Research
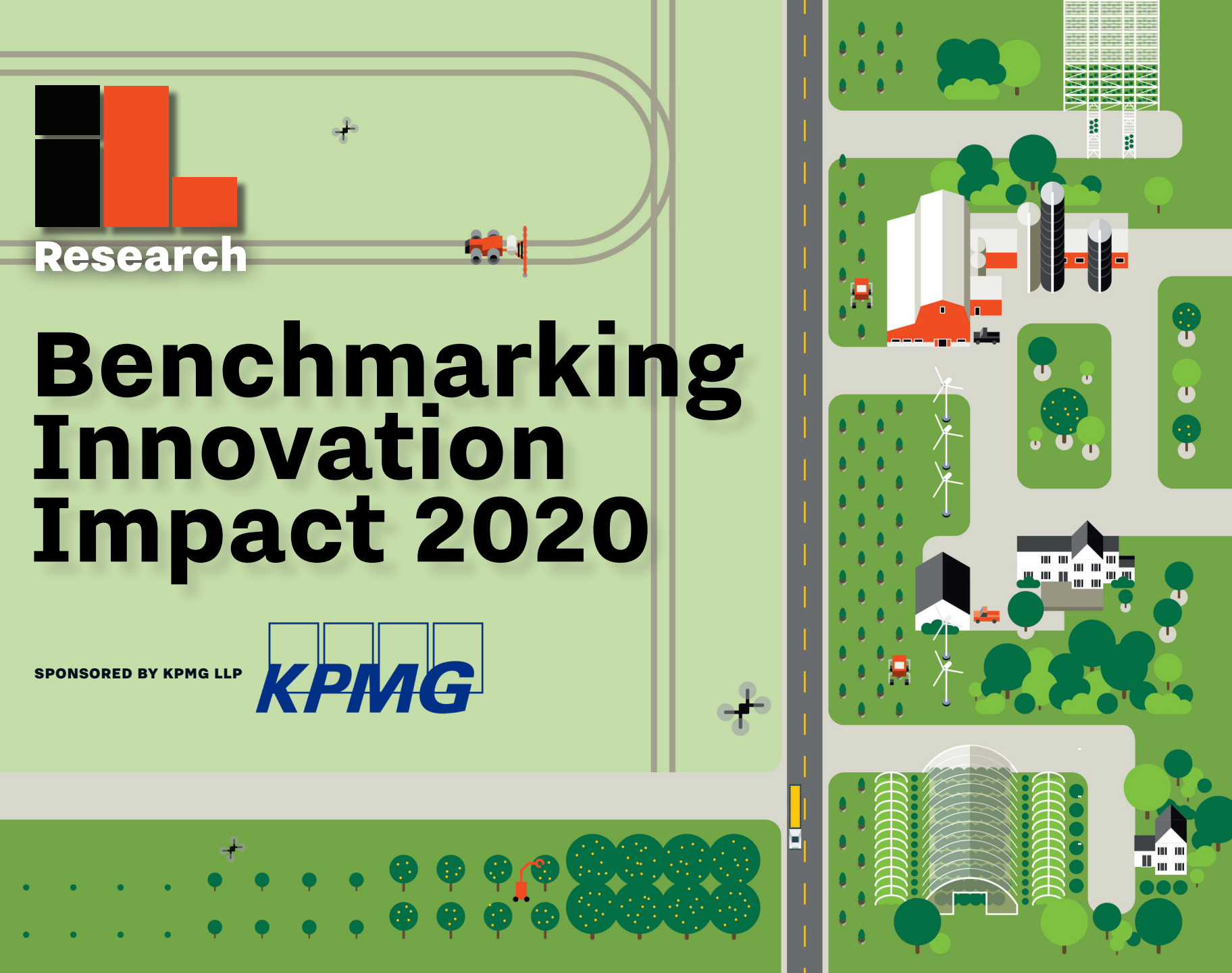
Benchmarking Innovation Impact 2020

About the Cover

We worked with Nik Schulz of L-Dopa Design and Illustration to create a cover for this year's report that is all about growth — planting, nurturing, and taking things to market. We wanted to emphasize that successful innovators deliver new kinds of growth to their organizations, even if they're working with limited resources.

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Welcome

At KPMG LLP, we're pleased to have sponsored — for a second year — Innovation Leader's 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 innovation strategies, investments, and approaches in place to drive growth for our future?

We're operating in an incredibly dynamic market environment where the level of disruption and pace of change are exponentially increasing. This makes innovation all the more complex and table stakes high as the cost of not innovating could mean disintermediation of the company. To help meet these challenges, Innovation Leader's research provides you with insights on the successes and learnings from innovation at companies like yours. These insights cover the most important and challenging topics related to innovation: (1) aligning strategically, (2) funding and resourcing deliberately, (3) overcoming obstacles, and (4) executing for impact. Methods and approaches can vary, but finding what works 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. This includes insights from "role model companies," organizations that are leading the way in innovation.
· 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 in our own business and with clients leading enterprise-scale innovation efforts. These perspectives are included throughout the report as well as in our "top 10 learnings" on p.66 of the report.

We encourage you to become familiar with the breadth and richness of this content, share it, and use it as a reference when 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 from innovation over time. The world is changing quickly. Many companies are running as fast as they can simply to keep up, but are challenged to pick up the pace. 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 guides you to the answers you need to move forward.

— *Fiona Grandi, National Managing Partner, Innovation & Enterprise Solutions, KPMG LLP*

How to Use This Report

We created Innovation Leader to be the essential resource for anyone charged with making change inside a large organization. And in assembling this year's *Benchmarking Innovation Impact* report, we wanted to present you with useful information and insights that will help you move the needle — whether you're designing a new initiative or refining one that already exists.

WHAT'S DIFFERENT

This year, we looked at the data through two lenses: one that includes the complete set of 215 respondents, and a second that includes about 25 "role model" companies that put themselves at the more advanced end of the innovation maturity spectrum. We also identified a dozen "role model" companies to interview, because they've had innovation, new ventures, or R&D initiatives in place for several years; have been delivering tangible results; and are widely regarded as industry leaders. We introduced several new questions to this year's survey, to better understand whether budgets have been trending up (or down), and what sorts of activities our respondents have stopped doing, among other topics. You'll see those new questions indicated with a "New Question 2020" label throughout.

WHAT'S INSIDE

There are four components to the report:

1. Our review of the data from a 2019 survey of corporate innovators — including lots of charts and graphs. You'll see the complete data set compared to the smaller group of about 25 "role model" companies.

2. Learnings and advice from a dozen corporate innovation professionals at companies we chose as role models for this report. This group included Google, Intel, ESPN, Ford, and Nasdaq, among others.

3. Insights from KPMG professionals about what the results of this year's survey might mean for you, and alternative approaches to consider.

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

We divided this year's report into five sections to help you:

1. Think through how to create a winning strategy.
2. Lay out the appropriate resources and funding you will need.
3. Work through the inevitable barriers and obstacles.
4. Measure your progress.
5. Understand what approaches have (and haven't) worked for our survey respondents.

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.

Executive Summary

Here's a look at some of the key learnings that emerge from this report's data and qualitative interviews. We've organized this according to the four key sections of the report.

1. CREATING THE RIGHT STRATEGY

• **Amidst the need for "base hits," don't forget to swing for the fences**. Nearly everyone we've ever interviewed cites the need for early, tangible successes ("base hits") to prove that a new initiative can provide value to the company. Often, those are delivered in close collaboration with colleagues in the business units. But our data shows that about 25 percent of effort is focused on adjacent innovations (think of these as "doubles" and "triples"), and another 25 percent on transformational innovations that could turn into significant new sources of competitive advantage for the company ("home runs.") Among the role model set, there is less focus on incremental and adjacent innovation, and more (37 percent, compared to 25 percent) on transformational work.

2. RESOURCING AND FUNDING INNOVATION

• **Most innovation efforts are still tiny — and young**. Innovation labs, corporate venture capital programs, and ecosystem-building are not yet well-established functions in most companies. Our survey found that 43 percent of innovation-related programs have fewer than 10 full-time equivalents dedicated to them. Nearly 60 percent of our survey respondents said these programs were in the earliest stages of evolution. One respondent told us that "creating structure to organize the chaos is the one thing we have done that has had the most impact." Innovation teams almost always begin life with lim-

ited resources and staffing. It takes time to deliver the proof points that get investment to an appropriate level.

• **Business units need to be bought in**. Culture clashes can flare up when colleagues in the business units are surprised by something the innovation team has been working on, because they weren't bought in from the start. Our survey found that business unit staff are often involved in incremental and adjacent innovation activity as partners and funders. And support from business unit leaders was cited as one of the key enablers of innovation success. As Linda Tong, Vice President of Innovation Labs at AppDynamics, put it, "Getting the right resources, to me, means aligning yourself more tightly with the business and understanding it enough." (See p.27)

3. BREAKING THROUGH THE BARRIERS

• **Cultural issues can't be avoided**. Yes, innovators would rather be building new products, investing in startups, or deploying cutting-edge technologies. But they can't ignore the way the company culture will respond to the work they're doing. Politics, turf wars, and culture were some of the top obstacles cited by innovators in this year's survey (these were also at the top of the list in 2018.) And when we asked a new question about the challenges to rolling out ideas more broadly in the company, or the market, one of the top challenges was "company culture or entrenched attitudes." How will you ensure that colleagues are ready to embrace the work you're doing — rather than reject it?

• **Learn to test, cheaply and quickly**. One way that innovation teams can prove their value is by developing the capability to experiment and capture learnings faster and with less expense than other parts

of the organization. The ability to test, learn, and iterate was mentioned as one of the key enablers of success by our respondents. And our "role model" set cited "learnings and insights generated" as the top non-financial metric that they track. In many cases, these early tests can capture data that helps attract more funding. As Ryan Spoon of ESPN put it, "It's much harder to do when the ask is coming from a PowerPoint deck — as opposed to some examples of success you've already demonstrated." (See p.40)

- **Seeing isn't the same as doing**. Most companies see and talk regularly about the changes affecting their growth and profitability — like fast-moving competitors or changing customer behaviors. But they lack the ability to link those observations to fast action. While just 15 percent of companies say that it's a challenge for them to "pick up on signals" of change that are relevant to their business, 42 percent say that they're unable to act on those signals.

4. DELIVERING IMPACT AND MEASURING SUCCESS

- **Trophies are OK; time and money are better**. The most commonly-used incentive to get employees participating in innovation programs is some sort of award or recognition. But among the role model set, we found a higher percentage of companies supplementing recognition with dedicated time to continue developing an idea (30 percent) or seed funding (22 percent.) Google's "20 percent time" for pet projects may be a bit of a myth ("we joke that it's more like 120 percent time," says Googler Russ Wilson), but some companies are trying to help employees get the time and funding they need to keep moving their projects forward.

- **Metrics are a must**. One quarter of survey respondents told us they do not track any financial metrics; that number drops precipitously, however, as companies move from the early to more sophisticated stages of innovation. Among our "role model" set, revenue gener-

ated by new products or services was being measured by fully two-thirds of respondents. And 41 percent said they were also tracking cost reductions or efficiencies. It's not enough just to collect metrics, though — they need to be communicated and disseminated to relevant colleagues up and down the org chart.

5. MOVING FORWARD

- **You need a "stop sign."** Many innovation programs try a lot of things in their first year or two of existence. But attempting to do too much can result in nothing having a significant impact. It's OK to put a stop to some things. Our respondents told us that they'd "stopped working on projects that don't have senior exec sponsorship"... stopped "trying to stimulate innovation in all parts of the org"... stopped supporting the core business' needs with staff that were supposed to be dedicated to transformational innovation... stopped "ad hoc design thinking training"... and much more. (See p.62)

- **Support, strategy, and the right people are more important than the ability to accept failure**. There's been a lot of rhetoric in recent years around "celebrating failure" and becoming more tolerant of failure as a necessary shift, to create more space for experiments that may not pay off. But in many organizations, explaining that it's OK to "fail fast" is not something the broad employee base is ever going to understand or embrace. The organization's ability to "accept failure well" was not seen as a key enabler of success by the survey's "role model" respondents. What was? Support from leadership; crafting the right strategy and vision for the innovation initiative; and assembling a team with the necessary skill sets to deliver on that strategy.

And in a corporate environment where leadership, strategies, staffing levels, and market conditions are constantly changing, perhaps the biggest challenge of all is keeping the innovation activity and investment on a steady course long enough to deliver substantial results.

DATA HIGHLIGHTS

CONFIDENCE IS ON THE RISE

42%

of respondents say that their **confidence has grown** over the last year, when it comes to their belief that their company's strategy and investment in innovation will enable it to remain competitive. *(Just 19 percent say their confidence has been decreasing.)* (See p.9)

CONNECTIONS

Innovation and R&D professionals said it was more likely they had strong ties to (or were integrated with) their company's **strategy group**. They were somewhat less well-connected to corporate venture capital groups, and even more distant from corporate development and M&A groups. (See p.15)

$ FUNDING

Business units were the leading supplier of funding for incremental and adjacent innovation activities. Transformational work was more likely to be funded by the **executive team**. (See p.26)

THE INDUSTRIES that were best represented in this year's set of respondents were:

FINANCIAL SERVICES	CONSUMER GOODS AND PRODUCTS	TECH
16%	**13%**	**9%**

OVERALL INVESTMENT

↑56%

of respondents expect their company's overall innovation investment to increase from 2019 to 2020.

Just 7%↓

expect a decrease. (See p.31)

Politics   **Turf Wars**   **Lack of Alignment**

THE OBSTACLES above remained the most commonly-encountered blockers in this year's survey, repeating from our 2018 edition. For the "role model" companies in this year's survey, though, the top obstacle was different: it was **accessing the talent and skillsets they need**. (See p.35)

METRICS

The most commonly-used financial metric for innovation programs is **revenue generated**, with **58%** of respondents using that to gauge the impact they're having. (One quarter of respondents say they do not track financial impact.) (See p.52)

INCENTIVES

About **half of our respondents** offer some kind of **recognition or award for participation** in innovation activities. But more than one-third don't offer incentives of any kind. (See p.49)

SCALING CHALLENGES

What happens when it's time to scale a new innovation, making it widely available to customers or employees?

61%

of respondents say the challenge they most frequently encounter is **competing priorities**.

59%

a close second, say it's **company culture or entrenched attitudes**. (See p.41)

1.
CREATING THE RIGHT STRATEGY

Confidence Check

→ We introduced this new question about sentiment to understand, over time, how our respondents' confidence levels are changing, and to see whether certain industries are feeling more or less optimistic about their ability to remain competitive. The role model set, below, is feeling more confident by two full points. And it is far less likely that their confidence is dropping year-over-year (4 percent versus 19 percent in the complete respondent set). That may be because their programs have survived the risky toddler and adolescent years, and have matured into something that is viewed as essential to the organization's growth and continued relevance. They're beyond searching for ways to prove their value, or strategizing to get the appropriate resources — and are just doing the work.

Confidence in innovation strategy and investment

All Respondents	0	5.5	10
Role Models	0	7.5	10

Note: Zero indicates "not confident at all." Ten indicates "completely confident."

How confidence has changed relative to one year ago
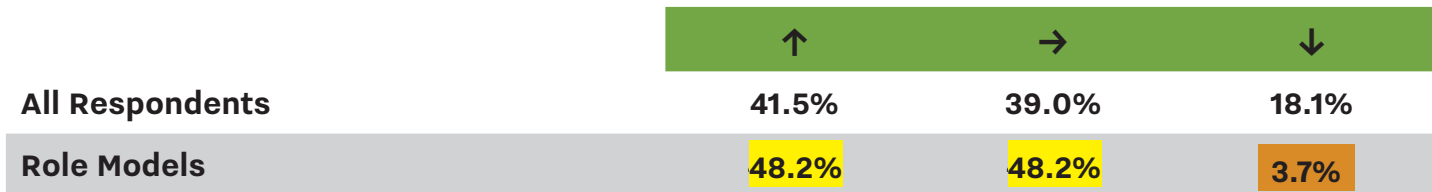
	↑	→	↓
All Respondents	41.5%	39.0%	18.1%
Role Models	48.2%	48.2%	3.7%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

CONFIDENCE CHECK

[Role models] are beyond searching for ways to prove their value, or strategizing to get the appropriate resources — and are just doing the work.

INDUSTRY BREAKDOWN		
LESS CONFIDENT THAN AVERAGE	RETAIL **3.8**	AUTOMOTIVE, TRANSPORT AND LOGISTICS **4.5**
LESS CONFIDENT THAN AVERAGE		CONSUMER GOODS AND PRODUCTS **5.0**
MORE CONFIDENT THAN AVERAGE	TECH **6.1**	ENERGY AND UTILITIES **6.3**
MORE CONFIDENT THAN AVERAGE		PHARMACEUTICALS AND LIFE SCIENCES **6.4**

Innovation Focus

As part of the survey, we wanted to understand how businesses allocate time and resources to different kinds of innovation activity. To do that, we laid out 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.

2. **Adjacent** — These innovations, often called "Horizon Two" (H2) innovations, typically involve expansion to an "adjacent" business or customer segment. These innovations usually leverage the company's expertise or capabilities in new ways.

3. **Transformational** — Sometimes called "Breakthrough," "Horizon 3" (H3), or disruptive innovation, transformational innovation involves the creation of entirely new businesses to serve new markets and new customers. The most high-risk style of innovation, transformational innovation often requires new capabilities and distribution. The upside? Growth via access to entirely new markets or customer segments.

