



2008 Best Practices Study

The Making of World-Class Innovators

What people are saying...

“The way you will thrive in a business environment is by innovating—innovating in technologies, innovating in strategies, innovating in business models.”

— Samuel Palmisano, CEO, IBM

“Innovation is P&G’s lifeblood. Without it we will fail. The P&G we’re trying to unleash today asks all 100,000-plus of us to be innovators. We actively solicit new ideas, and if the concept is promising, we put it into development.”

— A.G. Lafley, CEO, Procter and Gamble

“No country in the world has enough jobs. There’s too much global capacity and not enough great ideas ... so every company has to make growth their primary charter. Without innovation, you can’t survive. Without it, GE won’t see the next 100 years.”

— Jeffrey Immelt, CEO, General Electric

The Making of World-Class Innovators

Looking to Leaders for Best Practices in Innovation

It takes world-class leaders to both inspire and nurture the evolution of businesses that walk the talk when it comes to innovation—businesses that use inventiveness as a basis for achieving the kind of transformative change that propels growth.

IBM, P&G, and GE are three of those with such catalysts at the helm. As a result, these businesses are among those that are setting the bar, exploring any and all sources of inspiration to not only achieve the incremental advances that reshape products and services, but to transform their very businesses.

When their leaders talk innovation, people listen. For this is the movement of the new millenium, and it's one that is gaining in urgency. Success at it translates into market leadership and enhanced financial returns. It expands brand value and enhances relevancy with customers. It has the ability to empower and energize the workforce.

Still, a variety of issues make tapping into innovation's potential benefits problematic:

- While 70 percent of corporate leaders count innovation among their top three priorities for driving growth, 65 percent of them are not confident in their ability to execute.¹
- Senior executive satisfaction with returns on innovation is declining—to 46 percent in 2007 from 52 percent in 2006.²
- Some 35 percent of global CEOs surveyed cite an “unsupportive climate and culture” as the greatest barrier to innovation.³

What does it take to realize the potential of the innovative ethos? A new study by Prophet, in collaboration with Play, aimed to go beyond simply a “benefits of and barriers to” analysis in order to uncover characteristics and practices of the strongest

innovators—to better understand what makes them succeed at innovation while others struggle.

Our research involved approximately 150 senior strategists, innovators, and marketers among businesses identified as having a clear commitment to meeting the innovation imperative. All were either primary or joint decision-makers on their business' innovation initiatives. Their companies ranged from less than \$1 billion to over \$10 billion in revenues. The majority of respondents were U.S. based; the remainder was spread across Europe, the Middle East, and Africa.

What stood out was the thinking and approaches of what could be termed *model innovators*. The critical differentiators: They have leaders who are catalysts, actively involved in the innovation process internally, contributing ideas, and not just

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Customers Take New Hotel Aloft

Customer co-creation has been taken to new heights by Starwood Hotels and Resorts in the design of its new hotel concept, Aloft (www.starwoodhotels.com/aloft-hotels), to open this year.

The innovative hotel group ensured the design of an experience guests would crave by first opening a virtual hotel online to solicit their input on how that experience looks and feels. Once at virtualaloft.com, visitors were invited to tour the hotel, check into a room, swim in the pool, and even enjoy the sunset on a rooftop decks.

The guests were encouraged to both provide feedback and engage with the real hotel's designers and architects. In a typical interaction, for example, the question was raised as to why there was no door on the guest room's bathroom. Designers responded that a sliding door would be there when the real hotel was built—and explained why it was missing in the virtual room.

1. “How Companies Approach Innovation,” McKinsey 2008 survey

2. “The 50 Most Innovative Companies,” *Business Week*, May, 2007

3. “IBM Global CEO Study,” 2006

encouraging, but inspiring others to do so. Just as important, these leaders make sure their organizations tap into a broad network externally for sources of ideas and inspiration.

The innovation imperative is as relevant today as it was a decade ago when it began emerging as a differentiating strategy to fuel organic business growth. Lessons from businesses that have achieved the most success—with the strongest leaders and the strongest, most expansive networks—will help others advance on a similar path.

Organic Growth—Innovation’s Reward

Our study found businesses led by innovation catalysts with the most expansive networks for inspiration are three times more likely to believe that innovation is the most critical driver of business growth. In order to ensure that they do better at realizing its potential, they also have created a proactive and ongoing innovation strategy. In fact, two-thirds of these model innovators have such a strategy in place, double those who are neither catalyst-led nor fully networked.

Moreover, model innovators have made a concerted effort to ensure that the strategy is broadly understood. More than half of these organizations believe all of their employees understand their innovation strategy extremely well—almost three times that of companies that don’t fall into the model category.

