



# Innovation Nation?

Innovation Health Inside the Fortune 1000

*A Comprehensive Measure  
Reveals Strengths, Trouble Spots &  
a Prescription for Improvement*

**Strategian**  
strategy leadership

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Research • Innovation • Information Management

## Executive Summary

One of the largest studies to date of innovation performance at Fortune 1000 companies offers several new insights on innovation health in the U.S. Highlights of the study, based on a scientifically rigorous survey of 1,127 executives and senior managers, include the following:

- Fortune 1000 companies' innovation orientation is average at best (with a score of 68% on a scale of 100) versus average innovation levels within their counterparts operating from other leading industrial economies.
- Innovation levels at companies whose executives are optimistic about their companies' future over the next two years are significantly higher than those at companies whose executives are less optimistic.
- Impediments to achieving higher levels of innovation lie within organizational design and execution frameworks, including lack of an explicit innovation strategy, and not a lack of creativity or empowerment at the employee level.
- How respondents rate their companies' overall business performance relative to their competition is strongly correlated with innovation performance.
- Innovation orientation varies slightly by industry. The technology sector is the most innovative, while Fortune 1000 banking and financial services companies lag somewhat behind.

## Content Summary

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## Why This Study Was Conducted

Corporate innovation is clearly a “hot topic”—as indeed it should be. Economic vitality depends on it. *The Wall Street Journal* has reported<sup>1</sup> that the word “innovation” in the U.S. was used more than 33,000 times over a 12-month period in quarterly and annual corporate reports and has been in the subject title of nearly 300 books published in the last three months. Almost one-third of U.S. business schools use the word in their mission statement.

Discussion and ideas about innovation are everywhere. Indeed, there is much that is already known and understood about innovation. Up until now, however, the piece of the puzzle that has been missing is an overall, empirically-based assessment of how large U.S. corporations are doing in their efforts to understand and achieve improvements in their levels of innovation. More succinctly, are we “getting it”?

Only through a clear understanding of the “innovative health” of American corporations, and the sources of that health status, can we envision—and ultimately achieve—the next steps toward innovation excellence. It is the purpose of this study to provide that level of insight.

## Survey Methodology

All data collection was conducted online by Litchfield Research of Atlanta, Georgia on behalf of Strategian and Lodestar. A randomly selected sample list of 50,000 Fortune 1000 employees (from manager to C-suite) was used as the survey base. The Fortune 1000 is a listing created by *Fortune* magazine detailing the 1,000 largest companies in the U.S. based on revenues. Since revenues are the basis for this ranking, only

companies that make revenue figures publicly available are eligible for inclusion on the list.

Data was collected between January and July 2012, and the final database was refined to ensure that only respondents who satisfied the selection criteria were included. The survey resulted in 1,127 Fortune 1000 useable sets of responses and is considered to be one of the largest surveys on innovation in the U.S. to date.

The survey consisted of 19 scientifically developed metrics aimed at measuring innovation health. Each survey participant’s responses were combined to generate an Innovation Health Index, or IHI, score out of a maximum of 100%.

The IHI metric (described more fully on page 15) measures an organization’s innovation orientation, based on the 12 drivers of organizational innovation. Questions used in this survey were distilled from a larger set of variables from a comprehensive research and assessment tool, *InnovationOne* (more information on page 15), developed by Strategian’s Dr. Brooke Dobni and employed by organizations seeking deeper insights into their existing innovation orientation and strategies to strengthen it.

Innovation at organizations with IHI scores of 70% or less generally occurs in a random, non-systematic way. The greatest innovation gains will come from organizations with IHI scores above 70% (see Figure 17 on page 12). Attaining those levels places them clearly in the systematically planned innovation space.

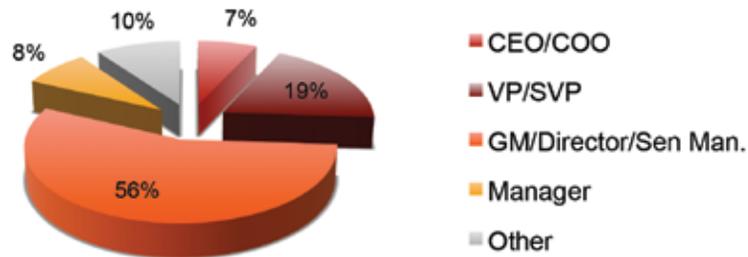
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<sup>1</sup> May 23, 2012

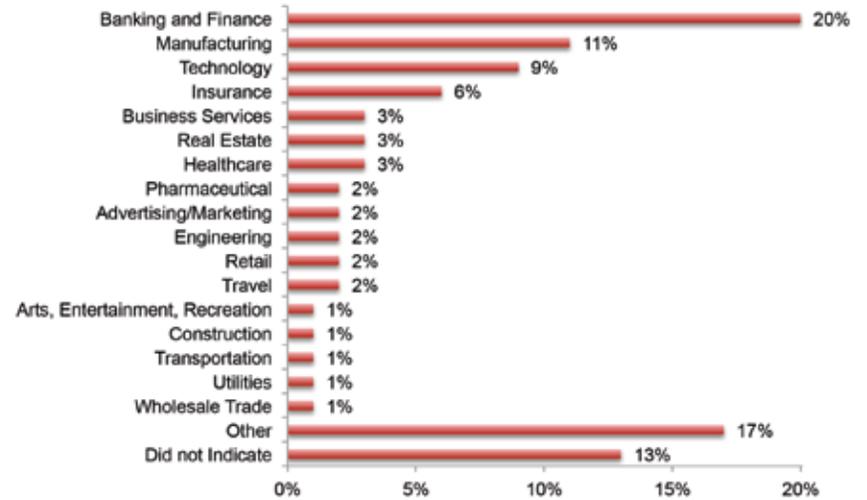
## Portrait of the Respondents

Survey respondent demographics are highlighted in Figures 1, 2 and 3:

