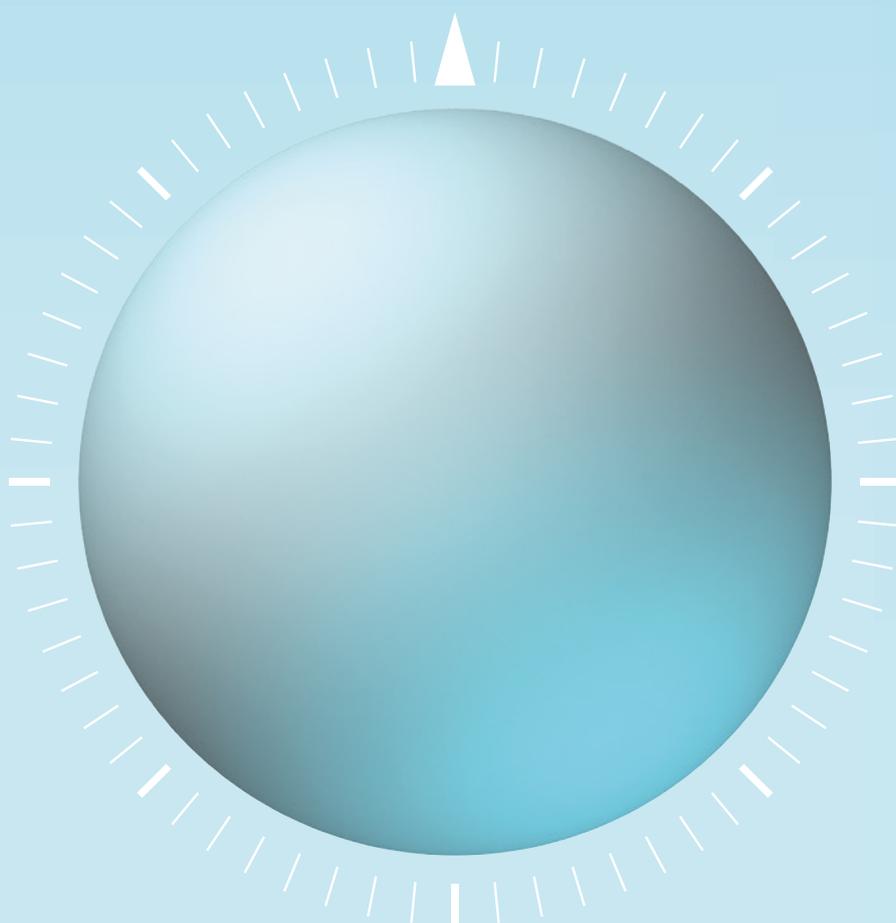




INNOVATION MATTERS

NEW INNOVATION RESEARCH



Bringing Ingenuity to Life
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AN INCONVENIENT TRUTH

Innovation matters.

The need to change, and the need to strategically manage change, has always been with us. In 1513 Niccolò Machiavelli, historian, diplomat, philosopher, humanist and writer, wrote his philosophical treatise *The Prince*. Consider some of his advice after the passing of half a millennium:

“It ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them.”

In the business environment, the most seminal contribution to the study of innovation has been *The Innovator's Dilemma* by Clayton Christensen. This year marks the 20th anniversary of its publication – a defining moment in how executives should think of disruptive innovation. The web was still in its infancy, the dotcom boom was just gathering pace and communication technologies we now consider normal did not exist.

New technologies have facilitated the opportunity for companies to innovate. But innovation is more than just the introduction of technologies. Companies are redefining what they do, and change is taking place so fast that established organisations suddenly find they exist in entirely new industries. Is Amazon in retail, payments, devices, infrastructure, drones or entertainment?

Is Apple in devices, media, health, communications, software, wearables, retail or payments? Is AT&T in telecoms, connected health, entertainment, cloud computing or the connected home? Boundaries are blurring and many organisations feel less in control of their destiny than ever before.

Last year our innovation research concluded that the majority of organisations are struggling to get value from innovation. Instead of ‘innovation as usual’, we found ‘business as usual’.

At PA, we have proved time and again that innovation – pragmatically applied – can be a powerful force for competitive advantage and growth. So, we were frustrated to see organisations forgoing opportunities in future competitiveness, productivity and financial gain.

Respondents we surveyed...

66%
confirm their organisations will not survive without innovation

24%
are fully confident they have defined the skills and activities they need to be innovative

37%
say their organisation has made no, or only minimal, changes to its innovation approach

50%
do not believe their leaders fully display the vision and passion needed to make innovation happen

Findings based on a survey of 821 senior executives across the globe.

Despite a year full of societal, business and technological changes that offer even greater opportunities for fresh innovation, this year's research confirms skill and will to innovate have not yet improved in most organisations.

The inconvenient truth is that despite the power of new technologies, and the ability of innovation to unlock new growth opportunities, too many organisations are missing out.

In this year's research 66% of respondents confirm their organisations will not survive without innovation – but only 24% are fully confident they have defined the skills and activities they need to be innovative. Moreover, 50% do not believe their leaders fully display the vision and passion needed to make innovation happen. And despite the seismic changes of recent years – particularly in technology – 37% say their organisation has made no, or only minimal, changes to its innovation approach.

Despite these very real challenges, we are optimistic. At PA, we have been innovators for over 70 years. Through our work as a consulting, technology and innovation firm, we see successful 'innovation leaders' who are realising a substantial increase in revenue and growth as a direct result of their innovation activity.

