

The Management of Global Innovation: Business Expectations for 2020

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In order to assess the current perspective of executives on global innovation management, in 2016 A.T. Kearney and its subsidiary IMP³rove – European Innovation Management Academy surveyed more than 100 executives of large international organizations from the Americas, Europe, Asia, and Australia. The sample comprises executives representing manufacturing (19%); energy and process industries (17%); consumer goods and retail (15%); communications, media, and high tech (14%); financial institutions (10%); automotive (10%); and other industries (14%).

The survey focused on five key themes:

- the future role of innovation for their company,
- changes in the footprint of their innovation activities,
- changes in the structure of their innovation partner network,
- key challenges and benefits for global innovation management, and
- the role of public actors.

Key findings from the survey are summarized in the adjacent box.

The survey results reveal a strong call for action. More than half of the respondents expect to lose more than a fifth of their revenues within five years as a result of disruptive innovation if they do not change the way they operate. Digitization, the Internet of Things, and artificial

Key Findings

- **Innovation is expected to transform revenue generation:**

- › Sixty percent of respondents would expect to lose more than 20% of their company's revenues within five years as a result of disruptive innovation if they do not change the way they currently operate.
- › Eighty percent of executives expect the revenue contribution from innovation to increase or increase significantly between today and 2020.

- **Innovation will be increasingly global and collaborative:**

- › Most companies work with external partners on their innovation agenda. Important innovation partners for survey participants today include customers (60% of respondents see customers as having a high or very high impact), large suppliers (40%), and research institutes or academic institutions (34%).
- › The trend of leveraging innovation partners is expected to increase with a boost in the role of customers (78% expect an increase or a significant increase in impact), in the role of startups and small suppliers (67%), and in the role of research institutes or academic institutions (45%).

- › More than seven out of ten participants agree or strongly agree that their innovation activities are becoming more global.

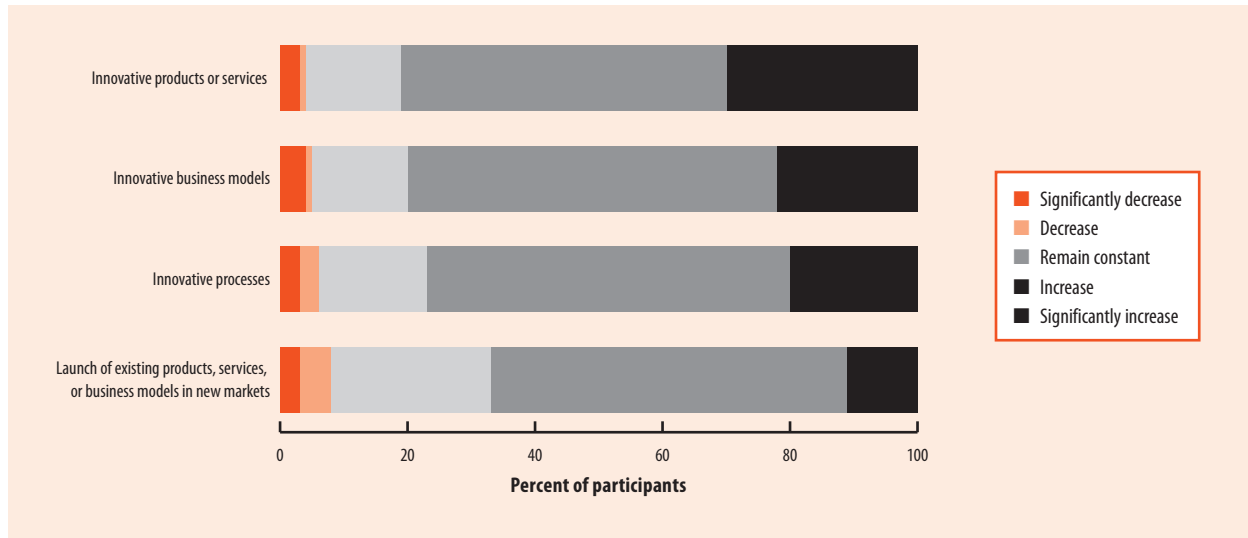
- › More than 80% of participants consider five factors to be important for choosing a country to incubate an innovative, new business: proximity to innovation partners, access to markets, access to talent, supportive local regulations, and sufficiently high quality infrastructure (information and communication technologies, transport).

