White Paper

Growth and Innovation: Moving from Strategy to Execution to High Performance

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Executive Summary White Paper

Growth and innovation are back; but can companies execute new strategies quickly enough?

Bullish growth across many sectors of the global economy is leading increasing numbers of corporate executives to move "corporate growth" higher up their strategic agendas. But are companies prepared to execute on those growth plans?

Healthy levels of corporate self-confidence about possibilities for growth were confirmed by a recent study commissioned by Accenture and executed by the Economist Intelligence Unit. The study, which surveyed 76 senior executives in North America, revealed that about two thirds (63 percent) expect their revenue targets to be ahead of their industry peers over the next three years. About the same number of executives (65 percent) expect growth initiatives to take a more prominent place on the strategic agenda.

What is fueling the growth agenda? Expansion into increasingly global markets continues to be an important driver. Another, however, is innovation: improvements in operations, and in delivery of new products and services, driven both by technology advancements and by increasing demands by customers for convenience, better service and a wider range of products tailored to their needs.

While executive confidence in growth is high, one research finding raises a significant cause for concern: companies are less confident in their ability to **execute** on their growth and innovation strategies. When asked about the growth and innovation strategies in themselves, confidence levels were fairly robust: 63 percent believe their companies are strong in developing growth strategies, and 50 percent feel strong about their innovation strategies. Implementation is another matter, however: only 30 percent of survey respondents believe their companies are strong on executing growth initiatives, and only 34 percent are strong in terms of executing innovation strategies.

Several important questions need to be answered by companies pursuing a growth agenda today:
- Is the company prepared to leverage innovation to fuel growth?
- Can the company move beyond a one-off innovation project and build deeper capabilities for ongoing innovation?
- Can a company shorten its "mean time to innovation"? That is, can it accelerate the planning and execution of innovation and growth strategies in the face of urgent marketplace need?

New growth and innovation research: Probing the implementation challenge

To further explore both the role of innovation in corporate growth initiatives, and the challenges in executing growth and innovation strategies, Accenture recently conducted additional research, in coordination with the Center for Strategy Research, Inc. The survey results presented in this report were obtained through in-depth, conversational telephone interviews that were quantified using a proprietary coding process developed by the Center for Strategy Research. Senior executives of FORTUNE 1000 companies in the United States with responsibilities overseeing a major growth or innovation initiative were interviewed; the industry groups were communications and high tech and products (retail, consumer goods, travel and transportation).

The new Accenture study confirms our earlier research highlighting the importance of innovation to corporate growth agendas. Overwhelming numbers (95 percent) confirmed the importance of innovation to their companies, and strongly linked innovation to the successful implementation of growth strategies.

The study also confirms a number of constraints on the typical company's ability to develop capabilities for long-term innovation—capabilities that not only spark the flame of growth but keeps the fire burning. Budget shortages, an absence of experienced resources, the sense of being constrained by "the way we've always done things" ... these and other factors weigh heavily on the minds of executives trying to move their organizations toward growth and high performance through innovation.

Speed is important: this, too, was an important finding arising from our executive conversations. With growth and innovation initiatives, "getting them right" is critical, of course, but almost two-thirds of the executives noted that rapid implementation is a concern. To stay ahead of the competition and to maximize profitability, companies are looking for ways to jumpstart their initiatives. This may involve putting in place the conditions for internal resources and seasoned executives to approach current challenges and opportunities in new ways; or it may involve bringing in perspectives from the outside, infusing the company with fresh thinking.

Please note: quantitative results are depicted for overall comprehension and should not be interpreted as statistically valid.

Detailed Findings

Part 1. Using innovation to fuel growth

Figure 1: Characteristics for judging if a process is truly innovative

Whether it decreases costs/operating expenses	37%
Represents advancements/ breakthroughs in technology, healthcare, etc (leading edge)	35%
Whether product or process is new/differentiated from before	35%
Whether it meets customer/unmet needs	35%
Results in additional new products/categories	26%
Increases margins through higher pricing capability	21%
If product or process adds or changes value to customer	16%

What is innovation?

How do executives know if and when they have an innovation on their hands, or at least when they appear to be on the right path toward innovation? The executives in our study resolutely affirmed that innovation is not a good in itself, but must also be judged based on the business results it delivers in support of growth.

