McKinsey Global Survey results:

Innovation and commercialization, 2010

After coping with the global economic crisis, companies are beginning to aim for growth again. But their approach to managing innovation and the challenges they face haven't changed. The survey results suggest a few ways to improve.

As companies begin to refocus on growth, innovation has once again become a priority: in a recent McKinsey Global Survey,[1] 84 percent of executives say innovation is extremely or very important to their companies' growth strategy. The results also show that the approach companies use to generate good ideas and turn them into products and services has changed little since before the crisis, and not because executives thought what they were doing worked perfectly. Further, many of the challenges—finding the right talent, encouraging collaboration and risk taking, organizing the innovation process from beginning to end—are remarkably consistent. Indeed, surveys over the past few years suggest that the core barriers to successful innovation haven't changed, and companies have made little progress in surmounting them.

More positively, the results also suggest some ways that companies can become more successful at innovation. In particular, they can formalize processes for setting priorities and commercializing products and integrate innovation into their strategic-planning efforts.

Growth and innovation

[1] The online survey, in the field from July 13 to 23, 2010, generated responses from 2,240 executives around the world, representing the full range of industries, regions, functional specialties, and seniority.

Almost all companies are actively seeking growth again. For the largest group of respondents, 41 percent, the focus is on their existing core businesses (Exhibit 1). Only respondents in the high-tech industry differ. In addition, more executives say their companies are seeking organic growth through new products or services or new customers in existing markets (68 percent and 63 percent, respectively) than are pursuing growth through new markets or M&A.

Exhibit 1

The primary growth challenge

% of respondents, n = 2,240

Which of the following statements best describes your organization's primary growth challenge?

- ■ We need to grow in our existing core business
- ■ We need to grow through opportunities adjacent to our core business
- ■ We need to grow new businesses beyond the boundaries of our existing core business
- ■ We are in the early stages of growth as a new business
- ■ Other
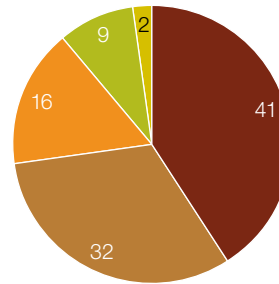
Total, n = 2,240	By sector					
	Business, legal, professional services, n = 398	Energy, n = 101	Financial, n = 300	Health care/social services, n = 76	High tech/ telecom, n = 341	Manufacturing, n = 356
41	41	52	51	44	33	42
32	29	17	29	22	41	33
16	17	15	10	17	17	17
9	12	14	9	15	8	5
2	3	1	2	2	1	2

Innovation is important across growth strategies. However, a slightly smaller share of executives at companies seeking growth in their core business, 80 percent, say innovation is very or extremely important, compared with 91 percent of those at companies still in the early stages of expansion.

Managing innovation

Just over half of all respondents, 55 percent, say their companies are better than their peers at innovation, a figure that hasn't budged since 2008. Another consistent pattern is that far fewer respondents say their companies are good at the specific processes and tactics frequently tied to successful innovation—such as generating breakthrough ideas, selecting the right ideas, prototyping, and developing business cases. Respondents say their companies are best at adapting once they're in the market, with 58 percent claiming to be successful. As in the past, executives have the most difficulty stopping ideas at the right time, with only 26 percent of respondents to this survey saying they do this well.

[2] In a 2007 survey that focused on innovation management and governance, 34 percent of respondents said one of their leadership team's greatest challenges was allocating internal resources, and 50 percent said it was aligning and making available top talent for innovation initiatives. See "How companies approach innovation: A McKinsey Global Survey," mckinseyquarterly.com, October 2007.

Fundamentally, the biggest challenge is organization: 42 percent of respondents say improvement in this area alone would make the most profound difference in innovation performance. This figure falls between the shares of respondents to a 2007 survey who selected allocating resources and aligning talent as their companies' top challenges to successful innovation.[2] For this year's respondents, organization is closely followed in importance by developing a climate that fosters innovation; commercializing new businesses, products, or services; and selecting the right ideas and managing a portfolio.
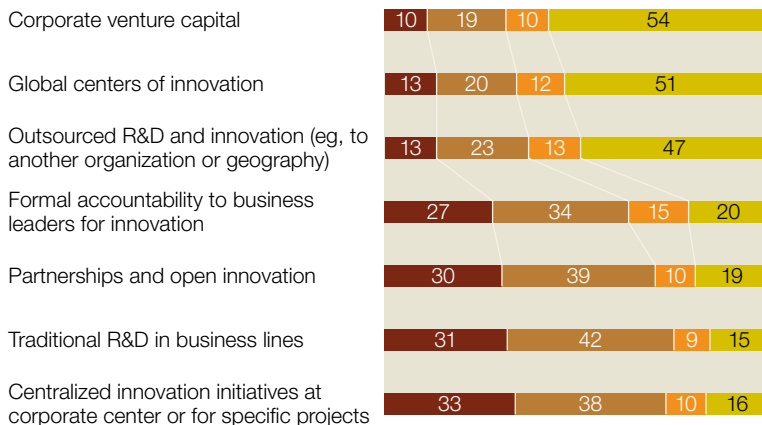
Respondents also indicate that their companies don't make good use of many specific tactics (Exhibit 2). For example, only 27 percent say their companies are very or extremely effective at making business leaders formally accountable for innovation. Notably, even among respondents at early-

Exhibit 2
Innovation tactics

% of respondents,[1] n = 2,240

How effective is your organization at using each of the following tactics to drive innovation?