- **Most companies feel their innovation platforms are not ready to fully navigate this new landscape:**

- › The increasing size of innovation networks drives the need for excellence in governance structure and processes.
- › The majority of respondents rate their capabilities to identify, select, build and operate, and exit innovation partnerships as (very) poor or fair.

- **From a policy maker's perspective, the specific capability gap and its implications will need to be addressed**

- › To date, four out of ten executives are not aware of non-financial support and incentive programmes. Moreover, close to 50% report that unexpected changes in national government regulations have had a negative impact on their innovation successes in the past.

Figure 1: Expected revenue contribution through innovation vs. market expansion with existing products between now and 2020

Source: A.T. Kearney and IMP³rove – European Innovation Management Academy.

Note: The figure depicts responses to the query ‘How much will the revenue contribution from innovation increase or decrease between now and 2020?’ ‘Innovation’ is defined as products, services, and business models that have been introduced within the past three years.

intelligence are seen as challenges, but also as sources of innovation.

Although survey participants represent a broad range of companies—including those that are centralized and those that are decentralized—the findings demonstrate a surprisingly broad agreement that innovation activities are becoming increasingly global. The vision of global innovation activities, where the best-suited partner for any specific innovation need—regardless of his or her location—can be included in an innovation process is promising, yet extremely challenging. Corporations will need to determine how to find a partner for a specific innovation topic if the appropriate specialist may be located far from global innovation hot spots, and how to keep an overview of the changing needs of global customers or of potential start-up and small business partners, the two groups whose importance as innovation partners is expected to grow most. These challenges seemed impossible

to overcome before digitization enabled companies to interact with global customers on an individual basis, and before small business partners located in remote parts of the world.

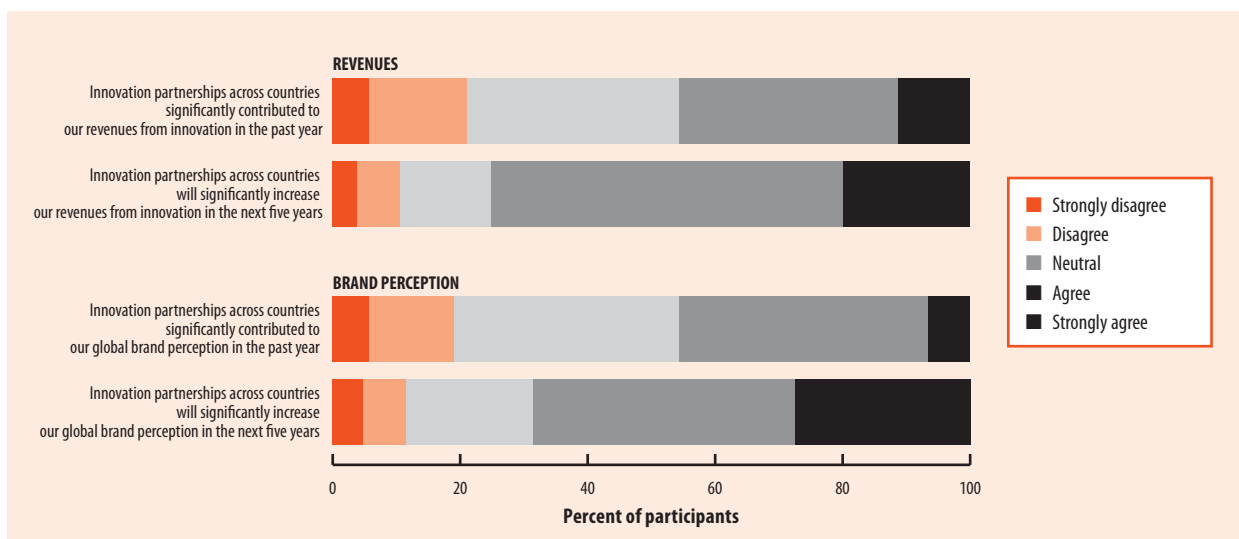
Public actors should take note: An important share of participants state that unexpected changes in national regulations had a negative impact on their innovation success. This can be explained partly by the fact that policy development cycles are usually linked to election periods, while product lifecycles or investment lifecycles may require much longer time periods—for example, utilities investing in innovative power plants or pharmaceutical companies investing in new medicines require a longer planning time frame for their innovation activities than governments need to formulate and implement policies about these investments or products. Almost half of the participants of our survey state that unexpected changes in national regulation had a negative impact on

