

Expanding the Innovation Horizon

The Global CEO Study 2006

Executive Summary





Expanding the Innovation Horizon

*“We will fight our battles not on the low road to commoditization, but on the high road of innovation.”
– Howard Stringer, Chairman and CEO, Sony¹*

As a result of accelerated globalization and technology advances, competition has risen to new heights. Financial markets demand ever-faster growth. And growth – perhaps even survival – depends on innovation.

This year, IBM is releasing the Global CEO Study 2006, in which we take a comprehensive look at innovation. For perspective, the survey population includes 765 CEOs, business executives and public sector leaders from 20 different industries and 11 geographic regions, both from mature markets and from important developing markets such as China, India, Eastern Europe and Latin America.

Participants were remarkably frank, sharing with us their deep insights on innovation. We learned that two-thirds of them expect to drive fundamental changes within their organizations in the next two years, a process they see as an opportunity to expand their “innovation horizon.” Indeed, what they told us may compel you to reevaluate your preconceptions about innovation. For example, we discerned that:

- *Business model innovation matters.* Competitive pressures have pushed business model innovation much higher than expected on CEOs’ priority lists. But its importance does not negate the need to focus on products, services and markets and operational innovation.

- *External collaboration is indispensable.* CEOs stressed the overwhelming importance of collaborative innovation – beyond company walls. Business partners and customers were cited as top sources of innovative ideas, while research and development fell much lower in the list. However, CEOs also admitted their organizations are not collaborating nearly enough.
- *Innovation requires orchestration from the top.* CEOs acknowledge that they have primary responsibility for fostering innovation. But to effectively orchestrate it, CEOs will need to create a more team-based environment, reward individual innovators and better integrate business and technology.

In our conversations, we found a persistent worldwide, sector- and size-spanning push toward a more expansive view of innovation – a greater mix of innovation types, as well as more external involvement and extensive demands on CEOs to bring it to fruition. Based on these CEOs' collective insights, we offer several considerations that can help you sharpen your own innovation agenda:

- *Think broadly, act personally and manage the innovation mix* – Create and manage a broad mix of innovation that emphasizes business model change.
- *Make your business model deeply different* – Find ways to substantially change how you add value in your current industry or in another.

- *Ignite innovation through business and technology integration* – Use technology as an innovation catalyst by combining it with business and market insights.
- *Defy collaboration limits* – Collaborate on a massive, geography-defying scale to open a world of possibilities.
- *Force an outside look... every time* – Push the organization to work with outsiders more, making it first systematic and, then, part of your culture.

We also wanted to ascertain whether choices CEOs made about particular types of innovation and key enablers correlated to financial performance. Given that so few metrics are available to measure the impact of innovation, we expect that our financial analysis will be of great interest to readers of our Global CEO Study 2006.

We compared the financial performance for a subset of our sample (where publicly reported financial information was available) to that of an industry-accepted list of up to ten of their nearest competitors (by revenue). By taking a five-year view, we could identify which companies outperformed and underperformed the average revenue growth, operating margin growth and historical operating margins of their closest competitors.

“Constant reinvention is the central necessity at GE... We’re all just a moment away from commodity hell.”

– Jeffrey Immelt, Chairman and CEO, GE²

SO WHAT DID WE DISCOVER?