Innovation focus (All respondents)

TRANSFORMATIONAL 26%
INCREMENTAL 48%
ADJACENT 26%
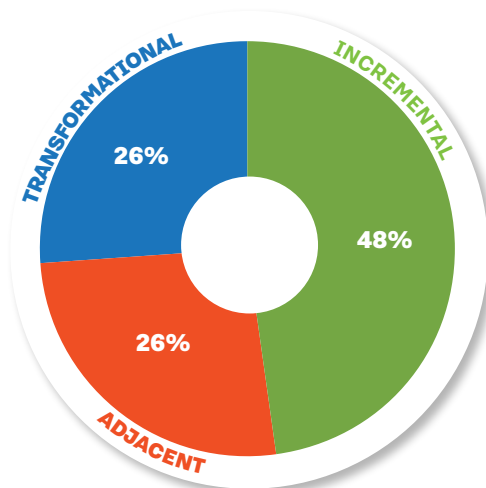
Innovation focus (Role models)

TRANSFORMATIONAL 37%
INCREMENTAL 40%
ADJACENT 23%

INNOVATION FOCUS
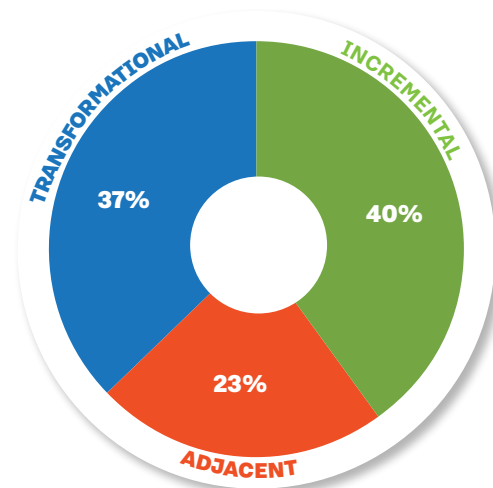
The break-down between incremental, adjacent, and transformational work is similar to what we saw in 2018: about half of our respondents' energy is focused on incremental activity, with the remaining quarters split equally between the medium-term and longer-term bets required to do adjacent and transformational innovation successfully. (In 2018, the break-down was 49 percent incremental, 28 percent adjacent, and 23 percent transformational.)

The role models dataset reports spending less time and energy on incremental innovation (8 percent less) and adjacent innovation (3 percent less), and devoting it instead to transformational work. That may be a result of creating strong role clarity and mission for newer innovation teams working alongside more established design, engineering, or product development groups located in the lines of business; or having been given the permission, over time, to develop a portfolio more tilted towards longer-term "big swings"; or a bit of both.

It's worth noting that only four of our 215 respondents said that they were 100 percent focused on transformational innovation; they operate in the foods, aerospace, higher education, and insurance industries.

"What we will set up is what we call the killer experiment."

— **William Hait, Global Head of External Innovation at J&J**

A bigger group, though, said that they do little or no transformational work — instead focusing only on incremental and adjacent innovation. The right mix of activity will be different for every company, based on its business context and what the culture is willing to embrace.

INDUSTRY BREAKDOWN

% OF TIME/RESOURCES FOCUSED ON TRANSFORMATIONAL INNOVATION	FINANCIAL SERVICES	CONSUMER GOODS AND PRODUCTS	TECH	PHARMACEUTICALS AND LIFE SCIENCES
	20%	**23%**	**29%**	**39%**

Johnson & Johnson | De-risking Your Way to Success

William Hait is the Global Head of External Innovation at Johnson & Johnson, where his role focuses on building an R&D pipeline that brings in new science and technology from outside partners — including startups and academic institutions. J&J, with $82 billion in annual revenue, operates a network of four innovation centers around the world.

PLUGGING IN TO THE INNOVATION GRID

When we look out over the world, we see it as an innovation grid. And within that grid, there are what you might think of as grid power stations, where much energy or much innovation is generated, like Boston, London, San Francisco, Shanghai. And what we do to draw down and invest in innovators and their innovation is place groups of people in those areas…

The innovation centers are populated by R&D experts from the core businesses within J&J, from the consumer business, the medical device business, and the pharmaceutical business… And they are tasked with sourcing new innovation from the ecosystem that is consistent with the sector strategies.

SETTING UP THE 'KILLER EXPERIMENT'

The most important thing for us is that we are identifying opportunities, consistent with our strategic focus that are likely to become a product. So how does one measure that? What we will set up is what we call the killer experiment. If this next experiment wasn't positive, that would stop the process. That's a metric that we look at very, very closely. So as things move along and get further and further de-risked, their probability of success improves. And then we begin to invest more money and give the opportunity more time.

So it's that metric, the ability to get through a killer experiment, and [to] define that killer experiment, that we look at very carefully.

And as these things de-risk, we're able to adjust the PTRS (probability of technical and regulatory success). And that allows us to just adjust the net present value of the opportunity.

GOING DEEP IN A FEW AREAS

I think one of the things that we did which was extremely valuable, in [our] Janssen [pharmaceutical division], is we decided we would build very deep expertise in just a few areas, and not spread ourselves too thin. And then we supplement [our internal expertise] by engaging experts outside of the company. We knew a lot about a few very important diseases. And with that knowledge, we were able to focus our budget against those fewer things, rather than spreading the budget too thin. We found that it worked very, very well. We became very rapidly the No. 1 pharmaceutical company in the US. You have to stay focused. Make sure your budget is aligned with your priorities, and hire the best talent you can possibly get. And then we leave people to do their thing. That should be a very important part of the formula for success.

For any company, you have to be open to ideas wherever they originate. … So we decided to really open ourselves up to the world, and put ourselves in the pole position to meet people who have great ideas. And then whenever we can, [we] work together to see if we can turn those great ideas into something valuable for patients. ◆

WILLIAM HAIT

Connectivity to Other Groups

In this year's survey, we wanted to understand the relationship between innovation groups and their colleagues in strategy, corporate development/mergers and acquisitions, and corporate venture capital. For the complete respondent set, it was very likely that they were not connected or aligned at all with those colleagues, or just somewhat connected. (The group they were most likely to be part of, or highly collaborative with, was strategy.) But the role model set was much more tightly tied to the three groups we asked about: They were 108 percent more likely than the full respondent group to say they were completely integrated or highly collaborative with corporate venture

capital colleagues; 66 percent more likely to be completely integrated or highly collaborative with M&A; and 45 percent more likely to be completely integrated or highly collaborative with strategy.

Given that the role model set has survived the early days of innovation, is developing these tight connections part of the reason why — or were they lucky enough to be set up that way from the very start? The survey data doesn't answer that question. But what's clear is that operating as a lone commando trying to hack your way through the jungle, without support and information from other long-established groups, can be a very long slog.

COMPANY SIZE BREAKDOWN			
	SMALL	MEDIUM	LARGE
INTEGRATED WITH OR HIGHLY COLLABORATIVE WITH STRATEGY TEAM	56.5%	57.7%	52.3%
INTEGRATED WITH OR HIGHLY COLLABORATIVE WITH CORP DEV/M&A	44.5%	28.0%	20.0%
INTEGRATED WITH OR HIGHLY COLLABORATIVE WITH VENTURE CAPITAL TEAM	25.6%	33.0%	28.1%

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

Innovation Team

Strategy Team
- NOT CONNECTED 10% / 8%
- INTEGRATED 19% / 35%
- COLLABORATIVE 37% / 46%
- SOMEWHAT CONNECTED 35% / 12%

Venture Capital Team
- NOT CONNECTED 45% / 33%
- INTEGRATED 15% / 29%
- COLLABORATIVE 15% / 33%
- SOMEWHAT CONNECTED 25% / 4%

CORP DEV/M&A
- NOT CONNECTED 27% / 16%
- INTEGRATED 9% / 16%
- COLLABORATIVE 20% / 32%
- SOMEWHAT CONNECTED 44% / 36%

ROLE MODELS (INNER RING)
ALL RESPONDENTS (OUTER RING)

HOW TO READ THIS CHART

The outer ring shows how closely connected all respondents said they were to each particular group shown; the wider, inner ring shows how connected the role model respondents said they are.

BLURRING LINES BETWEEN INNOVATION, STRATEGY, AND TRANSFORMATION

BY **MIKE NOLAN**, VICE CHAIR, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP; AND **DAN TIEMANN**, PARTNER, U.S. GROUP LEADER DEAL ADVISORY & STRATEGY GLOBAL LEAD PARTNER, TRANSACTION SERVICES, KPMG LLP

How and why companies innovate has shifted dramatically, from an historical focus on invention of new products to today's widespread disruption via new business models. It's also becoming harder to innovate because of increasing complexity, blurring the lines among innovation, strategy and transformation.

Innovation as a discipline has been around for decades and innovation techniques like design thinking and lean start-up have been widely adopted. And yet, our survey shows that nearly 59 percent of respondents indicate their innovation efforts are ad hoc or emerging, with fewer than 13 percent having reached a stage where their innovation programs are perceived to be integrated or optimized.

FROM SIDESHOW TO MAIN STAGE

In the past, innovation often existed as a "sideshow" to the business. An organization's core portfolio of offerings and business models was assumed to be somewhat stable, producing steady returns. Expectations from innovation were often modest and investments were constrained as resources were focused on sustaining the core business. Innovation efforts centered on R&D to generate new revenues or process innovation to optimize costs.

Today, innovation efforts have shifted from invention and R&D to full transformation, often impacting the business model itself. As a rule of thumb, innovation portfolios were once allocated 70 percent incremental, 20 percent adjacent, and 10 percent transformational. For the second year in a row, survey respondents indicate a shift – more than 50 percent of innovation initiatives focused on adjacent and transformational activities. In fact, organizations that are most mature in innovation efforts, the "role models", show an even larger emphasis with 60 percent in these categories. We hear from clients that as innovation efforts become more disruptive to the core business, they often change into transformation programs, with names like "Digital Bank of the Future" or "Future Ready 2025."

STRATEGY AND INNOVATION ALIGNMENT

In the current environment, the effort required to stay ahead of market changes can be overwhelming as change is simultaneously happening everywhere in the enterprise. This results in too many competing initiatives. We often see innovation teams struggling to articulate how their innovation efforts are aligned with strategy and transformational initiatives. And leaders are asking themselves if their innovation, organic, and inorganic growth programs collectively form a strategy.

With today's rate of change, innovating for the 21st century requires a new playbook. Organizations must be able to scan the horizon, adapt portfolios, and implement more agile investment and experimentation approaches. Companies must accept that core business disruption and continuous reinvention are the new normal.

In role model companies surveyed, 80 percent say their innovation team is completely integrated or highly collaborative with the strategy group, versus 56 percent of all respondents. We believe that the key to the new innovation playbook is to have a vision for how the company views itself, a strategy on how to get there, and a clear picture of the risks associated with that strategy. Only after you have articulated the strategy and the market risks can you confidently identify the areas where you need to innovate.

Strong strategic focus helps ensure that the enterprise initiatives compound to a successful outcome that is more than the sum of the parts. With complex problems to solve and limited resources and funding, organizations can't afford to have innovation and transformation disconnected from strategy. ◆

MIKE NOLAN

DAN TIEMANN

STRATEGY

Key Strategic Planning Activities:

❶ Understand your core competencies and strategy around:
Markets | Competitors | Products | People

❷ Identify opportunities and risks around the strategy

❸ Determine levers to pull to address the opportunities and risks

How will you achieve your objectives?

LEVERS

CORE BUSINESS OPERATIONS

INNOVATION

MERGERS & ACQUISITIONS [1]

How will you address opportunities and risks?

TRANSFORMATION

Do you have the right organizational model, skills and talent, culture and incentives, technical infrastructure, etc. to execute your strategy? [2]

What must change to achieve the strategy?

(1) Includes acquisitions, divestitures, alliances, joints ventures, etc.
(2) Transformation possibilities:
Front office: portfolio of products and services; customer engagement and experience; channel and platform optimization; payments and collections
Middle office: customer service and fulfilment; transaction processing; risk and compliance
Back office: human resources, information technology, finance, operations

STRATEGY, INNOVATION, AND TRANSFORMATION – HOW ARE THEY RELATED?

Capital One | Working Alongside the Business

Jamin Hegeman is a Vice President and Head of Experience Strategy at Capital One, the $28 billion financial services company. Hegeman is part of a design team within Capital One called One Design, which has nearly 500 employees.

JAMIN HEGEMAN

'THERE IS NO HANDOFF'

Most of the innovation that happens here...on new products and services is within the One Design team, in direct collaboration with the business. I'd say the timeline has been roughly five years of evolution. Capital One made the commitment to invest in design, product, and technology, and One Design went from very small numbers [five years ago] to where we are now.

Our mission is to support Capital One's mission – but also bring the expertise in both customer experience and creative and innovative techniques into the organization – in general, we work customer back — to use [customer] input to drive our ideation and decision-making.

Some of our teams sit side-by-side and work with product management and technology. So there is no handoff when a project is done; they're in it together and have shared accountability for identifying what the problem is to be solved, and getting something to market. But whether people are directly embedded or not, that's the general relationship we have with our business partners. We don't have any "throw it over the wall"-type solutions, and we're always improving at bringing the customer perspective into it from the beginning.

Our goal is that shared accountability between the various parties, to meet the business objectives and deliver something valuable for our customers.

STRATEGIC PROJECTS VS. EXECUTION

In some areas, we use terms like Horizon One, Horizon Two, and Horizon Three [when we talk about different kinds of projects.] But in general, we have projects that we identify as strategic, [and others that are about] execution or delivery. Those two types require differ-

ent people to be involved. It's important to understand what kind of project you're focused on.

Strategic projects are longer-term, where we don't really even know what the problem is. An example of that is our money coaching service that is currently being delivered in our cafés. That came out of a broader strategy and research project that initially was just trying to understand the financial needs of Millennials. We identified different opportunities around coaching people on finance versus providing a financial advisor, and that evolved into this thing that is now executed in the market.

Another strategic project I am particularly excited about is Eno, our AI assistant. [Creating it involved] a really close partnership between design, product, and technology. Our intent was to design a gender-neutral assistant that has some personality, and can interact in a human way.

METRICS

As an organization, we use things like Net Promoter Score. But hearing from customers directly is also important. I love me some good data, but because I'm a designer, I also like to hear directly how people are being impacted. We also develop metrics that are associated with the types of experiences we're trying to create. For instance, with the money coaching, one of the things we're looking at is, do people feel like they're more financially confident after going through the coaching? Not just, did they find something, purchase the thing, click the button. All those things are important, but so are the metrics around whether the feeling and experience we wanted to create happened, and can we measure that in some way? Those are the things that are really important to me as a designer — to know that we're moving in the right direction. ◆

KEY QUESTIONS

1. How well-developed is your group's strategy? How well does it align with the overall corporate strategy? How often do you re-assess it?

2. Are your colleagues, and senior leadership, clear on what you mean when you talk about incremental, adjacent, and transformational innovation? Or do you have your own set of categories or definitions that are well-understood?

3. William Haas from Johnson & Johnson talks about setting up "killer experiments" that should be showstoppers if they don't succeed, and focusing on the outcomes as key filters of which projects should go forward, or be shelved. Are there "killer experiments" you could run on your current portfolio of projects? Are you running them as early as possible?

4. Our survey found that innovation groups are more likely to be integrated with or connected to strategy groups, but less so to corporate venture capital teams, and the corporate development teams often responsible for alliances, mergers, and acquisitions. Should your group be working more closely with either of these teams? Are there ways you're in conflict with these teams — or duplicating efforts — that ought to be addressed?

RESOURCES

1. Large-Scale Infographic: The Key Players and Tensions in Corporate Innovation
https://www.innovationleader.com/resources/innovation-illustrated

2. Research Report: Innovation & Risk: Forging Productive Ties with Legal, Compliance, and Security Teams
https://www.innovationleader.com/risk

3. Research Report: Innovation Teams & Business Units
https://www.innovationleader.com/business-units-report

4. Podcast: Can a Big, Slow Company Really Move Fast?
https://www.innovationleader.com/moving-fast-podcast

5. Tips on Better Stakeholder Engagement from Nestlé
https://www.innovationleader.com/better-stakeholder-engagement

	INCREMENTAL	ADJACENT	TRANSFORMATIONAL
What is the stated goal for how much time and resources are dedicated to incremental, adjacent, and transformational work at your company?			
What is the day-to-day reality of how time and resources get allocated?			

2.
RESOURCING & FUNDING INNOVATION

Current Staffing Levels

Among our full respondent set, most innovation teams are still small: 38 percent have teams smaller than ten people, and 5 percent report having no full-timers devoted to innovation work. But nearly one-third say they have 25 or more dedicated staffers. Generally, new innovation teams start off with a handful of people and are forced to hone a value proposition before they can command more resources. And generally, companies that report more than 100 employees devoted to innovation work are including employees in long-established groups like R&D, advanced development, or research.

Full-time equivalents supporting innovation

	All Respondents	Role Models
500 or more	5.7%	22.2%
100 to 499	7.6%	11.1%
50 to 99	7.6%	11.1%
25 to 49	9.4%	0.0%
10 to 24	21.2%	25.9%
1 to 9	37.7%	22.2%
No full-time equivalents	5.2%	0.0%
Don't know/too complicated	5.7%	3.7%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

STAFFING LEVELS

In looking at the role model set, it's notable that a far bigger portion of these companies (35 percent) have 100 or more FTEs. That compares to 13 percent reporting 100 or more FTEs in the full respondent set. No one in the role model set is trying to do innovation work with zero FTEs, and a bigger chunk have also escaped from the 1-9 FTE category.