their innovation success. This raises the question of how policy makers can systematically boost innovation success by making their regulation plans more transparent.

The increasingly central role of innovation

Eighty percent of survey respondents expect the revenue contribution from innovation to increase or significantly increase between today and 2020 (Figure 1).¹ And three sources of innovation—products or services innovation, process innovation, and business model innovation—are rated as equally important.

This expectation is almost on par with the expected revenue growth that will be achieved by launching existing products, services, or business models in new markets. Nearly 70% of participants expect that these activities will make an almost equal contribution to a rise in revenues as innovation. Herein lies the overarching challenge: Executives will

Figure 2: The current and future impact of innovation partnerships

Source: A.T. Kearney and IMP³rove – European Innovation Management Academy.

Note: The figure depicts responses to the query 'How much do you agree or disagree with the following statements?'

need to speed up or increase their innovation activities and foster their impact in global markets.

Unless they change the way they operate, 60% of respondents expect to lose more than 20% of revenues within five years as a result of disruptive innovation. The top three industries with the highest expected impact from disruptive innovation are financial institutions; communications, media, and high tech; and automotive. Major disruptions driving these estimates include digitization and the Internet of Things (which was highlighted by survey respondents across all industries), FinTechs (which innovate in financial services enabled by technology), artificial intelligence (which was mentioned particularly by respondents in the high-tech industries), and electric driving (which was highlighted by respondents from the automotive industry). The speed of disruption can be illustrated by considering FinTechs, as one example in this group of game changers: the five globally leading

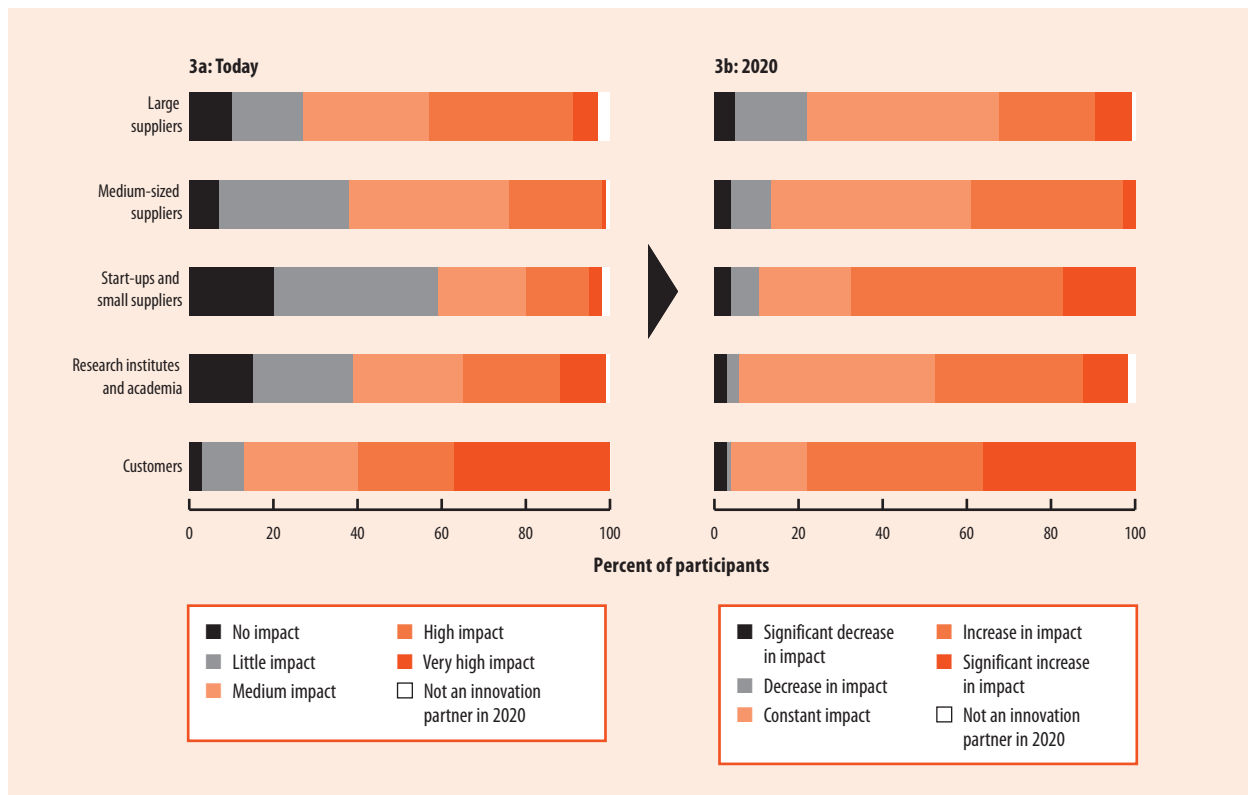
FinTechs PayPal, Lufax, Zhong An, Square, and Wirecard now readily have twice the valuation of five leading German banks (Deutsche Bank, Commerzbank, Aareal Bank, pbb, and Comdirect).²

