't know what their focus will be, are trying several different activities to see what will deliver value, and haven't yet put in place a measurement regime.

But what's most notable is that literally nobody — not a single respondent — said they tracked innovation-related revenues as a percentage of total revenue. That metric, often called the "new product vitality index" and popularized by 3M, simply is not yet widely adopted by innovation programs.

Financial metrics by industry

Metric	FS	Retail	Tech
Revenue From Innovation Products	38.7%	51.7%	81.8%
Internal Rate of Return (or similar metric)	25.8%	14.3%	22.7%
None (Do not track financial impact)	48.4%	28.6%	13.6%
Efficiencies	38.7%	14.3%	22.7%
Other Financial Metric	12.9%	14.3%	4.5%
Earned Value Analysis	3.2%	0.0%	18.2%
Innovation Revenues as % of Total Revenue	0.0%	0.0%	0.0%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

While there was almost no variation between the financial metrics tracked at large companies compared to those tracked at small companies, the respondents' industry actually did have an impact.

For example, only 39 percent of respondents at financial services firms tracked revenue generated from innovation products, but that metric was monitored by 82 percent of respondents at technology companies. That may be because technology companies have faster cycle times for creating new products, so they may have more in-market to measure and track. It's also aligned with survey data regarding organizational maturity; a higher percentage of respon-

Companies that are early in their innovation journeys often don't know what their focus will be, and haven't yet put in place a measurement regime.

METRICS

dents from the technology industry claimed they were further along on the maturity spectrum than financial services companies.

NON-FINANCIAL METRICS

The most common non-financial metric used by companies to measure the efficacy of their innovation programs was progress metrics, cited by 60 percent of all respondents.

Those metrics — such as stage-gate metrics or number of projects in the pipeline — are generally referred to as activity or input metrics, not impact or outcome metrics. These metrics typically gauge, for example, how many new projects are being born or moving through “stage gates,” but not the financial impact of those projects. Nevertheless, these progress metrics can be an early proxy for success, before a new innovation group has moved concepts into production internally, or seen them launched in the market.

Slightly fewer than half of respondents (46 percent) said that learnings or “insights generated” was a key metric they tracked. That number was higher for the most mature companies (55 percent) than it was for the least mature companies (35 percent).

CUSTOMER INTERACTIONS AS A METRIC

The difference between the more and less mature companies is stark when it comes to non-financial metrics. This helps illuminate what it takes to move along the maturity curve. First, as one can see from the table above, the most mature companies prioritize the tracking of

Non-financial metrics by maturity

Metric	Least Mature	Most Mature
Customer Touch-Points	23.3%	63.6%
Learnings/Insights Generated	34.9%	54.5%
Progress Metrics	44.2%	45.5%
Patent Applications	18.6%	27.3%
Other Non-Financial Metrics	4.7%	27.3%
Brand Building/ Market Perception	20.9%	27.3%
Employee Participation Rates	27.9%	27.3%
Hypotheses Tested	16.3%	27.3%
Number of Ideas Generated	39.5%	18.2%
Media References or Press Mentions	14.0%	18.2%
None	25.6%	0.0%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

metrics related to customer touch-points and interactions, as well as learnings and insights generated. Those activities suggest an organization that is in regular contact with customers, and able to test, learn, and iterate.

Second, about one-quarter of the respondents at less mature companies (26 percent) said they didn't track any non-financial metrics, compared to zero percent of the most mature companies.

And of less mature companies, 65 percent told us they weren't tracking financial metrics — so that group seems to be largely companies that haven't yet put a measurement dashboard into place. In many cases, that doesn't lead to a long tenure for individuals or a long lifespan for innovation teams. ♦

KEY QUESTIONS

1. Are you tracking the right metrics for your particular strategy? The most frequently cited metric tracked by respondents was “revenue generated from innovation products.” But tracking revenue isn’t relevant for most transformational strategies, which have long time horizons. How do your metrics reflect success in the incremental, adjacent, and transformational realms?
2. In addition to the “what,” ask the “why.” Why are you tracking metrics, and for whom? What are you trying to demonstrate? What would a successful metrics report look like? The best metrics are specific to your company — they aren’t generic. So how do you ensure that the goals of your leadership team are reflected in what you’re measuring?
3. Is your organization metrics-obsessed? Is that mindset productive for your innovation strategy? There is a danger to focusing on metrics, as they may be counterproductive for innovation executives who are trying, for example, to experiment with or test new business models. Could metrics backfire? As you develop a metrics dashboard, consider including key internal stakeholders who are most interested in understanding your progress. Getting alignment early could help minimize problems later.

RESOURCES

1. How can you design an effective “Mission Control” for your innovation work? In collaboration with XPLANE, we created a large-format visualization to help you think through the development of an effective set of metrics. It’s available at: www.innovationleader.com/innovation-illustrated
2. Our 2015 research report on Untangling Innovation Metrics is available to IL members at: www.innovationleader.com/2015-metrics-report/
3. Our online resource center contains a section on metrics and scorecards: www.innovationleader.com/resource-center/

OTHER METRICS

Survey respondents were given the opportunity to enter “other” financial and non-financial metrics they use to measure innovation impact at their organizations. Here is a collection of those answers:

Financial Metrics:

- Margin generated from innovation products
- Expected NPV (net present value)
- Volumetric analysis and rate of sales
- Infrastructure investment dollars from innovation
- Number of successful technology transitions into existing business areas
- Lean metrics
- Cost of development
- Co-funding
- Overall income
- Basic project-based ROI
- Dollars invested, deployed capital

Non-Financial Metrics:

- Trade/industry awards
- Employee support/excitement
- Employer branding
- Number of new customers for innovation products
- Partner and ecosystem involvement rate
- “Shots on goal”
- Employee participation growth in program year over year
- Experiments, failure, leadership support, usage of innovation tools
- Net Promoter Score
- Process effectiveness

INNOVATOR PERSPECTIVES

**NRG:** Measurement Can Be Challenging

"We measure revenue from new products. It's difficult to look at your incremental customer count, or conversion rates. We do some measurement on the impact of new products on reduced attrition, and comparing it to control groups, but it's hard to say that all things are equal. In our innovation structure, we don't own the ultimate P&L, so there are decisions about pricing and channel mix and what's going to be promoted in the media [that we don't control.] We've talked internally that it would be much easier for us to measure our innovation program quantitatively if we had a score like a Net Promoter Score, which we use to measure customer experience." - Stacey Butler, Director of Innovation, NRG

**CAMBIA HEALTH:** Innovation is Not R&D

"We use IRRs... If you're funding a small startup or things of that nature, IRRs are a good way to review if you've created assets beyond your investment. But at the end of the day, I agree that revenue from innovative products really reflects the innovation continuum, and reflects on the fact that innovation is not R&D. With R&D, you might want to look at long-term impact. But innovation is about taking on the market." - Mohan Nair, Chief Innovation Officer, Cambia Health

**CSAA INSURANCE GROUP:** Audacious Goals

"[Measurement] is definitely one of the hardest things. We have a pretty audacious goal to drive \$1 billion in revenue in the next decade as a result of innovation activities. We're a \$3.5 billion company, so that's no small feat. What I like is that it's so audacious that there's no way we're going to achieve that just by doing the same thing that we've been doing for the last hundred years... The ultimate measure is revenue, and we've broken down the \$1 billion in the next decade into, 'How much do we need to get to in the next few years?' That's also part of our long-term incentive bonus program for our executives." - Debbie Brackeen, Chief Strategy & Innovation Officer, CSAA Insurance Group

**CUNA MUTUAL:** Our Top Three Metrics

"We have a dozen [general metrics], but these are the top three. First is net number of customers. Forget the revenue and profitability. Are there a growing number of people who buy and stay on this? [Second] is the number of new solutions where someone actually is buying something. We have a list of 100 cool ideas, but it's theater until someone gives us one dollar and we give them something in return. The third [metric] is one related to our insurance product specifically, and it is focused on experimentation with how we underwrite, to understand the impact it has on marketing and payouts." - Dan Kaiser, SVP of Innovation, CUNA Mutual



CLOROX: Revenue is an Imperfect Measure

"We use revenue the most. But it's imperfect; innovation has value beyond what can be measured by the new product. If you are consistently innovative, it makes your brand more valuable. Traditional metrics can actually undervalue the innovation program... but they're reasonable. Revenue is very good and NPV (net present value) matters today, because you don't want to spend \$20 million on something and not get anything for it." - Lynne Dujmovich, VP of Marketing, Clorox



SOUTHERN COMPANY: Measuring the Culture of Innovation

"[We look at the] number of employees that we've engaged or trained on innovation methodologies, [and] the number of organizations that we've helped. We evaluate a lot of things around the culture of innovation. We look at what kind of external engagement we've had with the ecosystem and [with] accelerators. [We also evaluate whether we've] done a good job of ideation, pipeline numbers, things like that." - Michael Britt, SVP of the Energy Innovation Center, Southern Company



AMSURG CORP: ROI Depends on Adoption

"One metric we track is the number of people that we've exposed to learning about innovation... The CFO wants to know for this amount of spend, what are we getting in return? But until that handoff [of a new concept] to the business occurs, and is successful, we're not going to be able to tell you that number. And for us, ROI also depends on the adoption [of a new concept] by AmSurg's ambulatory surgical center partnerships. We're not a chain of Waffle Houses; we can't just say, 'Do this.' Each individual medical partnership has to adopt it... But if we can achieve 1/10th of a percent improvement in cancellation or no-show rates [for appointments] nationwide, that's a big deal for us." - Eric Thrallkill, CIO, AmSurg Corp.



CARDINAL HEALTH: Solutions that Customers Want

"Showing that you're building innovative solutions that consumers want is important. We budget on an annual cycle, and [we want to] show that there are products that we're supporting and are in the marketplace. Every time customers come to Fuse, [our innovation lab], we give them surveys before or after and we measure their impression, or the change of their impression, of Cardinal Health as an innovative partner. We're changing our customers' opinions on how they perceive us... We're [also] measuring some of the cultural changes that were finding their way back to the larger corporation. Some of our methods and techniques are being copied and modeled in the broader organization." - Brent Stutz, Chief Technology Officer, Cardinal Health

Incentives for Innovation

How do you get more people involved with innovation? What motivates them? And how do you help them carve out time to develop their ideas?

Developing a set of incentives and rewards that works for your culture requires careful thought.

Our survey found that almost half of all companies offer some kind of recognition or award to employees as part of their innovation program. That can include everything from desk ornaments or plaques to time with the CEO or recognition onstage at a company event. One respondent noted that her company offers “non-monetary incentives like days off or prizes like plane tickets.” Another said, “We showcase employees and their research in annual expos.”

But “recognition” for ideas without time to develop them can make some employees feel like they’ve hit a brick wall. In some organizations, the incentives for innovators may include a three-month period of time off from one’s regular job to work on a project, with a

Innovation incentives

Incentive	Response
Recognition/Awards	49.3%
None (We do not provide incentives)	35.4%
Dedicated Time for Employees to Innovate	21.6%
Seed Funding for Employees	19.0%
Employee Bonuses Tied to Innovation	17.5%
Other	7.1%
Equity, Financial Stake in New Products	4.5%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

budget for contractors, testing, and other kinds of support. That kind of approach has only taken hold at about one-fifth of all companies, however, with 22 percent of survey respondents telling us that their company offers dedicated time for employees to innovate.

