Forbes | INSIGHTS

NURTURING EUROPE'S SPIRIT OF ENTERPRISE:

HOW ENTREPRENEURIAL EXECUTIVES MOBILIZE ORGANIZATIONS TO INNOVATE

IN ASSOCIATION WITH: ACCA Ipsos Ipsos Observer

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EXECUTIVE SUMMARY

Innovation is a prerequisite for corporate growth. This study undertakes to analyze how best to nurture and encourage those who put forward innovations, and it provides research about the types of employees valuable in conceptualizing and implementing ideas. In negating stereotypes based on characteristics of groups of people predisposed to entrepreneurship, this study further underscores the need for nurture of existing resources through designated innovation budgets. Due to the crucial roles played by finance departments in fostering innovation, which was revealed in the study, enhancing their entrepreneurial status would highly benefit corporations in maintaining their competitive edge.

KEY FINDINGS

- **Ideas are easier than execution.** Not everyone is good at generating ideas, but nobody hinders the process. With regard to execution, however, two personality types (Controllers and Movers & Shakers—see page 11) and one role (corporate management) are obstacles to successful implementation of innovations.
- **Diversity helps.** Personality traits that are valuable in the conception of ideas may be irrelevant, or even a hindrance, when it comes to implementation. Innovation and enterprise therefore benefit strongly from a diverse workforce.
- **Small may be more beautiful.** When it comes to innovation, bigger is not better. Organizations with 100 to 249 employees were best at generating innovative ideas. Those with revenues between $5 million and $100 million were best at executing them. Turning an idea into a product or process requires a certain level of scale and internal resources. But at some point size begets bureaucracy, which can interfere with successful execution.
- **Resources matter.** Innovation is not cheap, let alone free; and it is more often firms themselves, rather than external finance providers, that fail to allocate resources to it. If strategic plans do not allow for the resources to pursue serendipitous innovation, then they can stifle it altogether.
- **Corporate management can be an innovation killer.** Senior managers' failure to buy into innovations was cited by survey participants as the biggest reason that innovations fail.
- **Eyes on the big picture, line to the C-suite.** The function most strongly connected with successful execution of innovation is the corporate strategy unit (as distinct from "corporate management" more generally). Few parts of a company have both the industry understanding and the bully pulpit available to corporate strategy.
- **Fear of death is a powerful incentive.** The industry most likely to witness successful execution was media. More than most sectors, the media industry has undergone a near-death experience—an "innovate or die" situation—over the past 15 years.
- **Ideas from those without influence can lead to innovation without results.** R&D is the unit most capable of generating new ideas. Yet it may lack the influence, and perhaps the ability, to implement them.
- **Although most differences among countries are modest, they do exist.** Polish respondents were most likely to say that they had championed an innovation. They were also more likely to say that they had succeeded in getting the innovation implemented. UK, German and Swiss executives were least likely to say that they had proposed an innovation.

INTRODUCTION

The success of new ventures, both inside and outside existing organizations, requires individuals with a unique set of personality traits. Success occurs in environments that recognize and support their quest. In the right circumstances, they find the resources they need, and both employees and the society at large benefit from the innovations they drive. In the wrong environment, enterprising executives may give up in frustration, hamstrung by lack of capital, intrusive regulations or simple organizational inertia.

Success depends on both nature and nurture: the individuals on one hand and the environment and resources on the other. Some countries—like some individuals and organizations—support enterprising behavior better than others. “If you stick me down in the middle of Bangladesh or Peru,” said Warren Buffett, “you’ll find out how much this talent produces in the wrong kind of soil.” This report explores both the internal and the external: What are the personal qualities and enabling factors most likely to help Europe’s garden of innovation grow?

ENTERPRISE AND INNOVATION

In its older sense, the term enterprise denotes the readiness to take on new projects and challenges, especially daring and courageous ones. Johannes Gutenberg, Eli Whitney and Tim Berners-Lee all shared a spirit of enterprise that led to world-changing innovations. All were entrepreneurs: Through personal enterprise they created something new, either on their own (Gutenberg), by harnessing the power of a small group of partners (Whitney) or as part of a larger organization (Berners-Lee).

The media tends to focus on individuals who, through enterprise and vision, develop groundbreaking ideas into giant companies. This narrative was popularized by economist Joseph Schumpeter’s early writings, where the entrepreneur is presented as the personification of innovation. The entrepreneur’s passage is a modern version of mythologist Joseph Campbell’s hero’s journey—and the reason that bold iconoclasts like Steven Jobs and Richard Branson became the heroes of the age.

But today’s business world is also populated by a more anonymous kind of entrepreneur. This is the innovator who appears in Schumpeter’s later work: One who, working within an existing organization, conceives a new business idea and rallies the company to execute it. These entrepreneurs work in established companies everywhere. Their names are seldom household words, but their accomplishments are just as heroic. They conceive ideas and then mobilize bureaucracies, often plagued by politics and inertia, to create real products and services and get them into the hands of consumers.

The stakes are high. In globally competitive markets, creating economic value requires that companies—large and small, new and established—continually generate innovative ideas, quickly commercialize them and tweak them as market conditions change. This is the process that Schumpeter described in his later work: constant innovation within companies as they seek to solidify their competitive position. Though Schumpeter described it as the bureaucratization of innovation, it must still be driven by enterprising personalities. To the extent the enterprising spirit can be nourished within established companies, it will play a large role in keeping Europe’s industries vibrant and the European region prosperous.

THE ENTERPRISING PERSONALITY

The French economist Jean-Baptiste Say taught that entrepreneurs mix capital and labor in new ways to boost productivity and earn high yields. The Austrian economists—Hayek, Schumpeter, von Mises—refined the definition to introduce three qualities that we associate with enterprising personalities today:

- **Enterprising spirit.** Entrepreneurs are self-motivated individuals who—as Goethe said—"find happiness in execution." They thrive on risk and uncertainty, which contain the seeds of opportunity and the potential for profit.