Changes in the reach and complexity of innovation platforms

More than seven out of ten participants agree or strongly agree that their innovation activities are becoming more global. In this context, a more global innovation activity can, for example, relate to idea sourcing with a global community or collaboration on innovation projects with a geographically widespread team. This expectation is shared by organizations regardless of whether their business is centralized (with more than 75% of employees based in the company's headquarter country), decentralized (fewer than 25% of employees are based in the headquarter country), or set up as a hybrid where 25% to

75% of employees are based in the headquarter country.

The survey also reveals that a majority of respondents agree that innovation partnerships across countries will significantly impact revenues and global brand perception (Figure 2). Although fewer than half of respondents agree that innovation partnerships across countries contributed significantly to revenues from innovation in the past year, three out of four expect that these partnerships would contribute significantly in the next five years. Similarly, although fewer than half of respondents observed that innovation partnerships across countries contributed to global brand perception, close to 70% agree when the issue is considered in the five-year context. The increasing role of digitization and the Internet of Things is an important factor in this regard. For example, partnerships can contribute to a major change towards a more innovative brand perception, higher differentiation, and higher

Figure 3: Impact of various groups of innovation partners

Source: A.T. Kearney and IMP³rove – European Innovation Management Academy.

Note: The figure depicts responses to the query 'How would you rate the impact of each of the following innovation partners?'

revenues of the product—as in the case of a manufacturer of white goods who collaborates with start-ups to develop Internet-of-Things applications such as the self-refilling fridge.

Proximity to innovation partners is one of the top five criteria in choosing a country in which to incubate an innovative new business for more than 80% of participants. Moreover, executives highlighted access to markets, access to talent, local regulations, and infrastructure (both information and communication technologies and transport) as key criteria. This is good news for governments, because to attract innovation, they can influence three out of these five factors directly: local regulations can be developed in the short to medium term, and

both education and infrastructure can be fostered in the medium to long term. Moreover, as noted in the report *Fostering Innovation-Driven Entrepreneurship*, two among nine leading European policy makers readily highlighted efforts to connect their innovation ecosystems with globally leading hubs such as Silicon Valley to unlock benefits of proximity to globally leading innovation partners.³

Changes in the structure of innovation platforms

The extent to which partners are being integrated into company innovation activities is on the rise. According to survey participants, the most important innovation partners today are customers (60%

of respondents see customers as having a high impact or very high impact), large suppliers (40%), and research and academic institutions (34%) (Figure 3a). Key expected trends include a further increase in the role of customers (78% of those surveyed expect an increase or significant increase in the impact of customers as innovation partners), in the role of start-ups and small suppliers (67%), and in the role of research and academic institutions (45%) (Figure 3b).