Asked how best to characterize whether a product or process is innovative (see Figure 1), the top four answers are split evenly along the lines of the inherent value of innovation and the results driven by innovation. The number one answer was "whether the innovation decreases costs or operating expenses," and the number four answer was "whether it meets customers' needs." The other responses were more in line with some classical definitions of innovation: whether the

innovation represents leading-edge application of technologies, or whether a product or process is differentiated from what came before.
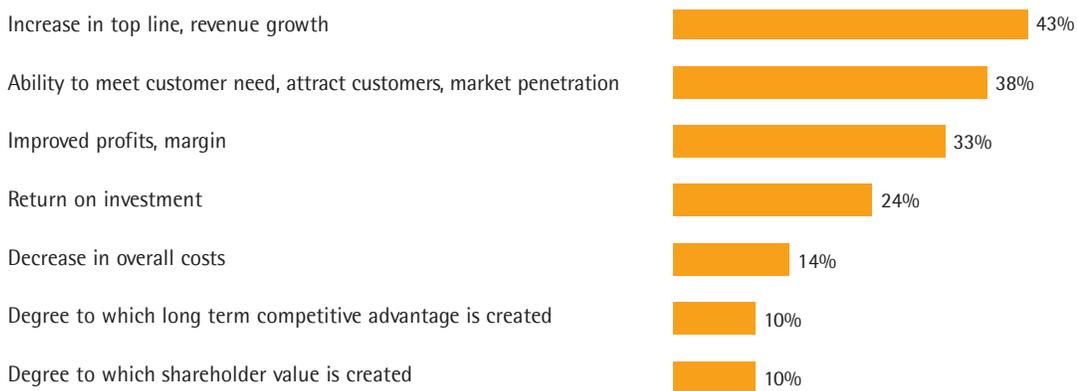
In the words of the CEO of a major telecommunications company, "The way [our company is positioned,] we tend to focus on the innovations that will drive down our cost position, so we don't really value innovation just for the sake of innovation. We tend to look mostly at whether it puts us in a position that will further improve our cost position and our margin position compared to competitors."

One interviewee from the healthcare industry explained the dual purpose of innovation in terms of the classic differentiation between product and process innovation: "There are two kinds of innovations we do. One is new product development, which involves whole new ideas and ways

of structuring our business and the products we offer. The second way, which in some ways may be even more important to us, is process innovation, because we've got to work hard on the cost structure and continually drive it down to preserve margin opportunities for ourselves. Products and processes are different emphases, but we think of both of them as innovation."

Another executive, from the automotive industry, affirmed the importance of driving innovation from the customer's needs, and not taking too big a risk that the innovation will not find a need—and therefore a market—with customers. "When you take a look at products from a cost/benefit standpoint, the primary thing we try to do is to survey our customers to figure out where the problems and opportunities are. It could be innovative to us, but are our customers interested in it? Is

Figure 2: Other standards by which success of initiative will be judged

Increase in top line, revenue growth	43%
Ability to meet customer need, attract customers, market penetration	38%
Improved profits, margin	33%
Return on investment	24%
Decrease in overall costs	14%
Degree to which long term competitive advantage is created	10%
Degree to which shareholder value is created	10%

it something they want to buy? So innovation is typically driven by customer needs first. We've had some success going the other way—finding some innovation and then trying to adapt it to a problem. But in our business, that can be really costly and you don't get reimbursement from it fast enough for us to get a good return."

Long-term differentiation is an additional important characteristic of innovation, according to another executive from the automotive industry. "The way we look at it, there are four key components to a successful strategy as well as successful innovation. (1) Does it create a game-changing situation where the product or service or the way that you do things is differentiated for a significant length of time? (2) Is it sustainable, long-term, because the innovation is difficult to replicate? (3) Is it profitable? The profitability of

our industry as a whole is a very big challenge for all of the players. So our ability to identify ways to improve profitability is critical. And (4) does the innovation matter to our customers? Obviously, at the end of the day, customers are the ones who tell us whether we are successful or not by whether they buy the product or services and whether they become more or less loyal to us as a company."

How does one measure the success of an innovation?

Asked what criteria they use to judge the success of an innovative initiative, executives strongly affirmed the financial focus just noted (see Figure 2). Financial metrics dominate the list: increased revenues and profits, improved ability to attract and retain customers, and an improved return on investment.