While 1-9 FTEs is the most common staffing situation for the full respondent set, 10 to 24 is the most common for the role model set. Put simply: When innovation groups want to move beyond running training programs and doing idea collection, into actually building and testing new offerings, they need more human resources. Small teams can do things like technology scouting, capability building, and "filling in" urgent needs for the business units, but to deliver significant impact in a large organization, they need more people — whether FTEs, contractors, or other "on demand" outside resources.

COMPANY SIZE BREAKDOWN

	SMALL	MEDIUM	LARGE
NO FTEs WORKING ON INNOVATION	14.6%	1%	4.7%
MORE THAN 50 FTEs WORKING ON INNOVATION	0%	17.2%	42.1%

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

Who's Involved?

→ In pursuing incremental innovation, companies largely rely on the business units themselves to develop line extensions or enhancements to existing offerings, with an assist from R&D and innovation teams. But for adjacent innovation work, reliance on outside resources like contractors and consultants begins to increase — and it continues to do so for more transformational work. At that stage, the central innovation team, the R&D team, and outside resources are the top three players. The reliance on corporate venture capital groups and new business incubators or "skunkworks" teams also grows when adjacent and transformational work is being done.

The role models data set largely mirrors the trends as we see in the complete data set, with two differences: these more advanced companies lean more heavily on corporate venture capital groups and new business incubators/skunkworks for transformational work. And they also leverage business units more than the full dataset does — 35 percent versus 24 percent — which may mean that they are continuing to solicit input and feedback from business unit colleagues, or work with them to ensure that the project has a pathway to the market.

The reliance on corporate venture capital groups and new business incubators or 'skunkworks' teams…grows when adjacent and transformational work is being done.
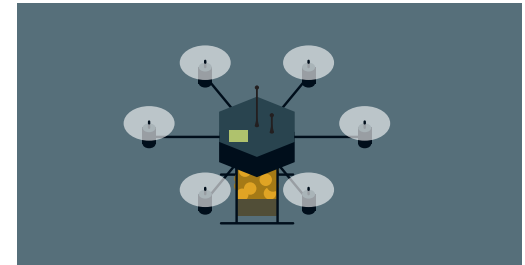
Who's Involved?

For **Incremental Innovation** we leverage:

Skunkworks/New Business Team
- 3.9%
- 4.9%

Corporate Ventures Group
- 3.9%
- 5.3%

Winners of Innovation Challenges
- 3.9%
- 10.7%

Outside Resources
- 11.5%
- 11.2%

Central Innovation Team
- 30.8%
- 32.5%

R&D Team
- 50.0%
- 46.1%

Business Unit Staff
- 80.8%
- 81.6%

Key
- Role Models
- All Respondents

For **Adjacent Innovation** we leverage:

Skunkworks/New Business Team
- 26.9%
- 20.6%

Corporate Ventures Group
- 19.2%
- 16.3%

Winners of Innovation Challenges
- 11.5%
- 12.9%

Outside Resources
- 19.2%
- 24.9%

Central Innovation Team
- 50.0%
- 54.5%

R&D Team
- 57.7%
- 49.3%

Business Unit Staff
- 61.5%
- 58.4%

For **Transformational Innovation** we leverage:

Skunkworks/New Business Team
- 38.5%
- 27.3%

Corporate Ventures Group
- 38.5%
- 29.3%

Winners of Innovation Challenges
- 7.7%
- 15.1%

Outside Resources
- 30.8%
- 35.6%
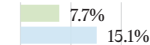
Central Innovation Team
- 53.9%
- 58.1%

R&D Team
- 57.7%
- 38.5%

Business Unit Staff
- 34.6%
- 24.4%
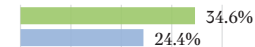
ORGANIZING TO INNOVATE

BY **MATT BISHOP**, *CHIEF TECHNOLOGY OFFICER, AUDIT, KPMG LLP; AND* **STEVE RAINEY**, *CHIEF INNOVATION OFFICER, TAX, KPMG LLP*

What is the right balance between establishing autonomous innovation teams and embedding innovation in the core business? Separating innovation from the core business may help to explore the world from an outside-in perspective, connect to emerging market signals, incubate new concepts, and rapidly test and learn. However, there are also benefits to keeping innovation connected to the core, namely to promote new ideas being accepted and adopted quickly into the business. The right balance ensures that innovation has the right sponsorship, prioritization, resources, and funding.

So how do you create the right balance for your business? The answers are not black and white and should consider variables including innovation strategy, organizational culture, and leadership commitment.

UNDERSTAND YOUR INNOVATION STRATEGY

As the survey results show, the more disruptive the innovation, the further it tends to be separated from the core business – business unit staff are leveraged for 82 percent of incremental innovation, compared to 24 percent for transformational innovation. Incremental efforts are usually best handled by the core business units they impact. But transformational innovation can struggle to find its footing in the core, where established business models, ingrained incentives, and current period operating pressures make it harder to explore competing opportunities.

However, we're seeing a shift in innovation from work around the edges to full transformation as the speed of disruption impacts existing business models. Emerging best practice shows that these types of transformation initiatives should be increasingly aligned with business leaders who serve as sponsors in reinvention.

NAVIGATE YOUR ORGANIZATION

The culture and leadership of the organization cannot be underestimated in determining where innovation is managed. More innovative cultures may be more open to new ideas and change and, therefore, better equipped to manage innovation within the core business. More risk-averse organizations may require greater distance between their innovation teams and the core to ensure that good ideas are incubated.

When leadership supports the portfolio of innovation investments and can plan for its impact on operations, friction is less likely. In fact, the survey found that role model organizations were more likely to rely on funding and involvement from the business units as compared to all respondents.

Ensuring accountability through proper governance and aligning incentives is key to leadership buy-in. This includes regular checkpoints on progress, clarity on funding decisions, and transparency around intended outcomes. However innovation is organized, leaders should be able to articulate: Are we getting what we expected from this initiative, or must we re-prioritize?

FIND THE BALANCE

No single approach fits all scenarios. A portfolio view of investments is one way to balance autonomy and connectivity to the core. For example, embedding innovation investments in the core businesses can be complemented with a centralized innovation function that operates outside of day-to-day business pressures.

In considering the right balance, ask yourself:

- Are your initiatives connected to a core business strategy?
- Does innovation have the right sponsorship and incentives to ensure adequate alignment of funding?
- Are you investing for the future while balancing short-term demands?
- Do you have the right governance in place to ensure buy-in from leaders? ◆

MATT BISHOP

STEVE RAINEY
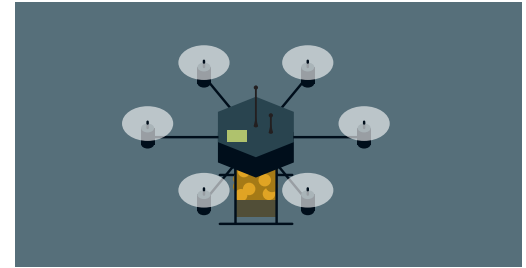
Where Does Your Funding Come From?

Our **Incremental Innovations** are funded by:
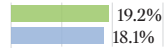
Corp. Ventures / Corp. Dev.
- 7.7%
- 4.9%

Marketing Department
- 19.2%
- 18.1%

Innovation Department
- 19.2%
- 20.5%

IT/Technology Department
- 19.2%
- 21.0%

Executive Team
- 34.6%
- 28.3%

R&D Department
- 23.1%
- 28.8%
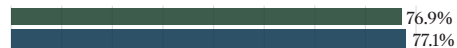
Business Units
- 76.9%
- 77.1%

Our **Adjacent Innovations** are funded by:
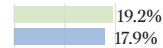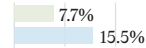
Corp. Ventures / Corp. Dev.
- 19.2%
- 17.9%

Marketing Department
- 7.7%
- 15.5%

Innovation Department
- 34.6%
- 38.1%

IT/Technology Department
- 23.1%
- 17.9%

Executive Team
- 50.0%
- 42.5%

R&D Department
- 26.9%
- 34.3%

Business Units
- 61.5%
- 58.9%

Our **Transformational Innovations** are funded by:

Corp. Ventures / Corp. Dev.
- 24.0%
- 30.4%

Marketing Department
- 12.0%
- 6.5%

Innovation Department
- 44.0%
- 42.8%

IT/Technology Department
- 16.0%
- 14.9%
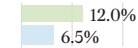
Executive Team
- 60.0%
- 53.7%

R&D Department
- 16.0%
- 29.9%
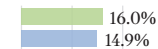
Business Units
- 44.0%
- 27.9%
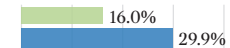
Key
- Role Models
- All Respondents

AppDynamics/Cisco | Getting the Right Resources

Linda Tong is Vice President of Innovation Labs and Product Experience at AppDynamics, an application performance monitoring business that is part of Cisco. She was previously Vice President of Product & Innovation at the National Football League.

EXPERIMENTING ON THE CUSP

It's important to understand the engine of the company — how the gears work, where investments are being made today. The opportunity is to enhance the investment the business is making. …[My advice is to] really get embedded into the core R&D teams and business, and really align with that. Experiment on the cusp of what they're investing in. That definitely aligns closer to Horizon Two, but most Horizon Three things will take pretty significant changes to your product anyway, and your ability to validate and prove value is a lot more limited there.

GETTING THE RIGHT RESOURCES

With a lot of innovation groups, they may think, "I just need to get budget." But it can be really hard to justify it. Horizons Two and Three are way out there, and sometimes the business doesn't recognize the value. It's seen as a sunk cost. Unless the business has a culture of investing in innovation, those are likely the first areas they cut.

Getting the right resources, to me, means aligning yourself more tightly with the business and understanding it enough. A lot of innovation groups sit outside of the business. They may understand the space, but they come in top-down with their ideas.

Where I've seen companies invest in Horizon Three is typically where they have some talent they're trying to retain. Instead of letting them float out, they say, "Go work on Horizon Three, because we believe you'll create value," as opposed to creating an organization that is built systematically to go after Horizon Three projects. [But] I haven't seen a company that has deliberately built an organization to go after Horizon Three and been successful.

It's important to set expectations clearly with the [innovation] team and the rest of the company about what success would look like for this team, versus the other teams in the company. It's also important to identify the right people for these roles. They require people who are flexible and have multiple skills… You need to be like a Swiss Army knife – highly analytical, comfortable with ambiguity, able to turn on a dime, and able to roll up your sleeves and do things. Most importantly, they need to be people who are able to understand and empathize with the business. [The work is] going to be seen as disruptive. You prevent organ rejection if they can empathize, and understand how [the things you are doing] tie back to core parts of the business. You can find these people both within and outside your company.

FAILURE AS A METRIC

[When you establish a team whose mission is to] quickly learn and test things, you may not want your operational folks on that. …With this kind of team, I would look at the percentage rate of failure as a metric. It should be much higher than any other part of the business. And speed to failure is important — their ability to fail fast is more critical than any other part of the business. You want them to get through more ideas, validate the success or failure faster. So I'd [recommend] measuring some kind of velocity element with this team.

The other part that I would focus on would be their ability to paint a picture of what success looks like, and how it ties back to the business. ◆

LINDA TONG

Funding Mechanism

→ Interestingly, among the full respondent set, it was far more common for companies to have a separately-governed innovation budgeting process (19 percent versus 8 percent in the role model set). Respondents who selected "Other" typically had some ability to tap funds on an as-needed basis, or a hybrid funding model where, for instance, project funding came as a business case was proven, but operating costs were part of the annual budgeting process. One respondent said that the annual budgeting process supported their incremental and adjacent activity, but that transformational or "Horizon 3" work was funded outside of that process. One respondent said his small (1 to 9 FTE) group had no dedicated budget of its own, but rather depended entirely on funding from the business units.

That reliance on funding doled out by business units was seen in the role model group, as well, where one respondent in financial services said her group's work was "funded by the business," and a consumer goods industry respondent said his digital innovation team has "an innovation budget, but

How innovation efforts are funded

71.1% 80.8%
As part of the annual budgeting process

19.0% 7.7%
As part of a separately governed innovation investment process

10.0% 11.5%
Other (please specify)

■ All Respondents ■ Role Models   *See right column for selected other responses
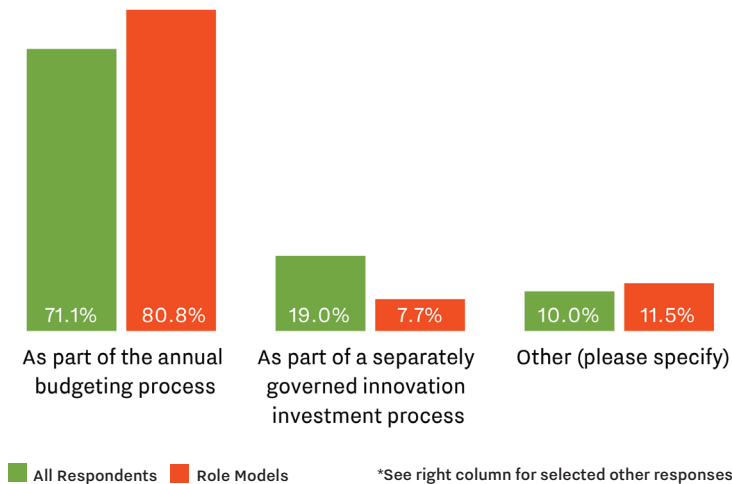
Other funding comments mentioned:

• "Combo of annual budgeting, then metered funding of efforts (from Growth Fund)."
• "We have an innovation budget, but we also get money from the business teams and our standard stage-gate product launch process."
• "Hybrid of the two."
• "Ad hoc process."
• "Overall company budget is revised quarterly."
• "None yet."
• "Both. Annual budget for H1/H2, separate [budget] for H3."
• "Hybrid: Annual budgeting but if we need incremental we go to the executive team for approval at any time."
• "No budget; we depend on other business units."

"Horizons 2 and 3 are way out there, and sometimes the business doesn't recognize the value."

— **Linda Tong, VP of Innovation Labs, AppDynamics**

we also get money from the business teams and our standard stage-gate product launch process."

Being part of the annual budgeting process can make innovation and R&D groups look and feel more like all of the other valuable parts of the company — and force them to justify both the value they're delivering and the importance of investing in the future. But having some access to on-demand funding is important to giving them speed and flexibility when a project is showing positive results and needs to be scaled up.

COMPANY SIZE BREAKDOWN			
	SMALL	MEDIUM	LARGE
BUDGET AS PART OF ANNUAL PROCESS	**62.2%**	**74%**	**72.3%**

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

NEW QUESTION 2020

Budget Trends

For the role model set of respondents — which have overcome some of the early stumbling blocks and begun to deliver tangible value to the organization — it was more likely that budgets have been increasing moderately or dramatically; just one respondent reported a budget that was decreasing moderately, and none said their investment level had decreased dramatically. While both the role model set and the complete set were optimistic that budgets would increase in 2020, the role models were more optimistic about the year ahead. Still, just 7.1 percent of the complete respondent set expected a dramatic or moderate decrease in budget in 2020.

Innovation teams we have interviewed for this report, and prior editions, almost always start from an under-resourced and under-staffed position. It takes time to deliver the proof points that get investment to an appropriate level. But it can be done.
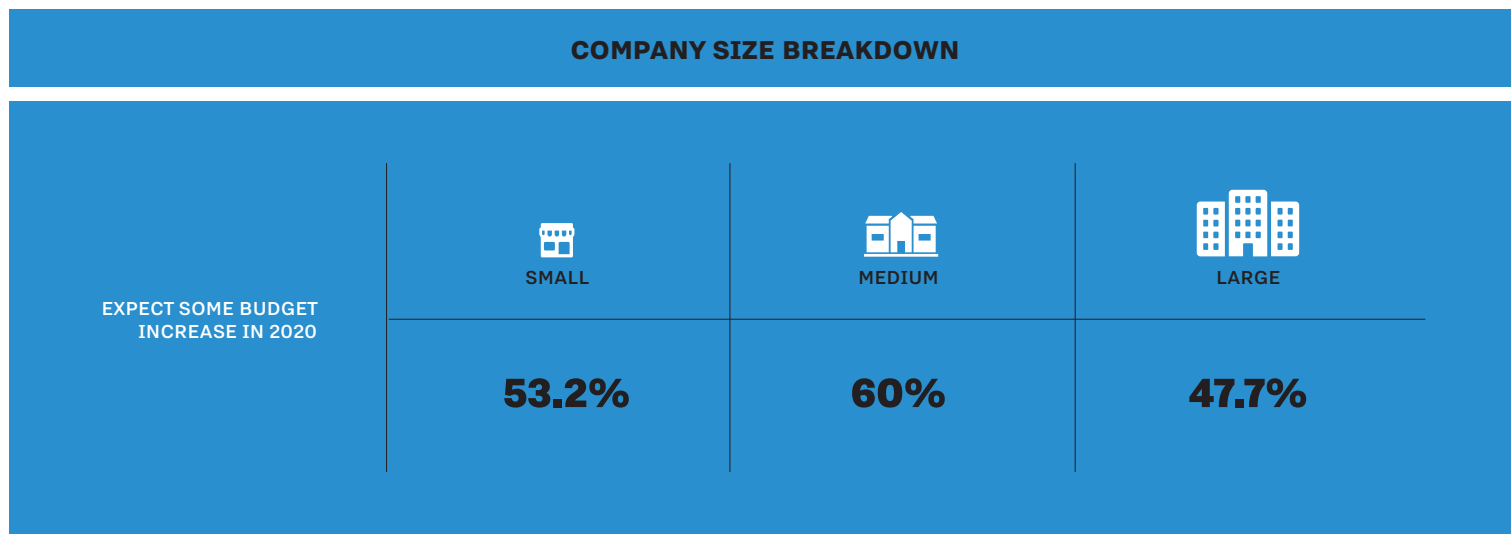
COMPANY SIZE BREAKDOWN		