And the presence of strong management support and a well-honed and understood strategy often sets the stage for the more expansive distribution of innovation responsibilities. These companies understand that innovation efforts are more likely to succeed if they are not limited to a single individual, function, or division. Gone are the days of innovation being the purview of R&D alone. The model innovators see the power of approaching innovation with a distributed, cross-functional approach. Our study found, for example, that 44 percent spread responsibilities and involvement across divisions. And the 40 percent of them (compared to 28 percent of the non-model organizations) that do centralize innovation responsibilities ensure their team is drawn from various functions within the organization.

“If you want to make the assumption that innovative ideas will somehow surface and get done without a process for reviewing them, then you’re welcome to it. What we’re trying to point out is that a formal process not only evaluates, but also encourages the formation of those ideas.”

— Edward Reilly, Chief Executive Officer
American Management Association
Forbes, May, 2006

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Casting the Widest Net

Open innovation was the mantra for Boeing in the evolution of its exciting new 7E7, the “Dreamliner.” Not only did potential customers, passengers, and enthusiasts from around the globe explore the plane via videos and other features on its Web site, but they actually named it—with “Dreamliner” culled from some 500,000 votes cast in over 160 countries.

But the dialog has gone even further. More than 120,000 people have joined Boeing’s Web-based World Design Team, with the stakeholder groups represented offering feedback on the new plane during the final development stages.

And Boeing’s network has also expanded to partners in other industries to ensure it’s innovating at peak levels around the customer experience. Wal-Mart’s inventory tracking system, for example, is being looked at for its uses in handling passenger luggage. And Boeing’s team is working with Disney to study ways in which its customer service techniques can be adapted to friendlier service in the skies.

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The Employee Braintrust

Google News. Google Suggest. AdSense for Content. Orkut. These are among the breakthrough ideas that differentiate the powerhouse search engine from everyone else. This is a business that is a marvel, as *Fast Company* puts it, for “its ability after 10 years to continue to instill a sense of creative fearlessness and ambition, even as it has grown to more than 16,000 employees.”

Its engineers, for example, all have “20 percent time” in which they’re free to pursue projects they’re passionate about. That’s how Google News came about.

One of its researchers would visit 10 to 15 news sites daily to keep up with the unfolding story in the aftermath of September 11, 2001. He decided to write a program to do it, using a Web crawler to cluster articles. He emailed it around the company, and its potential was immediately spotted. It became a great product.

As one executive said, “He didn’t intend to build a product, but accidentally gave us the idea for one.” That’s the reason for the 20 percent time rule: “We trust (our people) will build interesting things.”

Growing the Innovation Culture

Model innovators, respondents told us, adhere to the “do as I say *and* do” rule: Their executives set aside time to innovate. They inspire others. And they involve others—with 92 percent viewing innovation as a team process. In short, they’re highly effective at cultivating the right attitudes as well as behaviors.

Model innovators tend to encourage employees to be curious and 76 percent (versus 19 percent) of these businesses systematically encourage risk-taking. Additionally, 64 percent (compared to 21 percent) make

it a priority to provide time and space to allow for the development of new ideas, while they also train their people well in best practices (52 percent versus 14 percent). Among two oft-cited role models, Google gives its engineers “20 percent time” in which they’re free to pursue projects they’re passionate about. IBM has instituted ThinkFridays in its U.S. offices to stimulate divergent thinking.

By valuing employees and their ideas, and giving them a

chance to thrive, the strongest innovators have created more engaged internal teams. The vast majority (72 percent) of those in this class say that not only are ideas generated and evaluated by cross-functional teams, but they also give employees’ ideas a chance. Moreover, two-thirds of those in this category also say that employee involvement extends to their input in evaluating ideas.

They also put their money where their mouths are, offering financial incentives that help foster a

culture of innovation. In fact, 60 percent have built an incentive system that encourages their employees to contribute to innovation efforts. American Express CEO Ken Chenault has created one approach worth looking at. He established a \$50 million innovation fund to support employee ideas for long-term business transformation. “We want good ideas to come from all over the company, not just the chain of command,” Chenault said.

“In a hierarchy, everyone is working for the person making the film, but we push control far down into the organization. Does everyone own the project? Are we taking an honest-to-goodness risk? If we’re not scared—really scared—we’re not doing a good project.”

— Ed Catmull, President
 Pixar and Disney Animation Studios
Fast Company, March, 2008

The Network Effect

It's not just the strong internal culture that has been cultivated by those businesses that have strong innovation leaders setting the pace. This has been enriched—creating a robust overall innovation ecosystem—by thinking that has been solicited and encouraged from outside their own walls.