- **Problem-solver.** These individuals focus on solving problems by whatever means necessary, even if it leads to conflict with others. They disturb organizations and markets, but it is not disruption for its own sake—it is to move the business incrementally forward.

- **The center of networks.** Turning an idea into an innovation requires a rich social and business network, both inside and outside the company. Enterprising personalities collect personal connections and are often extroverts. The ideal network combines people with different insights and complementary skills. These connections can be used to uncover opportunities, resolve issues and get feedback.

Modern psychologists have elaborated on this definition by testing entrepreneurs against five personality dimensions: conscientiousness, agreeableness, openness, neuroticism and extroversion. Entrepreneurs differ from typical personalities in the first four and possibly the fifth. For instance, they exhibit higher-than-average conscientiousness, which could also be called drive, motivation or self-discipline. It is the most consistent predictor of job performance across all types of work. It is also a key to the spirit of enterprise described in the introduction. They also tend to score low on agreeableness—the trait that causes people to "go along to get along" or avoid "rocking the boat." They're impatient with process and committees. Consistent with the need to solve problems, they would rather move the business forward than avoid conflict.

Finally, they are open to new experience and score low on neuroticism. The need for the new is closely tied to innovation, creativity, a thirst for adventure, and comfort with risk and uncertainty. At the same time, the lack of neuroticism makes them self-confident, calm and even-tempered despite their need to overcome obstacles.

It is not clear that enterprising personalities are, on average, more extroverted than typical managers. But it does make intuitive sense—not, perhaps, among engineers or more technically minded individuals, but clearly for sales-oriented promoters who succeed by convincing others of a vision that does not yet exist. Extroverted individuals can create a network that shares a dream and wants it to become reality.

About the survey

To gauge the level of enterprising traits among European executives, and the supporting institutions in European countries, in the second quarter of 2011 Forbes Insights and Ipsos Observer conducted a survey of 1,245 business executives across Europe. Ninety-seven percent of the respondents came from six countries: Italy, the UK, France, Germany, Poland and Switzerland. One-fifth was C-suite, 13% heads of business units, directors or VPs, and the rest managers and department heads. They came from functions spanning the organization, with operations, sales, IT, finance and general management represented most prominently. In terms of industry sector, about one-fifth came from manufacturing, followed by the public sector with 15%, then IT, retail and financial services.

DESIGN OF THE SURVEY

Forbes Insights and Ipsos Observer surveyed 1,245 European executives in an attempt to answer two big questions. The first pertains to individuals who work within organizations; the second, the people and institutions that they interact with. The objective was to uncover insights that will help enterprise and innovation flourish by improving the environment for enterprising executives throughout Europe.

The two questions are:

- **Who are Europe's innovators?** There are two stages to innovation: proposing an idea and getting it accepted. If there are certain personality traits and behaviors associated with conception or execution, it should be possible to identify the innovators and paint a picture. Are those with ideas also good at execution? Are the innovators precocious twenty-somethings or experienced executives with long resumes? Are the Poles really more entrepreneurial than the French? It's hard to support innovators without first discovering who they are.

- **How can the environment for innovation be improved?** Innovators face obstacles at every step. Some can be overcome with creativity, persuasion and drive. Other obstacles may be more serious: an unsympathetic CFO, for instance, or the absence of risk capital. Where these individuals thrive, they are surrounded by organizations and people that understand their needs (both financial and nonfinancial), have the resources to help them and are comfortable with the risks.

To answer the first question, the survey focused on self-perception and demographics. It identified entrepreneurs through 47 self-descriptive statements about motivation, creativity, approaches to problem solving, and attitudes toward risk and relationships. These statements can be found in Appendix 1. Within each category, respondents were asked to agree or disagree with statements like "Uncertainty scares me" (a risk statement) or "I am comfortable around people who are smarter than me" (a relationship statement). The responses to these statements compose 47 personality dimensions. To the extent the responses cluster into specific groups, they represent more or less enterprising personality types.

The survey followed up with questions about demographics—age, gender, country, seniority, function and industry—and actual behavior within the respondents' organizations. In particular, respondents were asked whether they had proposed an innovation within their companies over the previous 12 months, what kind of innovation it was, their success in getting the innovation implemented, and the reasons behind failure when this occurred. Behind these queries was an attempt to discover which respondents exhibited enterprising traits rather than simply "talking the talk."

Finally, the survey examined how friendly the local environment was to entrepreneurs. It did this through 18 statements (combinations of the three questions and six types of organization below) about the organizations that surrounded the respondents. Were they comfortable with risks? Did they understand the needs of entrepreneurial businesses? Did they have the resources that entrepreneurs need? The opinions of executives on these subjects revealed the extent to which they saw their milieu as dysfunctional or rich with possibility.

QUESTIONS

To what extent are the following organizations comfortable with taking risks?

To what extent do the following organizations understand the needs of entrepreneurs and entrepreneurial businesses?

To what extent do the following organizations have the right resources to help businesses like mine?

ORGANIZATIONS

Government agencies specializing in business finance

Government agencies specializing in non-financial support

Banks

Venture capitalists and other equity investors

Our finance department

External accountants and auditors

FIVE PERSONALITY TYPES

When 1,245 executives each answer over 70 questions about their attitudes, beliefs and demographics, the resulting data can be difficult to interpret. One way to approach the task is to group the answers so that respondents fall into clusters with similar characteristics. For instance, retail and consumer product companies use clustering techniques to group customers with similar buying habits, gender, age and income level. They then tailor their marketing and product strategies to each group to boost sales and brand loyalty.