The survey respondents not only expect their innovation network to change in structure over the next several years, but they also expect it to grow geographically: seven out of ten participants expect to see an increase of their innovation network on the headquarter continent, and

four out of ten expect to see an increase across all continents.

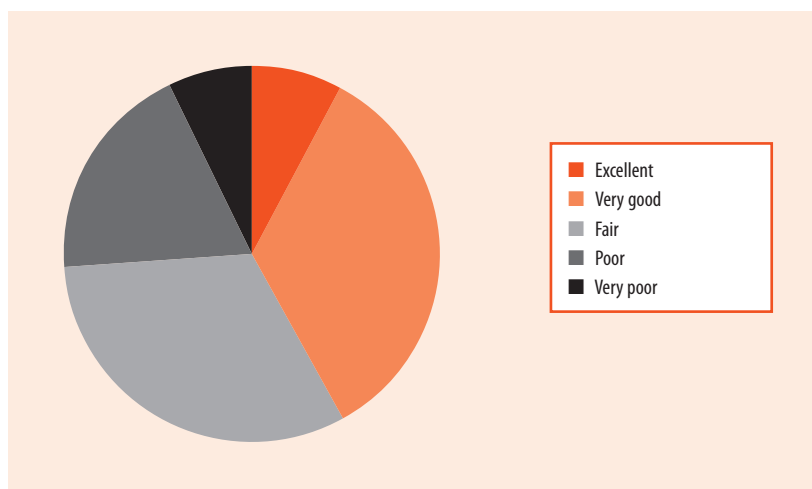
This expectation seems achievable when considering the effect of digitization on innovation management: 20 years ago, a network of some hundred innovation partners would have been exceptional. In recent years, however, new scales have been reached. For instance, GE runs the Ecomagination Challenge to identify and select outstanding ideas and business models to solve the world's most challenging problems. Within just six months, GE built an online community of about 60,000 participants located in 90 countries and crowd-sourced more than 5,000 ideas.⁴

The central challenge: Immature platforms and missed opportunities

Growing innovation networks demand excellence in governance structures and processes. Anchoring global innovation as a topic that chief executive officers endorse and actively support throughout the corporate hierarchy, along with implementing processes that institutionalize collaboration—for example, by creating separate units for investing into innovative ventures or engaging in collaborative innovation—are becoming prerequisites for successfully managing global innovation networks.⁵ However, 57% of participants rate their governance structures and the processes they have in place to manage and drive innovation activities across geographies and business units as fair, poor, or very poor (Figure 4).

Consider IBM: In 1999, the company realized that it had failed to commercialize a number of promising technologies such as the commercial router, which was developed by IBM but became a commercial success for Cisco. Analyzing reasons for the failure helped IBM to

Figure 4: Governance structures and processes to oversee innovation activities across geographies and business units: Respondents' assessment



Source: A.T. Kearney and IMP³rove – European Innovation Management Academy.