These model innovators cast wide nets in order to capture inspiration for new ideas and perspectives. In addition to tapping into employees, they are paying close attention to customers and competitors and are now, more than ever, explicitly requiring their partners and suppliers to figure out ways to help them achieve their innovation objectives. Three-fourths of these companies, for example, involve their vendors and suppliers in their innovation efforts. Moreover, they are far more likely to commit to building and nurturing global networks of outside scientists, inventors, academics, and consultants.

“Innovation is all about connections, so we get everyone we can involved: P&Gers past and present, customers, suppliers, even competitors. The more connections, the more ideas; the more ideas, the more solutions.”

— A.G. Lafley, Chief Executive Officer
Procter and Gamble

Most importantly, these companies acknowledge the burgeoning power of customers in an environment where they have and want more control in how they interact with brands. Model innovators treat their customers as important partners in innovation.

How does this manifest itself? They are far more likely to bring customers into the innovation process at multiple points and in varied ways. Nearly two-thirds of this group (versus 21 percent) are committed to and involved in some form of co-creation with their customers. Moreover, marketplace experimentation—utilizing “test and learn”

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How Target Hits the Innovation Bullseye

Target's ability to anticipate and meet customer wants and needs is part and parcel of its openness to outside sources of inspiration, reinforced by its insistence that every employee build their own network resources for new ideas.

Those tendrils are pervasive. Customer co-creation is a given, for example. One place where it's fostered: Target's user-experience research center, where customers test current store offerings and new prototypes. One recently vetted product is the ITSO (for “it's so fabulous!”), an affordable storage system to launch in June.

Then, there's Target's “creative cabinet,” an elite, secret, rotating team of outsiders from around the globe and across various disciplines, and presumably chosen for the original thinking they bring to the party. Members are paid to weigh in on various initiatives, whether new apparel lines, new packaging, or new marketing venues.

And, of course, the network hinges on collaboration with the creative up-and-comers in the fashion and design communities. That's one reason why Target has supported the Council of Fashion Designers of America's design education projects. It's led to relationships like one with bag and shoe designer Jessie Randall, who had a collection featured in stores under its Go International series of 90-day stints by high-end designers.

As President Gregg Steinhafer explained Target's underlying rationale in a March, 2008 *Fortune* magazine profile: “We micromanage and we think and sweat about every little aspect of the guest experience. We take the time to communicate to our broad organization what they do, why they're doing it, how it fits the whole.”

methodologies—was cited by the same percentage as a favored route for getting there.

And nearly half make more use of newer, more progressive sources of inspiration, such as the Internet and blogs. Indeed, advances in Web 2.0 have only enriched the customer vein and made it easier to tap into. Hallmark Cards sees as many as 15 concrete ideas a month emerge from its online customer community of 200 mothers with young children, dubbed “Hallmark Idea Exchange (IdEx).” Similarly, MyStarbucksIdea.com was recently launched to take the Starbucks experience outside the store and enable customers to play a role in shaping the company’s future.

The Success Factors

Some underlying principles emerged from the best practices of those that have come the furthest in meeting the innovation imperative:

1. **Become a catalyst.** Inspire and engage others regardless of your role in the organization.
2. **Get and stay connected.** An innovation ecosystem has no limits or borders, and is best built on the broadest possible base. Internal and external networks of sources must be tapped and powered to unleash a rich flow of ideas.
3. **Articulate your strategy.** Go beyond platitudes and buzzwords to ensure employees hear it and believe it—and understand how they’ve been empowered to live it.
4. **Encourage teams to execute.** An empowered team will see the challenge through to completion when given the tools and the incentives to act.
5. **“Test and learn” your promising innovations.** To innovate successfully requires acceptance that there’s more you don’t know than you do, and an openness to the risk that learning more may entail.

The model innovators in our study have put such principles into play. With their leaders on board and their networks in place, they realize that to reach the next level requires them to broaden their view of innovation and to deepen their commitment to creating a culture that motivates people to innovate. Indeed, the three critical areas this group agreed would be their focal point for the future were expanding their definition of innovation, clarifying their innovation strategy, and moving toward a more inspirational and risk-tolerant culture.



The ability to realize innovation’s promises continues to be a critical imperative for forward-thinking businesses that expect to thrive in the 21st century. The challenges are understood. But by studying and applying lessons from world-class innovators—establishing and nurturing the cultures and networks, the systems and processes—others will achieve a greater degree of measurable success.

Prophet (www.prophet.com) is a global consultancy that helps senior marketers more effectively use branding, marketing, and innovation to drive profitable growth. This study was conducted with the assistance of Play (www.lookatmorestuff.com), a creativity and innovation consultancy that helps organizations drive strategic change and growth.

To learn more about how we can help your business grow the innovation capabilities and networks that support sustainable growth, contact Kevin O’Donnell (kodonnell@prophet.com).