	SMALL	MEDIUM	LARGE
EXPECT SOME BUDGET INCREASE IN 2020	**53.2%**	**60%**	**47.7%**

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

What happened to (or is expected to happen to) your overall innovation investment in the following years?
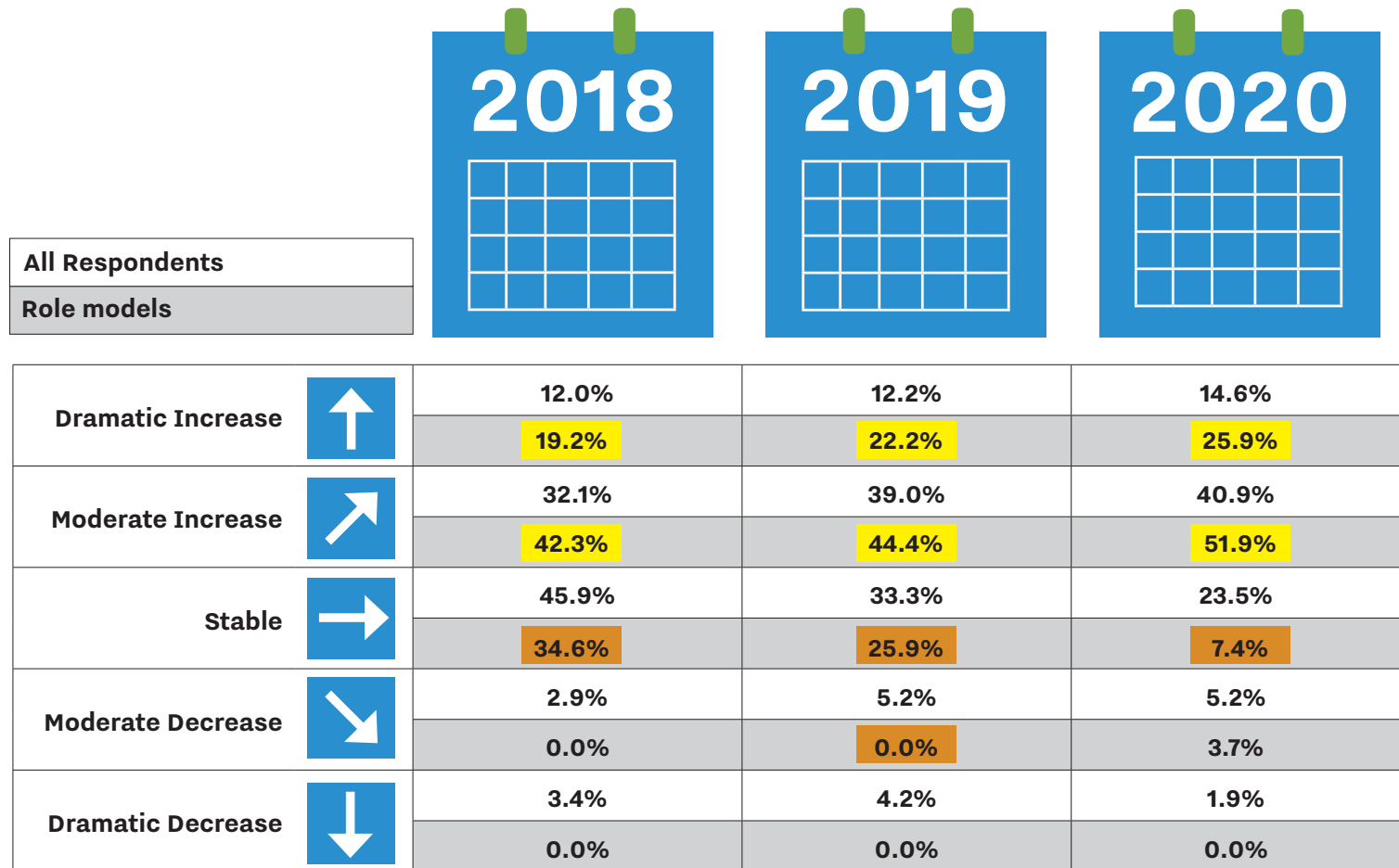
		2018	2019	2020
All Respondents				
Role models				
Dramatic Increase ↑	All Respondents	12.0%	12.2%	14.6%
	Role models	19.2%	22.2%	25.9%
Moderate Increase ↗	All Respondents	32.1%	39.0%	40.9%
	Role models	42.3%	44.4%	51.9%
Stable →	All Respondents	45.9%	33.3%	23.5%
	Role models	34.6%	25.9%	7.4%
Moderate Decrease ↘	All Respondents	2.9%	5.2%	5.2%
	Role models	0.0%	0.0%	3.7%
Dramatic Decrease ↓	All Respondents	3.4%	4.2%	1.9%
	Role models	0.0%	0.0%	0.0%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.
Chart does not include data from respondents who said they didn't know what had happened to their budget in the years shown.

Kellogg Co. | New Sources of Innovation Funding

Nigel Hughes is SVP of Global R&D at The Kellogg Co., the $13.6 billion food company that traces its roots back to 1898 and the creation of Kellogg's Corn Flakes. Recently, the company has been struggling to improve its organic rate of growth — though it has been adding revenue through acquisitions, like that of RXBAR nutrition bars.

NIGEL HUGHES

FOUR TYPES OF INNOVATION

We characterize our innovation into four types: renovation, sustaining innovation, transformation, and breakthrough. Renovation, sustaining innovation, and transformation are all carried out within our regional teams. So we've got a very clear divide between those types of innovation and the breakthrough innovation.

Breakthrough innovation is driven by a [separate] team. What characterizes breakthrough innovation? Things that have multiple region applicability; things that involve clear inventive steps; and things that have a market potential of around about $150 million or more, over a three-year trajectory.

NEW ROLES TO SUPPORT SCALING

[It's vital to set] off on the right foot. And what that means is that you've considered the impacts of scale from the outset. There are two ways in which we've changed…that over the past year.

The first one is we put in place a global regulatory role. That role is not to know each of the regulations in each of the regions, but it's to ensure that we are framing all the right regulatory questions, so that we're not going to run into issues when we do want to scale…

The second very practical thing is also we put in a global supply chain role… Not that we prosecute every element of execution of supply chain from the outset, but that we understand what we have in terms of our global supply chain, and…what we don't have. Therefore, we can start to get ahead of the thinking, when we come to framing and briefing to prepare for scaling.

HOW INNOVATION BUDGETS ARE CHANGING

[We have] an annual budgeting process. There is a rolling element to the central budget for the breakthrough innovation, obviously, because many of those things aren't just going to kind of run year-on-year. We're getting innovation budgets funded more and more from other parts of the of the end-to-end organization, rather than just the pure R&D budget. One example of that is our venture fund, [Eighteen94 Capital, created in 2016.]… That's a real source of innovation for us that is not funded out of the classic R&D budget, but funded out of a venture capital firm.

STORYTELLING ABOUT THE FUTURE OF FOOD

[Getting buy-in entails] a combination of things. The first thing is the link to our current brand offerings. If you can help people to understand how a new a new breakthrough [innovation] is going to build upon, and further leverage, the big brand promises that we have already, then that's really going to place you for success.

A lot of what I do is storytelling around what the future of food is going to be…and placing Kellogg in that space. A great example of that is our Morningstar Farms brands, which are all around plant-based protein, meat alternatives, as there is a lot of interest in the whole meat alternative space right now. Those brands [are] extraordinarily relevant and future-proofing.

FINDING THE BEST PARTNERS

One of the most important [things], being in R&D and innovation at the beginning of the 21st century, is finding the best partners. … No matter who you are, most of the smartest people work for someone else. We've got wonderful brands. We've got wonderful potential for leverage. We've got wonderful skills in terms of food design skills and culinary skills. But we also know that we have so much to learn from others, and we can work with others, and partner with others in many other spaces. ◆

KEY QUESTIONS

1. We found that 71 percent of respondents get access to budget as part of the annual budgeting process, but 29 percent have some sort of separate process for innovation-related investments, often a hybrid of annual budget and "ad hoc" funding from business units or the executive team. How might you build a case for a more flexible budget process that allows you to chase opportunities more quickly, or scale projects that are showing positive results?

2. As with our 2018 survey, we again found that the plurality of respondents (nearly 38 percent) have an innovation team that has fewer than 10 FTEs. But many find ways to augment their staff with online talent marketplaces (Upwork, Catalant, etc.), consultants, and freelancers. How much have you experimented with outside resources to augment your internal capabilities?

3. In the survey, we ask what parts of the company (business units, corporate VC groups, R&D departments) are involved in different types of innovation activity, from adjacent to transformational. Are you clear on how different parts of the company can provide support to your projects? Are they?

4. Nigel Hughes of Kellogg's talks about the importance of storytelling — painting a clear picture of what the future of food might look like, and how the activities of his R&D group tie into that and create a place for the company. Is there someone on your team that focuses on doing that kind of storytelling, and communicating it broadly throughout the organization?

RESOURCES

1. How Should You Budget for the Launch of Your Program?
   https://www.innovationleader.com/how-should-you-budget-for-the-launch-of-your-innovation-program

2. What's a Minimum Viable Innovation Team?
   https://www.innovationleader.com/MVIT

3. Podcast: Remaking R&D at Kellogg's
   https://www.innovationleader.com/kellogg-hughes-podcast

4. Conference Call Replay: What NASA Has Learned About the Power of the Crowd
   https://www.innovationleader.com/NASA-call-replay

5. Conference Call Replay: David Lee on Bringing New Innovation Programs to UPS
   https://www.innovationleader.com/UPS-call-replay

If you envision getting a significant budget increase for your team or initiative within the next year, what are some of the key results you will need to deliver on?

3.

BREAKING THROUGH THE BARRIERS

Obstacles

→ Politics, turf wars, and the lack of alignment were the top challenges in our 2018 survey, and unfortunately, they repeat this year at the top of the list — at least for our full respondent set. But when you hone in on just the role models, you find that bringing in employees with the right skills and getting access to funding are the most significant challenges. (But even the lack of budget was seen as a less pressing challenge for the role model set, at 30 percent versus 40 percent.) For the role model group, cultural issues also constituted less of a tar pit — indicating that the longer an innovation program survives, and the more it shows it can deliver value, the more the broader company culture accepts it as an ally, rather than an adversary.

Biggest obstacles to success

	All Respondents	Role Models
Politics / Turf-wars / No alignment	51.9%	25.9%
Cultural issues	47.2%	22.2%
Inability to act on signals or developments critical to the future of the business	42.1%	22.2%
Lack budget	40.2%	29.6%
Lack strategy, vision	37.9%	22.2%
Recruiting / Not enough of high demand skillsets	24.8%	40.7%
Not adopting emerging technologies	21.0%	18.5%
Lack executive support	18.7%	11.1%
Other	16.4%	25.9%
Inability to pick up on signals or developments critical to the future of the business	15.4%	14.8%
Lack CEO support	7.9%	3.7%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

Other obstacles mentioned:

- "Competing priorities for key people's time and focus."
- "Expecting the same employees who have only known Horizon 1 projects to suddenly do Horizon 2/3 work successfully."
- "Speed, resources, and focus."
- "Lack of competencies and execution skills."
- "Inability to scale."
- "Competing transformation efforts introduced by senior leadership teams. Too many transformation efforts happening at the same time."
- "1. Speed of adopting, adapting, and leveraging emerging technology. 2. Entrenchment and dependence on legacy systems. 3. Complexity, interdependence, and technical risk of change to legacy systems."
- "Too busy with business-as-usual projects."
- "Fail fast in the market (not behind your doors)."
- "No shared definition of what 'innovation' means."
- "Ecosystem connection and support; openness."
- "Challenging an old-school regulatory landscape is really hard."
- "What to transition from experiment/pilot to production."
- "'Build vs. Buy' innovation talent approach: Balance between long tenured employees leading innovation, versus new blood being brought in to drive change with [a] digital mindset…"

OBSTACLES

It's worth noting that both groups find it less of a challenge to spot signals of change taking place around them — but more of a challenge to actually do something in response to those signals. (The inability to act was ranked higher in both data sets.)

But the full respondent set seemed to be grappling more with the connection between observing and taking action than the role model set, with 42 percent of all respondents checking off "Inability to act on signals" versus just 22 percent of the role model set. That is a sign that the more sophisticated innovation groups had set up the neces-sary systems and gearing between observing changes and responding to them.

Doing the work of diplomacy and seeking to create alignment with various functions and business units can consume a vast amount of energy — especially in the early years of a new innovation effort. And there are plenty of other "soft" challenges related to the people you must work with, and the culture you must work within. But while that work is an important prerequisite, it doesn't actually deliver business value or tangible results.

INDUSTRY BREAKDOWN

#1 OBSTACLE	FINANCIAL SERVICES	CONSUMER GOODS AND PRODUCTS	TECH	PHARMACEUTICALS AND LIFE SCIENCES
	Lack of budget	Lack of strategy or vision	Politics / turf wars / no alignment	Cultural issues

Philips Healthcare | Turning Detractors into Salespeople

Bill Gaussa is Head of Advanced Innovation at Philips Sleep and Respiratory Care, a company that sells solutions that target the treatment of chronic sleep or respiratory care. Gaussa's team has launched multiple new ventures in areas like healthy sleep, ecosystems and respiratory disorders.

PIVOTS ARE INEVITABLE

The skill of a new product development team is all about execution — making it predictable. Whereas the skill of advanced innovation is about being able to manage through multiple pivots. We like to think of each new area as a venture. Not the new business venture that most of us associate to business development, but a venture as in the entrepreneurial mindset. The learning journey that will develop your business model, refine your value propositions and validate your assumptions. How you get from Point A to Point D, with 15 pivots in between.

HOW WE HIRE

We often hire people who come from startups, who can wear multiple hats. It's a prerequisite for most of my roles – and we look for people who have been at multiple startups as well, which gives you exposure to that different way of thinking.

If I hire for anything right now, it's about thinking differently, because I've got an organization with about 50 people on the ventures side, and on the other side, almost 2000 people. I can always find the expertise to execute something within the 2000 people, but it's harder to find people who think differently.

OVERCOMING THE NAY-SAYERS

Creating alliances in the company — it takes a lot of dialogues. When we started this process, the skepticism was so high that you had people rallying for failure. There were more nay-sayers in the room than people willing to give you a shot.

[These days, there is] less negativity in the room. You get people willing to step in and say, "Have you thought about this?" Instead of, "There's no way in hell." We have more people volunteering to come in to our group, whether part-time or full-time, because of the track record.

Each of the business leaders I work with, we have developed a personal relationship — not just a business relationship. We talk about how to change the world together, and what our challenges are. We look at ourselves as a team.

The approach I took was to convert the business leaders first. There's nothing better than being at a town hall meeting, hearing a business leader talking about the excellent, awesome new venture coming up. He sells it in front of the organization. That's something a lot of these innovation groups fail to remember: these business leaders are salesmen. They're constantly convincing the upper leadership teams to give them money. So why aren't we using them as the salesmen for innovation?

'LET'S WORK TOGETHER'

Most innovation groups draw the sword first. They say, "The way we're doing innovation today is not good enough. There's a new, better way to do it, and we're going to lead that charge." But it's taken as a challenge. My lesson learned is to say, "We need your help to get there. We can show you how other companies do it. We can bring in new ways of thinking. Let's work together towards it." The alternative is, you spend all your energy in the battle, versus spending your energy in innovation. ◆

BILL GAUSSA

Enablers of Success

→ Both sets of respondents cited the importance of leadership support and solid strategy and vision as enablers of innovation. They both regard the ability to test ideas, learn, and iterate as important. But neither set felt the organization's ability to accept failure was an essential element (perhaps this ability is more important within an innovation or R&D group than outside it).

The role model respondent set prized the right team and types of employees more highly than the average respondent; they also felt more strongly about having access to the right technology and infrastructure, and the right level of funding as key enablers of success.

Biggest enablers to success

	All Respondents	Role Models
Leadership support (CEO, Executives, Business Unit leaders, etc)	74.8%	81.5%
Ability to test, learn and iterate	53.3%	48.2%
Right strategy, vision	52.3%	66.7%
Right team, types of employees	51.9%	59.3%
Right approach, tactics	29.9%	22.2%
Right level of funding	28.5%	37.0%
Correct technology / infrastructure	18.2%	25.9%
Organization accepts failure well	18.2%	18.5%
Other	5.1%	3.7%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

Other enablers mentioned:

- "Dedicated funding mechanism."
- "We have a branded effort that people know about and see as credible."
- "Organization accepts extended timeframes when the potential of the innovation initiative is strong and resilient."
- "Culture that encourages out-of-the-box thinking."
- "Time to focus on innovation, versus near-term revenue drivers."
- "Up-front alignment with downstream organization (who will implement!)"
- "Psychologically safe environment with brutal candor (great tip from Harvard Business Review)."
- "Organizational enthusiasm, energy."

"It's much harder to [get budget approvals] when the ask is coming from a PowerPoint deck — as opposed to some examples of success you've already demonstrated."