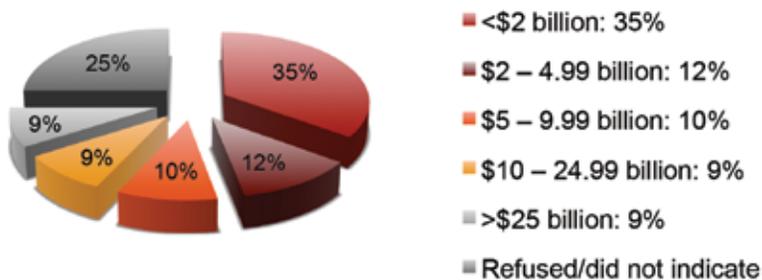
**Figure 1: Survey Respondents by Job Title**



**Figure 3: Survey Respondents by Industry**



**Figure 2: Survey Respondents by Revenue**



## Survey Results: The Big Picture

Although the discussion around innovation in the U.S. has reached epidemic levels, our findings would suggest that **U.S. business is just beginning to catch the wave of innovation**. There is no doubt that the U.S. is home to some of the most innovative companies in the world, such as Apple, Google, Trader Joe's and Syncardia. However, on average, the U.S. is not a leading nation when it comes to innovation.

The mean IHI result for all Fortune 1000 survey respondents is 68%. Although this score is respectable, it indicates that **U.S. Fortune 1000 organizations, on average, are only marginally innovative**, and that there is much room for improvement. While a composite score of 68% compares favorably with scores in Canada, the United Kingdom and the Netherlands, it lags Japan, Sweden and Germany.

**Figure 4: Country Innovation Scores**

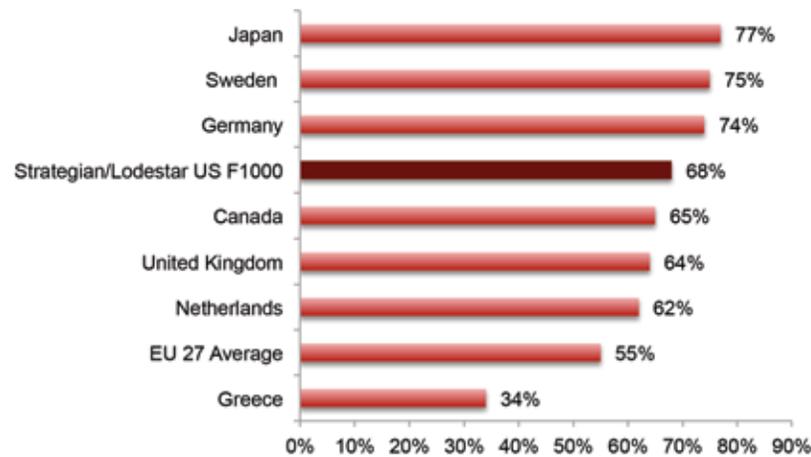


Figure 4 above is based on *Innovation Union Scoreboard 2011* (Research and Innovation Union Scoreboard—Pro Inno Europe Inno Metrics).

This illustration provides measures of innovation for member countries using the European Innovation Scoreboard (EIS) methodology. As the chart indicates, the most recent EIS ranks the U.S. 4th.<sup>2</sup> For the U.S. Fortune 1000 and Canada scores the *InnovationOne* metric was used.

The broad conclusion that can be drawn from looking at multiple country-based innovation health rankings is that the U.S. generally remains in the middle of the pack.

The 68% IHI aggregate score for Fortune 1000 companies suggests that most innovation that happens is an event; that is to say, it is random. Although many organizations have the intention to be innovative, many companies surveyed do not have an explicit innovation strategy.

### Additional broad conclusions from the survey findings include the following:

**Governance supporting innovation is lacking.** Such governance features systems and tools to support innovation. Evidence of weakness here is apparent in management control and performance management systems where performance metrics for innovation are either lacking or nonexistent and compensation and incentive structures are misaligned.

<sup>2</sup>In addition, *The Economist's Global Innovation Index* is an annual ranking of 141 economies that measures elements of a national economy that enable innovation activities. The elements include inputs such as institutions, human capital and research, infrastructure, market sophistication, business sophistication, and outputs including knowledge and technology outputs, and creative outputs. *The Economist* ranks the U.S. 10th in its overall assessment, and virtually tied for 4th place with Sweden and Germany in terms of patent outputs over a rolling four-year period. In *The Economist's* overall rating, Switzerland, Sweden, Singapore and Finland occupy the top four spots.

**Employees are not at fault.** Creativity and empowerment levels of employees at surveyed Fortune 1000 companies are not barriers to innovation in their organizations. Survey respondents are highly confident that their employees have the freedom and desire to innovate. Rather, the leadership for innovation, and organizational design and execution frameworks, are impairing progress on innovation.

**Creating knowledge is not enough.** The study reveals a gap between organizations' ability to generate knowledge and their ability to disseminate it. This gap is inhibiting employees' and managers' ability to leverage knowledge into value-enhancing innovations in products, processes and business models.

**Executives are optimistic.** Notwithstanding recent global economic and political turmoil, Fortune 1000 executives are generally optimistic about the future. Eighty percent of executives responded that they were somewhat or very optimistic about their organizations' future over the next two years.

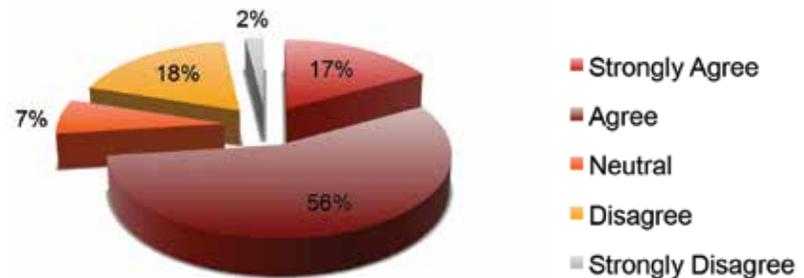
**A slight executive-mid-level management perception gap exists.** In this survey, C-suite executives' survey responses yield an average IHI score of 71%, versus 68% for directors and managers. However, within some individual companies that have been studied by the authors, this gap has been as high as 12%.