Only about one-fifth of companies (19 percent) offer some kind of seed funding to help get ideas off the drawing board, and fewer than that (18 percent) provide bonuses to individuals that are in some way tied to innovation performance.

More than one-third of respondents acknowledged that their organizations don’t (or don’t yet) provide incentives for participation in innovation initiatives.

Either they’ve decided that some employees will get involved with innovation work for the intrinsic rewards of it (or for résumé enhancement), or those companies are still thinking through what kinds of incentives will most motivate employees in different parts of the organization.

The vast majority of respondents who said their companies were at the earliest maturity stage (62 percent) offer no incentives for innovation.

Incentives seem most pervasive in the tech sector, where nearly two-thirds of respondents (64 percent) offer some kind of recognition or reward program. ♦

Our survey found that almost half of all companies offer some kind of recognition or award to employees as part of their innovation program.

WHAT INCENTIVES DO INNOVATION PROGRAMS USE?

At a recent Innovation Leader Field Study, one participant started a discussion about incentives — how can you build systems that reward people for contributing to innovation? Field Study participants used sticky notes to share the incentives they offer to encourage employees to dedicate time and energy to innovation:

FINANCIAL INCENTIVES

- Discretionary small incentive [money] for innovative ideas.
- Give money and time to try ideas with minimal approval to get started.
- Skin in the game.
- Money for patents.
- Monetary rewards.
- Incorporate [innovation activity] into existing bonus structure, and have a set participation goal for each employee.
- Cash/stock for ideas that generate cost savings or revenue.
- Tie incentives to annual review.

PROJECTS, TEAMS AND LABS

- If you come up with an innovative idea, you get to work on it.
- Rotation onto an innovation team.
- Temporary relocation to the innovation lab to prototype the idea.
- After a competition for ideas, winner is given three-month sabbatical to work on project with internal resources and support.

AWARDS

- Create awards, like an “Employee choice for innovator of the year”
- Awards banquet. Patent plaques. Monetary rewards.

PERSONAL DEVELOPMENT & LEARNING

- Institute innovation as a personal development goal for employees. Make it part of job descriptions and expectations as soon as people start.
- Career advancement opportunities. Exposure to senior leaders. HR performance incentives. Career development and education.
- Position it as a benefit to be selected to work on innovation team.
- Ask employees for their learning desires and help them achieve them.
- Offer incentives for certain roles when they take innovation courses.
- Education and training stipends for employees.

MENTORING & ACCESS TO LEADERSHIP

- Make innovation aspirational; let associates take a role in a mentor-supported opportunity to launch your own idea.
- Give employees access to senior leadership when ideas are developed.
- Time with global leadership.

OTHER RECOGNITION

- Outstanding concepts are rewarded with one month of private use of a company-owned Tesla. Some cases merit a tropical vacation benefit or cash.
- Vacation days. A trip to a destination of the employee's choice. Awards and badges. Adoption.
- Early stakeholder involvement in front-end meetings.
- Make it real, not a “side hustle.”
- Recognize people as smart and creative.

INNOVATOR PERSPECTIVES



FORTUNE BRANDS: Intrinsic Satisfaction Motivates People

“I don't think rewards for innovation work. It is the intrinsic satisfaction that motivates people to be innovative — seeing their products and ideas in the market or in the press. At an organizational level, there's a benefit of elevating innovation as a strategic priority, and including it in the scorecard. This cascades down and provides focus and attention and, you can say, an incentive.” - Moisés Noreña, Vice President of Innovation, Fortune Brands



WHIRLPOOL: \$20,000 Works Well

“We have something called the Spark competition, and folks across the company are encouraged to participate. It's about innovation outside of the core – breakthrough innovation. You get \$20,000 if you're a winner.” - Colette Matthews, Global Head of Innovation, Whirlpool



CSAA INSURANCE GROUP: Bonus Program for Executives

“One of the programs that we've recently kicked off to introduce a different way of looking at growth is called the Velocity Program. It's basically the lean startup [methodology] adapted to the enterprise...[and a] bonus program for our executives. Everybody understands they have some skin in the game... [The] program will build a portfolio of growth initiatives at different stages in the stage-gate model... We'll have different opportunity areas that we're hunting in... New models of mobility, and how people are getting around with new forms of transit, is our first opportunity area.” - Debbie Brackeen, Chief Strategy & Innovation Officer, CSAA Insurance Group



GRAHAM MILNER: Rewards Based on In-Market Sales

“Rewarding the innovation team on successfully meeting stage gates has always seemed to make sense to me. Concepts, prototypes, and launches could all be rewarded in escalating amounts... I also like rewards / incentives based on one year, three year, and five year sales results as innovations take hold in the market... In-market results help ensure that the teams recognize that simply getting ideas to product to launch is only part of the story. [It] also helps ensure that the innovation team is not seen as an ‘ivory tower’ team disconnected from budget and market reality.” - Graham Milner, Former EVP of Global Innovation, WD-40 Company



RACHEL ANTALEK: Patents and Stock

“I’ve seen rewards for patent filings (both those named on the patent, as well as those playing a supporting role). Another reward I’ve seen is retention stock awarded to top innovators (vesting at two and four years), which helps in a few ways. One, it keeps them focused on the future valuation of the company; two, it helps them feel valued during the ‘troughs’ or low points of innovation; and three, it counterbalances the challenge innovators have with defining annual bonus-able goals.” - Rachel Antalek, Former Vice President of Concept Innovation, Starbucks



RICK WALDRON: Measuring the Culture of Innovation

“For Horizon 2 and 3 work, where the timeframe is greater [and the] odds longer to achieving enterprise-level impact, that makes the risks greater for the employees engaged in the work (e.g., stepping off the standard career track or high odds of a dead end, shut down and team termination). I’ve seen a few things that have been effective in recognizing and rewarding employees. One is using corporate communications to communicate the story of the innovation work internally (and sometime externally), highlighting the employees and their work as valuable, showing the merits of informed risk taking (even showing how ‘intelligent failure’ is of value), contributing to the corporate culture of innovation, etc. The second is using the innovation work as an important tool in high-potential-employee development, in which it is seen as a feather in the cap to be able to rotate into the innovation team, and doing that work well is a requirement for moving up through the ranks. The work itself and association with the innovation effort becomes a prize. The third is offering the employees involved in the innovation work the opportunity to ride the upside. This can simply be continuing on with a significant role and/or leadership role with a new business opportunity as it matures, or sharing in some type of financial upside as the opportunity moves into Series A [funding] and beyond...” - Rick Waldron, Former VP, Nike Innovation Accelerator

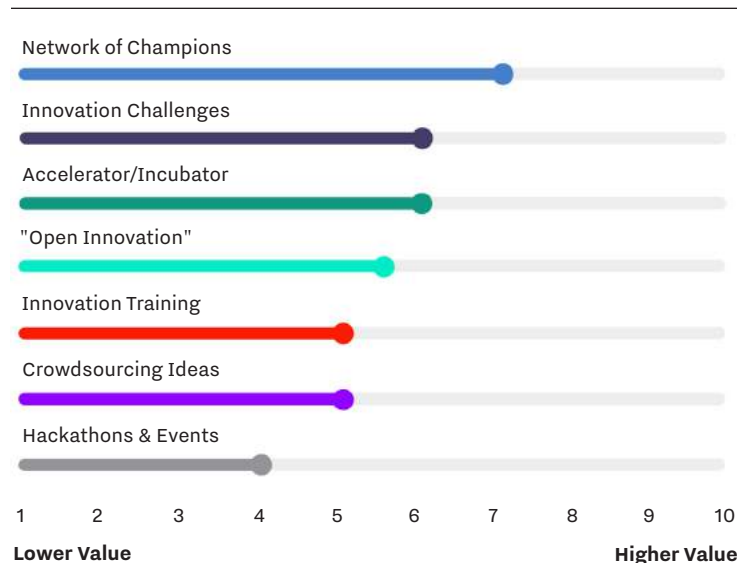
MVT (Most Valuable Tactics)

Companies typically test many different approaches to alter the culture, test business models, develop new offerings, and get employees engaged in coming up with new ideas. But the comparative value of those tactics rarely gets measured. We asked respondents not only to describe what tactics they use, but to rate their value.

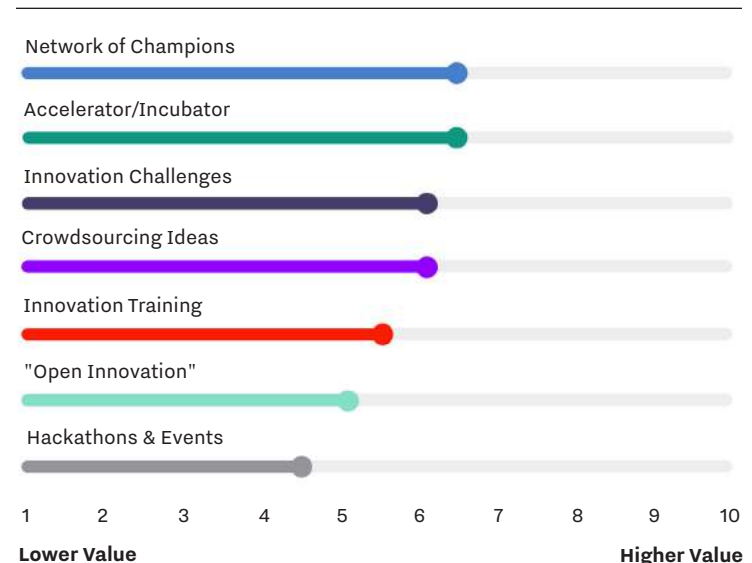
We developed an index for the charts below to show which tactics were regarded as low value, medium value, or high value. Many tactics, when responses were averaged, landed close to the middle of the index in terms of value. But a plurality of respondents said that they got the

most value out of their “network of internal champions.” These networks can be defined in two ways, we find. One is as a network of supporters — often C-suite executives and business unit heads — who help innovation leaders hack their way through the jungle to get things done. But more commonly, they refer to armies of lower-level employees, often decentralized and distributed globally, that have been trained by a central innovation group and can help to infuse a culture of innovation, creativity, entrepreneurship, and risk-taking where they work. The fewest respondents said that their hackathons were of high value.

Innovation tactics by value (All respondents)



Innovation tactics by value (Mature companies - stages 4 & 5)



Respondents also felt that crowdsourcing ideas from employees was of low to medium value — perhaps because of the quality of ideas collected, or because mechanisms don't yet exist to further develop those ideas at many companies. There are, however, subtle variations by industry. For example, the financial services industry seems to get more value out of innovation training than the average company in all industries. Similarly, the healthcare industry appears to attribute high value to crowdsourcing ideas from employees, and innovation challenges, which inspire employees to come up with ideas in a defined period of time.

MATURE COMPANIES KNOW HOW TO DEVELOP IDEAS

However, the story changes when one looks at respondents who said

Innovation tactics by value - Financial Services



their innovation programs were the most mature, or Optimized. Of those, 73 percent of respondents regarded crowdsourcing employee ideas and innovation challenges as delivering high value. That's significantly higher than all other respondents. It may be because more sophisticated companies have created space and systems to spell out problem areas where crowdsourcing and innovation challenges can be useful; have developed a community of "solvers" inside the organization; and have figured out how to further refine the ideas that come in as a result of crowdsourcing campaigns or innovation challenges.

WHY IS OPEN INNOVATION UNDERUSED?