The executives who responded to the survey were grouped into five clusters with different personalities, motivations and behaviors. Some are more entrepreneurial, others more process-oriented. The five personality types exist in every organization, and no one type is necessarily better than the others. All bring different kinds of value to organizations. Leaders need followers. Doers need thinkers. Visionaries may be poor at execution. Nevertheless, among innovative and entrepreneurial companies, certain personality types are more prominent. The five clusters extracted from the self-descriptive statements are as follows:

MOVERS & SHAKERS. These professionals have a bias for action, strong leadership skills and a great amount of personal drive. They are heavily motivated by targets and rewards but also aspire to greatness, seeking to acquire influence over others and to create a legacy. Unfortunately, they tend toward arrogance and have little patience for teamwork.
Movers & Shakers make up about 22% of the respondents. They are most common in the UK, Italy and Poland, although the differences among different countries tend to be small. They make up a quarter to a third of executives in mid-size companies (with 250 to 1,000 employees and $25 million to $1 billion in revenue). Surprisingly, a high proportion of Movers & Shakers exist in the risk function, as well as (less surprisingly) in corporate strategy. Of the industries surveyed, Movers & Shakers exist in the largest numbers in private equity and media.

CONTROLLERS. These professionals are careful to talk the talk; they like taking credit and try to manipulate others' views in order to present themselves in a favorable light. In practice, however, they lack motivation and are intensely uncomfortable with risk and unstructured tasks, primarily because they wish to stay in control. Although they try to be seen as team players, they are in fact insular. They do not make the most of existing professional relationships, much less seek out new ones.

Controllers are the smallest group overall, making up about 15% of respondents. They are most common in France, the UK and Switzerland, though again the differences among countries are minor. They tend to live in very big companies (over 1,000 employees) or very small ones (under ten employees). In the big companies they are bureaucrats overseeing processes; in the small ones, they are the center of "personality-driven" firms. Women are slightly more likely to be Controllers than men (19% versus 13%). Sales and marketing—functions where image and self-presentation are important—have the highest proportion of Controllers at 20%. Finance is second at 16%. Controllers tend to be more common at lower levels of the corporate hierarchy: heads of business units, department heads and managers.

STAR PUPILS. These are professionals who invest heavily in their own personal development, acquiring mentors with ease and making the most of other people's expertise. Of the entire sample they are the likeliest to rise through the hierarchies of organizations, even when the dominant business culture is stacked against them. Women who thrive in masculine environments often fall into this category, and CEOs are significantly more likely than other executives to match the Star Pupil profile.

Star Pupils form the largest category at about 24% of the respondents. Over half of the Swiss respondents fall into this group, as well as 30% of the French and Italians, as opposed to only 16% of British executives. Otherwise, Star Pupils exist in similar numbers everywhere: large companies and small, finance and IT, men and women. However, only 5% of CFOs, treasurers or controllers are Star Pupils. It is not clear why this might be, as the traits of Star Pupils would appear to be adaptive in any function, but one possible explanation arising from the research literature would point to the lack of a full-fledged mentoring culture in these functions.[1]

EXPERIMENTERS. Fascinated by the possibilities the world has to offer, these executives are notable for their persistence. Where there is a will, they believe, there is a way. Therefore, they often find themselves taking risks, not for the thrill but because they believe that all things are possible. Perfectionists and workaholics, they take intense pride in their achievements; they also enjoy having the status of an expert, and are keen to pass on their expertise.

Experimenters are the second-smallest category overall, with about 16% of the respondents. They exist in the largest numbers in Poland and Germany (29%) and the smallest in France (4%) and Switzerland (2%). They are least common in the largest companies (over $1 billion) and slightly more likely to be women than men (19% versus 15%). The highest numbers of experimenters are found in the media sector (29%).

HANGERS-ON. These executives believe in process. They have strongly held views about how things ought to be run. Although they understand the need to take risks, they are uncomfortable in unstructured environments. Their obstinacy is rooted in habit and intellectual inflexibility, not the strength of convictions. They generally lack motivation and, when asked how much they agree or disagree with any given statement, are the most likely to stick to the middle of the range. Some may be unaware of how they come across: They are not eager to please and unconcerned about others' views.

Hangers-on form the second-largest category after Star Pupils, representing about 23% of the total. They are most common in France and the UK, where 27% of respondents fall into this category, and least common in Switzerland (17%). Men are slightly more likely than

[1]ACCA (2009) *The Coaching and Mentoring Revolution—Is it Working?* (London: ACCA)
http://www2.accaglobal.com/documents/coachingandmentoring.pdf

women to fall into the Hangers-on category (25% versus 19%). About one-third of IT executives are Hangers-on, compared with only about 14% in operations and R&D.

No group corresponds perfectly to the profile of the successful entrepreneur, although the Movers & Shakers and Experimenters come close. Movers & Shakers and Experimenters expressed the strongest agreement of the five categories with statements such as "I don't let failure hold me back," "Past failures are not predictive of future successes," "When I'm part of a team, I like to be the leader," and "I would rather fail at my own endeavor than succeed at someone else's." This is consistent with the tendency of enterprising individuals to have a strong "locus of control." According to Manfred F. R. Kets de Vries, a Dutch economist, management professor and psychoanalyst, and the founder of INSEAD's Global Leadership Centre:

> "Locus of control refers to how much control you feel that you have in your life. Think of it as a spectrum. On one end is Superman: You can do anything. On the other is the idea of fate, that everything is predetermined, that you're a victim of outside forces and can't influence anything. Entrepreneurs have a high locus of control. They are internally driven. They want to be in control. They don't like other people telling them what to do."