### A Closer Look at the Findings

The following responses to 6 of the 19 statement/questions provide an indication of the basis for additional aggregated data that follows, as well as an opportunity for organizations to engage in a very informal benchmarking exercise.

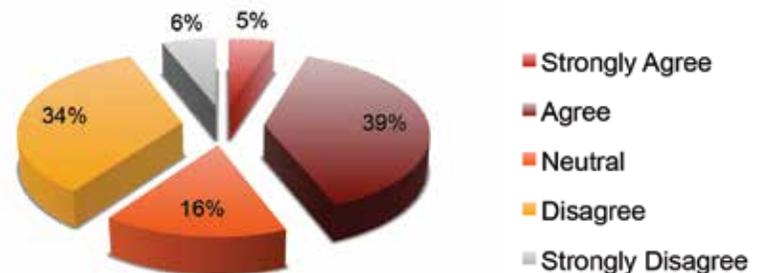
**Figure 5:** Responses to the statement:

**A coherent set of innovation goals and objectives have been communicated in our organization.**



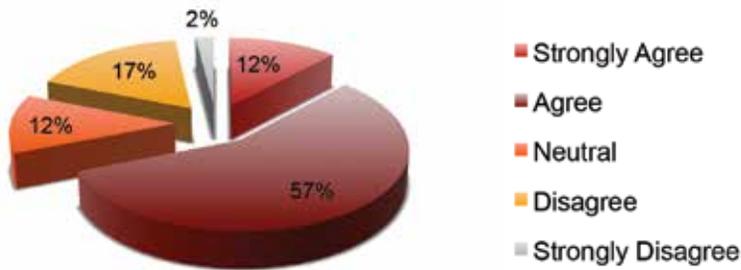
**Figure 6:** Responses to the statement:

**We are prepared to reduce organizational hurdles to innovation. For example, over the next two years we could change up to 50% of the processes that support our current business model.**



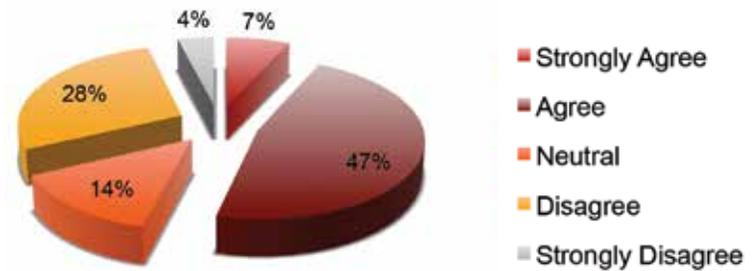
**Figure 7:** Responses to the statement:

In our company there is an expectation that everyone will develop new skills, capabilities and knowledge that are directed toward our innovation efforts.



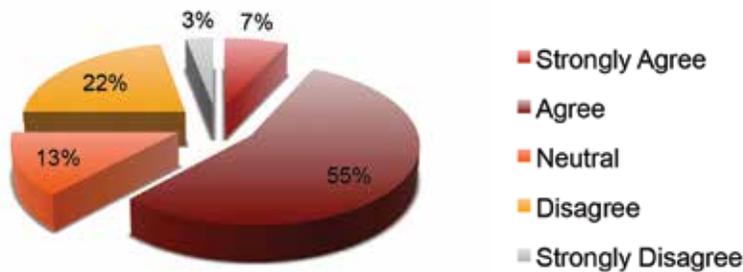
**Figure 9:** Responses to the statement:

We are prepared to launch a new product or service even when it is not clear how successful it will be.



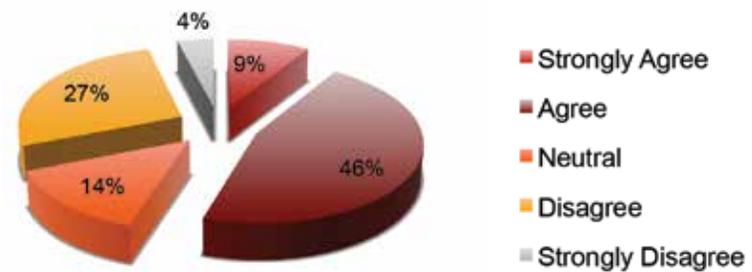
**Figure 8:** Responses to the statement:

We are in a position to take advantage of the “next big thing.”



**Figure 10:** Responses to the statement:

We have metrics to measure the effectiveness of our innovation initiatives.



## Pulling the Pieces Together

When the responses to all 19 questions are taken together, a number of conclusions can be drawn about the innovation health of Fortune 1000 corporations.

**Figure 11: Overall Innovation Health Index by Industries Most Extensively Represented**

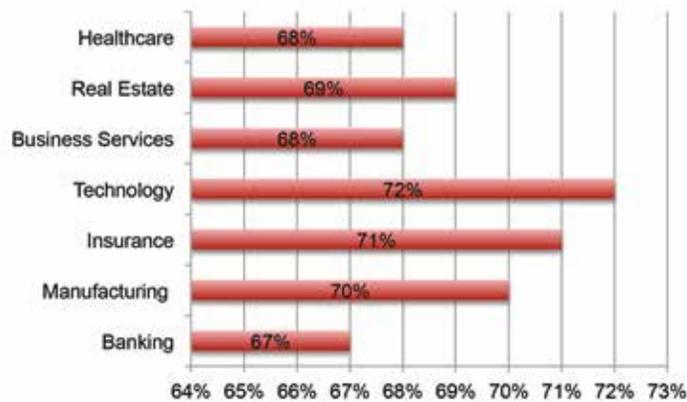
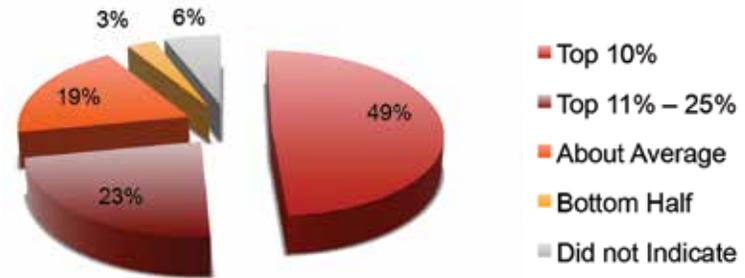
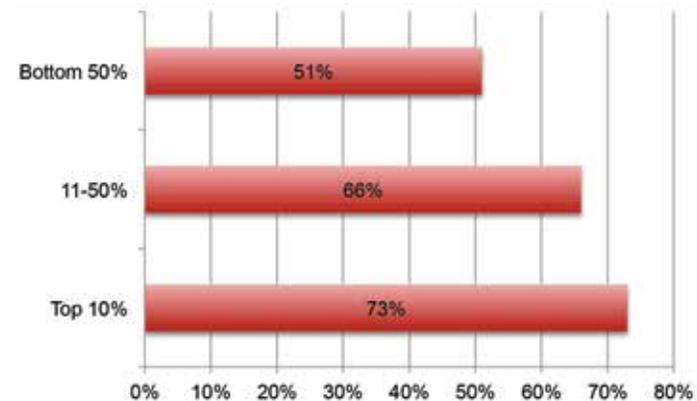