■ Extremely/very effective   ■ Somewhat effective   ■ Not at all effective   ■ Don't use

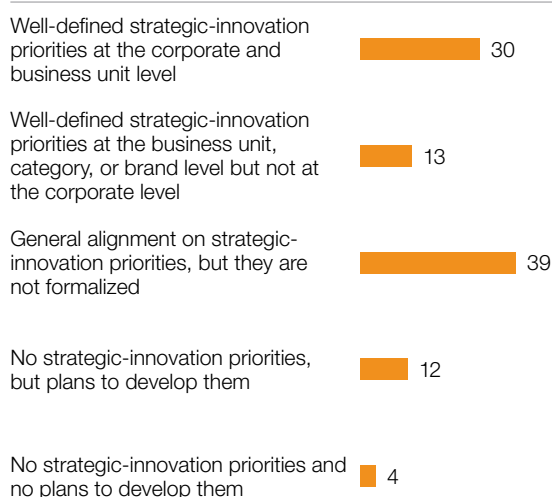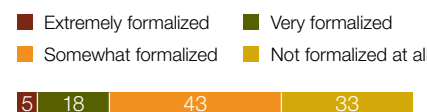| Tactic	Extremely/very effective	Somewhat effective	Not at all effective	Don't use
Corporate venture capital	10	19	10	54
Global centers of innovation	13	20	12	51
Outsourced R&D and innovation (eg, to another organization or geography)	13	23	13	47
Formal accountability to business leaders for innovation	27	34	15	20
Partnerships and open innovation	30	39	10	19
Traditional R&D in business lines	31	42	9	15
Centralized innovation initiatives at corporate center or for specific projects	33	38	10	16

[1] Figures may not sum to 100%, because of rounding; respondents who answered "don't know" are not shown.

Exhibit 3

Informal innovation

% of respondents,[1] n = 2,240

*Which best describes your organization's
innovation priorities?*

Well-defined strategic-innovation priorities at the corporate and business unit level	30
Well-defined strategic-innovation priorities at the business unit, category, or brand level but not at the corporate level	13
General alignment on strategic-innovation priorities, but they are not formalized	39
No strategic-innovation priorities, but plans to develop them	12
No strategic-innovation priorities and no plans to develop them	4

*What role, if any, does setting
formal priorities for innovation play
in your organization's strategic-
planning process?*

■ We do so effectively   ■ We do so ineffectively   ■ No role
■ No role, but plans to do so   ■ No role, no plans to do so

29	33	15	14	4

*How formalized, if at all, is
the commercialization process for new
innovations at your organization?*

■ Extremely formalized   ■ Very formalized
■ Somewhat formalized   ■ Not formalized at al

5	18	43	33

[1]Figures may not sum to 100%, because of rounding; respondents who answered "don't know" are not shown.

growth companies, where innovation is likely to be a particularly high priority, only 34 percent say their business leaders are effectively held accountable.[3]

Nearly a third of the current survey's respondents say their companies are effective in setting formal priorities for innovation during the strategic-planning process (Exhibit 3). This result is slightly better than related findings from 2007, when roughly a quarter of respondents said their companies included innovation as a formal part of their strategic-planning process, and from 2008, when just under 20 percent said their innovation processes as a whole were very or extremely formalized.[4]

Respondents at companies that set formal priorities for innovation as part of the planning process are much likelier to say their companies are better at innovation than their peers (63 percent of those who prioritize versus 43 percent of others) and to say their companies are using these tactics effectively. The survey results suggest that simply ensuring innovation is tightly managed can boost performance.

[3]In a survey earlier this year that focused specifically on research and development, just over a third of respondents said their organizations had improved accountability for R&D performance and spending. Even so, these results suggest accountability isn't high. See "R&D after the crisis: McKinsey Global Survey results," mckinseyquarterly.com, April 2010.

[4]See "How companies approach innovation: A McKinsey Global Survey," mckinseyquarterly.com, October 2007.
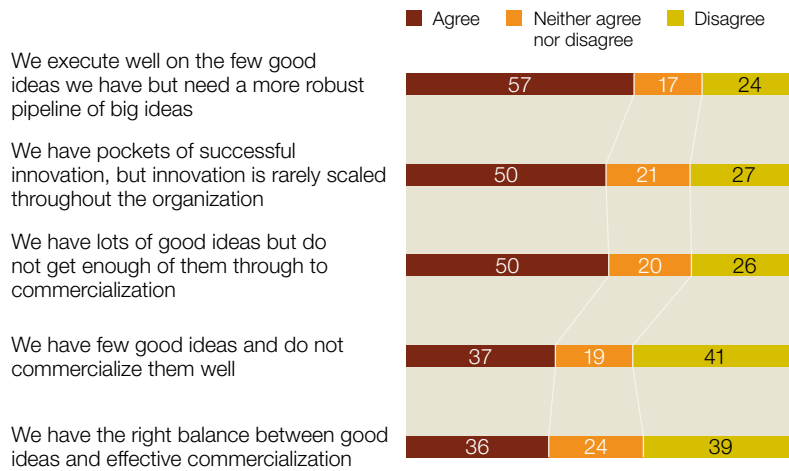
Going to market