Young and innovative firms generally need Movers & Shakers at the helm, promoting a vision that channels the energies of Experimenters. It's not a rigid blueprint; it is a direction that is modified as the company grows and learns what works. Says Ben Drury, CEO and co-founder of 7digital, a London-based venture capital–funded digital content provider with revenues "in the low eight figures":

> "We saw the jigsaw pieces and how they fit together towards a greater goal. But the greater goal was not strictly defined. We had an aspiration to build a digital media marketplace. And we knew that you needed content, lots of suppliers and content offered different ways. We started out thinking, here is a song and they need to own it. Then we saw that there were all kinds of variations."

Once organizations become more established, they tend to cultivate Star Pupils in the hope that they will one day become Movers & Shakers. However, this may not be possible, since these personality traits are thought to be fixed past a certain age.

Innovative firms generally try to avoid Controllers and Hangers-On, although bureaucracies will inevitably breed the latter among their ranks and may well find them necessary for their day-to-day operations. As firms shift from high growth to a more mature stage, the need for strong processes grows, and so does the need for individuals who value control and process over risk-taking. But too much bureaucracy is dangerous. Even large and mature companies are vulnerable to disruptive innovations. Healthy organizations will always have a tension between those more comfortable with risk and those averse to it.

(The graphs on page 10 are ranked by diminishing shares of Controllers and Hangers-on, the least entrepreneurial groups.)

FIGURE 1: Personalities by Country

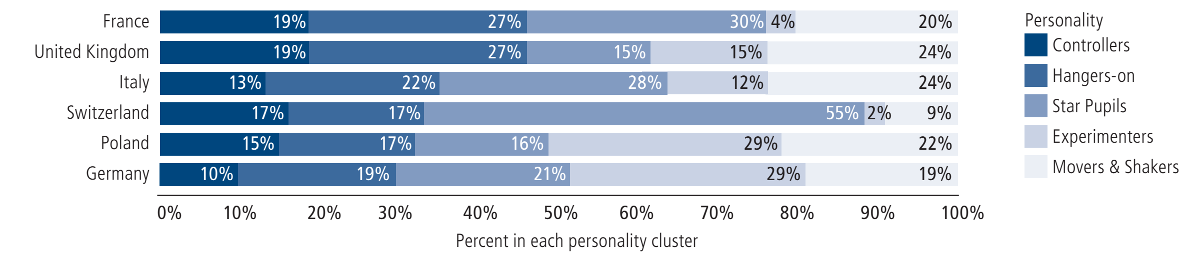


FIGURE 2: Personalities by Number of Employees

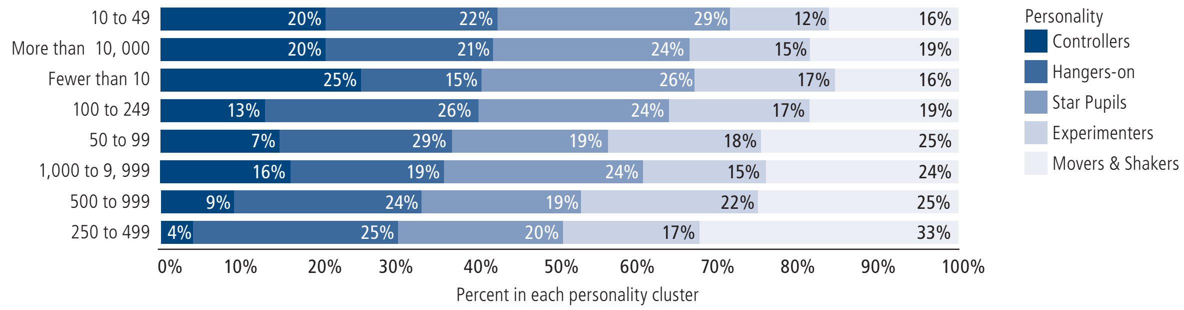


FIGURE 3: Personalities by Annual Revenue

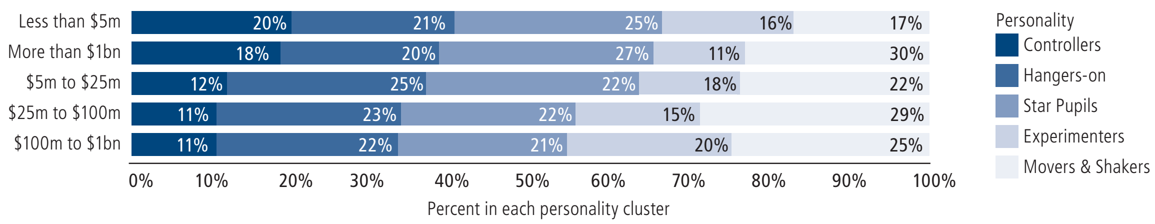


FIGURE 4: Personalities by Title

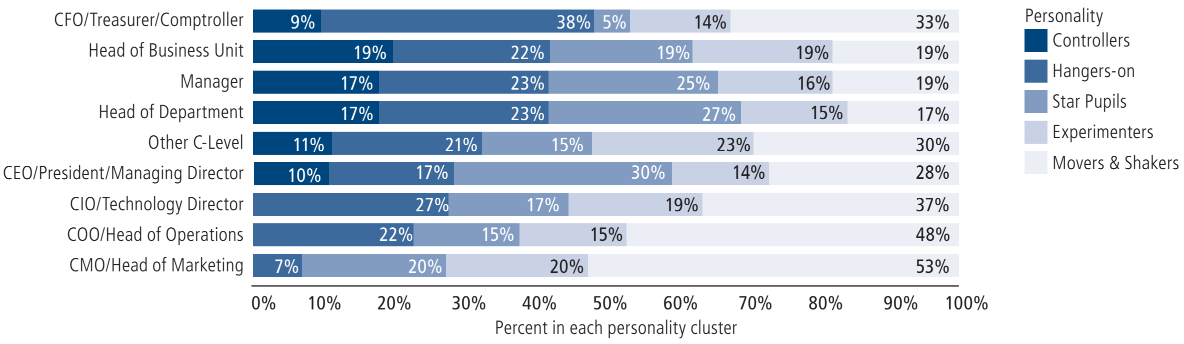
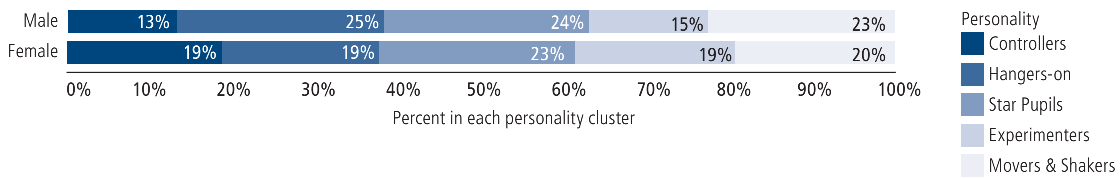