Figure 11 above highlights the seven industry segments with response rates sufficiently robust to create IHI values. As the chart reveals, modest distinctions are apparent. Innovation health is greatest in the technology sector and somewhat lagging in the banking and business service segments.

**Figure 12: Compared to Top Competitors in Their Industry, How Respondents Rank Their Companies' Overall Business Performance**

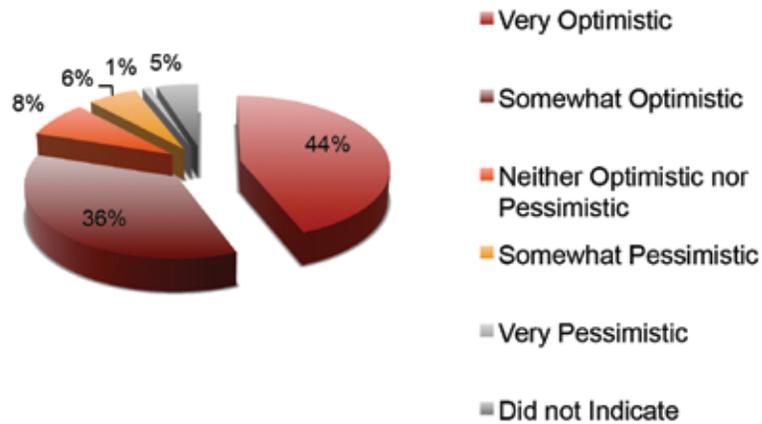


**Figure 13: Overall Innovation Health Index (Mean) by How Respondents Rate Their Companies' Performance in Comparison to Top Competitors**

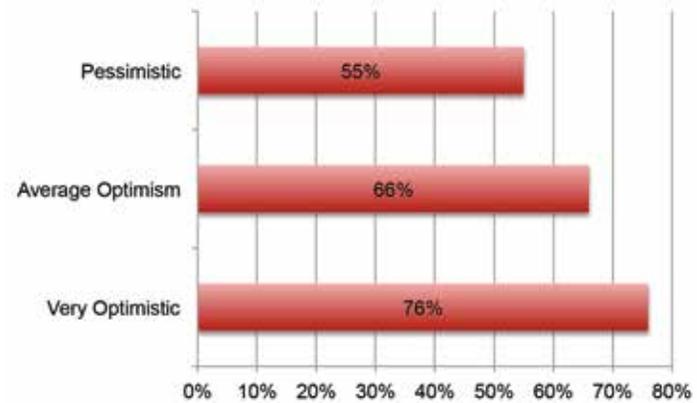


To provide additional insights, we first asked respondents to rate their companies' business performance relative to their competitors'. As Figure 12 indicates, a strong majority of survey respondents rate their performance highly. Figure 13 tells an even more compelling story: There is a striking correlation between perceived business performance and reported innovation performance.

**Figure 14:** Respondents' Level of Optimism About Their Companies' Future over the Next Two Years



**Figure 15:** Overall Innovation Health Index (Mean) by Respondents' Level of Optimism About Their Companies' Future over the Next Two Years



We also asked respondents to rate their level of optimism about their companies' future over the next two years. As Figure 14 reveals, a full 80% of respondents are "very" or "somewhat optimistic." Figure 15 presents a cross-tabulation of optimism about the future with reported innovation performance inside respondents' companies, suggesting a strong correlation between these two variables.

## Respondents Pinpoint Impediments to Innovation

Being an innovative organization is universally desired—but not universally achieved. What gets in the way? One-quarter of the Fortune 1000 survey respondents took the extra time to provide individual comments regarding their “*biggest innovation challenges*.” Through content analysis, nine common themes emerged from the nearly 300 responses. Those themes, the percentage of respondents making comments fitting into these themes, and representative statements are offered in Figure 16.

Illustrative individual responses based on these nine themes are highlighted on the following two pages.

**Figure 16:** Frequency Distribution of Coded Verbatim Responses to Question: What Has Been Your Biggest Innovation Challenge?

280 responses were classified into 10 categories in the table below.

Open-Ended Question Response Topics/Themes	Frequency (n=280)
1. Organizational Structure, Culture, Mindset, Openness to Risk, Resistance to Change, Inertia, Moving from Status Quo	26%
2. Tools, Non-Financial Resources, Processes, Roadmaps, Blueprints, Performance Measurement/ROI to Support Innovation	14%
3. Senior Management, Corporate Leadership, Commitment to Innovation, “Walk the Talk,” Setting Innovation Priorities	13%
4. Funding/Resources for Investments in Innovation	11%
5. Execution, Seeing Innovation Initiatives Through to Fruition, Staying the Innovation Course	8%
6. Gaining Customer Input to Drive Innovation; Customer Acceptance of Innovation Outputs	6%
7. Building the Business Case for Innovation, Innovation Business Model, Securing Management Approval	5%
8. Compliance/Regulatory/Legal Issues (primarily among healthcare and financial services respondents)	4%
9. The Economy	4%
Miscellaneous	9%

**Theme 1: Organizational Malaise.** This includes structure, orientation, mindset, resistance to change, inertia, status quo, and risk aversion. 26% identified.