"The proof of the value of a growth initiative," said one aerospace & defense executive, "would be top quartile revenue growth year over year going forward as an enterprise." "Cost reduction is the number one indicator," said another interviewee, "and then top-line growth."

Other executives discussed metrics more in terms of customers. According to a consumer products executive, "The key metric at the end of the day is, are you getting more repeat purchases? You can get somebody to buy something once with artful salesmanship, but repeat purchase is what really matters. That says that a customer used the particular product and saw value in it and came back and bought it again. The second important metric is to see a return against the product. If we're selling am innovative product but making no money, it likely is not going to be considered a success."

In the words of one telecommunications executive, "Innovation is the lifeblood of all vibrant companies."

An executive from the semiconductor industry noted, however, that there are important benefits of innovation that are more difficult to measure. "An innovation will ultimately be judged based on consumer acceptance. It will also be measured, of course, by a higher selling price or at least a slower rate of decline in selling price. But there is also a branding or a sort of 'halo effect' of an innovation, even if it doesn't result in so many incremental sales. It helps us in our perception within the industry of being a market leader."

Why is innovation important?

Why is innovation critical to corporate success? The importance of innovation to the executives in our study was a given: all of them agreed that innovation was either very important (95 percent) or somewhat important (5 percent). In the words of one telecommunications executive, "Innovation is the lifeblood of all vibrant companies."

Asked **why** innovation is important to their companies, most respondents noted that their companies' success and growth depends on innovation and that innovation is vital to keep pace with competitors. "Bringing innovation into the DNA of our organization is critical because it

enables us not only to remain competitive, but also to increase market share, increase the satisfaction of our people and our customers, and position us for long-term success, with everyone driving in the same direction."

As already noted, the role of innovation in decreasing costs was also noted by respondents. "Profitability is the name of the game," said one publishing executive, "and we're always striving to improve our returns to our stock-holders. So with both the revenue and the expense sides of the equation, we're always on the look-out to be more innovative and to be better at either growing revenues or managing costs down."

Figure 3: Example of current or planned growth or innovation initiative

Example describes extension of existing product or service	19%
Example involves international markets/sales	19%
Example involves improvement of internal processes	14%
Example involves JV's, mergers, acquisitions	14%
Example involves international manufacturing, outsourcing	14%
Example describes repositioning or redefinition of existing product (or service)	14%
Example involves new technology, application of recently developed technology	10%

What are some examples of innovative initiatives?

What types of initiatives do executives cite as examples of innovative programs to fuel growth? Although the examples represent a wide range of programs tailored to specific industry needs, most of the initiatives can be grouped under general categories (see Figure 3).

For example, a number of executives discussed innovations that extend the value of existing products and services. According to one executive with a consumer goods manufacturer, "An area where we spend a lot of time is, how do you take something fairly conventional that's been around forever—like butter, for example—and make it more convenient for consumer use. You have to start with what makes butter inconvenient: its form can make it difficult to use in certain temperature stages; it doesn't have stability in certain types of applications; or the packaging isn't delivering certain kinds of attributes. So we spend a lot of time working on making our products more convenient and creating formulations that allow them to take advantage of specific kinds of application niches. When you do that, you can charge a higher price for it and create a more attractive margin."

Executives in the communications and high tech sectors often cited, not surprisingly, innovative applications of leading-edge technologies to create more compelling, convenient or secure services for customers. One telecommunications executive noted his company's advancements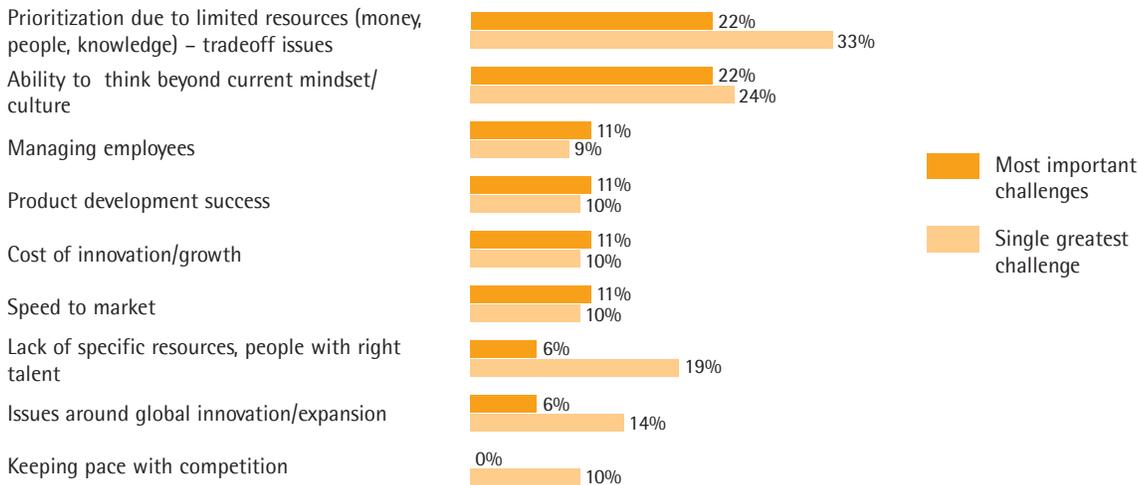 in faster broadband networks, enabling high-speed data transfers over wireless devices. A high tech executive spoke of a new security technology that enables better digital management solutions.