FIGURE 5: Personalities by Gender



Addressing Social Desirability Bias

The 1,245 respondents to the survey represent a broad cross-section of personalities and business styles, from iconoclastic innovators to process-driven bureaucrats. However, almost all believe that they are entrepreneurial, at least to some extent. Entrepreneurship tends to be seen in a positive light, and entrepreneurs—from the brash Richard Branson to the frugal Ingvar Kamprad—are seen as aspirational role models. When asked directly "Do you consider yourself entrepreneurial?" the answer is usually "yes."

FIGURE 6: Do You Consider Yourself "Entrepreneurial"?

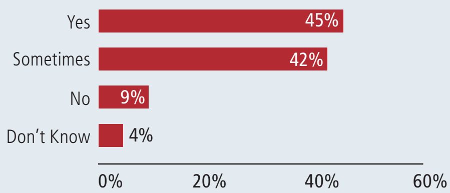
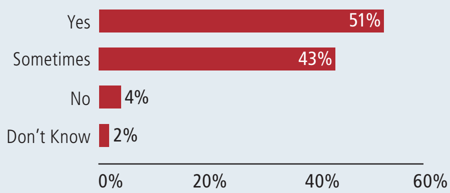


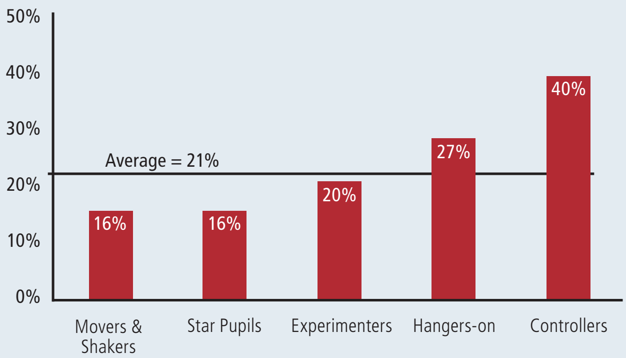
FIGURE 7: Do You Consider Yourself "Innovative"?



The same is true when "innovative" is substituted for "entrepreneurial." Innovation is good. Survey respondents generally rate themselves highly on traits viewed as good. Everyone is above average. The fact that close to 90% of the respondents see themselves as entrepreneurial results from what social scientists call "social desirability bias"—the tendency to reply in a manner that will be viewed favorably.

Social desirability bias causes negative traits to be underreported and positive ones to be overreported. In fact, respondents who say they are entrepreneurs solely because it is viewed favorably are most likely not entrepreneurs, who generally score low on agreeableness.[2] Instead they are conformists: They tell people what they want to hear. They say they are entrepreneurial and innovative, but they are less likely to champion innovations and see them through to implementation—actions that often require going against prevailing opinion.

FIGURE 8: Percent of self described innovators who had not championed any innovations in the past year



The analysis addresses social desirability bias by distinguishing between statements and behavior. We asked executives about the type and number of innovations that they had championed within their organizations over the previous 12 months. We also asked about their levels of success in implementing these innovations.

To isolate the social desirability bias in each individual's answers, our analysis sought out common factors that drove respondents to present themselves in a positive light and also reduced their capacity for innovation in practice. This bias factor was then used, along with the individual responses, in order to allocate respondents to the right clusters, helping us distinguish between those who talk the talk and those who walk the walk.

For example, about one in five of the respondents who claimed to be innovative had not personally championed an innovative project in the past 12 months. Opportunities for innovation do not arise all the time. But the group our analysis suggested has the greatest propensity for biased answers (the Controllers) included twice as many self-reported innovators who were not in fact innovating as the total sample (Fig. 8).

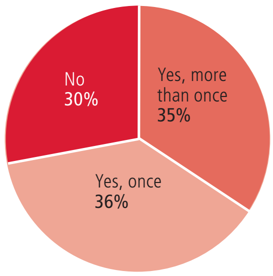
[2] "The Big Five Personality Dimensions and Entrepreneurial Status: A Meta-Analytical Review," Hao Zhao and Scott E. Seibert, Journal of Applied Psychology, 2006, Vol. 91, No. 2, 259–271.

THE EMERGENCE OF INNOVATION

While almost 90% of the 1,245 respondents described themselves as "entrepreneurial" and "innovative," about two-thirds had actually championed one or more innovative ideas within their organizations over the previous 12 months (Fig. 9). This is the first part of every innovative endeavor: coming up with the idea and promoting it in the organization. The second part is to get it implemented. Creative people often succeed at the first part and fail at the second. The true innovator succeeds at both.

Consistent with other studies, Polish respondents were most likely to say that they had championed an innovation.[3] They were also more likely to say that they that had succeeded in getting the innovation implemented—if not easily, then with difficulty, overcoming obstacles along the way. UK, German and Swiss executives were least likely to say that they had proposed an innovation (Fig. 11).