— Ryan Spoon, Senior Vice President of Digital and Social Media at ESPN

INDUSTRY BREAKDOWN				
OF COMPANIES THAT CITE THE ABILITY TO TEST AND LEARN AS A KEY ENABLER OF SUCCESS, PERCENTAGE THAT ARE IN…	FINANCIAL SERVICES **17.4%**	CONSUMER GOODS AND PRODUCTS **17.4%**	TECH **8.7%**	AUTOMOTIVE **6.1%**

ESPN | How We Build Early Tests and Create Proof Points

Ryan Spoon is Senior Vice President of Digital and Social Media at ESPN, the Connecticut-based sports broadcaster that is owned by Disney. The network has 86 million subscribers, but that number has been dropping in recent years as viewers cancel cable subscriptions.

RYAN SPOON

NEW PRODUCTS FOR NEW PLATFORMS

About a year-and-a-half ago, we put a renewed emphasis on how we create content and drive engagement in an off-platform strategy, [outside of platforms we control like] ESPN.com, the ESPN app, radio, and TV. How do all of these [different channels] coexist, and what is the role of each one? For context, we just got out of the NBA finals, and ahead of each game, we did these ["Hoop Streams" pre-game digital] shows that ran on the app, on Twitter, and YouTube, live from the site of the game, with a cast of really fantastic hosts. They drove 1.5 million-2 million viewers each. When we came up with that idea a year-and-a-half ago, we didn't yet have the ability to do that at scale — or the right resourcing and funding. We needed some small wins to start off.

The first show we filmed that way was out of [radio host] Mike Golic, Jr.'s living room, and it focused on the college football rankings that were released mid-year. We were proving out how you get to a larger strategy along the way — how these online shows affect ratings, how you monetize them, how you shoot them.

THE SMALLEST EXECUTABLE STEP

I like the concept of how you achieve something with the smallest executable step, and validate a larger hypothesis or set of beliefs. How do you enable creativity that you can hopefully then validate with user feedback or other results? The idea is that you start small to prove a larger investment is going to be worthwhile. I think it is a totally worthwhile exercise within your own work, and the wider

organization's work, to ask, "Is this the highest calling for this person, this group, this dollar?"

With something like the NBA "Hoop Streams" show, for example, it's important to go into efforts with an understanding of what the goal is, and what success looks like. If that is shared and understood and widely communicated, then hopefully [that helps everyone] gauge whether this is something that should be altered, continued, or just flat out didn't work — and in that case, you ask how should the resources be allocated differently.

In digital media, it's relatively easy to experiment and to prove out some sense of value. I don't need to go out and get a bunch of funding and say, "I'll prove my value a year-and-a-half from now." With SportsCenter on Snap, we built out a prototype. It had different hosts, a different voice, it was shot differently. We get immediate feedback and immediate results, and success with a project like that allows us to build out a more robust strategy.

EXAMPLES OF SUCCESS, VERSUS POWERPOINT

In some cases, [the key metric we're looking at is whether] an advertiser or sponsor is part of the show, and in other cases it's usage and engagement, or reaching a new audience. In an ideal case, it's all of the above.

It's much harder to [get budget approvals] when the ask is coming from a PowerPoint deck — as opposed to some examples of success you've already demonstrated. It's also easier to [allocate resources] once you know there's an audience there. ◆

Challenges of Scaling

→ We added a new question about challenges to this year's survey to understand what innovators encounter when they need to scale, whether that means working to expand their impact inside the organization, or to launch new offerings in the market. For both the complete respondent set and the role model set, competing priorities emerged as the top challenge.

But it also is apparent that the typical respondent is more likely to be grappling with a company culture that isn't hospitable enough to nascent ideas — or dug-in colleagues who aren't willing to support them as they head toward the market, or to change the way their teams work.

Biggest challenges of scaling

	All Respondents	Role Models
Competing priorities	60.6%	63.0%
Company culture or entrenched attitudes	59.2%	37.0%
Short-term focus	55.4%	22.2%
Human capital	34.3%	29.6%
Investment capital/resources	33.3%	18.5%
Leadership endorsement/support	27.2%	14.8%
Repeatable processes	25.8%	22.2%
Strategy changes	23.5%	37.0%
Legal/compliance/risk	20.7%	18.5%
Technology	16.4%	11.1%
Other	6.6%	7.4%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

Other challenges mentioned:

- "Significant technical debt from legacy solutions."
- "Lack of available internal capabilities to support new business models."
- "Lack of patience to grow something small into something big."
- "Narrow vision."
- "Egos of top management."
- "Company is very successful in organic and expansion growth."
- "Lack of cohesion across the organization; dilutes focus."
- "The structural challenges of a federated model."
- "Alignment top to bottom."

(59 percent cited "company culture of entrenched attitudes" as a challenge, versus 37 percent in the role model set). The role model set, perhaps because they've been in place for a longer period, was more likely to cite corporate-level strategy shifts as a challenge (37 percent, compared to 24 percent in the full respondent set). But we did see some evidence that scaling gets easier the longer you've been around: respondents in the role model set checked off slightly fewer challenges on the list on average (2.8 versus 3.6).

There's a high degree of difficulty to addressing the challenges of scaling at the same time you're addressing the challenges of getting started, or adjusting your strategy because of market conditions or internal organizational changes. We liken it to thinking about building a runway at the same time as you're also finishing the hangar and starting to build the airplane. But understanding the challenges that others have encountered when they're ready for take-off — when it's time to scale and expand — is crucial.

COMPANY SIZE BREAKDOWN

	SMALL	MEDIUM	LARGE
#1 SCALING CHALLENGE	**Company culture or entrenched attitudes (tied with competing priorities for #1)**	**Competing Priorities**	**Company culture or entrenched attitudes**

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

NAVIGATING THE CHALLENGES OF SCALING

*BY **COLLEEN DRUMMOND**, PARTNER, INNOVATION LABS AT KPMG IGNITION, INNOVATION & ENTERPRISE SOLUTIONS, KPMG LLP; AND **LIAM WALSH**, PRINCIPAL, ADVISORY HEAD OF MARKETS, KPMG LLP*

Successful innovation requires a journey that navigates a series of scaling phases: from idea to pilot, to business case, and then finally to phased implementation. Scaling is not for the faint of heart, calling for agility, discipline, and the persistence to overcome obstacles.

Even the most experienced practitioners know that scaling innovation can be hard. Sixty percent of survey respondents cited competing priorities as being one of the greatest challenges in scaling innovation, while 59 percent cited company culture as another key challenge.

COMPETING PRIORITIES

In our experience, competing priorities often arise because original plans don't contemplate what it will actually take to scale – in terms of both budget and resources. And at the onset of an initiative, leaders don't always know. Businesses can overlook key questions like: What is the expected ROI? Who is going to fund scaling? Who is responsible for ongoing operations and enhancements? What are the soft costs involved? At what point does it stop being innovation and start being business (and budget) as usual?

Money flows can be the source of conflict, especially when there is lack of clear metrics for moving the initiative forward, when leadership is not bought in, or when it is not clear who is accountable for costs at each phase of scaling. Ultimately, a strong business case and process to document value are essential to demonstrating impact – and earning further investment. We recommend working closely with your finance team to ensure accountability and budget ownership for activation, ongoing operations, and enhancements.

In addition, it's critical to clearly identify when innovation is transformational, involving new business and operating models – impacting both how you make and spend money. The more trans-formational the innovation, the more difficult it is to scale within the existing organization. New business models, in particular, create conflicts because they cannibalize existing businesses and often don't have a natural home in the organization. These conflicts often result in competing priorities over the allocation of resources.

CORPORATE CULTURE

When navigating culture, it's important to understand how to achieve leadership buy-in and prevent political obstacles. Where does the real power reside? Who are the leaders with the ability, influence, and drive to scale? Building an influence diagram can help unpack the power structure and understand how to tap the right leadership engagement.

In corporate environments, fear of failure can be stifling. To effectively scale, you need a culture that encourages experimentation and is comfortable with stopping projects when they are not delivering expected outcomes. Projects often don't get killed because doing so is seen as a failure. Yet it's the failure that drives learning and focus – and where the value is.

When bridging from concept to scale, people beyond the original innovation team are often needed to put innovation in context for business leaders and others in the organization. The right people typically are excellent collaborators and communicators. They excel at managing stakeholders and can handle complex program and change management issues.

INNOVATION EMBEDDED IN THE FABRIC

When effectively scaled, innovation becomes part of the fabric of the organization. It changes habits, preferences, Net Promoter Scores (NPS), and ratings. And it can produce demonstrable financial results. ◆

COLLEEN DRUMMOND

LIAM WALSH

Bose Corp. | How We Balance the Three Horizons of Innovation

N.B. Patil is Head of the Corporate Concept Group at Bose Corp., the privately-held consumer electronics maker. Patil's group can take ideas from the "napkin sketch" stage to fully working prototypes.

N.B. PATIL

WHY WE'RE SEPARATE FROM THE CORE

We are directly responsible for all the Horizon Three prototyping and concepting work, and we are also responsible for the prototyping work for Horizon Two for the business units. In addition to that, we have a new initiative where we are investing in startups where we feel they have something unique that actually compliments the portfolio of Bose products. We help the startup community also to build world-class hardware. … Our team is [also] empowered to come up with a concept of its own.

We are separated from the core, which is by design. That way, we are not constantly under the pressure of shipping the products.

ENGAGING THE RIGHT PEOPLE

When we're working on a concept, all the right people that are required for that part of the concept all sit in one room. There is no hand-off… They actually create the whole concept together. It drives visibility and sharing between groups…

Basically every concept we're working on, we will have a stakeholder from the core be a part of the sprint demos. Every two weeks, when we actually have something to show, some designated person from the core will actually see what we're doing. That way, they know what's coming down their way eventually, and in some cases we're hoping that if there is some exciting work happening, we may be able to [move] some of the work…into the core and give this a faster path to go to market.

We actually try to build a continuity, because we in the past got burned by technology hand-offs…. Like, "Okay, we are done with the research. Here's [the Minimum Viable Product] — take it and build it and then the [project] goes into development." [But] that did not work because every time a [new group] gets their hands on it, they rebuild it or tweak it a little bit.

HYBRID SOURCES OF FUNDING

There are dedicated funds allocated for the concept group, where we are allowed to innovate and come up with a concept on our own…that's probably 50 percent of the funding that [we get]… The other part of the funding I call "directed work." Whenever there is Horizon Three incubation work that's happening, [the business units] fund the work that we're doing for them… because at the end of the day, [the business units] should be accountable for some of the work they're sponsoring. ◆

KEY QUESTIONS

1. 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 building support in the organization?

2. How are you communicating about your priorities and the work you're doing to colleagues throughout the company? What opportunities have you created for them to provide input or get involved? Are you celebrating and communicating enough about wins — and especially highlighting colleagues outside of your group who may have contributed?

3. The top two challenges that survey respondents cited when it was time to scale their projects (either inside the company or in the market) were "competing priorities," and "company culture or entrenched attitudes." What does the path to scale look like for your highest-potential projects? Is it a jungle trail, a dirt road, or a paved highway? What kinds of relationship-building, communications, and incentives can you establish now, so that it will be a paved highway when you need to use it?

RESOURCES

1. Large-Scale Infographic: The Key Players and Tensions in Corporate Innovation
https://www.innovationleader.com/resources/innovation-illustrated

2. Research Report: Innovation & Risk: Forging Productive Ties with Legal, Compliance, and Security Teams
https://www.innovationleader.com/risk

3. Research Report: Innovation Teams & Business Units
https://www.innovationleader.com/business-units-report

4. Podcast: Can a Big, Slow Company Really Move Fast?
https://www.innovationleader.com/moving-fast-podcast

5. Tips on Better Stakeholder Engagement from Nestlé
https://www.innovationleader.com/better-stakeholder-engagement

How would you rank your top three current challenges?
1.
2.
3.

4.
DELIVERING IMPACT & MEASURING SUCCESS

NEW QUESTION 2020

Impact of Short-Term Expectations

This year, we wanted to get at the ways that short-term business pressures can impact the organization's willingness to invest in innovation, so we added this new question. The average respondent set pegged themselves pretty close to the middle of our spectrum, at 6.2. The role model respondent set reported feeling slightly more impact, at 6.6. We plan to include this question in future surveys to understand whether macroeconomic factors — like a recession — or disruption in particular industries affect the answers we receive.

Impact of short-term expectations on innovation investment

All Respondents	0 ——— 6.2 ———	10
Role Models	0 ——— 6.6 ———	10

Note: Zero indicates "no impact at all." Ten indicates "extremely high impact."

COMPANY SIZE BREAKDOWN		
SMALL	MEDIUM	LARGE
6.9	5.8	6.2
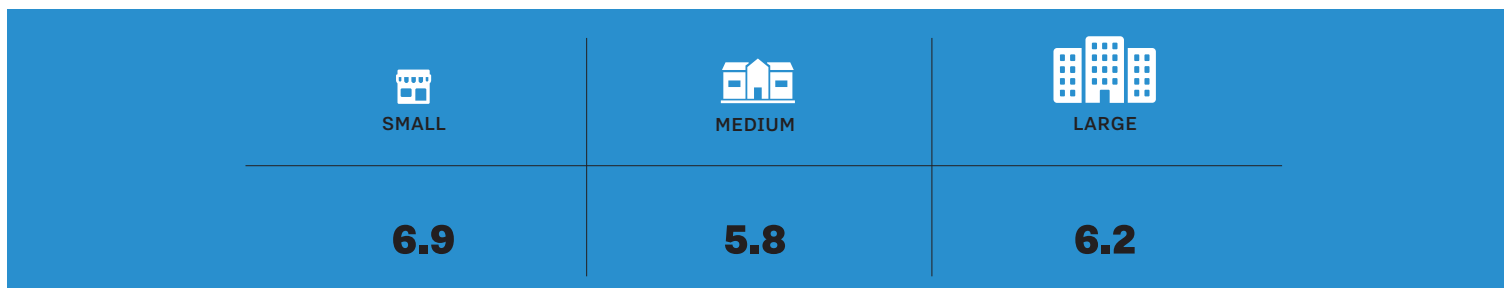
Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

THE ART OF BUSINESS: BALANCING THE SHORT-TERM AND LONG-TERM

*BY **CARL CARANDE**, VICE CHAIR, ADVISORY, KPMG LLP; AND **DAN SHAUGHNESSY**, PRINCIPAL, CORPORATE STRATEGY, KPMG LLP*

As disruptive technologies displace existing products and services, up-end business and operating models, and create new threats and opportunities, a company's growth has never been more uncertain. Leaders face enormous pressure to make bigger bets on innovation and execute against them, while facing an overarching tension: How to make money today, while investing for the future. In this year's survey, over half of respondents reported that short-term financial results have a high or extremely high impact on the ability to invest.

ENTER THE CFO

As the stewards of past and future earnings, CFOs sit at the intersection of innovation and the financial results. Whether explicitly acknowledged or not, CFOs play an important role in innovation by what they fund during the budget process.

To reconcile the tension between present and future earnings, the CFO needs to think like a venture capitalist (VC), helping to build an investment portfolio that can be continually adapted to changing needs. CFOs can add a dose of reality to the innovation process, looking through the lens of future earnings and potential vulnerabilities, while also weighing the opportunity risk of not innovating. This balanced mindset requires new approaches to budgeting and metrics.

THE FUNDING MODEL MATTERS

This year's survey, once again, found that nearly 70 percent of innovation efforts are funded through an annual budget. The annual budget process can disadvantage long-term investment, particularly when those decisions involve multi-year investment cycles. By favoring existing programs over new, disruptive ones, the annual budget is often inflexible when funding is needed to respond to unexpected disruption.

The CFO-as-VC utilizes a dynamic funding model, helping the organization invest in the right ideas at the right time. By supporting an innovation portfolio that balances riskier investments with ones that sustain core business growth, CFOs can promote faster decision-making and greater funding agility. Smaller "seed" investments can fund sprints to conduct research, test hypotheses, or build solutions.

RELEVANT SUCCESS MEASURES ENABLE STRATEGIC FUNDING

Too often, innovation investments are killed prematurely because organizations measure success through financial metrics such as revenue or ROI. Nearly 60 percent of survey respondents use revenue from innovation products as a key metric. While financial measures are important for ongoing business viability, these lagging indicators may not be relevant for innovation since those investments often don't generate immediate revenue or return.

A better approach is to measure leading indicators that assess whether an investment is on the right path. How are customers responding to the new offering? How much are they willing to pay for it? Will it be profitable enough? Another way to think about impact is to consider if the investments aren't made. Metrics like the percentage of revenue base at risk, the timing of that risk, and the level of competitors' investments in this field all provide valuable insights.

THE BALANCING ACT

The art of business is balancing the short- and long-term. How well does your organization do? Ask yourselves:

- Are you investing enough — in the right things and within the right time horizon of impact — to meet your earnings-per-share goals over the next three-to-five years? Do you know where your earnings-per-share will come from in the future?
- Does your innovation budgeting process provide flexible funding for unexpected disruptions or opportunities?
- Do you have the right balance of metrics – both leading and lagging – to evaluate your innovation investments? ◆

CARL CARANDE
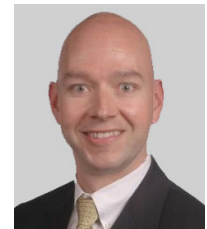
DAN SHAUGHNESSY

Incentives

→ Companies in the role model set were more likely to offer all kinds of incentives to engage with their innovation activities: recognition and awards; dedicated time to further develop projects; employee bonuses; seed funding; and even a financial stake in the new offerings they create. They were also 12 percent less likely than the complete respondent set to have no incentives in place at all.

Of companies that offer concrete incentives like time off to work on a project, seed funding, or an equity-like stake in the potential success of a project, they tend to be on the smaller end of the spectrum: 57 percent have fewer than 10,000 employees.