This report reveals the insights unearthed from our research, combined with opinion formed through our work. It summarises what successful organisations – our 'innovation leaders' – are doing right and offers this as four pragmatic and actionable insights:

- **focus on the future** – anticipate and analyse the industry and technology changes, and decide how you need to innovate
- **design innovation into your organisation** – create a customised framework for the type of innovation you need to succeed
- **create an innovation culture** – change the way people lead, work and are rewarded
- **build a network for innovation** – use your ecosystem as a catalyst for innovation.

Over 500 years ago Machiavelli documented the difficulty in asking people to adopt new customs or processes and how those with an interest in the status quo resist innovative ideas.

Yet, time and time again, we see innovation leaders create disruption, beat the competition and build value. That is what continues to inspire us to share our insights and experiences.

We are grateful to the many senior executives who gave their valuable time to participate in our research, and we look forward to discussing our findings with you.

ALAN MIDDLETON
CHIEF EXECUTIVE OFFICER
PA CONSULTING GROUP

FOCUS ON THE FUTURE

“Mastercard was aware that digital technology is driving more change to the industry in the next five years than the company has seen in its entire 50-year history to date.

So we had to ask ourselves: ‘How do we capture the momentum that is going on in the shift to digital, while staying true to our vision of enabling a world beyond cash?’”

CATHY McCAUL
PRESIDENT
MASTERCARD PROCESSING

Anticipate new entrants, business models and markets

Entire industries are being redefined by customer expectations and emerging technologies. Organisations without an innovation mindset and a clear sense of purpose are missing out.

New market entrants are ignoring decades of legacy processes and building customer-centric solutions that are better, faster and cheaper than incumbent players. Consider legal or accountancy firms, where industry estimates suggest that 40-60% of fees could be related to work that is better delivered by artificial intelligence (AI). AI would be faster and reduce costs, and perhaps even be more accurate.

But are traditional firms prepared to reduce their billing rates, and pass on value, because parts of a project are now automated?

If not, the price difference may be enough for some customers to try the new service. Create a decent customer experience, and industry economics and competitiveness could change forever.

New technologies can also mask what is really a change in business model. When eBay launched in 1995 it was seen as a new technology. Yet the company merely enhanced an age-old process of matching buyers and sellers. Uber and Airbnb are other examples of companies using technology to disrupt existing systems.

These peer-to-peer platforms may be using technology to deliver a service, but the real innovation is the change in business model.

And technology can also create entirely new markets that did not exist previously. Snapchat allows people to communicate in a fleeting way using images and has created billions of dollars of value for the founders of the company. But five years ago, no one communicated this way.

The bottom line is that traditional strategic planning techniques are no longer sufficient.

“How do you get commitment to evaluate how the supply chain in pharmaceuticals will drastically change in five years? Because I do believe 3D printing will revolutionise it. It may be like a slow and steady boil – and you do not realise it is boiling until it reaches that boiling point.”

DANIEL SEEWALD
SENIOR DIRECTOR OF WORLDWIDE INNOVATION
PFIZER

Build resilience

Innovating in this environment requires vision and resilience. Most business leaders know innovation is essential for long-term survival, but struggle with forces that can stop innovation becoming a reality in their organisations. So, how can you:

- maintain your belief that innovation can transform your business?
- battle learned behaviour and institutional inertia?

And at the same time focus on shorter-term returns and reporting to investors.

“At Virgin Wines, we create a culture where people can be brave. They make decisions about what they think may help them in their job. If things do not work out, but they have thought the idea through, then there is no issue – no matter how far-fetched that idea may be.”

JAY WRIGHT
CEO
VIRGIN WINES

We see successful innovation leaders actively using disruption stories as a catalyst to focus leadership attention and management debate towards digital, Agile, disruption and innovation. Successful leaders use these stories to further build the case and organisational energy for innovation.

Fear is a basic human emotion, and fear of standing out or making a wrong decision will often influence executives considering the opportunity versus risk of pursuing innovation, creating unhelpful learned behaviour and institutional inertia.

In fact, our research shows 54% of organisations are rejecting the very disruptive ideas that may lead to the greatest success. Being bold and maintaining a belief and focus on innovation in the toughest of economic or business pressures is difficult but critical.

Executives of large organisations will often resist innovation. But no one is immune to disruption. Perhaps the business is in a steady state. The leadership team may believe that it is not innovation that is required, but a more intense focus on cost cutting or a bigger sales team.

Individuals will fight innovation if they feel the disruption to their business puts their own personal power base at risk, particularly if the change proposed is so dramatic that the entire company may need to be redesigned or divisions cannibalised to allow an innovative new service to flourish.

The focus required on short-term results, budgets, regulatory compliance and the disciplines of management reporting can make maintaining this focus on innovation challenging. Our research also shows only 31% of respondents say their leadership teams prioritise innovation in any substantive way.

When we talk with organisations about the proportion of the board agenda genuinely focused on customers, competitors and innovation, we do not see sufficient focus. Of those we surveyed, 66% told us that their organisation would not survive without innovation. Yet only 28% said that they are innovating successfully to drive growth and increase revenue. Clearly, there is significant room for improvement and opportunity for competitive advantage.



“The people on the ground now know their organisations’ chief executives are sufficiently committed to innovation to put money on the table and back their innovations. That gives a significant amount of reassurance to people that it is okay to innovate. It is okay to have ideas.”

JOHN PELTON MBE, DIRECTOR, CH2M
(FORMERLY CROSSRAIL’S LEAD FOR INNOVATION)

Use the voice of your customer

As customers today – be that as consumers, citizens or business professionals – we are more empowered than ever before, enabled by proliferating choice and hyperconnectivity. Technology and generational dynamics have changed the way we connect and relate to what is around us, placing us at the centre of our own ecosystem of people and organisations that inform, inspire and influence us.