Of particular interest are the tactics that are being utilized rarely. (These

Innovation tactics by value - Healthcare



Percent of respondents who *haven't* used tactic

	All	Mature Stage 4&5
Innovation Training	20.2%	11.1%
Innovation Challenges	21.7%	8.7%
Accelerator/Incubator	31.8%	15.2%
Hackathons & Events	29.6%	21.7%
Crowdsourcing Ideas	18.3%	15.2%
"Open Innovation"	39.3%	28.2%
Network of Champions	17.9%	13.0%

Note: Circled data is described in the text.

numbers are in the chart to the left.) Nearly 40 percent of respondents said they were not using open innovation as a strategy. Open innovation refers to programs that seek to collaborate with third-parties outside of the corporate campus — whether startups, universities, business partners, customers, or independent inventors. Companies that Innovation Leader has previously covered, including General Mills and AstraZeneca, have relied on open innovation to get outside solutions to complicated technical challenges.

Interestingly, when we zoomed in on the most mature companies, the percentage of respondents who had never sought to apply open innovation dropped to 28 percent, and 49 percent of those respondents who had employed it rated it as either a medium value or high value tactic.

An open innovation program is clearly a sign of maturity, and programs that are further along in their development are more likely to have tested a wide array of tactics. ♦

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Can you identify, map, and measure the value of your innovation tactics? What should you be doing more of, and what tactics should you retire?
2. Many innovation tactics require experimentation to understand what will work inside your particular culture. Does your organization provide ample time to test different tactics, refine them, and try them again?
3. Open innovation seems to be an emphasis for more mature innovation programs. What are the political barriers in your organization to trying open innovation? Have others in your industry leveraged it? Is there a specific department or team that might be an ally in running an initial experiment with open innovation?

RESOURCES

1. Whirlpool Corp. shares lessons from their internal hackathons: www.innovationleader.com/lessons-whirlpools-internal-hackathons
2. Vodafone offers insights into how they set up their innovation champions network: www.innovationleader.com/vodafone-innovation-champions
3. Audio interviews with three top experts on open innovation, Henry Chesbrough of UC/Berkeley, Eric von Hippel of MIT, and Karim Lakhani of HBS: www.innovationleader.com/expert-henry-chesbrough-talks-open-innovation-with-il
www.innovationleader.com/eric-von-hippel-consumers-as-innovators
www.innovationleader.com/karim-lakhani-overcoming-resistance-to-crowdsourcing

UNLOCKING INNOVATION TALENT

*JOHN FARRELL, NATIONAL MANAGING PARTNER, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP
TRACY BENARD, NATIONAL MANAGING PARTNER, ADVISORY, KPMG LLP*

In today's marketplace, innovation is a business imperative. It is crucial to ensuring the success of every organization, regardless of industry. But when leaders think about innovation, they need to look beyond technology or products or services and seek instead to create a culture of innovation. However, an innovative culture cannot be forced, it must be fostered. We as business leaders must create an environment that encourages and rewards innovative behavior in our people for their sake and to ensure our companies stay relevant. Innovative thinking can come from anywhere in a company, and it's important to ensure that we develop mechanisms to capture the ideas of every person across the enterprise, or we run the risk of missing out on potentially business-altering strategies and solutions. Every day, we must assess our performance along these lines:

INNOVATION IS EVERYBODY'S RESPONSIBILITY

It's important to take steps to ensure that all employees are aware of the organization's overarching innovation strategy. Use performance management and goal-setting efforts, for example, to help employees understand and then articulate how innovation fits within their day-to-day responsibilities. Then, measure the results against your larger strategic goals—to guard against paying lip service to an effort that is fundamental to ongoing business success.

ANYONE CAN BE AN AGENT OF CHANGE

Employees often perform at a higher level when they feel empowered to contribute to change. We see companies establishing mechanisms that encourage employees to make themselves

heard, but it may be more important for leaders to be known for listening and taking action. At KPMG, we use a technology enabled crowd-sourcing tool to gather observations, ideas, and insights from our 34,000 U.S. partners and employees. Employees are encouraged to provide ideas about our existing and future service offerings as well as to look outside the firm to identify new trends. Such efforts have helped our leaders tap into the organizational intelligence embodied in our people, driving an innovative culture as well as new client services.

COMMITMENT IS DEMONSTRATED

We deploy a formalized innovation network across our firm, with employees focused in hubs, to encourage questions and free expression of all constructive ideas. We've also had considerable success with "The Bright Idea," a semi-annual contest in which we challenge employees to team up and present proposed innovations to a leadership team for judging. The winning team receives funding to create the technology or process they've envisioned and then actually deploy it. For example, we are piloting a winning digital platform idea to enhance our approach to professional staffing. The Bright Idea has been very successful in reinforcing our innovative culture and identifying and meeting our clients' needs.

We as business leaders must create an environment that encourages and rewards innovative behavior in our people for their sake and to ensure our companies stay relevant.



JOHN FARRELL



TRACY BENARD

INNOVATOR PERSPECTIVES

**ERICSSON:** Champion Groups are a Force Multiplier

"I don't see enough companies investing in champion networks. The companies that figure that out are those that will adapt and survive, because five smart people in [an innovation lab] are usually disconnected from the customer, and the rest of the corporate strategy, and all the people who are going to be the roadblock-removers when they try to exit something out of the lab. [In creating champion networks, I've] intentionally found people in product, legal, pricing, marketing...they weren't always raising their hands, but we said, 'Who in those departments should we recruit?' Champion groups are a force multiplier if your budget is small." - Shannon Lucas, Head of the Emerging Business Unit, Ericsson

**CARDINAL HEALTH:** A Coalition of Willing Leaders

"I would have prioritized a network of champions high as well. That makes perfect sense. There is really a coalition of willing leaders within the broader organization that are taking an interest in Fuse [the innovation lab at Cardinal Health] and innovation... We latch onto those people and try to make them successful... We put them through a design thinking session...and we allowed them to prioritize [needs] and show them how we could get to mock-up type solutions in a really rapid approach." - Brent Stutz, Chief Technology Officer, Cardinal Health

**CAMBIA HEALTH:** The Recipe Causes the Result

"Sourcing employee ideas is a big [tactic I use]. Hackathons, crowdsourcing, open innovation, and a network of champions are all in my wheelhouse. The recipe of what you do causes the result. To highlight one is false. If you pick one and just do a network of champions, does that mean it always works? I don't think so. We have many a success story that has solved problems and built companies based on [employee] ideas." - Mohan Nair, Chief Innovation Officer, Cambia Health

**BOEING HORIZON X:** The Right Tactics for the Right Reasons

"What was really interesting was not so much that 'network of champions' is highest — but rather there is this category of several things and they are relatively balanced. It points to the importance of using a number of different, powerful innovation tactics, and being more prescriptive in assigning the right ones for the right reasons in the right contexts. Training, challenges, crowdsourcing, the network of champions inside and outside the company... it's about the blend. At Boeing, helping the organization clarify what these things are; and how, where, and when they can be used to the highest power is something we spend time on. We've done lots of crowdsourcing, hackathons, shark tanks... It is about using different things for different reasons across the set—and having that network of champions help activate, as well as model behaviors to set the right culture." - Michael Hauser, Boeing Horizon X



FORTUNE BRANDS: What are You Trying to Accomplish?

“If you’re in a very immature stage, using something like crowdsourcing is not that effective, because it fills you up with ideas that you can’t resource and develop. A network of champions can make innovation more successful. But there is no one activity that will meet all of the needs that [a company] will have. It really depends on what you’re trying to accomplish...” - Moisés Noreña, Vice President of Innovation, Fortune Brands



JOHNSON & JOHNSON: A More Inclusive Expectation

“One tactic or idea we focus on here is the changing nature of work: how do we begin to think differently about how people can be involved in providing solutions, and all the different ways of people getting involved economically. The tech industry has been ahead of the rest of us, in terms of finding ways to sit in your kitchen and code. As we think about innovation, there’s an opportunity to have a more inclusive expectation about where it is coming from.” - Robert Urban, Global Head, Johnson & Johnson Innovation



SOUTHERN COMPANY: Breaking Down Barriers

“We do one-day challenges, which are company-wide on a strategic issue. [The most recent one we held] was an enterprise-wide innovation challenge that had a lot of support from the CEO, [and] enormous support from the business units... We’ve used accelerators, hackathons, events, [and] we always crowdsource ideas. Which one’s most valuable? The internal network of champions. If you do have those internal people that support your mission, it breaks down so many of those internal barriers of politics and silos.” - Michael Britt, SVP of the Energy Innovation Center, Southern Company



CLOROX: Look to the Outside More

“We do a thing called Innovent, where we have people around the company submit ideas... I don’t find that it creates any new thinking. It tends to create the same thinking, because it’s often the same people that you are hearing from. To get something different, you need to go to the outside more.” - Lynne Dujmovich, VP of Marketing, Clorox

Staffing

Overall, innovation teams remain lean: a plurality of respondents (38 percent) said they only have between one and nine full-time equivalents (FTEs). This is common among large companies that haven't traditionally had a research and development function — in industries like retail or financial services, for example — and are in the early stages of standing up an innovation team. A single person or small team may be assigned to get an initiative rolling. Even innovation labs focused on training, prototyping, and collaborating with external and internal parties may have staffing that doesn't hit

Innovation team size: Comparing 2015 to 2018

Number of FTEs	2015	2018
500 or More	3.3%	9.0%
100 to 499	5.2%	12.7%
50 to 99	7.8%	8.2%
25 to 49	18.8%	9.0%
10 to 24	18.8%	13.1%
1 to 9	55.2%	38.1%
No FTEs	4.6%	5.6%
Don't Know/Complicated	N/A	4.5%

Note: Circled data is described in the text

the double digits.

Some respondents say that the numbers may be misleading, however, as there are likely FTEs missed in the counts. One respondent told us that they have roughly 150,000 employees spread across dozens of countries, “So I’m sure I’ve missed some FTEs here, or have missed a new initiative at a business unit that has dedicated employees I don’t even know about.”

Others may have FTEs involved in digital efforts, customer insights, or HR and culture-change programs, but aren’t officially in an innovation group or don’t have an innovation-specific title. That’s the case at Home Depot, where Prat Vemana, Vice President of Online, explains, “Our associates and teams who bring these investments to life don’t have titles that mark them as innovators. An innovative mindset and entrepreneurial spirit help drive everything we do.”

Other people we interviewed have created networks of “innovation champions” or “catalysts” who have been trained in innovation methodologies, but don’t work full-time for a central innovation group. This was regarded by survey respondents as the highest-value

It’s worth noting that mature companies don’t necessarily employ larger staffs... However, 13 percent of respondents at the more mature companies said they didn’t know how many FTEs were dedicated to innovation, or it was too complicated to calculate.

tactic (see the “Tactics” section on p. 50), even though it doesn’t add to the FTE tally of their group, but instead gives them an army of advocates and ambassadors who work in other parts of the business. Many respondents also rely on outside consultants and technology development firms to support their innovation efforts; we even hear a growing number of companies relying on online “talent marketplaces” for help designing logos, writing code, or making promotional videos. While historical comparisons are interesting to review, the different base of survey respondents make year-to-year trend analysis challenging. For example, in our 2015 survey, more respondents told us they had smaller staffs of one to nine FTEs (55 percent of respondents, versus 38 percent in 2018), and fewer respondents had large staffs (only 9 percent had 100 or more FTEs dedicated to innovation in 2015, versus 22 percent in 2018).

Those changes don’t represent apples-to-apples growth in staffing, since the responding companies were not identical in our 2015 and 2018 surveys, but there may be a high-level trend toward

committing more people to innovation efforts.