"As an R&D center, we expect innovation from our people," wrote one respondent from the mining industry. Another, from the utilities sector, said that the same bonus structure that applies to other employees applies to those on the innovation team. But for innovation groups that hope to achieve outsize results, it's worth considering new kinds of incentives — including the potential for big rewards if a concept develops into a blockbuster product or winning business model.

Incentives for innovation

	All Respondents	Role Models
We offer recognition / awards	51.2%	55.6%
We don't offer incentives	34.3%	22.2%
We offer dedicated time for employees to innovate	25.8%	29.6%
We provide employee bonuses tied to innovation performance	14.6%	25.9%
We offer seed funding for employees to kickstart ideas	15.0%	22.2%
We offer equity, financial stake in new products, services	3.3%	7.4%
Other	3.3%	3.7%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

Other incentives mentioned:

- "Traditional bonus plans that apply to all employees apply to innovation employees for performance."
- "As an R&D center, we expect innovation from our people."
- "We are an employee-owned company, so all employees participate in value created."
- "Very little incentives."

For innovation groups that hope to achieve outsize results, it's worth considering new kinds of incentives, including the potential for big rewards...

INDUSTRY BREAKDOWN

| OF COMPANIES THAT OFFER INCENTIVES LIKE DEDICATED TIME TO INNOVATE, OR SEED FUNDING, PERCENTAGE THAT ARE IN... | FINANCIAL SERVICES **17.7%** | CONSUMER GOODS AND PRODUCTS **13.2%** | TECH **7.4%** | PHARMACEUTICALS AND LIFE SCIENCES **7.4%** |

Google | How the Culture Really Works

Russ Wilson is Head of UX (User Experience) for Google's cloud business, based in Seattle, Wash. He was previously a director at Microsoft's business intelligence group and IBM's mobile innovation lab.

FOCUSING ON WHAT WE DELIVER TO THE CUSTOMER

The culture at Google is this impact-driven, results-oriented culture — and its DNA allows you to experiment and tinker, which results in a lot of innovative things.

What I struggle with is, if I look at a lot of the innovative things that Google has done, and that teams within Google have done, a lot of them have resulted from their day-to-day work. It's not so much people who are smarter than anybody else disappearing into a room and coming out with the next big invention, as it is day-to-day work and discovering things in the process of that.

'WHAT DO OUR CUSTOMERS GET?'

I feel that when you have teams working very hard on real customer problems, we often see something emerge out of that process beyond the incremental, day-to-day work, especially when we encourage them to think outside the box, and we're holding them to objectives and driving them to generate outcomes.

If some team comes to me and says they want to do a project and will I fund it, my response is going to be, "What do our customers get? What's the impact to them?" What I've observed, as teams are working on these things, the sheer hard work they're doing often generates really interesting ideas.

LEVERAGING DESIGN SPRINTS

We leverage design sprints like crazy. We'll kick off most projects with a five-day design sprint — a very methodical way of approaching a new area that you want to explore. It starts with divergent thinking, and you converge on potential directions and solutions, then create a prototype...

Part of [what we achieve] is just by pushing people to reach further. Let's say it takes our users a day to set something up. Someone might say, "Let's see if we can reduce that by a couple hours," and somebody else will say, "What about doing the setup in 10 minutes?" It's a much more lofty goal — a stretch goal — but in doing that, you have to think about the problem totally differently. Rather than tweaking and optimizing each piece of the experience, [you need to think] of a whole new approach to it, because tweaking the pieces isn't going to be enough.

RUSS WILSON

TALENT AND RECOGNITION

I've never seen talent like this. Google will not fail based on talent. The talent here is ridiculous. You're surrounded by smart and thoughtful people.

We have a built in system called G Thanks. It has different tiers of recognition – from merely a "thank you" to a certificate to a bonus to other things. It goes out to the entire team when someone gives you [a G Thanks note.]

The thing [that can be challenging] is working across silos. All companies struggle with that to some degree — no matter how you organize, you're gonna wind up with units, and they try to execute on their mission. ...Collaborating and communicating are hard. They're taxes. [But] if you're going to be successful in any large organization, you need to collaborate, whether you like it or not.

Google, as it's growing, focuses more on the bottom line these days than it might have done in the past. We're all about creating an efficient, profitable business model. We have to dream big, but we need to deliver results. ◆

Financial Metrics

"We don't track financial metrics." That's the key difference here between the complete respondent set and the role model set. In the former, 26 percent say they don't track the financial impact of their work, and in the latter, just 15 percent don't. We also see that as innovation programs get started (in what we defined as Stage 1), 41 percent of them don't track financial impact. The percentage of respondents not tracking financial impact declines in almost every progressive stage; at Stage 2 it is 33 percent, and by Stage 5 it is 0 percent.

Financial metrics are not optional; innovation and R&D leaders that expect their programs to endure and grow over time must be gathering data — often with help from colleagues — about the economic value they are delivering to the organization. (Communicating that value in a concise and compelling way is also important; this was the focus of a 2017 Innovation Leader report, "Governance, Reporting, and Communications.") Demonstrating that value will win them the long-term support of senior leadership and a seat at the table for major business decisions.

Financial metrics

	All Respondents	Role Models
Revenue generated from innovation products	58.2%	66.7%
Efficiencies/cost reduction	38.0%	40.7%
None (do not track or measure financial impact)	25.8%	14.8%
Internal Rate of Return (or similar metric)	24.4%	33.3%
Profit margin	21.6%	29.6%
Customer acquisition cost	10.8%	11.1%
Other financial metric	8.9%	14.8%
Earned Value Analysis (or similar metric)	7.0%	14.8%
Innovation revenues as a percentage of total revenue	0.0%	0.0%

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

Other financial metrics mentioned:

- Customer retention
- Variable cost margin
- Cost avoidance
- Contract wins
- Information value of learned insights
- Shelf space gained in retail
- Average profit margin (in professional services)
- Lifespan for startups the company has invested in
- The option value of new initiatives (defined as "innovation options" by David Binetti)
- Customer satisfaction
- ROI
- Downstream costs avoided

"VC is not a good tool for helping people make their quarterly numbers. If [senior leaders] feel they're wasting money because you're not helping someone make their quarterly number, **that's where VC initiatives die**."

— **Mark Rostick, Senior Managing Partner at Intel Capital**

INDUSTRY BREAKDOWN

OF COMPANIES THAT USE EFFICIENCIES OR COST REDUCTION AS A FINANCIAL METRIC, PERCENTAGE THAT ARE IN…

FINANCIAL SERVICES
19.5%

CONSUMER GOODS AND PRODUCTS
11.0%

TECH
9.8%

HEALTHCARE
7.3%

Intel Capital | 'Things That are Not Cost Centers Tend to Stick Around Longer'

Mark Rostick is a Senior Managing Partner at Intel Capital, the corporate venture capital arm of the chipmaker Intel. Intel Capital dates back to 1991, and has invested roughly $12 billion in more than 1,500 startups.

MARK ROSTICK

FREEDOM TO MAKE BETS

First, you have to build a relationship with the business units. I work with a number of business unit GMs who manage thousands of people. I have to earn their respect. They're trying to make quarterly numbers. I have to get them to understand that I'm seeing interesting stuff; that I have an opinion on their business and what's going on outside; that we're peers; and that I want to help them find things that will help their business in the future. Nobody wants to listen to me talk about how I think something might be interesting if I don't know your business.

Then we have to decide, with every company we invest in, what's the low-hanging fruit? Do they need technology help, marketing help, or sales help? Every company we've ever invested in has needed sales help. Sometimes we engage the sales force, and ask, "Are your customers asking about these things? We've just made this investment." I invested in Virtustream in 2010. They were talking about the enterprise cloud at a time when not a lot of other people were. I went to one of our sales people and said, "Do you think there's anything here, [based on what you hear at] the companies you call on?" He said, "Yeah." From there, it caught and they got a couple customers.

Most of where we earn our respect internally is when we anticipate what's going to happen. We are given enough freedom to make the bet without the business unit saying "OK." Then a year or 18 months afterward, the business unit says, "We're looking for this." And we say, "We made that investment eighteen months ago. Come meet this company."

The insight about where the puck is going makes me a good investor, and it can also make me a good source for businesses thinking about the future — even if they don't have the headcount or resource [internally] to think about it.

COMMITMENT FOR THE LONG HAUL

Every big company goes through periods where they look at the venture group and say, "I need to make a number in the business. What are you doing to help me make it?" That is a hard discussion to have. VC is not a good tool for helping people make their quarterly numbers. If [senior leaders] feel they're wasting money because you're not helping someone make their quarterly number, that's where VC initiatives die.

The company has to be committed to it — that there's going to be a certain percentage of risk we're willing to take to find the next big thing. ...But from time to time, every company runs into the pressure of the next couple quarters – especially in a downturn.

[Intel Capital is] a productive treasury function; it's not a cost center. Things that are not cost centers tend to stick around longer. And I'm compensated based on the success of my bets, so our team [has] the incentive to make sure Intel is successful. That's where it seems like the best outcomes happen — and why we tend to be in [corporate venture capital] longer than others. ◆

Non-Financial Metrics

→ Role model companies are relying more on learnings and insights as a key non-financial metric than the typical respondent. They rely more heavily on NetPromoter Score —the willingness of customers to recommend a product or service to others — but less on employee participation rates. And it's less likely that they aren't keeping tabs on any qualitative or non-financial metrics (4 percent versus 9 percent in the full respondent set).

Non-financial metrics are derided by some as too soft to be significant to the C-suite — especially the CFO. But in our view, they can give senior leadership a sense for the innovation or R&D group's momentum and activity level; how its work is influencing the corporate culture; how quickly it is getting new products and services to market; and how outside perception of the company's offering is changing.

Non-financial metrics

	All Respondents	Role Models
Progress metrics (e.g., Stage-gates, project in pipeline)	54.7%	55.6%
Number of projects that get launched	50.0%	44.4%
Learnings / insights generated	46.7%	59.3%
Number of ideas generated	41.1%	44.4%
Employee participation rates (in programs, training, etc.)	29.9%	22.2%
Patent applications, or patents received	27.6%	33.3%
Brand building / market perception	24.8%	14.8%
Hypotheses tested	22.9%	29.6%
Customer touch-points, interactions	19.2%	14.8%
Media references or press mentions (including social)	16.8%	14.8%
Net Promoter Score (willingness of customers to recommend to others)	15.4%	33.3%
None (do not track or measure non-financial impact)	8.9%	3.7%
Other non-financial metric	6.5%	11.1%

Other Non-Financial Metrics mentioned:

- Stakeholder satisfaction and customer satisfaction
- Time to launch
- Speed to assess projects
- Qualitative feedback
- Strategic competitive advantage.

Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

"The biggest issue in big corporations [is that] failure is viewed as something bad. In an incubator, failure is the best thing that can happen to you."

— Sunny Madra, Vice President of Ford X

COMPANY SIZE BREAKDOWN			
PERCENTAGE OF RESPONDENTS THAT GATHER NO METRICS TO GAUGE NON-FINANCIAL IMPACT	SMALL	MEDIUM	LARGE
	16.7%	**9.0%**	**3.1%**

Note: Small is $499M or less in annual revenue; medium $500M to $9.9 billion; large is $10 billion and up.

Ford | Speed as a Metric

Sunny Madra is Vice President of Ford X, a new Silicon Valley-based accelerator focused on spinning up new "smart mobility" ventures within Ford. Madra was previously a software entrepreneur whose company, Autonomic.ai, was acquired by Ford in 2018.

ORIGINS AND FOCUS

A few months after Ford acquired my last business, we got rolling with the Ford X incubator. We're co-located with the Palo Alto R&D Center, and so…we really integrate with the rest of the Ford businesses.

The way we describe [our focus] is that we are looking at mobility, and trying to create the next-gen mobility businesses for Ford. There's an Uber today that's worth twice as much as Ford. Whatever that next big mobility company or idea is should be something we found internally and we own a lot of. People understand it, because they've seen companies come out of nowhere — whether Uber, Lyft, Bird, or Lime — that are multiples of Ford, or serious fractions of Ford.

'GET OFF THE BAD IDEAS QUICKLY'

The biggest struggle – but the most important – is that you have to have an operating pace which allows you volume. When I was at Hatch Labs, [an incubator] within IAC, Tinder was the tenth thing that Hatch Labs did. You have to have enough discipline to create, stop, and start new things. The best chance of creating something successful is getting off the bad ideas quickly.

But that's the biggest issue in big corporations — failure is viewed as something bad. In an incubator, failure is the best thing that can happen to you. It can help you get on to the next idea.

METRICS

In terms of how we're measured, one metric I look at is making sure we're operating at a pace that lets us get to new ideas. [Another] dimension is to stay within budget. We also need to try to create a certain number of incubations every year, and a certain number of those need to go beyond the incubation phase. Can we land them in other parts of Ford, fund them externally, or fund them ourselves?

We also try to keep ourselves geographically-dispersed. There are a couple teams in Toronto, and in Dearborn. That gives us geographic diversity for hiring.

SCALING SMART

When it comes to the challenge of scaling, you do plan for it, but usually the planning is either too little or too much.

The model I've pushed a lot is following the venture capital model – Series A, B, C, and D — creating tranches of capital. It's very rare that something goes from a seed idea to requiring Series E funding, but large corporates are so used to really big projects that they go from idea to $100 million in funding right away. ◆

SUNNY MADRA

KEY QUESTIONS

1. The most common incentive that companies offer for involvement in innovation-related activities is some kind of recognition and reward, according to our survey data. If you're in that group, are these incentives high-profile enough? Are they seen as real career enhancers? Are there other incentives that you should consider — like time off to further develop a concept, bonuses, or seed funding?

2. Google executive Russ Wilson mentions two questions that he asks when new ideas are presented to him: "What do our customers get? What's the impact to them?" Are you focused enough on how your work will impact the customer? How and when do you bring customer input into your process?

3. Ford X Vice President Sunny Madra talks about using operating pace as a metric — how quickly his group can assess and develop new ideas. Are there ways you try to measure the speed at which your group operates? Is that a metric that matters to senior leadership? Are there some things you are currently measuring that they don't care about — and might not be worth measuring?

RESOURCES

1. Large-Scale Infographic: Measuring Innovation
https://www.innovationleader.com/resources/innovation-illustrated

2. Research Report: Governance, Reporting & Communications
https://www.innovationleader.com/governance-report

3. Advice from Cambia Health's Chief Innovation Officer
https://www.innovationleader.com/advice-from-cambia-health

4. What Metrics Do You Track for Your Innovation Center?
https://www.innovationleader.com/metrics-for-innovation-center

5. Live Call Replay: How Starbucks Tests New Ideas in the Real World
https://www.innovationleader.com/how-starbucks-tests

6. Live Call Replay: How the Aerospace Firm Embraer is Pursuing Disruptive Innovation
https://www.innovationleader.com/embraer-disruptive-innovation

How well-developed is your set of metrics (both financial and non-financial)? 0 is least developed, 10 is most.										
0	1	2	3	4	5	6	7	8	9	10

5.
MOVING FORWARD

Peer Advice: What Delivers the Most Impact

We asked respondents to share one thing that has delivered the most impact in their organization. We divided the responses into four categories, to mirror the structure of this report. Please note that since this advice comes from dozens of different people, it is not universally applicable, but rather represents many different business and cultural contexts. As a result, some pieces of advice may conflict with others.

CREATING THE RIGHT STRATEGY

- Pursuing organizational development and systems aimed at strategic, customer-outcomes focused innovation (versus reactive, incremental, sales-driven).
- Leveraging the company's assets to generate new consumer value outside of the core business, including new channels and business models.
- Balance of internal and external innovation to boost the pipeline.
- Products developed with strong value proposition and sustainable competitive advantage.
- Treated innovation management as a core delivery discipline that is equally important as risk management and quality management across all of our projects.

FUNDING & RESOURCING INNOVATION

- Hired [a] dedicated resource for market engagement/deep voice-of-customer/design thinking practices...
- Trained over 800 people on design thinking methods...
- I've been 'transforming' each individual, coaching and training him/her on the new capabilities needed, e.g. graphic designer —> UX; market researcher —> big data researcher; brand manager —> product manager.

- Hiring a Chief Innovation Officer [who] had external experience to lead the innovation efforts.
- Developing a coach cohort to help drive the message of innovation, iteration, and accepting failure.
- Hired a new CEO who comes from a more innovative company.
- Dedicated a specific end-to-end resource to breakthrough innovation.
- We have set up a separate group to address Emerging Business Models and allowed them [the independence] to manage and implement [these business models].
- Established a separate team to drive innovation projects outside of day-to-day.
- Moved transformational innovation responsibility to a separate, smaller team.
- Our X-Change Program, a front-line innovation platform over three years with no budget, an all-volunteer army, hundreds of projects, 500 alumni, [and] a corporate goal.
- Centralized accelerator program with full-time dedicated teams with metered funding and growth board/governance.
- Created two different teams after a few iterations. One focuses on human-centered design expertise to guide the rest of the company through understanding the problem, prototyping, and iterations. The other team focuses on exploration of emerging tech and trends.

BREAKING THROUGH THE BARRIERS

- [We've built] relationships with the business units and corporate venture arm.
- Not [listening] to nay-sayers that have no data to support their feedback...keep going.
- Increased the level of awareness of the 'art of the possible' to help

set higher ambitions, especially related to digital.