Innovation leaders are also increasingly focused on what customers really want in the long term rather than just features, brand or experiences. Organisations that fail to recognise this fundamental shift – and the new power of the customer – risk a rapid decline in relevance and value to their customers.

Yet the opportunities are huge. Reorienting around the customer can be a powerful force to accelerate – and steer – innovation in your organisation.

We believe – as our ‘Customer 4.0’ research makes clear – the right response to such unprecedented change starts by fundamentally re-visioning around your customers. Who are they? And how will you help them navigate the complexity of their universe to better achieve the outcomes they are seeking? While you might be used to enticing the customers

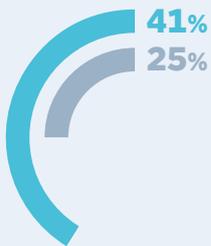
into your world through your brand and service, you now need to reverse the logic and decide how you are going to fit into their world. For many, we believe this will involve redesigning your business model around the customer.

The organisations that will thrive in this world will be those that continuously innovate around the customer. They will be clear on their purpose and be led by people who understand that customer value is a core driver of future growth.

“We stay innovative in response to our customers and we have a relentless energy for constant improvement and challenging the existing ways things are done. There is no room for complacency. We are always creating new products and responding to macroeconomic changes.”

ALI HACKETT
US COUNTRY HEAD
LONDON STOCK EXCHANGE GROUP

LEARN FROM THE INNOVATION LEADERS



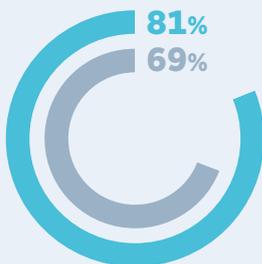
41% frequently take part in formal horizon scanning and scenario planning, compared with **25%** of their less successful peers



57% are very good at making the business case for innovation, compared with **41%** of their less successful peers



66% are very good at understanding and anticipating customer needs, compared with **43%** of their less successful peers



81% offer their employees an inspirational sense of purpose, compared with **69%** of their less successful peers

CRITICAL QUESTIONS TO ASK

- **Do we know what our customers need, both now and in the future?** Henry Ford did not just listen to what his customers wanted, he invented a new market for them. There are many new and disruptive scenario-planning techniques, market scanning and technology foresight tools that will keep you ahead of potential threats and give you sight of opportunities.
- **How much time and attention are we spending at the board/leadership team on innovation?** Leaders need to create an environment in which to innovate. Tackling areas of inertia and resistance up front through leadership interventions will help.
- **How close are we to our customers' activities and environment?** Sophisticated data and analytics tools will give you immediate intelligence on your customers. But we also still find traditional techniques like focus groups (in our PA Observatory) to be critical for qualitative information, and to create empathy.
- **What does 'Customer 4.0' mean for you?** It could be that your business design might change radically if you genuinely oriented your organisation around your clients. Understanding the new universe of influences, and testing and improving your relevance with clients, requires a new mindset, skills and tools.

DESIGN INNOVATION INTO YOUR ORGANISATION

“If you just set up stalls and say you are going to innovate, you are going to struggle. You have to be clear about the problem or opportunity you are about to address.”

GER BROPHY
CHIEF TECHNOLOGY OFFICER
GE HEALTHCARE, LIFE SCIENCES

Rethinking innovation

Innovation may be about improving the customer experience or using an entirely new business model. It may be a dramatic change to how you bring a product or service to market, or it may be centred on how you change how you work with your employees. All these areas of your organisation have the potential to be improved through innovation.

Alarmingly, our research shows many organisations appear reluctant to rethink the way they are innovating. Despite the rapid change of technology, business and society around them, 37% say their approach to innovation has not changed at all in the last three years, or is now only changing minimally. That means many are moving far too slowly to keep up with changing business demand, and misplacing time and energy.

Support your core purpose

Our research shows one of the most common mistakes an organisation can make is to take an approach to innovation that is at odds with its core purpose. When we analysed the stated innovation priorities and goals of our survey population, we found many contradictions. Of those whose core mission is to develop new products and services that disrupt the market, 54% say they frequently reject these disruptive ideas, even though they know they have great potential. Fear of failure, a risk-averse culture and overzealous risk management are just some of the reasons why organisations are reluctant to take the bold steps into the unknown that are essential for innovation.

Innovation leaders, on the other hand, are crystal clear on where they create value, and align innovation priorities against this core purpose.

It can be as simple as wanting to:

- be able to bring new products and services to market faster than the competition
- have more customer accounts than any other provider
- offer the best experience for our customers
- be the simplest and leanest in our industry.