LARGE COMPANIES, LARGE STAFF

That being said, it does appear that company size and budgets correlate to larger dedicated innovation staffs. More than half of the respondents (52 percent) at companies with more than 100,000 employees had 100 or more FTEs dedicated to innovation. Those typically represent research and development, advanced concepts,

More Data: Your Industry

If you’re interested in seeing staffing levels used within your industry, Innovation Leader members should contact research@innovationleader.com.

Number of full-time equivalents by company size

Number of FTEs	100,000+	50k-99,999	25k-49,999	10k-24,999	1k-9,999	<999
500 or More	19.4%	26.9%	3.3%	12.2%	3.7%	2.0%
100 to 499	32.3%	19.2%	13.3%	16.3%	7.4%	2.0%
50 to 99	9.7%	7.7%	13.3%	6.1%	8.6%	5.9%
25 to 49	3.2%	11.5%	13.3%	16.3%	4.9%	7.8%
10 to 24	16.1%	11.5%	16.7%	12.2%	14.8%	7.8%
1 to 9	6.5%	19.2%	30.0%	24.5%	54.3%	58.8%
No FTEs	3.2%	0.0%	3.3%	10.2%	2.5%	11.8%
Don't Know/ Complicated	9.7%	3.8%	6.7%	2.0%	3.7%	3.9%

Note: Circled data is described in the text

and new product development teams that have been established over years or decades, rather than “new growth” innovation groups that have sprung up recently.

SMALL TEAMS IN THE RETAIL INDUSTRY

Certain industries tended to have more FTEs working on innovation. Half of respondents in the technology industry (52 percent), for example, said they had more than 50 FTEs working on innovation, as did 41 percent of respondents in the consumer goods industry. Of even greater interest are industries that lack large staffs. The retail industry, which is under assault from Amazon and has seen a spate of recent bankruptcies and retrenchments, lacked a single respondent who said they had more than 100 FTEs working on innovation.

Despite the mounting sense of urgency in the industry, there just doesn't appear to be the appetite for investing in innovation and experimentation. Even retailers that had built up substantial innovation groups approaching or surpassing that 100 number, including

Target and Staples, have more recently cut back, according to previous Innovation Leader coverage. Walmart is the outlier: it has more than 6,000 people working at its Walmart Labs tech development sites, and its new Store No. 8 incubator has plans to launch five new startups in 2018.

MATURE DOESN'T MEAN BIGGER

Mature companies don't necessarily employ larger staffs. As with the investments data (see p. 35), we filtered respondents by the maturity of their organizations. The two least mature stages (Ad Hoc and Emerging) are included in the “Less Mature” column on the following page; the two most mature stages (Integrated and Optimized) are listed in the “More Mature” column. A plurality of respondents at the more mature companies (24 percent) said they only have between one and nine FTEs dedicated to innovation, and a majority (51 percent) said they have fewer than 50 FTEs.

More mature companies were, however, more likely to have the largest staffs. Nearly one-quarter of respondents (25 percent) at more mature companies said they had 100 or more FTEs dedicated to innovation, while only 17 percent of the less mature companies had staffs of that size. One example would be Fidelity Investments, which has roughly 160 employees at its innovation lab, according to previous Innovation Leader coverage; Fidelity Labs traces its roots back about 20 years and explores both new business opportunities and the application of new technologies to Fidelity's existing businesses. It's worth noting, however, that 13 percent of respondents at the more mature companies said they didn't know how many FTEs were dedicated to innovation, or it was too complicated to calculate. They may have a mix of innovation, digital transformation, new ventures, and corporate venture capital employees distributed across business units, in centralized labs, or in other functions and departments. ♦



Number of full-time equivalents for select industries

Number of FTEs	CPG	Financial	Retail	Technology
500 or More	10.3%	6.5%	0.0%	14.3%
100 to 499	20.5%	6.5%	0.0%	19.0%
50 to 99	10.3%	6.5%	14.3%	19.0%
25 to 49	7.7%	22.6%	14.3%	0.0%
10 to 24	12.8%	19.4%	14.3%	4.8%
1 to 9	33.3%	29.0%	42.9%	23.8%
No FTEs	5.1%	0.0%	14.3%	9.5%
Don't Know	0.0%	9.7%	0.0%	9.5%

Number of full-time equivalents by maturity

Number of FTEs	Less Mature	More Mature
500 or More	6.3%	6.7%
100 to 499	10.7%	17.8%
50 to 99	6.3%	11.1%
25 to 49	10.1%	11.1%
10 to 24	13.2%	15.6%
1 to 9	44.0%	24.4%
No FTEs	6.3%	0.0%
Don't Know	3.1%	13.3%

Note: Circled data is described in the text

INNOVATION LEADER ADDITIONAL RESOURCES

ACTIVITY

Wipe the slate clean and imagine: If you had unlimited resources, how would you deploy FTEs dedicated to innovation? How many employees within the business units would be focused on incremental innovation? Would there be dedicated staffers in legal, HR, or other functions? What about a central innovation group devoted to training, running events, or maintaining a network of innovation champions? As you fill these roles, how many company veterans versus new hires would be ideal? How might you rotate employees through your innovation group on a weekly, monthly, or quarterly basis? Now, map out your corporate reality: How many FTEs do you actually have in those roles? How would you make the case for the FTEs you need today to begin building momentum — and what impact will you need to deliver to grow that number in one year, two years, three years?

RESOURCES

- Several Innovation Leader members have contributed their job descriptions for various roles to our Resource Center; these can be found at www.innovationleader.com by selecting “Downloadable Documents” from the resource tab. Also, for examples of how companies craft job descriptions for particular roles, see: jobs.innovationleader.com
- Our 2015 research report, “Hiring Innovators: How Innovation Teams Bring on Top Talent,” discusses how companies like Reliant Energy, Hospital Corporation of America, Visa, Draeger, and Kimberly-Clark have built their innovation teams. See: www.innovationleader.com/hiring-report.

INNOVATOR PERSPECTIVES



CUNA MUTUAL: Half are Company Veterans, Half from Outside

"[My team includes] an actuary, two finance people, marketing people, two lawyers, and a combination of people from the main office. But the other half comes from outside the company. It's very diverse in every way you want to measure it... We had five countries represented originally, because those were the best people for the job. The team size is about 14 right now, but we have probably another 20 that are staff augmentation, or consultants who we keep on a retainer full-time." - Dan Kaiser, SVP of Innovation, CUNA Mutual



WHIRLPOOL: Delivering Impact with a Small Team

"We have a group of 15 innovation team members. With that, we couldn't [collaborate with others around] the whole corporation, so you focus on the people responsible for bringing to life new products, materials, technologies. You have some groups that you concentrate on working with because they are more directly tied to producing innovation that matters." - Colette Matthews, Global Head of Innovation, Whirlpool



SOUTHERN COMPANY: Entrepreneurs and Interns

"We have 10 full-time employees, three entrepreneurs-in-residence, and five interns. There will be people that will view the innovation team with the feeling of, 'Wait, I'm innovative. Why am I not there?'...and they will look at that team with some degree of suspicion. So you need to have success early on, and hang with it. Having great communicators on your team is also essential." - Michael Britt, SVP of the Energy Innovation Center, Southern Company



CSAA INSURANCE GROUP: Heading Toward Twenty

"Our innovation team is about a dozen people. That includes strategy, innovation partnerships, and corporate ventures [subgroups]. We'll probably be at 20 people by the end of 2018... I just hired new executive to run [our ventures] program and build it out. We got approval and launched the program in June [2017]...We will be opening an office in Silicon Valley... [with] a lab environment where we can kick the tires with startups who may not be portfolio companies, but might be relevant to some solution or offer we can make with our customers."

- Debbie Brackeen, Chief Strategy & Innovation Officer, CSAA Insurance Group

Obstacles to Innovation

We were surprised to hear that budgets and human resources aren't regarded as the primary obstacles to innovation progress.

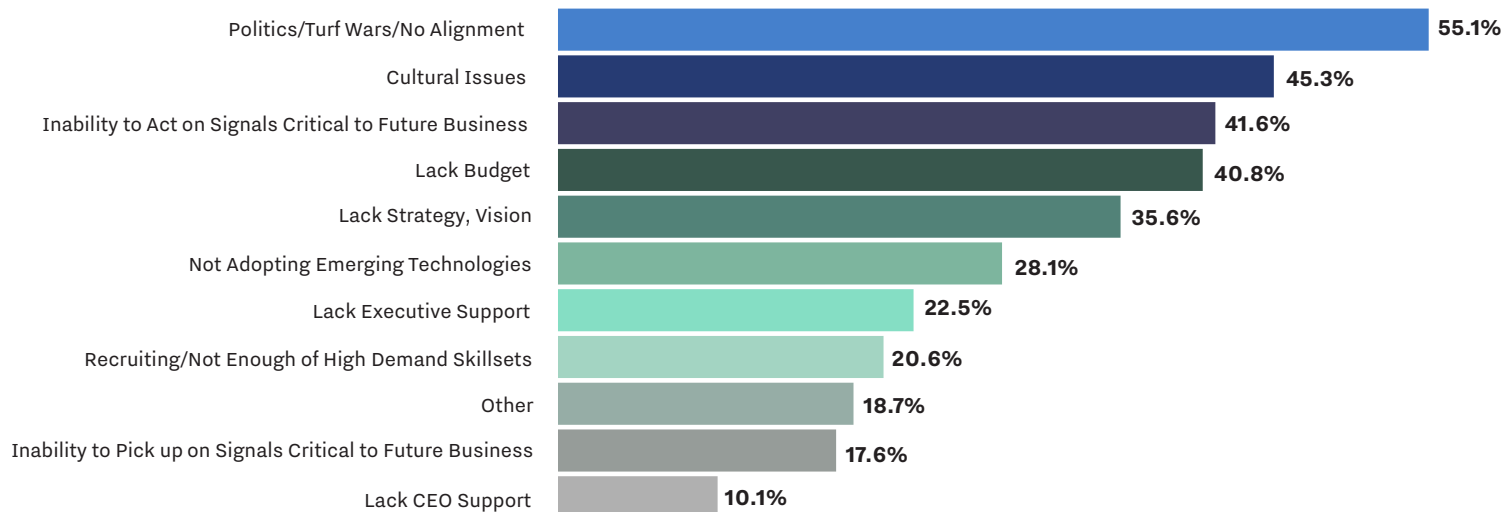
Instead, our survey respondents highlighted politics, turf wars, and an inflexible, risk-averse culture as the main obstacles they grapple with. Respondents were allowed to choose more than one obstacle in the survey. More than half cited "politics and turf wars" as a problem, and 45 percent said "cultural issues" were holding them back.

Comments provided by respondents were illuminating and diverse. Some noted that the sheer size and scope of their company, or the organizational structure, led to overlapping efforts and a lack of focus. "[Our] brands act independently," noted one respondent, which

means they "duplicate efforts, [with] no central direction or strategy."

Others commented on leadership teams and corporate cultures that weren't comfortable taking significant risks — and potentially failing. "We're extremely risk-averse," wrote one respondent, "so the very concept of innovation really gets our executive leadership anxious." Another noted an "organizational stigma regarding failure."

That stigma is natural in established companies built upon success in the market, trusted brands, and predictable earnings. Making that environment "safe" for entrepreneurial dynamism and experimentation is difficult, but it can be done given the right level of commitment, resources, and time. One way to start is by talking to existing



Note: Respondents were allowed to select all that apply.

customers — or former customers — who may not feel you're addressing what they need. It's hard to argue with customers who want something different, or something delivered in a new way.