FIGURE 9: Have You Championed an Innovation in the Last 12 Months?



May not add up to 100% due to rounding.

FIGURE 10: Were You Successful?

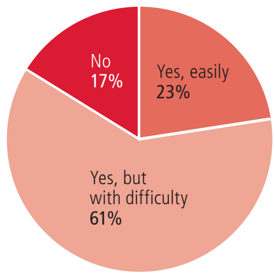
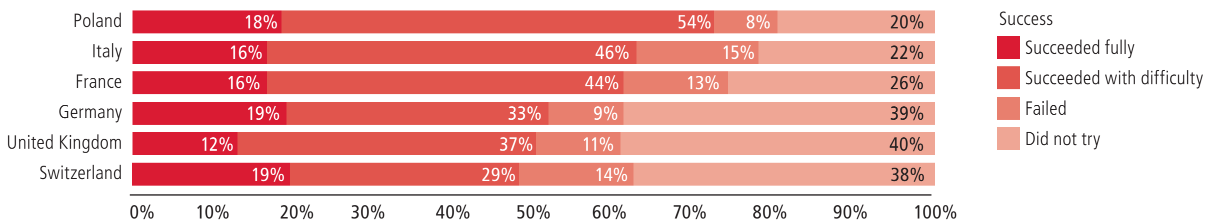


FIGURE 11: Trying, Failing and Succeeding in Six Countries

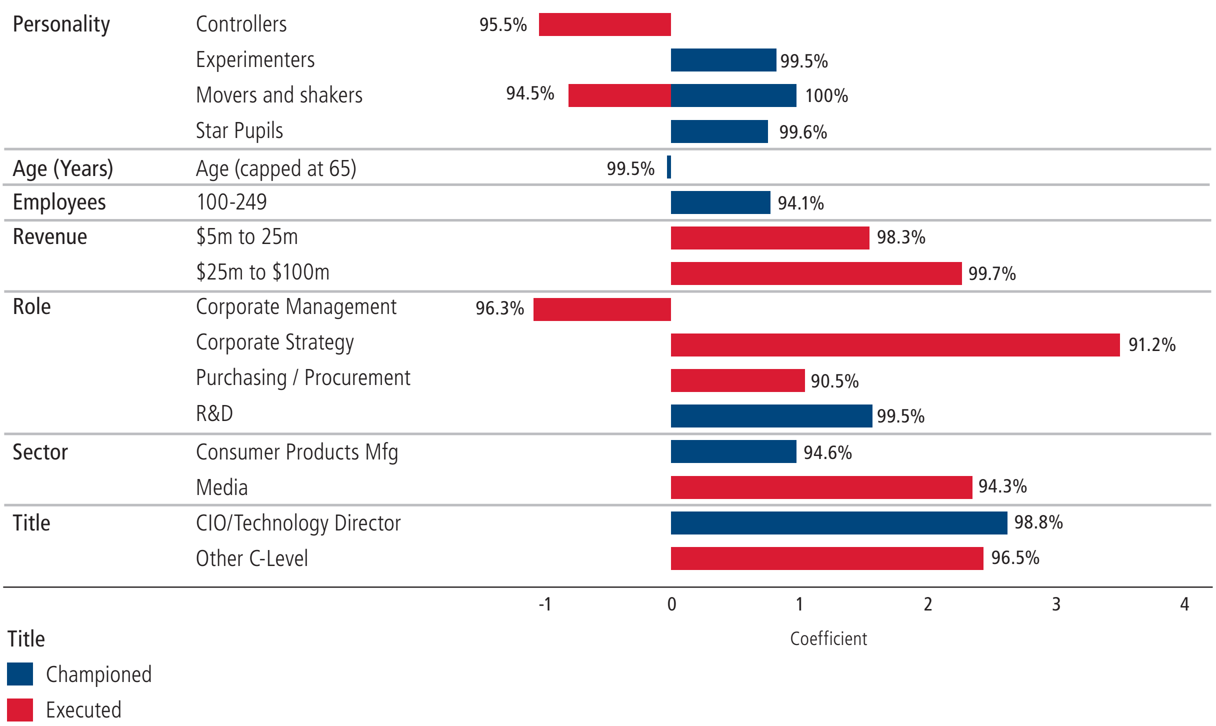


The most frequently proposed innovations focused directly on the two sides of productivity: efficiency in the use of inputs (operational improvements leading to greater efficiency) and efficiency in the combination of inputs into outputs (product or service innovations leading to higher revenue or more loyal customers).

In terms of who and what drives innovation—first the idea, then the execution—the survey respondents painted a complex and nuanced picture. To interpret the results, we used a set of binomial regressions in order to capture contributions across a range of categories—personality, age, industry sector and so on—to championing new ideas (shown in green) and executing them (shown in orange). The length of the bar shows the size of the coefficient (the level of impact). A positive value denotes a positive impact, and a negative one, a negative impact. The numbers next to each bar show the significance level of each coefficient. Only coefficients with at least a 90%

[3] For instance, see "Studium przedsiębiorczosci w Polsce w roku 2004," Global Entrepreneurship Monitor, at http://www.gemconsortium.org/download/1320291137483/GEM_Polska_2004.pdf.,which found that Poland outperformed most of Europe in terms of entrepreneurial activity.

FIGURE 12: Where Are New Ideas Championed and Executed? Where Are They Hindered?



significance level are shown. Each bar shows only the impact of the corresponding variable—the influence of other factors has been controlled for.[4]

The size and sign of the coefficients suggest that there are many drivers of, and obstacles to, innovation within companies. A few of the implications:

- **Ideas are easier than execution.** The coefficients for idea generation are positive across the board. Not everyone is good at coming up with improvements, but nobody hinders the process. With regard to execution, however, two personality types (Controllers and Movers & Shakers) and one role (corporate management) are obstacles to successful implementation of innovations.