Illustrative statement: *“Our greatest hindrance to innovation is organizational inertia. We are a mature company that has developed a risk-averse orientation. Having a brand that is one of the most widely known in the world means that there are continual moves to protect that brand which inhibit innovation and risk-taking.”*

**Theme 2: Inadequate Tools and Processes.** This includes tools, processes, training and other non-financially grounded resources such as roadmaps and blueprints. It also includes the inability to measure ROI from innovation. 14% identified.

Illustrative statements: *“We are not risk takers and we don’t invest in innovation. But we also most importantly don’t train or create the environment for employees to either innovate or offer ideas.”... “Innovation in preparing for the next big thing is something we talk about, but I have not seen a blueprint to get there.”*

**Theme 3: Insufficient Commitment.** This includes senior management support for and commitment to innovation, and setting innovation priorities and “walking the talk.” 13% identified.

Illustrative statement: *“Our organization gives a tremendous amount of lip service to innovation; however, no processes are in place to aggregate creative solutions for employees.”*

**Theme 4: Lack of Financial Resources.** This includes funding and resources for investments in innovation. 11% identified.

Illustrative statement: *“The biggest challenge is garnering the funding we need to execute ideas.”*

**Theme 5: Non-execution.** This includes seeing innovation initiatives through and “staying the course.” 8% identified.

Illustrative statements: *“Another issue is the fact that it is easier to present a compelling visionary landscape based on breakthrough than actually delivering it.”... “We usually have failed implementation.”... “I have personally improved a number of processes, yet there is no reward for doing so. I believe that also impedes innovation. People lack the concern for innovation because they are not incented to do so and figure someone else will do it.”*

**Theme 6: External Support.** This involves gaining customer and other stakeholder input to drive innovation, and their acceptance on innovation outputs. 6% identified.

Illustrative statement: *“We’ve moved mountains to innovate in areas that our competitors were unable or unwilling to tackle. However, we’ve done a poor job of asking the market about the business problems that need solving and have instead decided unilaterally that the market will appreciate the innovations we create. That has often not been the case.”*

**Theme 7: Business Case.** This involves building the business case for innovation and securing upper management approval. 5% identified.

Illustrative statement: *“As a company, we have measurement criteria to insure innovative ideas are monitored from inception through commercialization that are restrictive to quick movement. This is coupled with a conservative approach to investment to make an atmosphere that at times seems overly restrictive and risk-averse.”*

### Theme 8: Regulatory Challenges.

This involves compliance, regulatory and legal issues. 4% identified.

Illustrative statement: *“A huge challenge in the world of banking and finance is the ever-increasing role of compliance, both national and international.”*

**Theme 9: The Economy.** This involves the state of the economy impact on the organization. 4% identified.

Illustrative statement: *“The economy is our biggest innovation challenge—hands down.”*

Survey respondents also offered insightful responses to two additional questions:

- 1) What does innovation mean to you?
- 2) What has worked well?

Some typical responses are given in the accompanying boxes, adding a personal dimension to the study's results.

### Respondents Define Innovation

The following responses to the question “What does innovation mean to you?” capture the beliefs of many Fortune 1000 executives:

“Innovation is our future and without it we will die a very slow death. Innovation to me means realizing an opportunity and turning it into something new and positive for both the organization and the customer.”

“Innovation is the development and diffusion

of products, services and business models that meet unmet needs.”

“Innovation is the combination of a glimmer of a product, service or process with a willingness to change the status quo, accepting the risks and maximizing existing resources while sourcing for perpetual talent and markets.”

“Innovation means to be constantly thinking of what could work.”

### What Works in Driving Innovation?

The following responses to the question “What has worked well in advancing innovation initiatives at your company?” are typical of the responses of many Fortune 1000 executives:

“We follow research-based practices which show definite outcomes.”

“Incremental improvements worked well. Justification of significant capital investments into new tools and software has required comprehensive justification and often failed to convince management and get approved.”

“Purposefully keeping the organizational structure as flat as possible—encouraging innovation from all quarters, regardless of ‘rank’ within the organization. Collaborative strategizing is leading to bolder thinking.”

“Encourage well-intentioned failures.”

“Greatest opportunities for innovation seem to come from newer employees who are more likely to ask ‘Why?’ questions—not so much from challenging the status quo, but in order to learn about our business.”

## Innovation, Organizational Performance and Systematic Effort

Because innovation means different things to different organizations, it is difficult to pinpoint exact correlative relationships between innovation and organizational performance. What we do know is that the level of innovation orientation is related to growth and performance over time, and this outcome is attributable to innovation that fosters emergent strategy growth and new value creation within an industry.

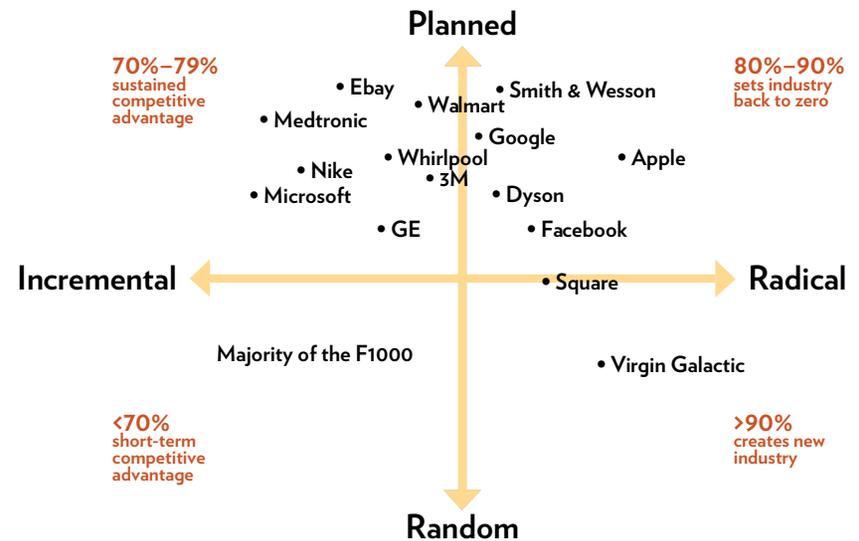
Innovation in organizations can be systematically managed. Most organizations, as determined on the basis of their IHI, can be placed in one of the four quadrants of innovation described in Figure 17.