CHALLENGES BY SIZE

Political issues get exacerbated as the company gets larger. For example, at companies with fewer than 1,000 employees, 44 percent of respondents listed politics and turf wars as a major obstacle. But when we look at companies with more than 100,000 employees, politics and turf wars become the number one obstacle, cited by 81 percent of respondents.

That doesn't mean that politics and turf wars aren't problematic for smaller companies too, but those smaller enterprises cited budget constraints as their top obstacle. Smaller companies — especially those reliant on a single product or service — often lack the capital to invest in the next generation of innovation.

To be clear, getting sufficient funding was indeed perceived as an

Select obstacles by company size

	Fewer Than 1,000 Employees	More than 100,000 Employees
Lack Budget	48.0%	54.8%
Politics/Turf Wars/No Alignment	44.0%	80.6%
Inability to Act on Signals	36.0%	58.1%
Recruiting	32.0%	29.0%
Not Adopting Tech	32.0%	29.0%
Lack Strategy/Vision	30.0%	45.2%
Cultural Issues	28.0%	54.8%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

obstacle for all companies, but at larger companies, it was trumped by cultural issues and political infighting. Overall, companies also cited their inability to both pick up on “signals” or shifts that are critical to the future of the business, as well as their inability to act on those signals (42 percent, the third most-frequently cited obstacle). See the KPMG Insight on p.64 for more on “Acting on Signals of Change.”

SURVIVORS HAVE ELIMINATED OBSTACLES

While a staggering 55 percent of all respondents said that politics, turf wars, and “lack of alignment” are their biggest obstacles to innovation, only 30 percent of respondents at companies with the most mature innovation programs (Optimized) have issues with political infighting or turf wars. That may be because keeping an innovation program alive over time involves eliminating obstacles; getting alignment around strategy; building relationships; and “clearing the runway” for experiments and eventual rollout. Mature companies have invested the time in figuring out how to do that.

Cultural challenges like risk-aversion and the stigma of failure, cited by nearly half of all respondents (45 percent), are also largely mitigated at mature companies, where only 10 percent of respondents cited those “cultural issues” as an obstacle to innovation.

THE CEO IS NOT THE PROBLEM

One of the most interesting results from the survey was the finding that insufficient CEO support isn't a major obstacle to innovation. It was actually the least frequently-mentioned obstacle, cited by only 10 percent of respondents, and only three percent of respondents who said their firms had reached the two most mature innovation stages.

And while support from senior leadership is indeed seen as a critical enabler of innovation (see p.66), the chief executive is typically not a major obstacle. This may be because many innovation initiatives get

started with a CEO-level declaration, and often the executives leading it have access to the CEO as needed.

But in talking with respondents, even that CEO “air cover” doesn’t address every organizational conflict, or get support and resources to magically appear where and when they are needed. Diplomatic skills and relationship-building — and occasionally, arm-twisting and calling in favors — are essential to overcoming the challenges of innovating in large organizations.

‘LEADERSHIP ADHD’ AND OTHER OBSTACLES

The complete list of the most commonly cited obstacles to innovation are in the chart on p.61, but we also asked respondents to write in any other obstacles they’ve encountered. These included:

- “Difficulty in aligning/integrating innovation with operations”
- “Leadership ADHD”
- Legacy systems, and “blocking from the IT side”

- A “fixation” on short-term financials or competitive pressures

One respondent described the last bullet above as, “Too busy on urgent issues, and no time to focus on important ones.” Sound familiar?

Several respondents noted that they were early in the process of implementing an innovation program, and that it was too soon to predict which obstacles they might encounter. ♦

Even CEO ‘air cover’ doesn't address every organizational conflict, or get support and resources to magically appear where and when they are needed. Diplomatic skills and relationship-building — and occasionally, arm-twisting and calling in favors — are essential to overcoming the challenges of innovating in large organizations.

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Have you mapped out your team’s list of the major obstacles you are facing —or anticipate facing?
2. Which of your team members are best at relationship-building and know “the lay of the land” when it comes to navigating corporate politics? How much time are they spending on building support in the organization?
3. What opportunities are there for others in the company to learn about your work, collaborate with your team, attend outside events with you, or help prioritize your agenda?

RESOURCES

1. We worked with a former SVP of Innovation in the insurance industry to create a spreadsheet listing 11 barriers to innovation in large companies — along with key questions and proposed solutions. It’s available to Innovation Leader members at: www.innovationleader.com/resource-center, under “Innovation Leader Resources.”
2. Our “IL Confidential” video series lays out tactics for dealing with common innovation obstacles, featuring current corporate executives: www.innovationleader.com/il-confidential-video-advice-on-innovation

ACTING ON SIGNALS OF CHANGE

STEVEN HILL, GLOBAL HEAD OF INNOVATION, KPMG LLP

Making innovation happen at scale is challenging. We weren't surprised that innovation leaders pointed to their "inability to act on signals or developments critical to the future of the business" as a major obstacle to innovation. Many innovation leaders are drowning in a tsunami of signals and struggling to prioritize them.

Even organizations with strong sensing mechanisms can struggle to coordinate a timely, sustained response to act on signals of change in the time horizon of impact. Internal politics, culture, governance, funding, incentives, metrics, and other factors have tripped up even the most agile companies.

When an emerging technology innovation is trending, organizations can find themselves in a situation where few understand what it means, or are able to assess its potential impacts, or can interpret what will happen if they don't take action. To compound the challenge, organizations may have plenty of people with key insights – but they aren't in the right group, aren't at the right level, or aren't able to communicate with or influence the decision makers who are in a position to take action.

Inability to act on signals or developments is a systemic issue. In some cases, leaders see signals, yet they don't know the scope, scale, or time horizon of impact, resulting in inaction or the wrong actions. Too often, companies catch a signal and start an initiative without understanding how that signal may relate to many others. Such interdependencies often impact which innovation investments should be made and in what sequence.

Ultimately, an initiative can take on a life of its own and end up ensnared in organizational politics, with priorities that overlap and compete with those of other initiatives. Add in the complications of funding: to get it, you need to be able to build a business case, but without it, you may not be able to do so. Often, the pressures

of daily life also get in the way. Trends emerge and are prioritized, then pushed to the back burner by pressing demands, and finally resurface as missed opportunities.

This tangle of issues can result from a lack of accountability and discipline for identifying signals, interpreting them, and guiding (sometimes forcing) the organization to action. In many organizations, no one has been made explicitly accountable for untangling this complexity and ensuring the right balance between maintaining the core business of today and investing in the business of tomorrow. Indeed, most employees are still assessed against backward-looking performance indicators rather than on how they are moving the business forward.

Leaders should consider addressing obstacles to making innovation happen by:

- Establishing an accountable leader for sensing signals of change and identifying what's relevant
- Building processes to understand the scope, scale, and time horizon of potential impacts
- Ensuring someone is holding the organization accountable for taking action
- Making seed funding available to explore areas where you cannot yet assess the scale of impact and timeframe
- Implementing a disciplined process to ensure the right innovation investment mix

In some cases, leaders see signals, yet they don't know the scope, scale, or time horizon of impact, resulting in inaction or the wrong actions.



STEVEN HILL



CAMBIA HEALTH: Innovation is Not a Side Project

"The majority of [innovation challenges are] linked to turf wars and culture... I would say less politics for me and more cultural issues... You just have to really show the value of innovation. You must show that innovation is not a side project and that it is part of the necessary skill-set for any leader. Not many people said they lack CEO support — so there's a chance to change the culture." - Mohan Nair, Chief Innovation Officer, Cambia Health



SOUTHERN COMPANY: You Never Think Your Platform Will Catch on Fire

"[The biggest obstacles are] definitely corporate politics and turf battles. It's definitely true. Any time you start something new like this, that cuts across many areas, there's a potential for people feeling like you're in their backyard. There's a threat potential to the core operations. How are we going to get people aligned on a big change operationally, when [the core has already] had a lot of success? A lot of past success is a challenge when you see the threat coming. It's hard to jump off a platform on a blue sky day, [because] on a sunny day with light wind, you never think your platform will catch on fire." - Michael Britt, SVP of the Energy Innovation Center, Southern Company



NRG: Knowing How to Maneuver

"We have great CEO support. As an organization, we're eager to adapt and to change and to explore new products and services for our customers. What are the obstacles we've encountered? One would be historical attempts [at innovation] that didn't pan out – and it may just not have been the right time. Another is knowing how to maneuver [given all of the] safeguards, policies, and procedures in place at a Fortune 500 company. They're there for good reasons, but if you want to get things done and move quickly, you have to figure out a way to work within them." - Stacey Butler, Director of Innovation, NRG



CSAA INSURANCE GROUP: Constraints are Real, But...

"I think regulation can often be used as an excuse consciously or even subconsciously... One of the things that excites me, and that I'm just passionate about in the context of corporate innovation, is that constraints are real, but that shouldn't prevent us from thinking of different ways that we can solve customer needs and address emerging problems that they have as the world is changing around them... We have made a huge investment in insights and innovation and making that a core part of our strategy... We'll continue to build on that foundational work and then really take it to the next level of building a culture of entrepreneurship, where our employees can think and build on their own as entrepreneurs, addressing new customer problems that they see emerging in the marketplace." - Debbie Brackeen, Chief Strategy & Innovation Officer, CSAA Insurance Group

Enablers of Innovation

The most important enabler of innovation, mentioned by nearly three-quarters of all respondents (73 percent), is leadership support. Obtaining that support isn't just about getting budget and "C-level blessing," but it can help get disparate parties aligned around innovation goals, and minimize the foot-dragging and conflicts that often slow progress.

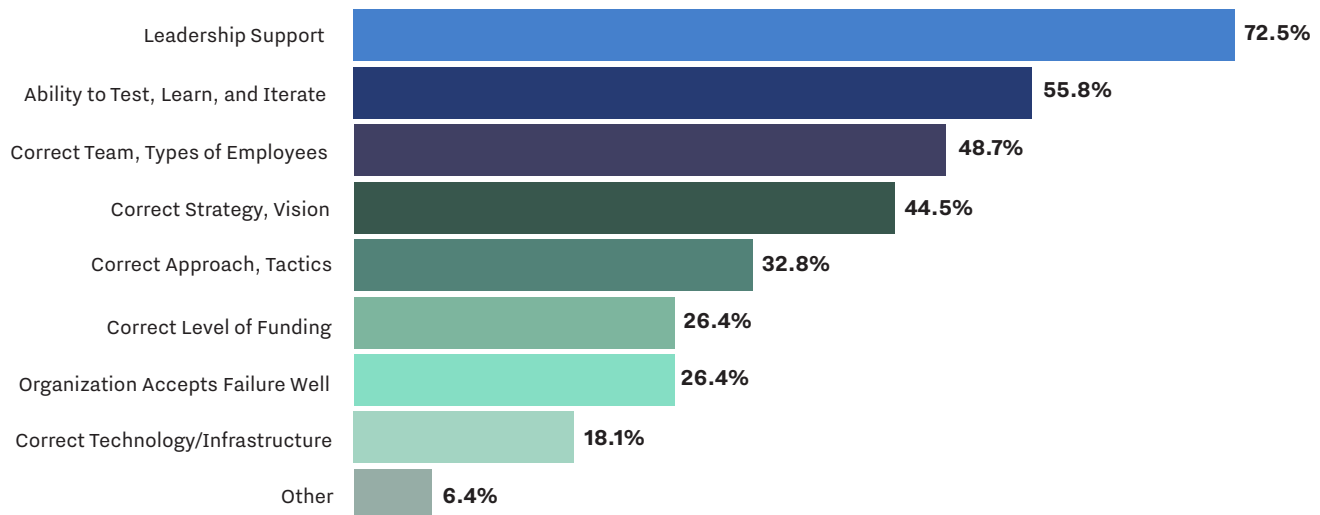
More than half of respondents (56 percent) said that a major enabler of innovation was the "ability to test, learn, and iterate." This capability — also known as the ability to "fail fast" and experiment — is extraordinarily hard for most large companies to develop. Many large companies are designed to reduce risk, which means

they don't like experimenting when things aren't fully baked, analyzed, and packaged.