- **Few are good at both facts and innovation.** If it takes all kinds to make a world, it also takes all kinds to both

[4] Note also that within each category, the factors influencing innovation were compared to a reference factor. For instance, four of the personality types (Movers & Shakers, Experimenters, Star Pupils and Controllers) were evaluated relative to a fifth: Hangers-on. Therefore, the positive values for Experimenters, Movers & Shakers and Star Pupils suggest that executives with these personality traits champion innovations more than Hangers-on; the negative values associated with Movers & Shakers and Controllers imply that these personalities execute innovations more than Hangers-on. Each of the categories has a similar reference factor:
- In the case of role (function) and industry sector, the reference is "other"—that is, employees who chose "other" as the answer to these demographic questions.
- In the case of number of employees, the reference is very large firms (more than 10,000 employees).
- In the case of annual revenues, the reference is companies with more than $5 billion.

conceive and implement an innovation. No single personality, role, title, industry or size of company does well in both roles. In general, those with ideas are not good at execution and vice versa. Exceptions exist—Steve Jobs comes to mind—but they are famous because they are unusual.

- **Success in one area may contain the seeds of failure in another.** The case of Movers & Shakers captures a contradiction that illustrates why no single personality type excels at both innovation and execution. A bias for action, personal drive and aspirations to greatness ensure that Movers & Shakers, more than any other personality type, constantly come up with new operational and product improvements. At the same time, the arrogance toward others and impatience with teamwork exhibited by Movers & Shakers ensure that their ideas make little headway within the organization.

- **Ideas from those without influence can lead to innovation without results.** R&D is the unit most capable of generating new ideas. Yet it may lack the influence, and perhaps the ability, to implement them. R&D leaders have advanced degrees, mastery of technical skills and the ability to think about problems in disciplined ways. Yet this same outlook may create problems in communicating with business managers, who tend to have a "get it done" mindset. New ideas come from R&D; the implementation of new ideas does not, and perhaps it should not.

- **Corporate management can be an innovation killer.** The regression results suggest that corporate management—generally understood to be the C-suite and functional heads—hinders the execution of innovations. Indeed, senior managers' failure to buy into innovations was cited by survey participants as the biggest reason that innovations fail. It could be that the C-suite is too focused on the status quo, is juggling too many balls to focus on a single improvement, or acts as a necessary filter. (After all, not all innovations are good ideas.) Regardless of the reason, the large negative coefficient suggests that senior management hinders the execution of innovation. Although the category titled "Other C-suite" has a positive effect on innovation, it is unclear who these others are; as they are outside the key C-suite positions of CEO, CFO, COO and CIO, it is likely that they are more common in organizations that prioritize specific value-added functions and resources by elevating them to the C-suite.

- **Fear of death is a powerful incentive.** The industry most likely to witness successful execution was media. More than most sectors, the media industry has undergone a near-death experience—an "innovate or die" situation—over the past 15 years.

- **Small may be more beautiful.** When it comes to innovation, bigger is not better. Organizations with 100 to 249 employees were best at generating innovative ideas. Those with revenues between $5 million and $100 million were best at executing them. Turning an idea into a product or process requires a certain level of scale and internal resources. But at some point size begets bureaucracy, which can interfere with successful execution.

- **Eyes on the big picture, line to the C-suite.** The function most strongly connected with successful execution is the corporate strategy unit (as distinct from "corporate management" more generally). The corporate strategy group can take an idea and turn it into an operational improvement, a new product line, an innovative way of sharing risk or a new kind of marketing initiative. Corporate strategy has two big advantages: first, an understanding of the dynamics of the industry and the areas in which the company can gain competitive advantage; and second, the ear of the C-suite, business unit heads and key members of middle management. None of these groups can execute successfully on their own, but few parts of a company have both the industry understanding and the bully pulpit available to corporate strategy.

- **Specialized units with narrow mandates may excel at execution.** It is instructive that among units within the company, procurement wins second prize for the best track record in executing innovations. Procurement is a specialized unit with a technical purview, a narrow mandate and clearly defined goals. It often has a degree of autonomy in terms of executing innovations within its sphere of expertise. E.F. Schumacher, the author of the 1960s bestseller Small Is Beautiful, proposed the idea of "smallness within bigness"—small organizations functioning within larger ones. More than most units, procurement fits this model.

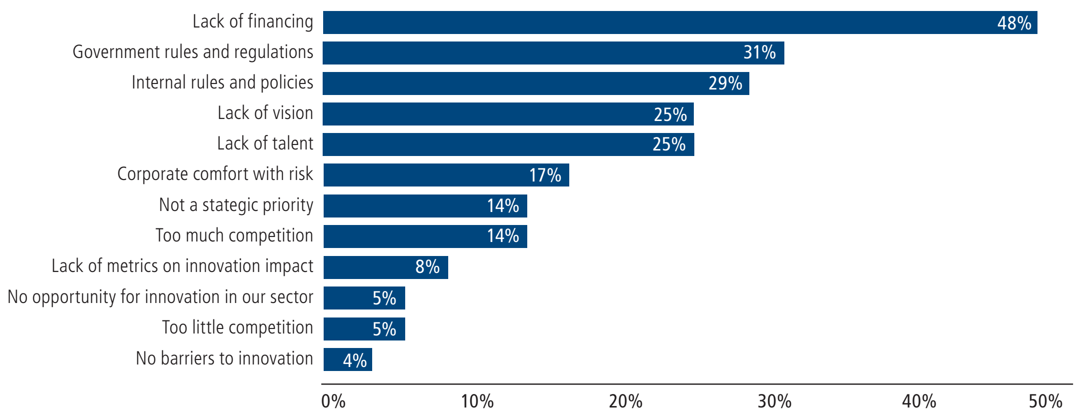
BARRIERS TO INNOVATION

Respondents were asked about barriers to innovation in two ways: in general and with respect to specific initiatives they had championed. All but a handful of respondents agreed that obstacles to innovation exist, and there was widespread agreement about what the biggest obstacles were.