Only 39 percent of respondents say their companies are good at commercializing new products
or services. This overall assessment seems to have a few different sources (Exhibit 4).
Commercialization was a serious concern in 2007 as well; in that year's survey, nearly a third
of senior leaders selected making handoffs from ideas to commercialization as one of their
biggest challenges, and 43 percent said the top challenges included choosing which ideas to
move forward.

A big part of the problem may be the absence of a formal decision-making process: 40 percent of
respondents say their companies make commercialization decisions in an ad hoc manner; only
23 percent say such decisions are a regular agenda topic at corporate-leadership meetings. Thirty-
three percent say these decisions are made at the business unit or functional level. Not
surprisingly, the aspects of decision making that executives personally find most difficult are
the lack of a fact base and the level of uncertainty—the same as in 2007.

Exhibit 4

Assessing innovation

% of respondents,[1] n = 2,240

	Agree	Neither agree nor disagree	Disagree
We execute well on the few good ideas we have but need a more robust pipeline of big ideas	57	17	24
We have pockets of successful innovation, but innovation is rarely scaled throughout the organization	50	21	27
We have lots of good ideas but do not get enough of them through to commercialization	50	20	26
We have few good ideas and do not commercialize them well	37	19	41
We have the right balance between good ideas and effective commercialization	36	24	39

[1]Respondents who answered "don't know" are not shown.

Exhibit 5

Formalization's impact

% of respondents

Which of the following statements best describe your company's challenges with commercializing innovation?

|	More formalized, n = 325	Less formalized, n = 1,261
My company executes good ideas poorly, resulting in long times to market	29	23
Business units typically reject ideas they did not develop or codevelop	24	14
There is no tolerance for experimentation; if a new project isn't successful right away, it is killed	23	14
My company has trouble gaining access to and regularly using distribution	13	13
My company lacks a formal process to align internal resources and prioritize projects	11	36

The responses indicate that a lack of formal organization is a common problem: more executives chose the absence of a formal process to align the necessary internal resources as the top commercialization challenge, although those at companies with a formal process for commercialization—23 percent of all respondents—say execution is the biggest challenge (Exhibit 5).

Further, whether they say their companies are good or poor at commercialization, respondents highlight two of the same reasons for their performance, and both relate to organization: the relationship between R&D and marketing and the process for translating an idea into a prototype. Those at companies that are poor at commercialization also frequently blame ineffective
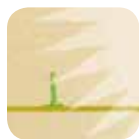
processes for manufacturing or rolling out innovations. And among all respondents, aligning human and financial resources is the most frequently cited leadership or organizational challenge to successful commercialization (Exhibit 6).

Formality clearly makes a difference: the share of executives saying their companies are good at commercialization rises to 45 percent among those that set formal strategic priorities for innovation, and to 56 percent among the respondents at companies with a very or extremely formalized process for commercializing innovations.

Making organizational changes can be difficult,[5] however, and most companies have focused on other areas to improve their performance. Forty-four percent of respondents, for example, say their companies have tried partnering more successfully with suppliers and technology firms, with 39 percent having integrated customer insights into the process.

[5] See, for example, Carolyn Aiken and Scott Keller, "The irrational side of change management," mckinseyquarterly.com, April 2009; and "What successful transformations share: McKinsey Global Survey results," mckinseyquarterly.com, March 2010.

Exhibit 6

Challenges to commercialization

% of respondents, n = 2,240

What are the most significant leadership and organizational challenges your company faces with regard to commercializing innovations and building new businesses?

Aligning human and financial resources	35
Overcoming internal corporate politics	30
Lack of a formalized process	29
Gaining leadership alignment	27
Having the courage to make final decisions	25
Accessing internal resources (eg, IT, distribution channels)	15
Other	5
No specific challenges	4

Looking ahead

• Executives at companies that set formal priorities for innovation rate their overall success higher than others and are more likely to say they're good at a number of tactics tied to success. These results suggest that other companies would benefit from the simple step of setting formal strategic-innovation priorities.

• Organizational factors, including innovation-specific processes and links to support functions, remain a challenge. As hard as it is for companies to implement organizational changes in increasingly complex environments, the results suggest that when companies make the effort, they will experience more success with innovation.

• To improve commercialization, it seems to be crucial to build good relationships among all the functions involved directly (such as R&D) or in support roles (such as IT). Nevertheless, most companies still haven't tried doing so. ❑

The contributors to the development and analysis of this survey include **Marla M. Capozzi,** a senior expert in McKinsey's Boston office; **Brian Gregg,** an associate principal in the San Francisco office; and **Amy Howe,** a principal in the Los Angeles office. Copyright © 2010 McKinsey & Company. All rights reserved.