Occasionally, one could debate whether examples of innovations were, indeed, very innovative. One pharmaceuticals executive, for example, mentioned his company's global outsourcing strategy; a healthcare executive mentioned an operational excellence program using Six Sigma tools; still others spoke of their recent mergers and acquisitions. Such answers lead one back to the very definition of innovation. Although no definitive conclusion can be reached based on these responses, clearly this is an area worthy of further exploration.

Detailed Findings
White Paper

Part 2: Developing long-term capabilities to support growth and innovation

Figure 4: Most important and single greatest growth & innovation challenges

Challenge	Most important	Single greatest
Prioritization due to limited resources (money, people, knowledge) – tradeoff issues	22%	33%
Ability to think beyond current mindset/culture	22%	24%
Managing employees	11%	9%
Product development success	11%	10%
Cost of innovation/growth	11%	10%
Speed to market	11%	10%
Lack of specific resources, people with right talent	6%	19%
Issues around global innovation/expansion	6%	14%
Keeping pace with competition	0%	10%

Legend: Most important challenges / Single greatest challenge

Senior executives know that, to achieve high performance in the long term, innovation must move beyond chance or serendipity. The best companies do not wait for innovation as a chance occurrence; they put in place the structures, processes and conditions that increase the chances that innovation will occur, and that, moreover, they will occur over the long run. As one retailing executive in our study put it, "We have to make sure not only that we are winning now, but that we're going to be able to win a week from now when our competitors have already copied us or have come up with a similar idea."

Yet here, in developing their companies' internal capability to support growth through a longer-term ability to be innovative, executives often feel particularly constricted. Asked to name their most significant challenges regarding growth and innovation
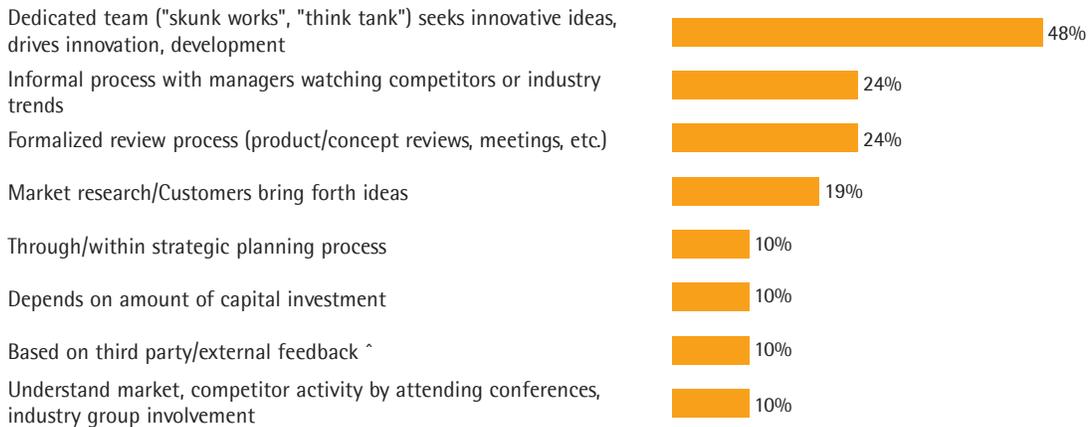
initiatives, the most frequently cited answer was the prioritizations and tradeoffs rooted in limited resources. That is, it is very difficult for organizations to make priorities and investments that balance short-term needs with long-term opportunities (see Figure 4).