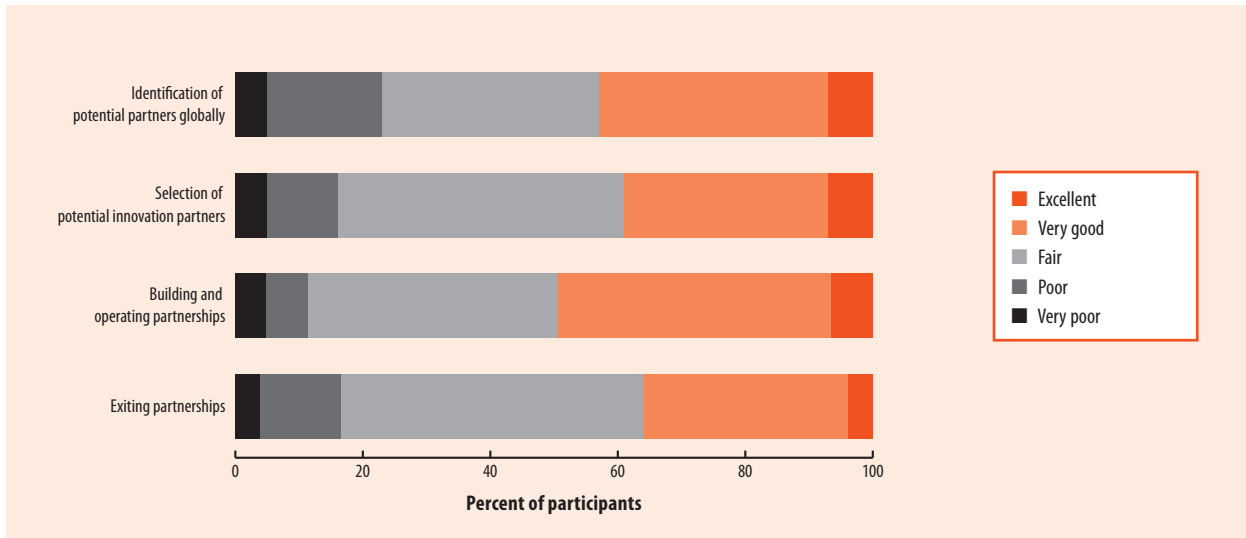
Note: The figure depicts responses to the query 'How would you rate your governance structures and processes set up to oversee innovation activities holistically (across geographies and business units)?'

identify major roadblocks. Incentives rewarding execution were directed at short-term impact; IBM was focused on existing markets and existing offerings; and there was a perceived lack of established disciplines for selecting, experimenting, funding, and terminating new growth businesses, as well as a lack of entrepreneurial leadership skills to excel in execution. Realizing that a specific governance and process would be required to succeed, IBM launched the Emerging Business Organization (EBO). Since 2000, EBO has generated more than \$25 million in new revenues for IBM.⁶

Over half of respondents are critical of their existing formal processes intended to identify, select, build and operate, and exit innovation partnerships, and rate them as very poor, poor, or fair. Time-consuming, cumbersome, and costly processes can become a hurdle before a potential innovation partnership even begins. Respondents also cite a lack of flexibility when it comes to working with smaller companies or start-ups. Only

five out of ten participants adapt their processes for small or start-up partners (Figure 5).

In our work as Knowledge Partners of the World Economic Forum on the report *Collaborative Innovation*, we found that challenges and suggested response strategies for firms can be grouped into three layers—Prepare, Partner, and Pioneer.⁷ The report summarizes the idea that often the most significant challenge and the greatest positive impact springs from how well firms prepare to collaborate: This implies having well-defined objectives, a carefully designed business case, and suitable organizational processes. A supportive culture and links to relevant networks are important predictors of success. Moreover, the report stresses the importance of tailored processes for collaborations between large and small partners. In one example of this approach, to ease the procurement process with smaller partners, Royal Dutch Shell has simplified its governance of collaborations. The company has decentralized decision

Figure 5: Formal phases of innovation partnerships: Respondents' assessment of capabilities

Source: A.T. Kearney and IMP³rove – European Innovation Management Academy.

Note: The figure depicts responses to the query 'How would you rate your formal processes for the following phases of innovation partnerships?'

making and changed procedural requirements.⁸

The role of public actors

In terms of the role of public actors, eight out of each ten respondents are aware of public innovation support programmes providing financial resources for innovation. However, more than 40% of respondents are not aware of programmes providing non-financial support (including co-creation support services) or demand-oriented programmes such as preferential purchasing programmes or regulatory measures in building codes, automobile emissions, or energy generation. There seem to be untapped opportunities in light of the finding that companies consider an increasingly global and collaborative management of innovation as a challenge for their current governance structures and processes. Governments can make a difference with specific programmes

for capability-building and ecosystem development.⁹

Forty-six percent of participants report that unexpected changes in national government regulations have had a negative impact on innovation. This is particularly evident in industries with long planning horizons, such as the utilities industry. The German utilities industry, for example, invested heavily in modern gas and nuclear power plants, leveraging what were then the newest power plant technologies. However, changing government regulation favouring renewable and distributed energy generation had a severe impact on the business cases for these power plants and made the return on this investment unfavourable.