Organizations with IHI scores of 70% and above begin to experience correlative growth and performance outcomes due to innovation. Scores of 70% and higher place organizations clearly in the incremental/planned quadrant of innovation health.

The majority of organizations that have been surveyed generally present with an IHI score of less than 70%. As noted, this means that innovation in these organizations happens in a random non-systematic way. For example, an innovation could result from an employee's idea about how to do things differently or from a new product/service plan. More by chance and not design, these ideas filter up to the point where they are implemented.

Such innovations create short-term advantages. A good example of this is a small financial institution in Canada that developed the first automated teller in the 1970s. The automated teller was an idea spawned by the need for bank services in remote areas of a vast and sparsely populated province. It led to a short-term advantage but was easily copied. For organizations such as these, the innovation level is not so much a matter

Figure 17: The Four Quadrants of Innovation



of how ideas get through, but how many innovations are missed because of a lack of innovation strategy and governance.

Most organizations are capable of moving from an incremental/random state to more systematically managed innovation—innovation that leads to incremental/planned approaches and sustainable competitive advantages within the industry.

Organizations that have IHI scores in the range of 70% and higher experience enterprise innovation that is logical, planned and constant. Examples include Walmart's innovation platform around procurement and supply chain management and Whirlpool's innovation model, where, essentially, innovation is Whirlpool's strategy. In Whirlpool's example, the company's market capitalization has more than doubled in the past year. This level of innovation orientation also sets the stage for migration into the planned/radical innovation quadrant for some as the orientation becomes embedded in the corporate fabric.

Organizations attaining IHI scores of 80% or higher often experience radical or disruptive innovations—innovations that set industries back to zero. Examples of organizations in this quadrant include many of the world’s renowned innovators, including Apple, Dyson, Google and Smith & Wesson. Arguably, these organizations are industry leaders that push the envelope. They create new value on a constant basis, eclipsing industry norms, resulting in the re-setting of the competitive landscape.

Finally, the potential for random/radical innovation exists. These are innovations that create entirely new industries—for example, the Wright brothers and aviation, Henry Ford and the automotive industry, the invention of the life-saving pacemaker in the 1950s by Dr. Earl Bakken of Medtronic fame, Facebook and the social networking era, and currently, Richard Branson’s Virgin Galactic and its quest to develop commercialized space travel. These innovations are rare and happen once every 10 years or so. In time these organizations generally revert back to planned/radical or planned/incremental approaches as these innovations become more difficult to protect, and the industry standardizes.

### **Moving Innovation Forward: A National Perspective**

The innovation health of a country is correlated with the competitiveness of that nation. With a composite Fortune 1000 Innovation Health Index score of 68%, it is clear that the U.S. is still very competitive in the world. However, this competitiveness can easily slip.

Yet the innovation gain in the U.S. could be very significant if firms are successful at advancing their innovation agendas. Currently the score suggests that U.S. firms could greatly prosper from innovation leadership aimed at closing the gaps identified. Just raising the IHI score by 5% will firmly place organizations on a path to incremental and planned innovation approaches and to regaining a dominant innovation position worldwide.

What American businesses can benefit the most from, in terms of advancing the innovation agenda today, are investments in leadership commitment to innovation. It is apparent from this study that employees are both empowered and creative, and the economy is not an obstacle. However, as documented, there are significant hurdles, inhibitors and distracters that need to be managed.

The challenge for leadership is to continue to embed innovation orientation. This goal can be partially accomplished by:

- Having a clear innovation strategy that sets out how innovation will contribute strategically to the business over a 5- to 10-year time frame.
- Implementing a system that supports a simple, robust and proven approach to innovation—one that allows the progression of ideas from initial stimulus through implementation in the marketplace.
- Involving a significant number of employees in the process, either to drive innovation themselves or to support the progress of others.
- Developing support mechanisms and resources to encourage the use of a consistent innovation process. These may include processes, internal champions or experts, formal training programs, and targeted financial resources and rewards.
- Ensuring that knowledge is systematically captured and strategically managed.
- Ensuring that the organization recognizes the value of experimentation and the benefits of learning from each innovation project.
- Embedding innovation in the performance management system to reinforce that results matter and employees are rewarded accordingly.

All of these initiatives must be balanced against other goals and objectives, and accomplishing them requires moving away from practices, cultures and business models that are premised on status quo foundations. This cultural transition will prove to be the biggest leadership challenge over the next decade. ■

## How Does Having an Innovation Culture Matter?

The innovation gain—or the value creation from innovation—will be the difference between success and failure in competitive industries going forward. An innovation culture will be important for enabling emergent strategy focus, execution and agility in an environment of continuous change. As traditional competitive strategy portfolios become standardized, they will no longer suffice in the pursuit of sustainable growth under high uncertainty.

As this study and other studies (several are highlighted below) have demonstrated, innovation and performance are correlated. Innovation is also linked to competitive positioning and value creation. Strategy without innovation no longer suffices in the pursuit of sustainable growth in highly competitive environments.

There is no optimal level of innovation health, as every organization is unique, and every division and unit within organizations possesses specific mandates that may require exclusive approaches. What we do know is that every organization, whether a high-tech giant or a small non-profit, can benefit from a baseline level of innovation that is systematic and incremental.

Additional research support documenting the correlation between innovation and performance includes the following studies:

### **Booz & Company Global Innovation 1000 Study, 2010**

**Summary:** Companies that focus on a set of innovation capabilities most consistent with their innovation strategy and tightly aligned with their overall corporate strategy reported higher profit margins than their competitors, by up to 22%.