The other two constrictors, however, point to the need for specialized expertise and for some means to help a company break through entrenched "it's the way we do things around here" mindset. That is, "the ability to think beyond the current mindset and culture" and "lack of people with the right talent" are causes for concern among executives striving for high performance through growth and innovation.

Nearly half of the executives with whom we spoke have established an internal team dedicated to seeking and developing innovative ideas. Yet

the processes by which innovations are developed indicate some cause for concern. The most important processes noted–a dedicated "skunk works" team or informal processes—emphasize the one-off nature of many corporate innovation programs. An opportunity is identified and a team is put together to pursue it. Although such an approach may succeed in meeting the short-term objective, it does not answer the need for a deeper capability for growth and innovation in the organization's structure and culture (see Figure 5).

Figure 5: Process by which innovative products come to the attention of senior management

Dedicated team ("skunk works", "think tank") seeks innovative ideas, drives innovation, development	48%
Informal process with managers watching competitors or industry trends	24%
Formalized review process (product/concept reviews, meetings, etc.)	24%
Market research/Customers bring forth ideas	19%
Through/within strategic planning process	10%
Depends on amount of capital investment	10%
Based on third party/external feedback ^	10%
Understand market, competitor activity by attending conferences, industry group involvement	10%

The absence of a unified and coherent program to discover and sustain innovation shows up in a number of executive comments. "Each of our business units has its own process," says one software executive. "We're a business unit-driven company. Every business unit has innovation happening within it as an expectation, but each leader has his or her own process. The process that I used, for example, was that we had a certain number of people assigned to driving new offerings. They basically worked on something they were passionate about. One of the other business units actually gives large blocks of people small parts of their time to work on anything they choose. So there are different ways we do it throughout the company based on what the single business unit leader thinks works for that organization."

Other executives cited informal processes, which also stand less chance of influencing an entire corporate culture. According to a specialty retailing executive, "[One way we try to produce innovations] is that senior management is always trying to keep abreast of what is going on within various areas, looking for innovation opportunities. Other times, the functional heads responsible for those same areas will become aware of things, do some investigation on their own and then make recommendations that we undertake the new initiative or pursue the innovation."

Figure 6: Likelihood of retaining a firm to assist with current innovation initiative
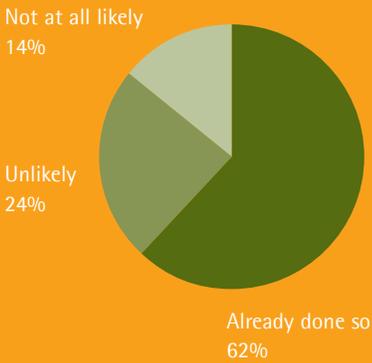
Not at all likely
14%

Unlikely
24%

Already done so
62%

Figure 7: Indications that it was/would be necessary to get a firm involved

Lack of sufficient knowledge or expertise, not international issues — 46%

Firm has objectivity or different view, able to see things in co. that co. can't — 39%

Firm has known expertise in specific area — 31%

Not enough resources in house — 23%

Lack of knowledge or expertise about international issues — 15%

Not surprisingly, companies with well-established R&D organizations are the most likely to have a refined and ongoing process for harvesting innovation. "For us," says one pharmaceutical executive, "innovative products come out of our research pipeline. There are well-established milestones, meetings and governance structures. Products graduate from one phase of research to a second phase of research, with all the requisite decision-making that goes around that—what were the results, what did you see, how do you want to proceed? These innovations are brought to senior management's attention via that mechanism."

To overcome the challenges of sustaining an innovation program and of establishing an in-house team, a majority of the executives in our study (58 percent) have already sought out external expertise to help them advance growth and innovation initiatives. The reasons for seeking out such help correspond to the challenges already noted: the need for specialized expertise, and the need to bring in an outside point of view to help the organization see things in a different light (see Figures 6 and 7).