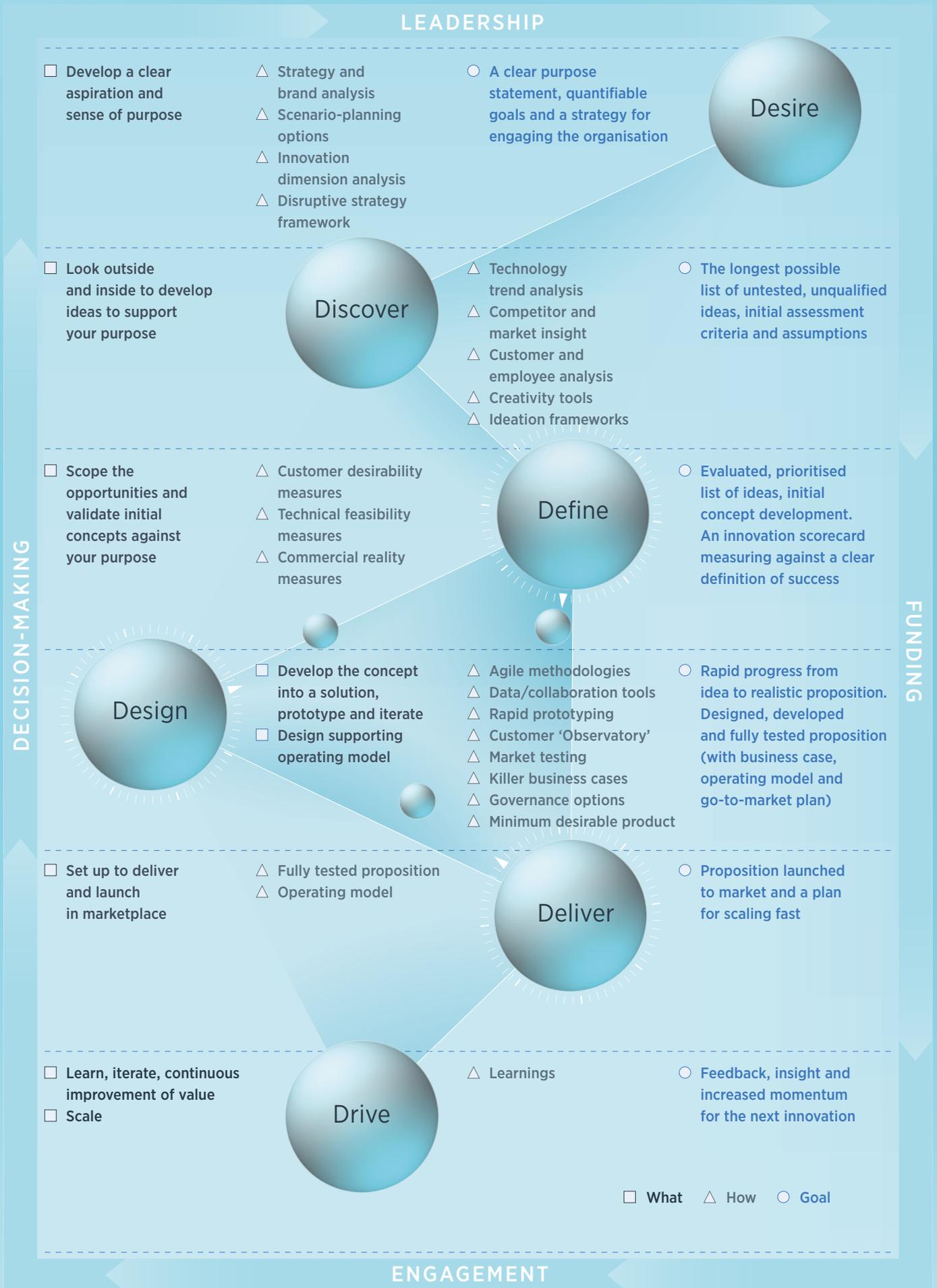
It sounds obvious, but our research reveals examples of misguided efforts and confused priorities. For instance, 39% of organisations whose core purpose was growth told us they were spending as much time and effort on innovation to reduce cost as they were on developing new revenue streams.

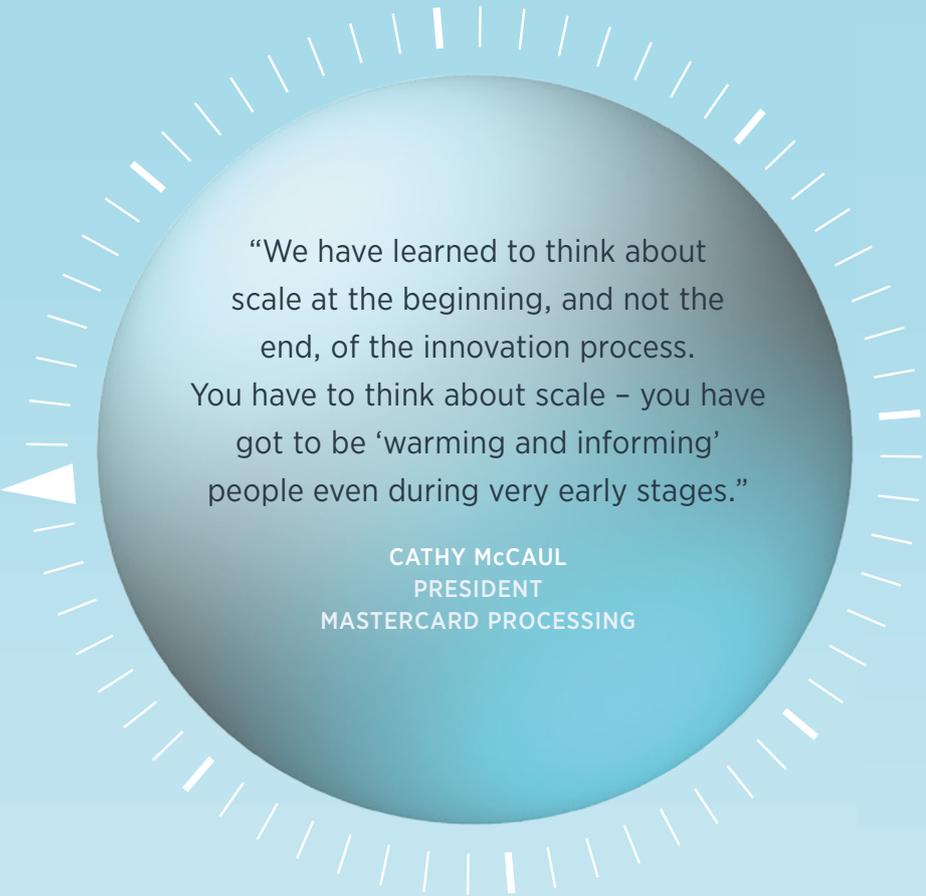
When purpose is clear and the goals are stated, then a path to innovation can be charted. It is important to find the right blend of innovation frameworks that support organisational goals. Some simple questions can help. Is the objective to:

- use innovation techniques to solve specific issues?
- empower people to come up with more radical ideas to solve complex problems?
- extract more value from the ideas already alive within the organisation?
- build innovation into the DNA of the organisation?