### **Arthur D. Little Consulting Innovation Survey, 2005**

**Summary:** Innovation excellence can boost EBIT by 4%, and top innovative companies have 2.5 times higher sales of new products and get more than 10 times higher returns from their innovation investments.

### **Accenture Process & Innovation Performance Survey, 2009**

**Summary:** 89% of executives agree that innovation is as important as cost management for success, yet only 15% of companies are satisfied with their innovation platform. Most companies say innovation is critical but do not take the bold steps necessary to maximize success.

### **Boston Consulting Group Senior Executive Innovation Survey, 2009**

**Summary:** 64% of senior executives agree that innovation remains a top strategic focus.

### **Harris Interactive Fortune 1000 Executives' Perspectives on Enterprise Innovation, 2010**

**Summary:** The vast majority of executives say enterprise innovation is extremely or very important for driving business growth and profitability. It is also a factor in attracting and keeping talent and in brand prestige.

### **Strategian peer-reviewed research on 'The Relationship between an Innovation Orientation and Competitive Strategy,' 2010**

**Summary:** Enhancing the innovative ability in organizations is one of the most important levers to increasing profitability and growth in organizations.

## InnovationOne Model: Understanding Innovation and Its Assessment

Common definitions of innovation range from the simple one-dimensional (e.g., how much an organization spends on R&D) to multi-dimensional, such as what the enterprise’s approach to innovation is.

Our definition of innovation is enterprise-based and multi-dimensional. We define innovation as *the creation, development and implementation of a new product, service, process or business model, with the aim of improving efficiency, effectiveness or competitive advantage. Innovation may apply to products, services, manufacturing processes, managerial processes or the design of an organization.*

To measure innovation orientation, we considered 12 drivers of organizational innovation to provide us with an Innovation Health Index (IHI). The IHI is essentially a measure of:

- 1) The innovation behaviors of employees—the way employees think and act, and
- 2) The innovation environment created by the management of the organization.

The 12 drivers are premised on peer-reviewed research and scientific measurement techniques. The model, *InnovationOne*, has been widely used to measure the innovation culture of organizations across North America. The survey used in the Fortune 1000 innovation research utilized a subset of the metrics from *InnovationOne* that displayed the highest prediction levels for each of the 12 drivers.

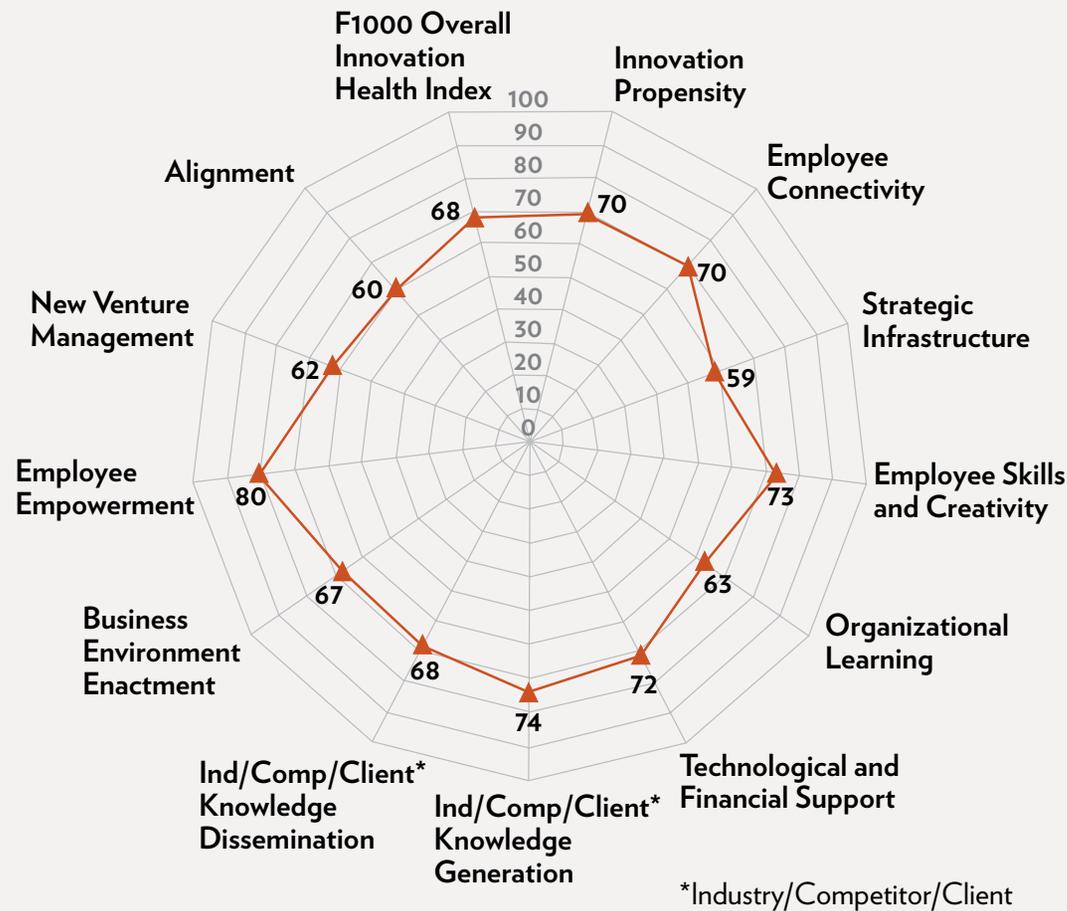
Our survey presents a comprehensive enterprise-level measure of innovation by considering 12 drivers across four quadrants: context, resources, knowledge management, and execution. All are necessary to support

enterprise innovation. The 12 drivers are resident within each of the quadrants and are premised on scientifically developed and statistically significant constructs. The model is outlined in Figure 18. Combined Fortune 1000 values for each of the 12 drivers are given in Figure 19 that follows. Detailed study observations are reported within the descriptions of each quadrant.