Detailed Findings

Part 3: The ability to accelerate growth and innovation

Figure 8: Importance of speed to execution/results
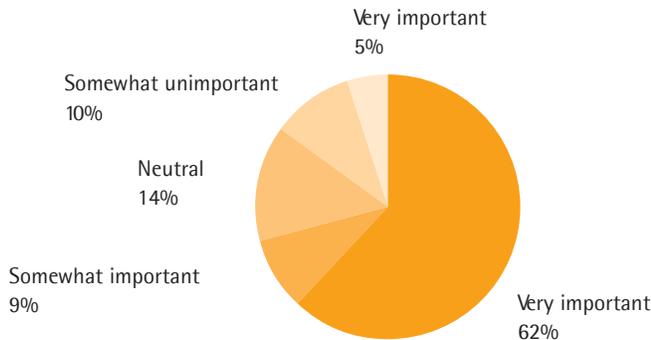
Many executive teams are finding it difficult to balance short-term, quarter-to-quarter results with the strategic need for faster product development, rapid technology adoption and more agile capabilities to create competitive differentiation.

This conclusion is evident in another finding from our study: more than half of the executives indicate that speed to execution is important when it comes to growth and innovation initiatives (see Figure 8).

Speeding innovations to market is, in fact, the number one business challenge cited by an executive with a major telecommunications company, because of the issues of working in a closely regulated industry. "Unfortunately," says the executive, "speed to market really crosses the regulatory boundaries, because with some of the things that we do, we have to get rulings on

whether it's regulated services or non-regulated services. For example, we're building out a cable network; however, it's all on fiber optics that allow us to do voice, data and video—the complete triple play. So we have to go through each particular town across the United States to get franchise relief. That alone is a challenge in speed to market."

Speed is also an important component of success for companies in the Internet space. As one publishing executive puts it, "Everyone else is in our market space is improving very quickly. So the feeling is, you need to make sure you have the best offering out there as soon as possible because the website visitors are fairly fickle. If you don't have a good product out there, they may not come back to you later or they may get accustomed to another site. So speed to develop innovative offerings is important."

Scaling an idea up quickly and balancing speed with control are two challenges noted by the executive of a US clothing retailer. "Our biggest challenges are related to speed and ensuring that we've got processes that can support rapid execution, while also making sure we maintain control. Striking the right balance between speed and control is important, and so is quickly making that one-off idea more systematic and scalable. Making sure that we've got resources and the ability to take a great innovative idea and then scale it up quickly— that is critical."

Executives are searching for proven processes that can increase speed while keeping risks as low as possible. Proven processes, in effect, embed learning and experience into the way a program is planned and conducted, and can be one other important reason for companies to look outside for

"**...**it's more important in our minds to have the right solution and to have removed risk as much as possible to get there, as opposed to expediting things that haven't been rigorously tested and proven to work."

consulting help. "It's important to learn quickly in an innovation process," notes one executive. "The way we look at it is, the more quickly you learn from your successes and failures, the more quickly you can get the right solution to the market in the least amount of time as opposed to trying to truncate the process of learning and get something out there as soon as possible. We'd like to think that there is an advantage and that the timeframe to get to implementation is quicker. But it's more important in our minds to have the right solution and to have removed risk as much as possible to get there, as opposed to expediting things that haven't been rigorously tested and proven to work."

Another healthcare executive cited speed to market as a critical part of achieving success with global expansion. This executive points not only to the large markets in China and India, but the issues related to aging populations, which will bring with it growing markets for certain kinds of medical offerings. He knows that getting into that market quickly with innovative medical-related products is vital to the company's efforts to achieve high performance.

Finally, the need to turn around a troubled business unit or division can also be a key factor driving the need for speed. One consumer products executive discussed the urgency concerning one of the company's European operations, which constitutes about 20 percent of the entire company's business. "It's the business that has suffered the most over the past couple of years, so it's been an absolute drain in the company performance. Consequently, it's right up there with the top two or three initiatives in the company."

Conclusion

The high stakes of innovation and growth

In today's business environment, innovation is a major driver of the market's expectation for growth, and one of the most fundamental drivers of share price and market capitalization. This current Accenture research initiative confirms the fact that growth and innovation are connected and top of mind for executives.

There is also some urgency at work here in learning to leverage innovation for growth. Recent history suggests that powerful boards are more willing than ever to oust CEOs who do not rapidly deliver on growth targets. This is a concern, given that many executive teams find it difficult to balance short-term, quarter-to-quarter results with the strategic need for faster product development, rapid technology adoption and competitive differentiation.

Our research confirms that the next frontier in the maturation of corporate growth initiatives is to harness innovation in more predictable ways. That means developing the deeper capabilities that increase the likelihood of innovation taking place, and of more rapidly linking innovative products, services and processes to profitable growth.

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