We design our innovation frameworks to help you create future value by setting goals, developing processes and building the infrastructure to turn ideas into action. Such a strategic framework will enable employees to manage the inevitable tension between creativity and pragmatism that is always present when an organisation moves from a more traditional hierarchy to innovation as a normal function of business.

A FRAMEWORK FOR INNOVATION





“We have learned to think about scale at the beginning, and not the end, of the innovation process. You have to think about scale – you have got to be ‘warming and informing’ people even during very early stages.”

CATHY McCAUL
PRESIDENT
MASTERCARD PROCESSING

Think big, start small, scale fast

Agile techniques are not new, but we are increasingly seeing innovation leaders using Agile thinking in all areas of their business. This enables them to achieve more, change faster and improve adoption in a large organisation.

You might not initially think of Rentokil as an innovation leader, but they managed to revitalise their business by using the ‘Internet of Things’. Instead of physically checking pest management devices at sites on a regular basis, we worked with Rentokil to develop connected devices to collect, analyse and share data in the cloud. This allowed the company to operate more efficiently and improve services to their customers. Rentokil’s ideas were rolled out, using an Agile approach. The solution now operates in 12 countries with unlimited scalability.

So what can we learn from this? ‘Think big, start small, scale fast’ works for many of our clients. Benefits from innovation crystallise sooner as ideas test and iterate. Pilots can be quick, valuable and with the ability to scale.

Throughout our interviews, we heard of organisations that do not incubate ideas well because they cannot

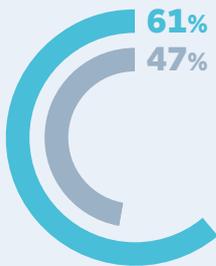
provide the right organisational environment to nurture and accelerate them to success. Organisational and IT architectures can support agility, or constrain it. The right technology, processes and commercial flexibility are all essential to support an Agile environment.

When we look at the leader group in our research, we see incubation as one of their core strengths: 51% describe themselves as ‘very good’ at scaling up innovation, compared with 39% of their less successful peers.

Importantly, innovation leaders are also better at governing well, including killing projects that are not working: 54% of successful innovators consider the ability to kill projects a core strength, compared with only 40% of their less successful peers. This is for good reason. ‘Zombie’ projects can run on for years, burning through investment and sapping energy, leadership time and goodwill. Getting rid of them is an essential part of keeping innovation alive.

Positively, we are finding a new narrative as boardroom debates move from Agile IT delivery to a fundamentally more Agile and innovative business.

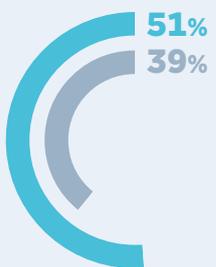
LEARN FROM THE INNOVATION LEADERS



61% are very good at measuring the value of innovation, compared with **47%** of their less successful peers



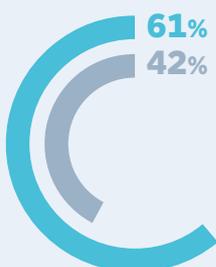
54% consider the ability to kill projects a core strength, compared with **40%** of their less successful peers



51% describe themselves as 'very good' at scaling up innovation, compared with only **39%** of their less successful peers



59% believe their organisation is very good at the rapid deployment of technology to meet customer/consumer needs, compared with **49%** of their less successful peers



61% are excellent at getting innovation to market, compared with **42%** of their less successful peers

CRITICAL QUESTIONS TO ASK

- **Do we have a clear purpose for innovation?**
Leaders have a clear definition of what innovation means in their organisation and how it aligns to their business goals. Strategic clarity and good communications and engagement can help.
- **Have we established the right framework for innovation in our organisation?**
There is no one size fits all. It is possible to create a framework for innovation for every organisation. Agile techniques are increasingly relevant, not just in IT/technology, but in terms of full business agility.
- **Can we measure innovation success?**
Metrics in place to define success and measure the value of your innovation sounds obvious, but the results from innovation can range widely from tangible to intangible. The right blend of measures allows rapid decision-making on when to kill failing projects.
- **Are we ready to scale at pace?**
Leaders have the capabilities to scale a successful technology to gain market advantage. That does not happen by chance, but by great infrastructure and processes, with organisational willingness to support rapid change.

CREATE AN INNOVATION CULTURE

“You can have the greatest idea in the world, but if the person leading the company does not have the vision to see it, then it just is not going to happen.”

JAIMIE FULLER
EXECUTIVE CHAIRMAN
SKINS

Innovation is a culture – and it starts from the top

Innovation takes great leadership. Yet we live in a time when many senior executives feel increasingly disconnected with the technological changes driving so much business and societal change.

One of the clearest signals from our research is that organisations are crying out for strong and inspiring leadership. In many organisations the one individual whose involvement would guarantee that innovation is prioritised – the CEO – is not leading from the front:

- 50% do not believe their leaders fully display the vision and passion needed to make innovation happen.

If innovation is critical to survival and the strategic direction of organisations – as businesses say it is – then this needs to change.

“We tell employees that we want to be a company that continuously innovates. It cannot end. It has got to be in everything we do, which means that some of the things we are going to do are not going to work – and that is okay.”