- We are just starting out, so giving people a definition, approach, criteria, and an ordered high-level process flow has made an impact. Letting resources know that they can innovate and to let us know what they need to innovate, has made a big impact as well.
- Worked closely with business partners and leadership to align on long-term strategy.
- CEO strategic alignment.
- We have set up a Growth Board to spot and invest in early stage ideas. The Growth Board will support ideas through the testing phase (build-measure-learn) and connect project teams to external partners to facilitate this phase. If testing shows positive results, the team presents their findings and business case to secure the next round of funding for development.
- Increased transparency and sharing of projects and outcomes through a central innovation review process.
- Have to focus on 'what's in it for them?' to move anything forward. Need to demonstrate swift return-on-investment, as that is what they were familiar with in the past.
- Aligning to strategic planning process, which creates visibility to opportunities and fosters dialogue at the executive level.

DELIVERING IMPACT & MEASURING SUCCESS

- Our speed-to-market has proven the team's ability to move faster than the company's business units.
- We're tracking and reporting innovation efforts at an enterprise level with support from all business units.
- Creating structure to organize the chaos is the one thing we have done that has had the most impact. This structure hits multiple levels. At the portfolio level, we now have a good portfolio framework and measurement system to understand/prioritize our investments. At the process level, we are consistent so that staff know what to expect at each stage of maturity, and we can measure activities and outcomes from the process. At the project level, we set clear expec-

tations with teams, train them, and track their performance using a variety of metrics (financial and non-financial).

- Change the tone...(direct message from CEO to shareholders) regarding our desire to fail more. That was a departure...
- Continued and repetitive communication to share focus areas, success and failure stories, [and] stimulate engagement.
- Developed a framework to communicate about innovation across the company.
- Launched some products (successful). Added innovation leadership to the executive team.
- We strive to both deliver business results and also shape a sustainable culture through our applied innovation program, where innovation occurs at the point of activity rather than in a centralized think tank, etc.
- I've learned that I need to be doggedly persuasive with the senior leadership team in order to move projects forward from R&D to product teams — like a pit bull.
- Operated as a SWAT-style unit to create a new brand to test product in the market, with almost 0 percent core business connectivity.
- I have held a divisional innovation challenge to find new ways to solve existing problems. Engaged 50 people in ten teams over one week. Turned winning idea into a production solution and gave reward to winners.
- We've led a process to redefine our go-to-market [approach,] and have reorganized the company around the new GTM. The process pulled in people from across the company, driving new collaboration patterns.
- Running an internal innovation challenge, where we crowdsource innovation ideas from employees around the globe.
- Adoption of emerging technologies in operations/customer service has delivered incredible cost savings.
- Small, tightly defined projects with startups.
- We worked with an external partner to incubate two ideas in order to define the best concept, develop prototypes, and test in the field within a 12-week timeframe.

Peer Advice: What We've Stopped Doing

What tactics, strategies, and programs may not be worth the effort and investment? One of the new questions in this year's survey concerned the things that respondents have stopped doing or de-emphasized because they haven't created value. We divided the responses into four categories, to align with the structure of this report. Please note that since this insight into what people have put a stop to comes from dozens of different organizations, it is not universally applicable, but rather represents many different business situations and corporate cultures. What one company has stopped may actually still be creating value in another.

CREATING THE RIGHT STRATEGY

· [We've stopped] focusing on early-stage innovation, which has long time-to–market.
· Investment in internal projects that are off-strategy and exploratory in nature.
· [We've stopped doing] work we can't see an end to.
· Employee-facing digital transformations are now set to lower priorities, as compared to market/customer-facing initiatives.
· [We've stopped] trying to implement new innovation activities too fast at a conservative company. Take your time to turn the ship.
· Stopped R&D efforts in technology [areas] that did not deliver customer value.
· We do focus on the future, but only on the immediate future, not down the road. That will have to change if we want to lead, and not follow.
· We've recognized the need to align our innovation efforts with the roadmaps of our business units to find even incremental opportunities, versus science projects [or] new technology exploration for technology's sake.

· Relying on university research has been slow to deliver and is being de-emphasized.
· Company-wide idea challenges.
· Idea challenges as anything but an engagement tool.
· Company-wide crowdsourcing. Heavy lift, and sponsors didn't always have the authority to implement.
· We used to have a non-structured 'Bright Ideas' program, which wasn't run effectively, so we stopped. Employees got frustrated that their ideas were either ignored or pursued without their input or recognition.
· Online collaboration forums to help people with ideas hasn't really worked. Participation was low, and we would pretty much only see an unrepresentative set of 'superusers' drive the content.

FUNDING & RESOURCING INNOVATION

· We have pushed more innovation to the project level and spent less time on centralized, stage-gated idea generation and funding.
· Decision was made to close Innovation Lab and remove all direct funding of internal innovation efforts. Focus is now on innovation through acquisition.
· [We've stopped] supporting the core [business' needs] with Horizon 3 innovation staff.
· The biggest change has been freeing people from wearing too many hats and keeping them focused on results from innovation.
· [We] used to have an advanced concepts group. None of the business units would accept the concepts, so we stopped it.
· We tried a model whereby business unit employees would become dedicated to a six-month innovation opportunity area. [It] wasn't working so we pivoted away from that approach.

BREAKING THROUGH THE BARRIERS

- Expecting all others to participate without reward.
- I used to spend a lot of time trying to get ideas and support from other teams around the org. I've learned that they are too busy, don't care, and see our innovation investments as 'too far out' to matter.
- Trying to stimulate innovation in all parts of the organization. It's better to focus energy and resources where there is passion.
- Limited success involving middle managers [in] supporting change.
- [We've stopped] reviews with businesses (who are focused on the core, and don't have the strategy to grow).
- Trying to involve global business marketing on longer-term focus projects.
- [We've stopped] forging ahead on initiatives without considering people's work styles. This has led to misunderstanding engagement levels, enthusiasm, and response to change.
- Stopped working on projects that don't have senior exec sponsorship. Without a senior exec motivated to see the product through, it will die on the vine.
- [We've reduced our] time spent in meetings.

DELIVERING IMPACT & MEASURING SUCCESS

- Trying to report on all innovation work happening across the org. Trying to tell the world how innovative we are instead of other people writing about us. Buying media attention/awards.
- Stopped with meetings/report-outs for [the] sake [of delivering an update,] in favor of action-oriented meetings.
- [We've stopped] thinking that everyone understands the value of innovation — even without solid data to prove it.
- [We've stopped] requiring formal report-outs of each innovation initiative. It was time-consuming and not always value-added. Only the top 10 percent are reviewed formally.
- [We've stopped] gate tracking. Innovation is prone to measuring the wrong KPIs.
- When doing outreach, one discovers some [prospective partners] that are willing to listen, but not partner or share. Have become more disciplined about minimizing these lopsided conversations.
- No longer do startup pitch competitions.
- We've stopped...working with startups, as it doesn't materialize past 'pilot purgatory' (need stronger alignment).
- An accelerator program.
- We're following less of a stage-gate process because of all the meetings/administrivia required. We do roadmap reviews and that basically covers us.
- We are trying to reduce the amount of processes and we do not conduct focus groups any more. We are developing...with a faster pace and we are testing on the field with fewer consumers.
- Our lean innovation execution approach has flopped. Need to rethink the value of lean inside large companies.
- [We] attempted to introduce a quantitative strategic scoring system for evaluating and prioritizing new opportunities, especially requests from sales and customers. No interest among key leaders in taking a more structured and objective approach. Desire to continue doing things the way we've always done them — approving all opportunities that come in from sales and key people in the organization.
- Running design sprints for leaders who feel like they have to do it to check a box in the project funding process.
- [We've stopped] ad hoc design thinking training (unconnected to a design sprint).
- [We've stopped doing] open call three-day bootcamps teaching our Lean Innovation process (Lean Startup + Design Thinking + Scrum). People were coming to this and getting excited but people weren't really able to bring new skills back because not enough support structure around them. We evolved this offering to be more focused and part [of a] "go deep" deployment strategy in four business units (goal was to create more density of excitement and support).

Nasdaq | 'We Always Have a North Star'

Adena Friedman has served as CFO, COO, and, since 2017, CEO of Nasdaq. Nasdaq created the world's first electronic stock market in 1971, and today supplies the technology that powers 130 exchanges and markets around the world, as well as providing data, analytics, and market monitoring tools to investors and traders. While some may still think of Manhattan-based Nasdaq as one exchange, Friedman describes it as "a global technology company that serves the capital markets."

ADENA FRIEDMAN

EVALUATING THE POTENTIAL OF PROJECTS

We don't spend a ton of time doing unstructured innovation for innovation's sake. We generally have some sort of north star approach to looking at what we want to try to achieve. We're not like Google trying to build balloons that are going to be flown over some country after an earthquake [to deliver Internet access.] We're looking at how can we drive our industry forward through the use of the latest and greatest technologies that are available. But we always have a north star.

We have four business units, [which gives us] a broad spectrum of where we can apply innovation. We have a centralized data science team, an architecture team, and a central innovation facilitator in our corporate strategy team. But we make sure that anything and everything we do in those three teams are applied to business needs. Within corporate strategy, we have a venture fund, which invests in advanced technology companies. They have to have a business sponsor for every investment. Our innovation facilitation group runs programs around the world. We call them Nasdaq Next Days, and we bring in really innovative companies to help us think in new ways.

We have an investment committee internally that vets our venture investments, and any internal capital investment we're making in new business ideas, new business ventures, or the application of new technologies. We have an R&D opex budget of

$85 million a year, which is not that big, but we're a very capital efficient organization. We also have a capex budget in our [technology] development area that focuses on applying technologies to the future of our business.

BUILDING VERSUS BUYING

The vast majority of the time and effort within the company right now is being spent on internal innovation – developing business ideas and deploying those through an innovation approach, bringing in the right tech talent, and building things ourselves.

[But one recent example involves] alternative data, a very nascent but potentially very fast-growing area. How do you use alternative sources of data to drive value and investment analysis? We built and launched a platform for alternative data and started to deploy that with our clients.

We found that we were competing with another company called Quandl. Quandl had done a good job, and they had been at it for longer than us. They had a really good user experience and good distribution, [even though] we had probably a better way of managing the data. We ended up buying them and integrating [their offering] with our own internal capabilities. That's not something we do all the time; it was about catalyzing that business, and scaling up faster. But it was in line with a strategy that we already were deploying.

EVALUATING THE POTENTIAL OF PROJECTS

We do really like to co-develop with our clients; we try to bring them into the process of doing proof-of-concepts and Minimum Viable Products. But before we do that, we tend to ask, "Is this capability something that we think would have broad application?" You don't want to just build for one client. ...We want to make sure we have the ability to take it and scale it.

If there's a technology that we think has real applicability to our clients or ones we're trying to reach, we start by asking, "What's the total market opportunity that's conceivable?" You do some high-level math. But then you have to take a risk... if there's demand coming from your clients, then let's build it, let's prove it.

[Eventually, with] our Nasdaq Next committee, a team will put forth a more formal presentation. There's a three-stage process of going from initial seed funding to a multi-year bet. The initial seed funding may come when it's still an idea on a piece of paper. What is it, what technology does it require, who might it be applicable to?

Then, you get some seed money, maybe some consulting dollars. ... It's usually sub-$1 million at that point.

Then we come back and say, in the second stage, let's start building a POC or getting to an MVP. Then you get to the bigger decision about how to scale it up.

'COLLABORATIVE COMMAND'

We use a term called "collaborative command." We do want to get different opinions into the room. We have a more collaborative way of looking at ideas and priorities and spend. I want people to have a sense of ownership over the decisions, not just being told what to do. I want them to be excited to take the next step. But there are moments where you have the need for command. We do run critical infrastructure here in the US and the Nordics, so there are certain elements where you have to say, "This has to get done." [When it comes to] the innovative thinking and how to drive to a future result, I have definitely strong opinions, but I also allow people on my team to have strong opinions. How do we make sure we're taking [those opinions] into account, but not getting caught up in groupthink? The leader's role is to be sure you're getting the company onto the right future path. ◆

"I want people to have a sense of ownership over the decisions. ... But there are moments where you have the need for command."

— Adena Friedman, CEO of Nasdaq

WHAT WE'VE LEARNED ON OUR JOURNEY

*BY **LYNNE DOUGHTIE**, CHAIRMAN AND CEO, KPMG LLP*

LYNNE DOUGHTIE

Innovation is about anticipating the future. As innovation leaders, we're all scanning the horizon for trends and ideas that will shape the world of tomorrow. From time to time, however, it's useful to cast our gaze inward – to assess where we've been and what we've learned from our innovation journey.

At KPMG, innovation is embedded in our DNA. It's one of our strategic priorities. And it has played a critical role in the transformation of our firm. But we're also in the somewhat unique position of being able to translate many of our own innovation experiences – both positive and negative – into learnings and practices that benefit our clients.

As we enter 2020 – the start of a new decade with its unique set of social, technological, economic, and political challenges – we thought it would be useful to share some of what we've learned. Here are our Top 10 recommendations for driving innovation in 2020 and beyond.

1. Innovate at the grass roots. Foster innovation at a grass-roots level by giving people permission to innovate in their daily tasks. This can be done in many ways. Expand innovation networks throughout the organization to engage more people. Or consider allowing employees to spend 10-20 percent of their time on innovations that will benefit the organization.

2. Shape an innovation mindset. Find organic ways to foster an innovation mindset and share new learnings. Consider adding five minutes at the end of every meeting to review the "new-new." And take advantage of simple technology collaboration tools that allow for the quick exchange of ideas among team members. Teams can build upon each other's ideas, sparking creative thinking.

3. Make it real. Integrate innovation into traditional performance and sales metrics, while encouraging fresh thinking and new ideas for rewarding and recognizing success. *Benchmarking Innovation Impact* found that only half of all companies offer recognition or awards to employees as part of their innovation programs. If the message is that innovation is important, every employee should know how it is measured and rewarded. So, work hand-in-hand with Human Resources to elevate the importance of innovation in your teams' day-to-day and career growth trajectory.

4. Plan big but experiment small. Big goals and big ideas can have long-term impact, but small pilots and experiments can drive speed and fast learning. Not every innovation has to be a disruptive, breakthrough idea to be impactful. Sometimes a streamlined solution around a targeted issue – especially one that can be implemented quickly on a national, industry-wide or global scale – can be an important part of a broader innovation strategy. After a quick win, bigger innovation campaigns can be planned.

5. Welcome diversity in thinking. At KPMG, we've learned that the best ideas come from teams where there is inclusiveness and a diversity of thinking. Having the right team and types of employees was cited as an important enabler of innovation by nearly 60 percent of the survey role models. Staff your innovation teams with people with different perspectives, diverse skills and backgrounds.

6. Don't go it alone. Innovation is a team effort – relying on a fluid ecosystem of partnerships and alliances. At KPMG, we

draw upon a range of global and cross-functional resources to drive innovation, including co-experimentation with clients and alliance partnerships. Thirty-eight percent of U.S. CEOs see strategic alliances as core to their three-year growth strategy, according to KPMG's 2019 US CEO Outlook. And 65 percent place high value on the increased agility that strategic partnerships bring to their organizations.

7. Use the "Tugboat Effect." Just as a ship can't always maneuver on its own, an organization sometimes needs adjacent players and relationships to help change course. By investing in startups, pursuing new ventures, or making acquisitions, companies can accelerate their innovation strategies. In fact, more than half the CEOs in our 2019 U.S. CEO Outlook are collaborating with startups and setting up accelerator or incubator programs for startup firms to help them achieve their organization's three-year growth objectives.

8. Remove the friction. Successful innovation doesn't necessarily translate into standard KPIs or ROI. That's why most mature companies in the survey don't measure innovation success solely by new product revenues. Even startups will prioritize other key results ("OKR") metrics related to qualitative measures like customer touch-points and interactions, as well as learnings and insights generated. So, don't allow innovation sprouts to be undermined by traditional ROI or heavy-handed governance requirements. Rather, investigate more realistic criteria for green-lighting a project or measuring its success.

9. Do what you do best. Every company has natural advantages that can aid your innovation efforts. A powerful corporate

> **"Every company has natural advantages that can aid its innovation efforts. … Whatever your company's edge, use those core, inherent assets to help reach your innovation goals."**
>
> **- Lynne Doughtie, Chairman and CEO, KPMG LLP**

brand, for example, can help attract top innovation talent, while a worldwide presence can help in assessing ideas with global potential. Whatever your edge, use those core, inherent assets to help reach innovation goals.

10. Innovation is your best qualification. Innovation can help propel your business forward, but it can also have important knock-on effects for customers, recruits, partners, and other stakeholders in your business. And having an innovation mindset may make you a more credible and attractive partner or a creative employer for someone else's innovation journey.

We live in a world where an accelerated innovation agenda is critical to success. But innovation must be more than a buzzword. To be meaningful and actionable, it needs structure and process. We hope this survey and the case studies and learnings we've shared here will assist you in creating those structures and processes for your own organization. ◆

GOJO: Making External Partnerships Work

April Bertram is a Senior Business Development Director at GOJO Industries, an Ohio-based maker of skin care and hygiene products; its best-known brand is Purell.

APRIL BERTRAM

BUILDING THE ECOSYSTEM MAP

We're a mid-sized company. One of the biggest things that we've learned is that the way tech is changing so quickly, we have to rely on a lot of external resources. Our key to innovation is truly through external partnerships. I coach folks to say, "Look at the ecosystem map, try to figure out who the players are, and let's find the right partnerships." For example, in smart buildings, who are the players?

We have a checklist [with partnerships that we use to] screen. These are our norms – would they work with GOJO from a culture perspective? Are we each bringing something significant? What do we both need to get out of it for it to be a success? You have to be able to interact and work well together.