Interestingly, the least important innovation enabler was having the "correct technology and infrastructure"; that choice was cited by only 18 percent of respondents, perhaps because some early-stage innovation programs don't (yet) require deep connections to IT or other systems.

Indeed, when we looked at responses from more mature organizations, more than a quarter of respondents (26 percent) said "correct technology" was an important enabler.

In addition to the options in the table below, we allowed



Note: Respondents were allowed to select all that apply.

respondents to write-in other enablers of innovation that we hadn't listed as choices. A few that rose to the top were:

- Passionate, dedicated, persistent employees and “champions” who were willing to push the boundaries and drive a “counter-culture mentality”
- Access to the broader innovation ecosystem — including startups, venture capitalists, university researchers, and others — who could both influence and mentor employees
- Economic or other incentives for employees (see p.46)

TIES TO BUDGET

Of respondents who said their innovation program is funded as part of the annual budget process, 69 percent felt that leadership support was a key enabler of innovation. But when we looked at respondents whose innovation program is funded as part of a separately governed investment process, that number jumped to 85 percent. If your budget is coming from outside the annual cycle, it follows that you'd better have the support of the executives who are governing that process.

FUNCTIONAL VARIATIONS

While there was general consistency across functions, a few differences emerged. Attracting the right talent and types of employees, for example, was cited as an important enabler of innovation by 62 percent of respondents in the R&D department, which has historically put a major emphasis on recruiting specialized new hires from outside of the organization. Strategy executives put equal weight on leadership support and the ability to test, learn, and iterate. Innovation leaders, likely because many of them are the first to hold their title or are building entirely new teams and

Enablers by budget process

	Annual	Separately Governed
Leadership Support	68.5%	84.6%
Ability to Test, Learn	55.4%	48.1%
Correct Team, Employees	50.0%	46.2%
Correct Strategy, Vision	40.2%	48.1%
Correct Approach, Tactics	27.2%	48.1%
Correct Level of Funding	26.1%	28.8%
Org. Accepts Failure Well	24.5%	32.7%
Correct Tech	17.9%	17.3%
Other	6.0%	3.8%

Enablers by function

	Innovation	Strategy	R&D
Leadership Support	72.8%	60.9%	75.9%
Ability to Test, Learn	56.1%	60.9%	58.6%
Correct Team, Employees	48.3%	43.5%	62.1%
Correct Strategy, Vision	43.9%	43.5%	37.9%
Correct Approach, Tactics	32.8%	26.1%	34.5%
Correct Level of Funding	27.2%	17.4%	37.9%
Org. Accepts Failure Well	24.4%	17.4%	37.9%
Correct Tech	15.6%	13.0%	34.5%
Other	5.6%	8.7%	10.3%

Note: Circled data is described in the text. Respondents were allowed to select all that apply.

ENABLERS

establishing new relationships with others in the company, reported that leadership support was much more important than any of the other enablers.

THE RIGHT STRATEGY AND VISION IS ESSENTIAL

Creating the “correct strategy and vision” was seen as a major enabler of innovation at more mature companies (70 percent), but

was not cited as frequently by respondents at less mature companies (21 percent).

That may be because mature companies have survived their fledgling phase and are introducing new technologies, processes, and products, at which point ensuring that you have alignment on strategy and vision is crucial. Those further-along firms may also simply appreciate the value of clear strategy and vision more than the respondents running fledgling programs. ♦

INNOVATION LEADER ADDITIONAL RESOURCES

KEY QUESTIONS

1. Where are the pockets of influence in your company? Respondents say that executive level support is critical to the success of innovation programs, but that doesn't necessarily mean C-suite support. Sometimes, the most important enablers of innovation are in particular business units, or in departments like legal. Make sure you have the alliances inside the building to drive your agenda forward.
2. The term “failing fast” is at risk of becoming a cliché. But more than half of respondents say that their ability to test, learn, and iterate is a major enabler of innovation. How well does your organization employ the lean startup approach? Do employees have the encouragement and support to try different ideas?
3. Do you consider technology or IT support to an enabler today? Will you need their support in the future?

RESOURCES

1. If you're interested in seeing enablers of innovation by industry, Innovation Leader members should contact research@innovationleader.com.
2. Our 2017 research report on innovation governance delves into creating a constructive relationship between senior leadership and innovation teams. It's available to Innovation Leader members at: www.innovationleader.com/governance-report
3. Working with a former SVP of Innovation in the insurance industry, we created a RASCI matrix that helps to clarify roles and spell out who is responsible for what. It's available at: www.innovationleader.com/resource-center. Just click “Innovation Leader Resources.”



AMSURG CORP: Explore Innovation Happening Around Us

“What has been the most helpful, from my standpoint, has been getting people out of the office to explore innovation happening around us. ...If our leadership spent three days together at an off-site to do hardcore strategic planning and innovative thinking, it wouldn’t come close to investing in sending those 25 people to different events and [to visit] companies that are really doing this better. We get our team reimagining and reinventing what we do when we get to listen to what others are doing.” - Eric Thrailkill, CIO, AmSurg Corp.



SOUTHERN COMPANY: Location, Location, Location

“The main thing that can [help] enable innovation is our location. We’re on the edge of the Georgia Tech campus in a building with ten other corporate innovation centers. It’s really a powerful location. There’s Google, Tech Square Labs... and Atlanta Tech Village [nearby]. With Georgia Tech’s accelerator and [our engagement] with other corporate innovation centers...it’s a really interesting environment. One of the key enablers is hard work, attention to detail, and speed. If you can be fast and good, it gives you a lot of flexibility... That’s when you really differentiate yourself from the rest of the organization.” - Michael Britt, SVP of the Energy Innovation Center, Southern Company



CUNA MUTUAL: A ‘Get Out of Jail Free’ Card

“Our CEO gives us any air cover we want. We never used it, but it’s better for people to know it’s there. That’s stronger. ‘You’re gonna lose this fight if you really push it.’ I’ll often put it in writing [that the executives who work with us are] not responsible for this if something goes wrong, and they want a ‘get out of jail free’ card.” - Dan Kaiser, SVP of Innovation, CUNA Mutual



FIDELITY INVESTMENTS: Find the Right Talent

“What we’ve learned is that most of the people who work in our business units are awesome at [creating] Version 3.0 and 4.0 of a product, but not so awesome at looking at a blank sheet of paper and figuring out what to do. I think a fair amount of corporate innovation things aren’t successful because they don’t have the right talent – especially domain expertise related to going into adjacencies. Fidelity Labs is totally focused on adjacent, and that requires a particular talent profile. It’s somebody who has done a couple of startups, and knows what it is like, and also has worked in big companies and knows how to build relationships. I probably spend 25 percent of my time on recruiting... In corporate life, we feel very comfortable assigning people to an [internal] startup, yet no one gets assigned to a startup in real life. You choose it.” - Sean Belka, SVP and Head of Fidelity Labs, Fidelity Investments

INNOVATOR PERSPECTIVES

**WHIRLPOOL:** Look Across the Enterprise

“Large companies often say they want to act like a small company. But small companies aren’t trying to pay people dividends, or satisfy the analysts today. Just changing one component [of how one group works, or introducing one new award or program] doesn’t lead to the sustained innovation that companies want. You have to look across the enterprise, and think about innovation in process, brand, mindset, communication, and how you do business.” - Colette Matthews, Global Head of Innovation, Whirlpool

**BOEING HORIZON X:** Defining a New Set of Behaviors

“It’s really about culture... What does everyone complain about? Culture. We find that to affect culture, it’s all about providing the resources for people to behave and act entrepreneurially, and make choices about how they are going to create value. Boeing leaders have defined a new set of behaviors to guide everything we do – not just innovation. And in using those guided behaviors, a good half of them align with our beliefs with what it means to behave entrepreneurially – to be innovative and inventive. For us, it’s not about culture being a barrier. It’s about modeling the right behaviors to create the culture we want...” - Michael Hauser, Boeing Horizon X

**JOHNSON & JOHNSON:** You Have to Build Trust

“You have to build trust. Being successful is about building the relationships that allow you to move together in ways that otherwise would need a different level of control in place. Innovation can’t be seen as reckless or trivial in its thought processes. It has to be very carefully communicated. You have to get people comfortable with the fact that it’s a different level of control.” - Robert Urban, Global Head, Johnson & Johnson Innovation

**CARDINAL HEALTH:** Get Access to Customers Who Want to Engage

“Leadership support is clearly important. [So is] the ability to test and learn and getting access to customers who want to engage. [Finding a] customer that has the same problem as many other customers is a huge enabler to innovation. Everyone has those customers who love to fix things.” - Brent Stutz, Chief Technology Officer, Cardinal Health

4. MOVING FORWARD

72 HALLMARKS OF A MATURE PROGRAM

74 ADVICE FROM THE LATER STAGES OF INNOVATION

75 JUST LAUNCHING A PROGRAM?

76 ADVICE FROM THE EARLY STAGES OF INNOVATION

Hallmarks of a Mature Innovation Program

What does a mature innovation program look like? We zoomed in on the companies with the most mature programs (which we dub Integrated and Optimized), and identified these shared traits:

1. THEY'RE NOT AFRAID TO TAKE ON TRANSFORMATIONAL PROJECTS

The most mature programs are committing serious resources to transformational innovation. The old “70-20-10” breakdown between incremental, adjacent, and transformational efforts is irrelevant to these companies; for them, the balance looks more like 40-30-30. That even goes beyond the 50-30-20 balance that we found for all companies. Mature companies have a rich and diverse set of projects focused on improving existing products and services, expanding into new markets, and pursuing entirely new offerings and business models.

2. THEY HAVE THE RIGHT GROUPS ON THE RIGHT PROJECTS

When it comes to the different types of innovation (incremental, adjacent and transformational), mature companies have greater discipline and focus. The business units focus on driving incremental innovation, rather than being asked to waste cycles on transformational innovations that might create tensions or conflicts with their revenue model or customer base (see p.19). Instead, central innovation and R&D teams are asked to explore adjacent and transformational innovations. Corporate VC teams pitch in to assist with transformational activity.

3. THEY'VE FIGURED OUT HOW TO GET VALUE OUT OF THEIR TACTICS

Mature companies have simply figured out “what works” over time, and

have been willing to try, test, fail, refine, improve, and relaunch programs that provide value to the enterprise. (Few think hackathons deliver much value, for instance, but startup accelerators do, according to our data.) They almost certainly didn't succeed the first time, but they also didn't give up. Innovation requires iteration, and mature companies have figured out how to shift direction when necessary.