DAVID KO
PRESIDENT AND CHIEF OPERATING OFFICER
RALLY HEALTH

It is tougher than ever to lead in this environment. This is especially true when you have to make decisions on technology that is not fully developed, or that you do not fully understand or use; if your competition is a company that did not exist a year ago; or in the context of an industry that is transforming out of all recognition.

Yet it is absolutely critical that leadership teams find a way to protect and nurture innovation in their organisations. Ultimately, only the CEO can give assurance that the company’s approach to innovation is in line with its purpose. It is the senior leaders who can create momentum, break down internal silos and ensure changes are genuinely embedded into the organisation.

“Failure is not a problem. Failure can lead you to a better solution as long as it is not repeated, so we do not punish people if they have been trying to be innovative. We reward the attempt, and learn from it. We think we are very good stewards of the money that we have been given and that we can be even better stewards by being more innovative.”

HUGH HALE, CIO, STATE OF TENNESSEE
HEALTH CARE FINANCE AND ADMINISTRATION
WHICH INCLUDES THE BUREAU OF TENNCARE



“Our CEO asks employees to nominate peers who have come up with innovative ideas, and are therefore contributing to the constant improvement of LSEG’s service to our clients. Those with the most innovative ideas gain recognition across the company, a financial award for themselves and one to give to a charity of their choice. Innovation becomes contagious.”

ALI HACKETT
US COUNTRY HEAD
LONDON STOCK EXCHANGE GROUP

Protect your innovators

Many organisations were historically created to control, not to inspire. Hierarchy and process creates the ability for the company to repeatedly deliver a product or service to consistent standards. But this traditional structure may need to be challenged if you want to inspire innovation.

Often innovation thrives in the flatter structures and decentralised decision-making of an Agile business – protected by senior leaders, but not waiting for them to set direction from above. There is no simple formula, but shielding your team can give them the space and time to find out what works for them.

“How do we keep our people innovative? We keep up to date through continuous professional development, value their ideas and opinions and create opportunities, no matter how small, for them to brainstorm, vision and dream ... By creating the right environment, you get a stream of ideas that come from people who ordinarily are completely immersed in the everyday fight just to deliver a service within budget.”

JOHN COMBER
CHIEF EXECUTIVE
ROYAL BOROUGH OF GREENWICH



21% of organisations are struggling to recruit the innovative people they need for success



82% say their performance management approach rewards uniformity over creativity



38% say that when they do manage to hire the right talent for innovation, they cannot keep them

Reward innovations

Innovation leaders consider the entire employee value proposition and the environment for their people, not just the obvious levers of remuneration and performance management. Mastercard has sought answers to the challenges it faces around digitisation by transforming the way it engages their employees to contribute ideas. Cathy McCaul, President of Mastercard Processing, says: “We have made it everyone’s job to be an inventor. We encourage and reward employees who submit ideas or help improve processes.”

There are many examples of companies that have used systems that can capture ideas – involving people at every level of the organisation in a process of constant improvement. We recently worked with a company that chose from a range of our creativity tools (designed to help organisations inspire and manage innovation pipelines) and ran an innovation competition. This resulted in over 1,000 ideas being submitted. The best 10 were selected and three went on to become a reality.

Invest in the workforce of the future

Attracting and retaining talent remains a huge challenge, with organisations struggling to recruit creative talent, put in place the management processes to make them effective and retain them.

Many of the skills you require are in short supply, and with digital leaders creating a new working environment – one that is unencumbered by legacy employment models – you risk losing your talent if you refuse to reinvent your model.

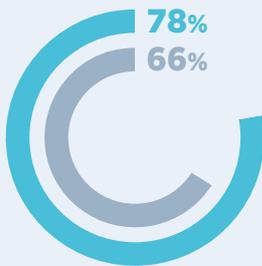
A focus on millennial expectations is important – setting the right environment, goals and career paths for people in their early twenties just entering the workforce. Graduates coming into your organisation today have very different skills and expectations compared with those who are likely to be leading the organisation. And they need to work successfully in an environment where often there are five generations working together.

Diversity is a powerful force for innovation. According to our research, 78% of successful innovators have executive and leadership teams with a diverse range of skills and professional backgrounds. And across their organisations, 81% of successful innovators say they are making good progress around diversity.

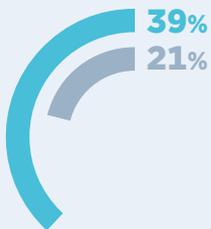
“The skills that we have identified as being essential for innovation are all behavioural and people skills. Having a technological background is secondary.”

JOHN PELTON MBE, DIRECTOR, CH2M
(FORMERLY CROSSRAIL’S LEAD FOR INNOVATION)

LEARN FROM THE INNOVATION LEADERS



78% have executive and leadership teams with a diverse range of skills and professional backgrounds, compared with **66%** of their less successful peers



39% are fully confident they have defined the skills they need to be innovative, compared with **21%** of their less successful peers



81% say they are making good progress around diversity, compared with **66%** of their less successful peers



75% have a creative, open-minded culture, compared with **66%** of their less successful peers

CRITICAL QUESTIONS TO ASK

- **Is our leadership genuinely on board?**
Creating an innovative organisation often requires leadership intervention. Leaders need to afford their people the time and space to nurture and share ideas.
- **Can we create the environment to attract, develop and retain?** One of the key tasks here is establishing the employee value proposition – across the end-to-end experience. There are many sophisticated techniques to leverage here.
- **Can we redefine success to include failure?**
HR reward processes need to be reviewed to ensure people are encouraged to innovate. Sometimes you need to celebrate failure as well as success.
- **Is our workforce diverse enough?**
A broad range of backgrounds and skill sets will make for a strong team of innovators. Building the right teams for innovation, and giving them the right physical and virtual environment, is important for them to be successful.