External collaboration is indispensable

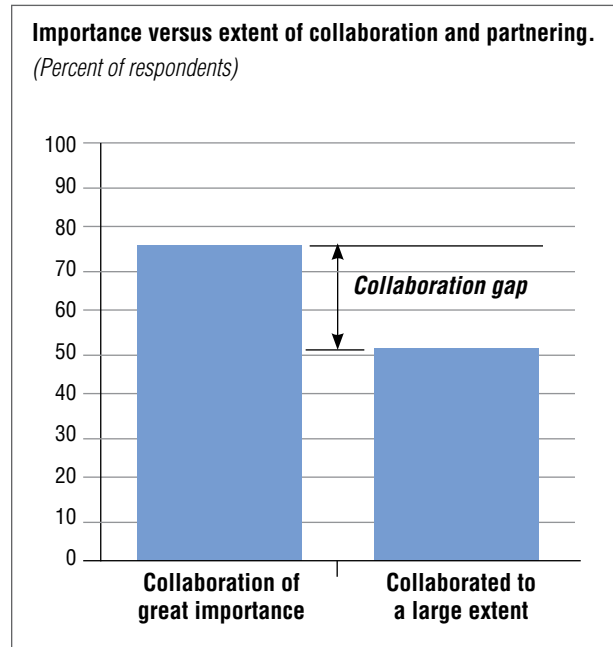
Major strategic partnerships topped the list of significant business model innovations. As global connectivity reduces collaboration and transaction costs, companies are taking advantage of the expertise and scale beyond the boundaries of their organizations. They are assembling groupings of “specialized” capabilities, combining, for example, internal expertise and scale through shared services centers with the capabilities of specialized partners to create truly differentiating business designs.

When asked which sources their companies relied on for their most significant innovative ideas, CEOs’ responses held some surprises. Business partners were near the top of the list, just behind the general employee population. External sources are not only prevalent in the ranking of CEOs’ most significant sources of ideas; they also comprise a substantial portion of the overall quantity of ideas. This trend was particularly evident among financial outperformers.

CEOs believe collaboration is absolutely critical, but there is a problem: Although collaborative aspirations were high, actual implementation was dramatically lower. Only half of the CEOs we spoke with believed their organizations were collaborating beyond a moderate level. Citing a lack of the skills and expertise needed to partner externally, many CEOs refer to partnering as “theoretically easy” but “practically hard to do.” The message: whether it involves crossing internal or corporate boundaries, collaboration requires serious intent.

“The key is to be able to collaborate across town, across countries, even to the next cube... Global innovation networks help make this happen.”

– Tony Affuso, UGS Chairman, CEO and President³



The upside of collaboration is underscored not only by qualitative CEO feedback, but also by the financial performance of companies with extensive collaboration capabilities. The Global CEO Study 2006 illuminates the degree to which strong collaborators enjoyed healthier revenue growth and average operating margin over their competition.

ADDITIONAL KEY FINDINGS

CEOs were candid about the need to search out new competitive differentiators, even if it meant confronting a sacrosanct business model. With technological advances and globalization presenting so many new opportunities – and threats – CEOs are giving business model innovation as prominent a place on their agendas as products/services/markets innovation and operational innovation.

The Global CEO Study 2006 includes breakdowns on what percentage of their innovation efforts CEO's are focusing on their business models, as well as details about how those companies emphasizing business model innovation are growing operating margins faster than competitors.

In many cases, CEOs had common operational issues, using terms like *high-cost*, *slow-responding*, *inefficient* and *antiquated* to describe aspects of their current operations. The CEO study details the innovation actions CEOs took and compares the financial performance of companies that have selected different categories of operational innovation.

“All I've done since I got here is focus on one word: innovation.”

– Ed Zander, Chairman and CEO, Motorola⁴

Across many industries, CEOs noted that a regular stream of products, services and markets innovation is fundamental to strategies. The study also compares the financial performance of companies that have selected different categories of products, services and markets innovation.

Furthermore, it was made clear that CEOs believe that it is their responsibility to foster innovation. In compiling the top ten obstacles to innovation, it became clear that the majority are internal rather than external. The study makes recommendations about how CEOs can orchestrate greater innovative achievements and build a more innovative organization.

Conclusion

We know that two out of every three CEOs interviewed intend to drive fundamental change within their organizations over the next two years, and that they understand the need to innovate in order to achieve this change. The Global CEO Study 2006 gives us a richer view of how leaders are driving innovation, sheds light on which innovations matter the most, and shows that collaboration, partnering and technology integration are linked to innovation.

To get your copy of the CEO Study, visit

ibm.com/innovation/ceo today.

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Further information

To find out more about this study or to speak with the Strategy & Change Leader from your region or industry, please send an e-mail to GlobalCEOStudy@us.ibm.com.





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