4. THEY AREN'T AFRAID TO SPEND

Mature companies are more willing to allocate capital to innovation. In every budget range we sampled above \$5 million, mature companies were overrepresented. And the opposite was the case for budget ranges below \$5 million: less mature companies were overrepresented (see p.36). In most cases, that means mature companies have been able to show successes from their innovation efforts, and they've been able to communicate those successes internally. Increased budgets come with success and traction, and mature companies have begun to chalk up wins.

5. THEY DON'T OVER-STAFF, OR CAN'T EVEN CALCULATE FTEs

Bigger budgets don't necessarily mean bigger staffs. A plurality of respondents at mature companies (24 percent) said they only have between one and nine FTEs dedicated to innovation, and a majority (51 percent) said they have fewer than 50 FTEs. They also, curiously, don't even know how many FTEs are involved in innovation: 13 percent of respondents at the more mature companies couldn't tell how many FTEs were dedicated to innovation, or felt it was too complicated to calculate. That's likely because innovation has become part of the company's DNA, and is being pursued by myriad individuals across business units, functions, and departments.

6. THEY PARTNER WITH INVESTING AND M&A GROUPS

Mature companies leverage groups like corporate ventures and development for help pursuing adjacent and transformational innovation goals — by collaborating with, funding, and acquiring smaller companies.

7. THEY FUND INNOVATION OUTSIDE THE ANNUAL BUDGET PROCESS

The pace of change is too fast to fund innovation as part of the annual budget process. Startups have figured this out, which is why a company like Uber could raise two billion-dollar rounds of growth capital in one year. The most mature companies increasingly say they have a separately-governed innovation investment process (see p.28). This enables them to act quickly, respond to disruptive trends, and proactively attack market opportunities without waiting for the next budget cycle.

8. THEY HAVE MITIGATED TURF WARS, AND THEY DON'T BLAME THE CEO

A staggering 55 percent of all respondents regard “politics and turf wars” as major obstacles to innovation. But at companies with mature innovation programs, the number drops to 42 percent. Mature companies have achieved alignment around innovation strategy, allocated responsibilities to the right teams, and minimized internal conflicts that obstruct new offerings. Cultural issues, cited by nearly half of all respondents (45 percent), are also less of an issue at mature companies (36 percent). And finally, companies with more mature programs have a CEO who is supporting innovation, not undermining it.

9. THEY ARE ALIGNED ON STRATEGY

Less mature companies say that the biggest enabler of innovation is

executive and leadership support. That may be true, but more mature companies tend to already have that support. Instead, mature companies emphasize the importance of having a unified strategy and vision around which the company can rally. So while less mature companies are still scrambling for support and budget, mature companies are focused on executing against a clear vision. Because of that focus on execution, mature companies typically see their technology and infrastructure as a critical enabler of innovation. On the other hand, less mature companies may not yet realize how important technology is because they're still trying to prove themselves, not develop and scale complex offerings.

10. THEY MEASURE SUCCESS BY CUSTOMERS AND INSIGHTS

The most mature companies don't just measure their success by tracking revenue from new products. They also prioritize metrics related to customer touch-points and interactions, as well as learnings and insights generated — characteristic of a nimbler, “lean startup” type of approach to concept development. They also de-emphasize the use of “activity” metrics, like the number of ideas generated — metrics that are more commonly used by less mature companies.

11. THEY PROVIDE INCENTIVES FOR INNOVATION

The vast majority of respondents who said their companies were at the earliest maturity stage (62 percent) offer no incentives for innovation (see p.46). That's not the case at mature companies, where only about one-fifth of respondents (22 percent) lack incentive programs. Mature companies offer dedicated time for employees to innovate, they provide bonuses that are tied to innovation, and they offer recognition and awards that put the innovation agenda front-and-center, ensuring that innovation becomes integrated into the way people work over time. ♦

WHAT DELIVERS IMPACT: ADVICE FROM THE LATER STAGES OF INNOVATION

ORGANIZATION

“We created direct linkage with the business units and [had a] high level of support from the C-suite.”

“We hired the right people with strong experience. We focused on existing projects, which have a greater chance to succeed. We created pull from the business.”

“We involved everyone in the company: up, down, and across business units and functions.”

PROCESS & METHODOLOGY

“It was important for us to understand the process ideas go through to move from concept to proven solution ready for execution; identify the challenges that have to be overcome in each stage; and develop the infrastructure and tools to help ideas move effectively and efficiently along that process.”

“We implemented a program to identify and accelerate ideas with high potential, and provide targeted design, research, marketing, development, and project management support.”

“We developed and implemented a comprehensive design thinking methodology across the enterprise.”

“We organized how we deliver complex technology innovation all the way to the manufacturing [stage], so that the [scaling up] challenge for new innovations doesn't end up killing them.”

“We transformed from a cross-functional approach, which had a large team with everyone dedicating about 20 percent of their time, to smaller teams, 100

percent dedicated [to innovation.]”

“We developed an integral innovation priority agreement, which in turn generated roadmaps stretching from 0 to 36 months.”

“The biggest change has been moving [our] mindset and funding from idea generation to implementation. Having direct innovation contacts at the executive level/HR/legal/compliance (as appropriate) is the best way we've found to help the 'ideas people.'”

“We introduced the concept of 'minimum viable products' to assure the organization is not afraid of testing ideas.”

METRICS

“We focused on the metric for success, which for us has been the number of innovations that have made it to market.”

TRAINING

“We started innovation culture training.”

COMMUNICATION

“Sharing employees' innovation stories.”

ECOSYSTEM

“We went outside the company. Talking to cross-functional, cross-industry innovators always yields new ideas, some of which have led to approved and launched transformative new [products] for us.”

Just Launching an Innovation Program?

Have you just been asked to create an innovation program? Or are you still in the early stages? We analyzed the data from companies in similar stages to develop this list of considerations — and pitfalls to avoid:

1. GET ALIGNMENT ON DEFINITIONS, OBJECTIVES, AND TIMELINES

At mature companies, there is a solid understanding that while incremental innovation work may deliver results in the near-term, pursuing adjacent or transformational opportunities requires much more time. It is important to clearly define the types of innovation your leadership team wants you to be focused on, and understand the varying timeframes for each one. Common alignment in our survey was: incremental innovation (next 18 months); adjacent innovation (18 to 36 months); and transformational innovation (beyond 36 months). It's also important to be clear about the program's objectives at the outset: is it about shifting the culture? Developing new products faster, with more customer input? Experimenting with new business models? Assigning a small team to chase too many different objectives can be a recipe for failure.

2. GET SOME DISTANCE

At less mature companies, the business units get involved in all “flavors” and timeframes of innovation work. That can create conflicts, distractions, and situations where longer-term initiatives don't get the appropriate resources. More mature companies do a good job of asking the business units to focus on driving incremental innovation, while central innovation teams with a bit of distance from the

day-to-day demands can explore adjacent and transformational innovation opportunities.

3. TRY, TEST, AND REFINE INNOVATION TACTICS

A key difference between less mature and more mature innovation programs is simple: mature programs have figured out what works, and left behind what doesn't. Whether it's building networks of innovation champions, crowdsourcing ideas, rotating business unit employees through the innovation group, or creating the right rewards and incentives for innovators, they have honed in on what works best within their culture and context. If you're just launching your innovation program, you need to have the flexibility and political cover to try, test, fail, refine, improve, and ultimately relaunch programs that provide value to the enterprise.

4. CREATE ALLIANCES TO GENERATE SUPPORT...AND BUDGET

All corporate cultures are unique. They have their power brokers, their purse-string holders, and their chronic skeptics. Make sure that your innovation team understands those dynamics, and has the respect and trust of the right people.

Outsiders brought in to oversee innovation will need to invest serious time to understand the landscape and players. We've had innovation executives tell us they spend about as much time ensuring their projects will be supported — and funded — by other parts of the business as they do developing the projects themselves. Even if you've got access to your own pool of funding, you'll likely need their expertise or help getting projects into the market. ♦

WHAT DELIVERS IMPACT: ADVICE FROM THE EARLY STAGES OF INNOVATION

INTERNAL PARTNERS

“We identified an internal partner with relationships to deploy concepts in a safe (but customer/external) environment, engaged internal and external partners in the innovation process – and tied learnings back to business objectives. Then we evangelized the results profusely!”

“We created a non-executive task force to identify gaps and develop a cross-functional innovation strategy.”

TREND SCOUTING

“We created a future business perspectives [document], translating megatrends into future business perspectives that all orgs should consider. This helps a lot in partner and customer interaction...[and creates] storytelling around our efforts.”

COMMUNICATION & ALIGNMENT

“Storytelling and communicating about success, failures, and supporting the efforts of others is incredibly important.”

“Provided vision to business unit executives for tech solutions to a market need.”

“Showcased examples where innovation has created revenue and impact that would otherwise not have occurred.”

“We built an internal communications program for innovation. Increased transparency creates a flow of ideas throughout our large enterprise, and enables faster adoption of new tech.”

“Created clear measures of success, and clear milestones for the journey.”

CUSTOMER-CENTRICITY

“Evaluated markets to ensure we have a solution customers will buy, instead of jumping into tech development, then trying to push a product.”

“We more directly tied innovation to consumer needs.”

INTERNAL PROCESSES

“Streamlined internal processes, customized the Google Ventures Design Sprint [approach], and opened innovation processes up to participation from external stakeholders.”

“We have partnered with our internal Process & Systems Improvement team to reinvent our product life cycle process, and piloted a new process last spring that resulted in the design and development of a new product, ready to be commercialized, in 10 weeks.”

“I have been championing an innovation team that is dedicated to increasing our organizational competence and capacity to innovate. We have generated awareness and excitement, which has led to more support from management.”

“We established an industry fellows program, which allows industry partners to place one of their experts in our hackerspace for four-to-twelve months to team up on open source, collaborative projects. Everyone who participates gets to leverage what is developed.”

CULTURE

“It’s all about moving the culture out of a transactional culture to a more forward-thinking/explorational/questioning culture.”

About the Data & Respondents

Innovation Leader recruited 270 innovation executives to participate in this survey in Q1 2018. Each response was reviewed for quality assurance, and to eliminate duplications and miscategorizations. Additional executives were also recruited for interviews to provide perspectives.

INDUSTRIES

No single industry dominated the responses. The largest two clusters of responses came from the consumer products sector (14 percent) and healthcare (12 percent). The energy & utilities industry generated nine percent of responses, as did the technology industry. A breakdown of the top industries is at right. Wherever possible and useful, we have tried to provide industry-specific data in this report, especially when a particular industry showed unique characteristics.

REVENUE

Since Innovation Leader's core audience is executives at large companies, it's not surprising that most of the respondents came from large, publicly-held companies. More than one-third of respondents (36 percent) work at companies with more than \$10 billion in revenue, and 11 percent are at companies with greater than \$50 billion in revenue. The largest respondent set (38 percent) represents companies with revenue between \$1 billion and \$9.9 billion. About one-quarter of respondents came from companies with less than \$999.9 million in annual revenue.

EMPLOYEES

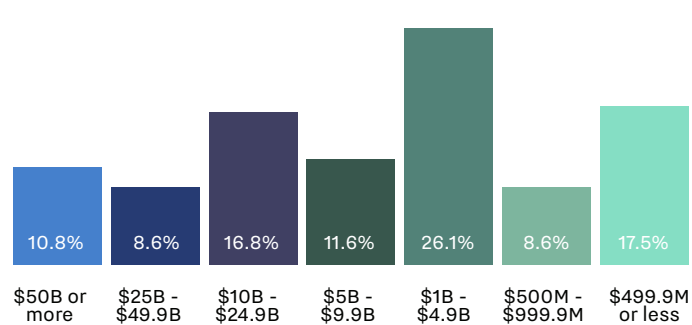
Another proxy for company size is the number of employees. As was

the case with revenue, over half of respondents work at companies with 10,000 or more employees, and more than 20 percent of respondents represent companies with greater than 50,000 employees.