BUILD A NETWORK FOR INNOVATION

“We generate plenty of great ideas – we are weaker at scaling up new innovations. We recently developed a new payment technology, which will help financial services firms take advantage of blockchain. To scale this technology quickly, we founded a start-up company – this has enabled us to bring the final product to market much faster than would have been possible if we developed it in-house.”

RAKESH SHARMA
CHIEF EXECUTIVE
ULTRA ELECTRONICS

Take an innovation reality check

Outside of your organisation and strategy, there is a massive movement of open and permissionless innovation. Billions of pounds are invested every year in trying to find new and valuable products, solutions and services. Start-ups, investors and academia are conceiving, designing and building new futures and innovations every day. This is something our innovation leaders recognise – 61% say they are more likely to achieve success if they source some of their innovation from outside.

It is essential to dedicate some of your resources to being part of your external ecosystems. We see innovation leaders getting involved in building relationships, starting to understand, embrace and exploit the approaches, freedom and investment this world enjoys.

It is easy to become bogged down in the formality of innovation and the pressure to succeed, and forget it can be fun and exciting.

Deliver a return on relationships

Organisations are realising they cannot do everything themselves – and need to build an ecosystem of partners outside their organisation. The difference in this year’s research findings is that a far greater proportion of respondents are actually doing it – building a web of partnership, collaboration and trust through formal and informal programmes of work.

Now, over half of respondents believe they are more likely to achieve success if they also source innovation from outside the organisation – bringing vision, ideas, experience, funding and facilities.

“Our transition from a steel car company to an aluminium car company was almost wholly dependent on our work with Warwick University. It is not just a change of material. The manufacturing process is different, the way that the material behaves in the presses is different – so is the joining technology, the material characterisation, the way you analyse a car to identify what happens to riveted structures in a crash. It had just never been done before.”

ANTONY HARPER
DIRECTOR OF ENGINEERING RESEARCH
JAGUAR LAND ROVER

Recognise there is a return on every dollar you spend, even if you fail to see a tangible return on investment. The return can take the shape of increased trust with a partner, new people skills for your team, or simply more confidence and momentum in your innovation efforts.

Balance process and flexibility

Probably the greatest challenge is striking a balance in applying process and procedures, versus allowing employees and collaborators freedom to do things in new and inventive ways.

“The biggest problem we face with this strategy [of reaching out to innovative technology companies] is applying new technology from young start-up companies and integrating them into enterprise-class systems that we and our partners use to manage the programme.”

**HUGH HALE, CIO, STATE OF TENNESSEE
HEALTH CARE FINANCE AND ADMINISTRATION
WHICH INCLUDES THE BUREAU OF TENNCARE**

Methods for managing this challenge include partitioning the organisation to create a ‘skunkworks’ group or recognising that flexibility best exists outside organisational confines and therefore sponsoring external innovation.

The obvious example is Google X, which has the remit of addressing extremely ambitious problems in creative ways. Other examples include Staples Velocity Labs from the office supply retailer, and Kamet, the incubator for employee ideas at the insurer AXA.

Randstad has established a specific fund to invest in innovative companies.

“The goal of the Randstad Innovation Fund is to explore external innovation, especially in HR technology. We want to make our processes more efficient and look for new business models. If there is a strategic fit and it makes sense from an investment perspective, we take a minority stake and partner with an HR tech startup. The idea is to grow and learn together.”

**ILONKA JANKOVICH
MANAGING PARTNER
RANDSTAD INNOVATION FUND**



“We have an open innovation platform. We are highly engaged in innovation labs, with universities and venture capital. We have a presence in Silicon Valley. At the same time, we do not limit that knowledge to a small group. We channel all of that information and engagement to our entire employee base.”

CHRIS GOULD
 SENIOR VICE PRESIDENT CORPORATE STRATEGY
 CHIEF INNOVATION AND SUSTAINABILITY OFFICER
 EXELON CORPORATION

GE Healthcare is a great example of a business that has built a sustainable programme to work with start-ups and other innovation providers. The company’s Innovation Village was established in South Wales in 2015 and now makes space available to dozens of start-ups in the area.

Another alternative is to turn to open innovation platforms such as accelerators and incubators to identify and align with innovators. This approach to sourcing innovation applies beyond Silicon Valley and high technology companies.

“The Innovation Village gives us insight into what technologies are emerging ... if we see technology developing that is aligned to our strategic interests, we have a conversation to find out whether GE would be a good partner as it is taken towards commercialisation. But it has got to be something tangible. We get people on a weekly basis who say, ‘Hey, we can help you innovate!’ That means nothing to us.”

GER BROPHY
 CHIEF TECHNOLOGY OFFICER
 GE HEALTHCARE, LIFE SCIENCES

LEARN FROM THE INNOVATION LEADERS



61% believe they are more likely to achieve success if they source innovation from outside the organisation, compared with **52%** of their less successful peers



33% work frequently with external technology developers, compared with **22%** of their less successful peers



27% work frequently with small-scale innovators and inventors, compared with **20%** of their less successful peers



28% work frequently with innovation accelerators, compared with **23%** of their less successful peers

CRITICAL QUESTIONS TO ASK

- **Have we identified and evaluated the best sources of innovation from outside our organisation?** The right mechanisms are needed to recognise and engage with potential partners and identify your organisation's ideal role in the ecosystem.
- **Are we clear on our partnership model?** There are multiple potential partnership models, and it is essential to plan for how these will develop over time for your organisation.
- **Do we make sufficient allowances for adapting rules and processes to align with these new ways of working?** Rigid reporting structures and budget approvals can limit creativity and stifle innovation when operating in these new agile networks of external partnerships.