Recommendations by innovation leaders for how to excel in global innovation management

The following quotes are recommendations from innovation leaders about how to successfully master

a corporation's global innovation agenda:

- **Strategy: 'A clear focus on search fields for innovation is imperative'.** To get their innovation strategies right, leading innovators invest upfront in understanding market dynamics, technology dynamics, and service dynamics. They are investing time more than money. Once they have their innovation strategy right—not just on paper but in the minds of all their influential internal decision makers—they begin collecting ideas with potential into a 'portfolio of *search fields*', which subsequently becomes the wellhead of the innovation flow.¹⁰
- **Clear measures that have buy-in from the leadership: 'Insulate key performance indicators for innovation from the existing business'.** In order to measure progress in the search fields of the innovation strategy,

innovation leaders set innovation-specific key performance indicators. These indicators are distinct from the company's other key performance indicators and measures. It is remarkable how easily many executives talk about key-performance indicators for their innovation strategy—for example, the 'new product vitality index' (the share of innovative products, services, or business models compared to overall revenues), or time to market and time to profit.

- **Worldwide consistent innovation processes: 'Consistent innovation processes across all our BUs and geographies make sure we can integrate and work with innovation partners from all over the world'.** Structured processes help to identify, select, operate, and, when necessary, withdraw from partnerships; independent from which business units or geographies are involved.
- **Culture that empowers employees: 'We nourish freedom of thought and freedom of action in order to spark creativity'.** The fairly consistent result is innovation and a sparking new business.
- **Digital infrastructure pulls down geographic barriers: 'Digital infrastructure helps to decrease transaction costs between partners'.** It provides transparency around needs and capabilities and enables a completely new scale of interaction.
- **Observe regulatory conditions and screen impending changes: 'Consistency in regulation is critical'.** In some countries disparities exist everywhere, making

it hard to launch products and services on a national basis.

Conclusions

This study of more than 100 executives globally reveals a dichotomy: Although innovation is expected to drive revenue growth and brand perception across industries in the short term, challenges remain in building the capacity to harness it.

In order to benefit fully from this evolving central role of innovation, its management must become more and more global. Furthermore, customer-driven innovation and innovation in collaboration with start-ups, and with small and medium-sized enterprises as partners, represent the largest potential, but they also represent another important challenge: Many executives rate their own capacity to integrate potential innovation partners globally into their process as very poor, poor, or fair. Organizations that systematically harness partner ecosystems for innovation, building on disruptive procurement methods and sustainable partner relationships,¹¹ will be best prepared to capture the next wave of innovation: A recent study showed that better innovation management practices are linked to higher shares of EBIT driven by innovation.¹²

Notes

- 1 The definition of 'innovation' used here involves a dimension of time: for the purposes of the survey, 'innovation' is understood to mean products, services, or business models introduced in the past three years.
- 2 Klemm and Walter, 2016.
- 3 World Economic Forum, 2014.
- 4 King and Lakhani, 2013.
- 5 World Economic Forum, 2013.
- 6 O'Reilly et al., 2009.
- 7 World Economic Forum, 2014.

- 8 World Economic Forum, 2015.
- 9 See the analysis 'Empower, Educate and Enable: A Vision, Actions and Measurements for Policies to Address Collaborative Innovation Challenges' in the World Economic Forum 2015 report *Collaborative Innovation*, World Economic Forum, 2015.
- 10 Engel et al., 2015.
- 11 Schuh et al., 2016.
- 12 IMP³rove – European Innovation Management Academy, 2016.

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