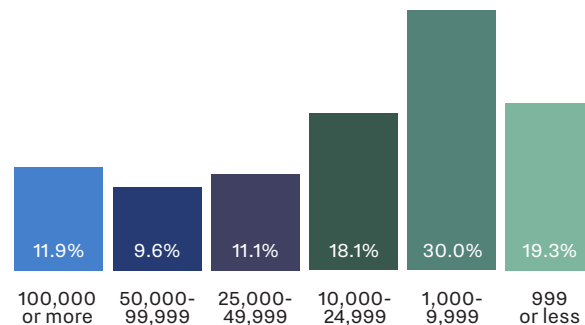
Industry	Respondents
Consumer Goods / Consumer Products	14.4%
Healthcare	11.9%
Energy & Utilities	8.5%
Technology	8.5%
Industrial Manufacturing	7.4%
Media & Telecom	5.9%
Pharmaceuticals & Life Sciences	5.9%
Financial Services — Insurance	5.9%
Government / Public Sector	4.4%
Other	3.7%
Automotive, Transport & Logistics	3.3%
Financial Services — Banking	3.0%
Retail	2.6%
Higher Education	2.2%
Engineering & Construction	1.9%
Hospitality & Leisure	1.9%
Aerospace & Defense	1.9%

Respondents by industry

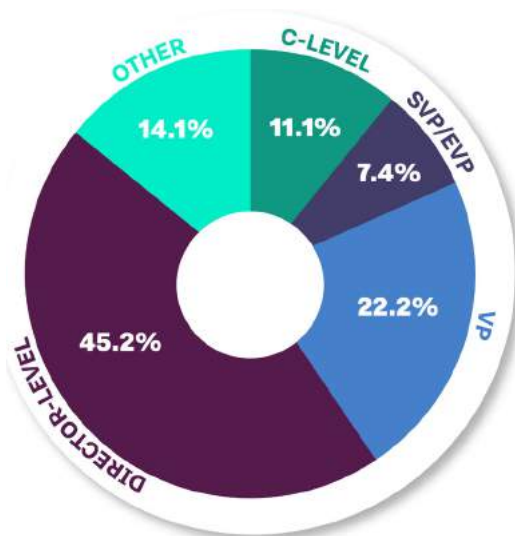
ABOUT THE DATA



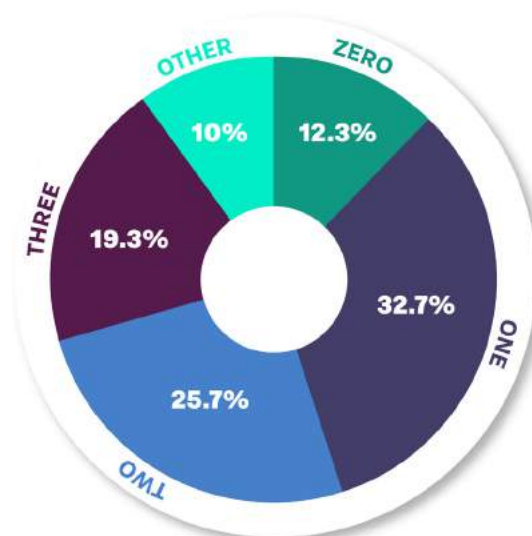
Respondents by revenue



Respondents by number of employees



Respondents by seniority



Respondents by levels from the CEO

SENIORITY

We also asked respondents to provide their titles, so that we could sort responses by seniority. More than 40 percent of respondents were at the Vice President level or above at their organizations; Just seven percent were SVPs or EVPs, and 11 percent were at the C-level. Those in the C-level category were most frequently Chief Innovation Officers, Chief Strategy Officers, or a combination of the two. Several Chief Technology Officers and Chief Information Officers completed the survey, as did some executives with unique titles, like “Chief Disruptor.”

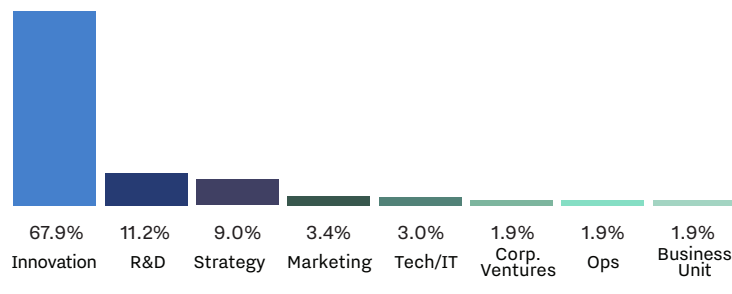
Approximately 45 percent of respondents were at the Director or Senior Director level; however it was common for those individuals to also have titles equivalent to “Head of Innovation.” Common titles in this respondent group were “Senior Director and Head of Innovation,” “Senior Director and Head of New Products,” and “Senior Director and Head of Internal Incubator.”

The remaining 14 percent of respondents had Manager titles; sample titles from that group included “Senior Manager, Strategic Innovation,” “Senior Innovation Manager,” and “Innovation Enablement Manager.” Interestingly, we discovered—during our follow-up conversations with selected respondents—that many of these managers were asked by a Chief Innovation Officer or VP Innovation to complete the survey on behalf of their organization.

HOW CLOSE TO THE CEO?

While titles, as mentioned above, are one way to gauge seniority, we decided to include another: proximity to the CEO. Specifically, we asked respondents to explain how many levels of reporting there were between him or her and the CEO.

Just over 12 percent of respondents told us they report directly to the CEO, and 33 percent said that their boss reports directly to the CEO. Nearly 26 percent said there were two levels of reporting (i.e., “My boss’s



Respondents by function (Due to rounding, does not equal 100%)

boss reports to the CEO”), and 19 percent were three levels away from the CEO.

FUNCTIONS

Nearly 70 percent of our respondents said they are part of their company’s innovation group. The second most common function that respondents worked within was R&D (11 percent of respondents.) A smaller group of strategy and marketing executives completed the survey as well.

Typically, Innovation Leader has found that marketing executives are more deeply involved with innovation at consumer products companies and other customer-facing industries, like retail. A handful of technology, corporate ventures/corporate development, operations, and business unit executives also completed the survey.

MATURITY

We asked all respondents to assess the maturity of their innovation programs, and to categorize themselves into one of five maturity stages:

1. **Ad Hoc** — These innovation programs are typically early-stage, isolated, opportunistic initiatives, often resulting in overlapping projects with inconsistent business cases and few formal tools, systems, or procedures.
2. **Emerging** — Programs at this stage are more organized, with projects prioritized; they have a higher-profile throughout the enterprise, and processes are being put into place.
3. **Defined** — At this stage, innovation programs are more strategic and linked to customer-focused or business-unit driven objectives. Processes are becoming more consistent and standardized, and both training and communication are more intentional.
4. **Integrated** — This is the stage at which innovation programs become truly mature. Funding and formal links to business units and strategy are solidified; the innovation portfolio is tied to corporate vision; and outcomes are both tracked and realized.
5. **Optimized** — Perhaps best described as the “nirvana” of innovation programs, this stage requires investment, commitment, and patience to reach. At this stage, innovation is repeatable, scalable, and pervasive (i.e., “part of the corporate DNA.”) At Optimized companies, innovation programs permeate all departments and functions; employees are empowered and incentivized to innovate; and the impact of the innovation program is material to the brand, culture, financial statements, and enterprise value.

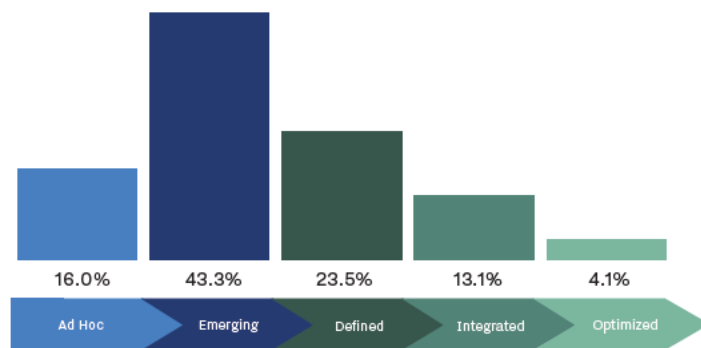
As one can see from the chart at right, a plurality of respondents (43 percent) placed their programs in the second stage, or Emerging. Only four percent of respondents said that their companies had an Optimized or fully-mature innovation program, and many sectors didn’t have a single respondent claim that their program was at this level of maturity.

It can be hard to progress along the maturity curve, requiring a commitment of years, not months. It’s also vital to deliver interim results as you go, and communicate outcomes broadly in the organization.

Based on the data, the most mature industries are technology and

healthcare. The least mature were education, mining & metals, and engineering & construction; 100 percent of respondents from those industries put themselves into either the first or second stage of maturity.

Maturity has not changed appreciably over the last few years. In our 2015 survey, only five percent of respondents said they were at the most mature stage of innovation; this year the number was four percent. The largest group of respondents (38 percent) in our 2015 survey said they were at the second or Emerging stage of maturity; that was true again this year, though the number rose to 43 percent. And while direct comparisons are impossible since the respondents were not identical in both years, the majority of respondents in the 2015 and 2018 data sets place themselves in the early stages of maturity. It’s also worth noting the subjective nature of this question. Answers may have been influenced by humility and a restlessness among the innovation tribe, which feels like its work is never done. An executive from the banking industry uses the metaphor of a tugboat: once you start to get the battleship moving in a new direction, you need find a new job to do, or something different to focus on. ♦



Respondents by maturity

ABOUT INNOVATION LEADER

Innovation Leader is a media and events company that covers innovation inside global companies. Since 2013, Innovation Leader has built the largest community of corporate executives responsible for strategy, R&D, new product development, design, and innovation at large public and private companies. We help these executives enhance their innovation programs using case studies and guidance on our website, learn from peers during live events, webinars and conference calls, and visit innovative labs and workplaces around the globe. Our research reports are written by Innovation Leader staff; whenever there's input from outside entities, we make that clear. If you quote from this report or reference it, kindly credit Innovation Leader and KPMG LLP. For an index of our past research reports, please visit innovationleader.com/research. If you received this report as a pass-along copy, you can learn more about Innovation Leader membership by emailing adam@innovationleader.com.

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Innovating inside large organizations is not easy. So how do you deliver concrete, tangible impact — over the short-term, medium-term, and long-term?

Innovation Leader and KPMG have collaborated to create the go-to resource on corporate innovation, based on detailed survey data and interviews with executives at Whirlpool Corp., Boeing, Johnson & Johnson, Southern Company, General Motors, and more.

Inside, you'll discover how more than 270 global companies think about innovation funding, staffing, incentives, and metrics. You'll get the breakdown on how much time and energy they are spending on incremental improvements versus truly transformational, market-changing ideas. You'll also learn about the top obstacles that corporate innovators encounter, as well as the things they view as key enablers of success.

Whether you are just starting on the journey of creating an innovation program within your organization, or you have one in place that you're seeking to re-tool or upgrade, *Benchmarking Innovation Impact 2018* is the essential resource.