TWO PARTNERSHIP EXAMPLES

One partnership we announced recently was a partnership with a startup, which gave us access to technology we wouldn't have built otherwise. It's the Purell SmartLink Integrated Monitoring system. We worked with a startup to develop a special badge technology [that was] a lower-cost solution, to allow smaller hospitals to get the same data [about hand hygiene when medical professionals] go in and out of patient areas.

With our startup partnership, even though we're pretty agile for our size, their cash flow was much smaller.... It had to be a certain stage of a startup. We also had to work out more regular payments, versus one payment at the end of a project. We also

had to be more agile in terms of how we got decisions made – our steering team needed to understand that the decision needed to happen that week, not next month.

Another recent partnership was with Kimberly-Clark. It's a whole smart restroom system we're working on jointly. [It relies on data] so you don't have outages with batteries in a soap dispenser, or with soap. We made the soap and dispensers, but we had to look at partnering with someone in the paper world [for keeping tabs on paper supplies in the restroom.] It can also track traffic patterns, to better design workflow to be more efficient with labor and resources. That partnership was launched within 18 months, compared to three to five years if we did it on our own. It's an Internet of Things solution, and people are now calling us and asking for it, instead of us having to push it.

We're starting to see buildings become smart, with all kinds of connected products and devices. Once a building owner or tenant invests in that technology, it's going to be in the building for years. If you don't capture the space now, you're going to lose for years into the future.

'THIS IS THE FUTURE OF INNOVATION'

We think that this is the future of innovation — ecosystem innovation. It is how people will compete. We used to feel everything had to be made within, but you'll be left behind if you continue with that. It's an essential capability, and you can't wait to do it. You have to learn. ◆

Worksheet: How Are You Spending Your Time?

One of the most important decisions that leaders make is how to spend their time. The chart on this page shows some of the common activities that executives responsible for innovation engage in, as well as the benefits and possible risks of each activity. At the bottom, fill in the percentage of your time you spend on each of these activities. Should you be spending more or less? This document can be helpful to review with your colleagues, or the governance group that oversees your work.

Activity									
Strategy Development	Meetings & Relationship-Building	Idea Collection (Online or Offline) from Colleagues	Events: Hackathons, "Innovation Days"	Capability-Building and Training	Building New Things or Developing New IP	Open Innovation	Measuring and Reporting on Progress	Planning for Launches/Scaling	Other (fill in another key activity, if relevant)
Benefits									
Coherent strategy is a prerequisite for success	Creates alignment	Shows the company is open to ideas from everywhere; expands participation	Builds energy and excitement	Increases familiarity with innovation methods; can create broader support	Has the potential to generate real revenue, cost savings, or customer loyalty	Taps into emerging tech/science and new ideas that may be additive	Helps colleagues understand your impact, support continued investment	Essential to ensuring that an idea that has shown merit can get rolled out successfully	
Risks									
Can spend too much time in the strategy development phase	Time-intensive, and not everyone can be "converted" into a supporter	Too many ideas that aren't developed further can breed cynicism and lead to lower engagement	Can create lulls or disengagement between events	Can begin to make innovation initiative look "nice to have," not "need to have"	Can set up rivalry with internal groups doing similar work or who feel they "own" these goals	Time intensive, and requires long-term commitment	"Metrics creep" — accumulating too many metrics that are difficult to collect, and not relevant to others	If you haven't gotten buy-in along the way, the transition to launch/scale can encounter backlash	

What Percentage of Your Time Do You Devote to This Activity?

Going Forward, Should This Require Less (↘), More (↗) or the Same (—) Amount of Time?

KEY QUESTIONS

1. On our list of things that deliver the most impact at our survey respondents' companies, are there activities that would be worth testing in your organization?

2. How often do you reassess what is not working and should be stopped?

3. Nasdaq CEO Adena Friedman talks about the relationship between building offerings in new areas, like alternative data, and occasionally supplementing what has been built internally with acquisitions of fast-growing startups. Does your balance favor one (build it ourselves) or another approach (buying it)? How could you attain a better balance?

4. April Bertram of GOJO talks about multi-party "ecosystem" innovation as "the future of innovation." Has your company engaged in this sort of collaborative innovation as a way to enter new markets, reach new customers, or deploy new technologies? If not, how might you make the case that it is worth trying?

RESOURCES

1. Video: CEOs on Disruption, Culture, and Executive Support
http://www.innovationleader.com/ceos-on-disruption-culture

2. Video: Surviving a Management or Strategy Change
https://www.innovationleader.com/surviving-a-shakeup

3. Podcast: Inside Silicon Valley's Innovation Culture
https://www.innovationleader.com/podcast-silicon-valley-culture

4. List: These are the Things That Kill Innovation Initiatives
https://www.innovationleader.com/these-things-kill-innovation

5. Large-Scale Infographic: A Guide to Five Stages of Innovation Evolution
https://www.innovationleader.com/resources/innovation-illustrated

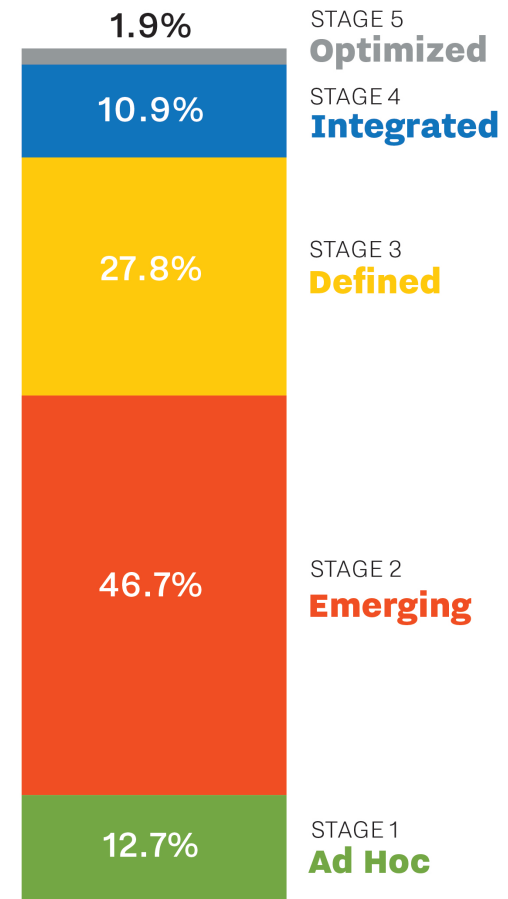|	1. Ad Hoc	2. Emerging	3. Defined	4. Integrated	5. Optimized
What stage of innovation "maturity" has your organization reached? (See definitions on next page.)					

ABOUT THE RESPONDENTS AND THE DATA

We collected 215 qualified responses from professionals in innovation, strategy, R&D, and other roles.

We asked all respondents to assess the maturity of their innovation programs, and to place their organizations into one of five maturity stages. For the purposes of this report, we refer to the 12.8 percent of respondents who placed their organizations in stages 4 and 5 as the "role models" data set. In this year's survey, that group was slightly smaller than in our 2018 survey, when 17.2 percent of respondents placed themselves in stages 4 and 5. In both of these recent surveys, the largest group of respondents put themselves in the "Emerging" stage, and the smallest into the "Optimized" stage — suggesting that not everyone shows up to work every day at an organization where everyone feels driven to innovate.

1. **Ad Hoc** — These innovation programs are typified by early-stage, isolated, non-strategic initiatives, often resulting in overlapping projects with inconsistent business cases and few formal tools, systems, or procedures.

2. **Emerging** — Innovation programs at this stage tend to be more organized, with projects prioritized; they have a higher-profile throughout the enterprise, and processes and systems are being put into place.

3. **Defined** — At this stage, innovation programs are more strategic and linked to specific 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 results, and enterprise value.
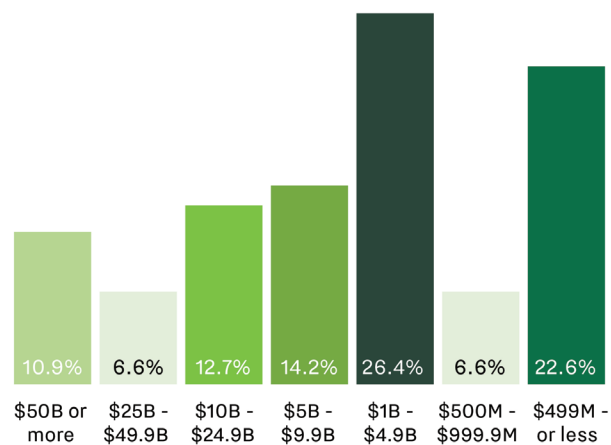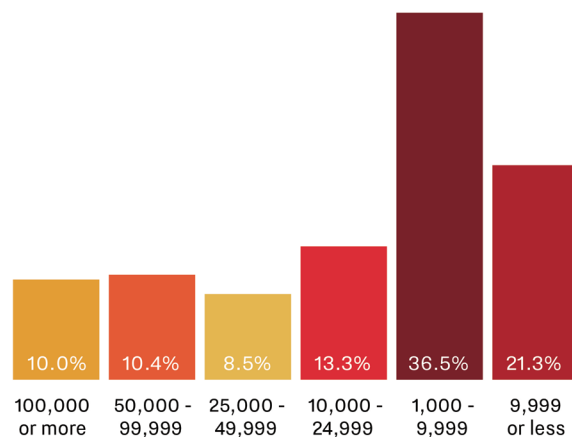
Respondents by stage of maturity

1.9%	STAGE 5 **Optimized**
10.9%	STAGE 4 **Integrated**
27.8%	STAGE 3 **Defined**
46.7%	STAGE 2 **Emerging**
12.7%	STAGE 1 **Ad Hoc**

Industry	Respondents
Financial Services	15.9%
Consumer Goods / Consumer Products	15.0%
Other	13.1%
Technology	8.9%
Healthcare	6.1%
Automotive, Transport & Logistics	5.1%
Pharmaceuticals & Life Sciences	5.1%
Government / Public Sector	4.7%
Industrial Manufacturing	4.2%
Energy & Utilities	3.3%
Higher Education	3.3%
Medical Devices & Instruments	2.8%
Media & Telecom	2.3%
Retail	2.3%
Aerospace & Defense	1.9%
Chemicals	1.9%
Hospitality & Leisure	1.9%
Engineering & Construction	1.4%

Respondents by industry

Respondents by revenue

$50B or more	$25B - $49.9B	$10B - $24.9B	$5B - $9.9B	$1B - $4.9B	$500M - $999.9M	$499M - or less
10.9%	6.6%	12.7%	14.2%	26.4%	6.6%	22.6%

Respondents by revenue

Respondents by number of employees

100,000 or more	50,000 - 99,999	25,000 - 49,999	10,000 - 24,999	1,000 - 9,999	9,999 or less
10.0%	10.4%	8.5%	13.3%	36.5%	21.3%

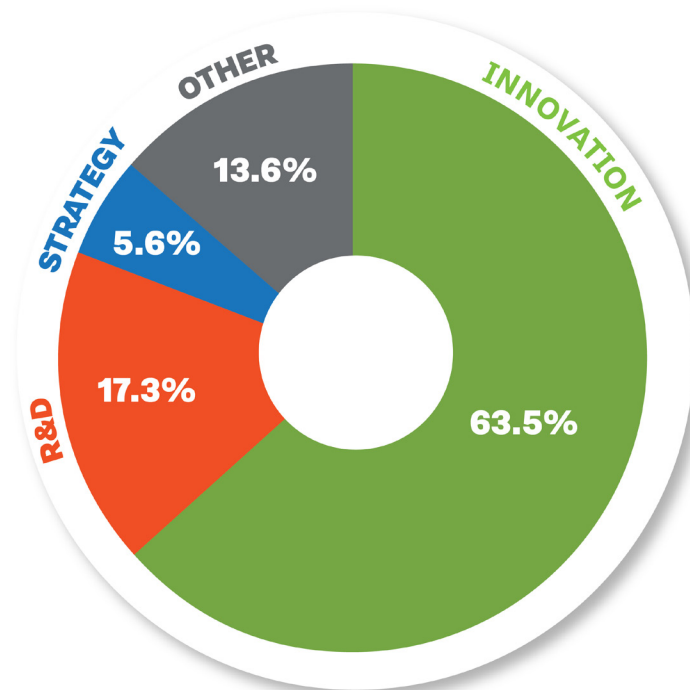**Respondents by number of employees**

SAMPLE TITLES

Head of Innovation Center	Director of Strategic Innovation
Managing Director, Digital Innovation	Head of R&D
Office of Technology Licensing	VP of Strategic Initiatives
VP of Global R&D and Innovation	Chief Innovation Officer
Innovation Process Manager	EVP, Innovation Architect
SVP Product & Manufacturing Innovation	R&D Project and Portfolio Director
Director, Open Innovation and Strategic Partnerships	Chief Innovation Officer
Vice President, Corporate Innovation	Executive Director, Innovation and New Growth
Manager, Innovation Center	Senior Director, Technology Centers and Industry Futures
VP - Strategic Innovation & Emerging Technology	New Product Development Manager
Head of Innovation/Customer Experience	SVP Innovation and Strategic Partnerships
Vice President of R&D and Corporate Quality	Head of Advanced Innovation
Director, Innovation and Product Development	Innovation & Leadership Catalyst
Chief Strategy & Innovation Officer	Global Head of Innovation and Advanced Technology
Innovation Enablement Manager	General Manager, Sustainability and Innovation, R&D
New Ventures Director	Director of Innovation and Research
Emerging Technologies Leader	Director, Enterprise Innovation Initiative
New Venture Opportunity Strategist	Director of Innovation and Product Strategy
SVP Strategy & Innovation	Innovation Project Lead
Chief Digital Officer & SVP	Director, Business Development / External Innovation
SVP, Customer Experience	Head of New Business Creation
Digital Ventures Manager	Knowledge, Innovation & Technology Specialist
Open Innovation Lead	Expert Innovation Analyst

Some representative titles from our respondent set

C-LEVEL

14.0%

SVP/EVP

14.5%

VP

15.0%

DIRECTOR-LEVEL

34.1%

OTHER

22.4%
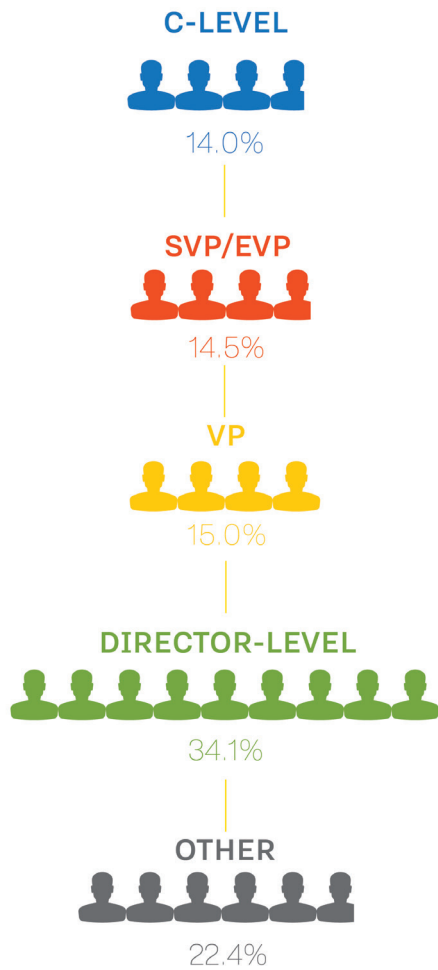
Respondents by seniority

OTHER 13.6%

STRATEGY 5.6%

INNOVATION 63.5%

R&D 17.3%

Respondents by function

Visit **InnovationLeader.com/Benchmarking2020** for bonus interviews and to download the 2018 edition of *Benchmarking Innovation Impact*. Additional interviews include:

- **Evolving the Innovation Mission,** with Roberto Roitz, a former leader of the discovery and open innovation team at Humana.

- **Competing for Budget**, with Peter Berger, Director of Innovation at EmbraerX, a disruptive innovation group inside Embraer.

- **Getting Your Innovation Program Started**, with Christopher Bailey, Agile Transformation Lead at ExxonMobil.

Don't miss our upcoming "Innovation Answered" podcast episodes highlighting data and interviews from the report:

- **Innovation Allies**: Featuring Fiona Grandi, National Managing Partner, Innovation & Enterprise Solutions at KPMG LLP; and innovators from Bose and Philips Healthcare.

- **Does it Scale?**: Featuring Colleen Drummond, Partner, Innovation Labs at KPMG Ignition; and innovators from Shell and ESPN.

To listen to these and other episodes, visit **InnovationLeader.com/Podcast.**

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 with 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. 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 at innovationleader.com/join. Follow us @innolead.

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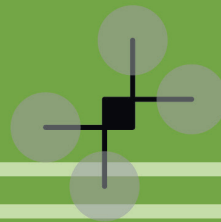
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If you work in the realms of innovation, R&D, or strategy within a large organization, you already know that making change happen and delivering tangible business results is incredibly difficult. Resources are often constrained. And at most organizations, there's pressure to do more — faster — in order to keep pace with changing market and customer dynamics.

Benchmarking Innovation Impact collects data, insights, and advice from more than 225 of your peers to help you overcome those challenges. Inside, you'll see how other companies provide funding for innovation initiatives… how they staff them… what metrics they rely on to track progress… and what strategies and tactics they see delivering the most value.

Innovation Leader and KPMG have once again collaborated to create this all-new guide for corporate innovators, based on survey data and interviews with a dozen leaders at companies like Intel, Google, Ford, Kellogg's, and Capital One.

Whether you're designing a new innovation initiative, or upgrading one that already exists, *Benchmarking Innovation Impact* is the definitive resource.

INNOVATION LEADER

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