**Figure 18: The InnovationOne Model and the 12 Drivers of Innovation Health**



**Figure 19: Fortune 1000 Scores by Innovation Driver**



Fortune 1000 organizations. This effect is seen through the 70% scores of innovation propensity and employee connectivity in Figure 19. This result indicates that the heightened awareness of innovation in U.S. organizations is starting to resonate with employees.

Employees are beginning to believe that organizations are genuine in their desire to be innovative and that employees play an integral part in the innovation agenda.

The significant gap identified in the survey is the inability to create a strategic infrastructure to promote and encourage innovation (at 59%). In other words, although an organization may have identified innovation as a strategic priority and communicated this intent to employees, the planning processes, goals and objectives largely remain unchanged.

Status quo planning and governance processes act as a barrier working against any organizational efforts to promote and communicate innovation. Innovative organizations that excel and score high on strategic infrastructure have a clear innovation strategy; they have creat-

**Quadrant 1: Innovation Intent (Context)**

The essence of innovation context is to establish organizational readiness and communicate a commitment to becoming innovative. The survey results illustrate that readiness and commitment have traction in U.S.

ed and communicated innovation goals and objectives, and they have aligned them with their strategic agenda. This alignment has advanced the innovation agenda by developing planning processes and tools that fast-track innovation projects and plans so that decision making does not become entangled in bureaucratic planning processes.

## Quadrant 2: Innovation Infrastructure (Resources)

The tenets that improve innovation infrastructure are related to employee skills and creativity, organizational learning and technical/financial support. Fortune 1000 executives believe that the most significant gap in innovation infrastructure relates to organizational learning. The issue with resources is not so much about the skills and creativity of employees (73%) or the organization's technical and financial support (72%). Rather, the most significant gap relates to the organization's ability to harness learning (63%).

Many organizations spend considerable resources on training and education of employees and on support for employee skill development. However, the survey indicates that many employees are not quite sure what innovation means and, more importantly, how it applies to their position—suggesting that this investment has not translated into organization-wide learning to promote innovation specifically.

Organizational learning has tended to be technical in nature and focused on existing processes, projects, products and services. This orientation can act as a barrier to innovation. Although employees may be developing greater skill and creativity through the company's financial and technical investments in resources, the innovation agenda becomes incremental if the focus is continually on “pop” management topics and status quo training.

Organizations that score higher in organizational learning leverage their existing training programs to promote the innovation agenda and offer broader innovation training programs.

## Quadrant 3: Innovation Influence (Knowledge Management)

The innovation influence dimension is driven by knowledge management, where the key drivers of innovation are generating and disseminating knowledge related to the industry, value chain, competitors and clients and being able to react to the business environment based on this knowledge. This approach ultimately translates into strategic portfolio options around growth, including horizontal and vertical integration, and boundary spanning activities, including diversification, as well as an internal focus on processes and business models—that is, better ways of doing things.

U.S. organizations are doing a better job of generating knowledge (74%) than they are of disseminating knowledge (68%) internally and using the knowledge to impact their business environment (67%). U.S. organizations have invested in an abundance of systems oriented towards enhancing their knowledge (i.e., customer relationship management, business intelligence, learning management, supply chain management), and this survey shows that, from an innovation perspective, a gap still remains in respect to leveraging knowledge generation so that employees can more effectively interact with their environment.

For example, organizations are better at collecting information about their customers but less successful at communicating the information collected in a meaningful manner—to the right people in the organization. Additionally, the ability to convert customer information into new products or services or alternative value chain models is less successful than the organization's ability to generate knowledge. It is also apparent that employees generally lack sufficient knowledge outside of what we would consider their “relevant boundaries” to generate value added or disruptive innovations.

## Quadrant 4: Innovation Implementation (Execution)

The most significant innovation gap was found in the execution dimension. To effectively innovate, employees need to be empowered to embrace new ideas and be comfortable with the associated risk. Fortune 1000 executives clearly felt that it was not the employees that were the barrier to new ideas and risk, scoring the employee empowerment driver at 81%. The perception of executives was that employees were capable and willing to create new ideas and seize opportunities.

Rather, the barriers to execution were more operationally and strategically oriented. Executives felt that the “processes” and “institutions” that organizations created internally impeded the employees’ ability to manage new ideas and ventures (62%). Further, executives felt that these processes and institutions were not aligned in a manner that enabled employees to embrace innovation (60%). This includes linking innovation outcomes to compensation in the performance management system within organizations.

Qualitative responses described organizations that had a multitude of processes, goals, innovation priorities and performance management programs loosely oriented towards innovation. However, understanding how these drivers “fit” and “align” is a complicated puzzle impeding the innovation culture.

## About the Authors:



**Dr. Brooke Dobni** is a Professor of Strategy at the Edwards School of Business and the founder of Strategian ([www.innovationone.org](http://www.innovationone.org)), an applied research and consulting firm based in Canada. Strategian clients include EDS, Hitachi, Potash-Corp, Cameco, the University of Cincinnati and KnowledgeWorks.



**Dr. W. Thomas Nelson, Jr.** is the President and CEO of Lodestar ([www.lodestarlink.com](http://www.lodestarlink.com)), a Princeton, NJ-based B2B consulting firm that integrates expertise in marketing research and strategy, innovation and new product/service development, information management, and human capital and organizational effectiveness to help clients achieve improved enterprise-wide performance and business success.

Lodestar clients include Roche Diagnostics, LexisNexis, The College Board, American Express, GE Healthcare, and leading trade publications such as *American Banker*, *Accounting Today*, *On Wall Street*, *Washington Technology*, and *Business Insurance*.

### For more information about InnovationOne:

In the U.S., contact Dr. Tom Nelson, [wtnelson@lodestarlink.com](mailto:wtnelson@lodestarlink.com), or 215-579-2730.

In Canada, contact Dr. Brooke Dobni, [dobni@innovationone.org](mailto:dobni@innovationone.org), or 306-260-5493.

Or visit [www.innovationone.org](http://www.innovationone.org).