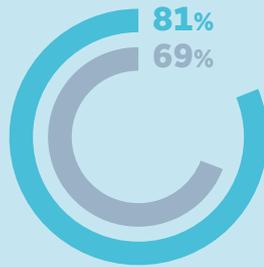
78% have executive and leadership teams with a diverse range of skills and professional backgrounds, compared with **66%** of their peers



39% are fully confident they have defined the skills they need to be innovative, compared with **21%** of their peers



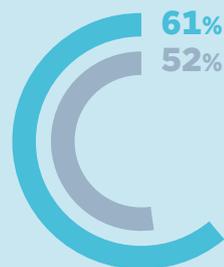
81% offer their employees an inspirational sense of purpose, compared with **69%** of their peers



59% believe their organisation is very good at the rapid deployment of technology to meet customer/consumer needs, compared with **49%** of their peers



61% are more likely to achieve success if they source innovation from outside, compared with **52%** of their peers



LEARN FROM THE LEADERS



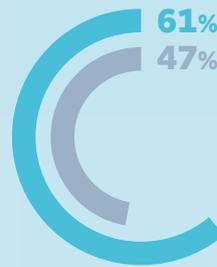
Comparing innovation leaders with the pack



66% are very good at understanding and anticipating customer needs, compared with **43%** of their peers



57% are very good at making the business case for innovation, compared with **41%** of their peers



61% are very good at measuring the value of innovation, compared with **47%** of their peers



54% are very good at killing failing projects, compared with **40%** of their peers



51% are very good at scaling up innovation, compared with **39%** of their peers

Take our online Innovation Leadership Assessment to see how you compare with the innovation leaders.

LEARN FROM THE INNOVATION LEADERS

In the course of our research we have found many organisations want to innovate but are faced with a number of barriers – people, culture, processes and organisational inertia.

The good news is that organisations can break through these barriers, and tap into increased value and growth by learning from our innovation leaders.

Focus on the future

Recognise which rapidly emerging technologies and business models are valuable for your organisation – now and in the future. Make sure innovation is designed around your customer, inspires your workforce and encourages all to innovate.

Create an innovation culture

Ensure innovation can thrive in your organisation. Create a culture that protects and celebrates innovators, rewards and learns from innovation failures, and invests in attracting and retaining a new talent.

Design innovation into your organisation

Align your innovation goals with your organisation's core purpose, and design innovation frameworks that rapidly move ideas into action. Use Agile thinking across all areas of your business – from the initial business case right through to scaling up and commercialisation.

Build a network for innovation

Construct a network of partnerships outside your organisation that allows you to learn. Create the network of ideas, empowering employees and collaborators to freely try out new and inventive approaches.

We are optimistic about the power of innovation to drive business value and growth. With a bold approach, a framework to support your goals, a culture that nurtures and protects your innovators, and by surrounding yourself with a strong network, you too can become an innovation leader.

ABOUT OUR RESEARCH

After completing our *Innovation as Unusual* research in 2015, we wanted to take a deeper look at the specific elements required for lasting success in innovation.

We carried out extensive discussions with PA experts from a range of disciplines, including innovation, technology, digital, strategy, business design, management and talent.

Through the course of these discussions, we covered why organisations innovate, how they innovate and who they involve in innovation.

We then carried out an international survey with Longitude Research in late 2016.

In total, 821 senior business and government executives completed the survey. Half were at C-level, with the others comprising a mix of senior vice president, board and director-level positions.

Respondents were based in the USA (20%), Mexico (6%), the Gulf Cooperation Council states (6%), the Nordics (19%), Central Europe (30%) and the UK and Ireland (19%).

The breakdown by sector is as follows: energy and utilities (12%), financial services (13%), life sciences (13%), healthcare (12%), transport and logistics (13%), manufacturing (6%), consumer goods and retail (7%), defence and security (12%) and the public sector (12%).

We conducted in-depth interviews with senior leaders across our chosen regions and sectors. We would like to thank them all for their participation. The following are included in this report:

Ger Brophy

Chief Technology Officer, GE Healthcare, Life Sciences

John Comber

Chief Executive, Royal Borough of Greenwich

Jaimie Fuller

Executive Chairman, SKINS

Chris Gould

Senior Vice President Corporate Strategy,
Chief Innovation and Sustainability Officer,
Exelon Corporation

Ali Hackett

US Country Head, London Stock Exchange Group

Hugh Hale

Chief Information Officer, State of Tennessee,
Health Care Finance and Administration, which
includes the Bureau of TennCare

Antony Harper

Director of Engineering Research, Jaguar Land Rover

Ilonka Jankovich

Managing Partner, Randstad Innovation Fund

David Ko

President and Chief Operating Officer, Rally Health

Cathy McCaul

President, Mastercard Processing

John Pelton MBE

Director, CH2M
(formerly Crossrail's lead for innovation)

Daniel Seewald

Senior Director of Worldwide Innovation, Pfizer

Rakesh Sharma

Chief Executive, Ultra Electronics

Jay Wright

CEO, Virgin Wines

GET IN TOUCH

If you would like to discuss innovation within your organisation and the findings from our research, please contact our innovation experts:



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About PA.

An innovation and transformation consultancy, we believe in the power of ingenuity to build a positive human future in a technology-driven world.

As strategies, technologies and innovation collide, we turn complexity into opportunity.

Our diverse teams of experts combine innovative thinking and breakthrough technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

We are over 2,600 specialists in consumer, defence and security, energy and utilities, financial services, government, healthcare, life sciences, manufacturing, and transport, travel and logistics. And we operate globally from offices across the Americas, Europe, the Nordics and the Gulf.

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