All five personality types said that lack of sufficient capital was the single biggest barrier to innovation. There is never enough capital to pursue all of the new ideas that surface. Scarce capital requires making choices. At the same time, the most innovative companies are those willing to take risks, to try a large number of new things, many of which will fail. "You are going to make a ton of mistakes," said Facebook founder Mark Zuckerberg in a recent interview with the startup incubator Y Combinator. "The biggest risk…is being too afraid of making mistakes, because then you'll be certain to fail."[5]

The five personality types also agreed on the ranking of most barriers to innovation. Experimenters gave greater weight to government restrictions and a culture of risk aversion, while downplaying such limiting factors as lack of opportunity or excessive competition. Hangers-on, meanwhile, had a tendency to take a Pollyanna-like attitude to obstacles: They downplayed barriers or even said that no barriers existed.

FIGURE 13: What Are the Biggest Barriers to Innovation at Your Business?

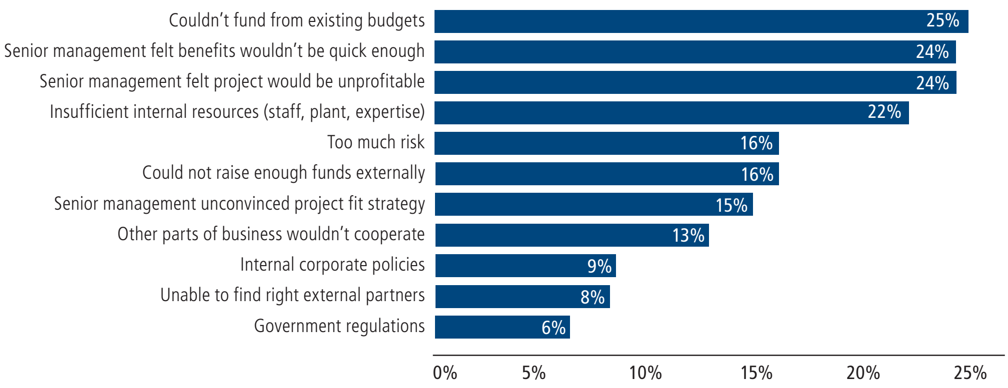


The two-thirds who had championed innovations were in a better position to evaluate barriers to innovation, as they had faced obstacles and often overcome them (Fig. 9 on page 12). A fortunate one-quarter of this group reported few problems in seeing their changes adopted. A majority of 60% succeeded in pushing their innovations through the organization, but faced resistance and succeeded only with difficulty (Fig. 10 on page 12). This doesn't mean that they are less successful as innovators; in fact, the opposite may be true. Obstacles are inevitable, and the ability to overcome them is a mark of success.

Among those who did not see their innovation succeed, the top obstacles had to do with resources and senior management buy-in. The reasons also varied according to the type of innovation being pursued (Fig. 14).

[5] http://www.businessinsider.com/mark-zuckerberg-silicon-valley-is-too-focused-on-the-quick-score-2011-10, October 30, 2011

FIGURE 14: Why Wasn't Your Innovation Implemented?



Internal budgets were a particular problem for strategic (presumably large-scale) innovations as well as innovations proposed by cost centers like human resources. Innovations requiring partnerships or joint ventures faced a high level of scrutiny from senior management. Innovative financing arrangements failed when they were not deemed sufficiently helpful to profitability. New marketing ideas often tended to fail the risk test.

SUPPORTING INNOVATION

How can innovation best be supported? The survey presented executives with three agree-disagree statements about whether different support agents understood the needs of entrepreneurial firms, whether they had the resources necessary to provide substantial support, and finally, whether they were comfortable with risk on the part of individuals and institutions whose support is needed for entrepreneurially minded innovators to succeed.

Unfortunately, the executives surveyed believe that only one of the external parties has all three. Resources were not a problem: All except auditors were seen to have resources and capabilities to help. The issues were lack of understanding and unwillingness to take risks. Government agencies and external accountants and auditors—unlike the banks, venture capitalists and internal finance professionals—were seen to lack understanding of the organization's needs. And the biggest problem was risk: None of the external parties except VCs were seen as comfortable with risk—and four out of ten respondents disagreed with the statement that venture capitalists are comfortable with risk.

Overall, in-house finance departments and venture capitalists were the most highly valued sources of business support in every single country. They were seen to have an understanding of the needs of innovative companies and the resources to help. Both are willing to take risks if they can be persuaded that there is good chance of success (VCs more so than finance). The UK was an exception in that banks were ranked slightly higher than in-house finance departments.

In terms of resources, results vary substantially by country. Banks are viewed as among the best-resourced organizations to help entrepreneurial firms. "Core" European countries such as France, Germany, Italy or, indeed, Switzerland tend to believe more in the resources of in-house finance departments; in the UK and Poland there is more faith in venture capitalists.

In France, executives are more likely than elsewhere to believe that government understands business and the entrepreneurial firm, which can be an advantage when developing and implementing enterprise policy. Meanwhile, in Poland, the perception is that public business support is very well resourced; yet figures on expenditure alone do not justify this. In fact, in 2009, business support in Poland amounted to about 0.4% of GDP (a relatively low figure), and most of it focused exclusively on agriculture. The explanation probably lies with the level of expectations, as the Polish sample was more likely to think that most types of support organizations were well-resourced.

FIGURE 15: In Every Country, Internal Finance Departments and External Investors Were Seen as the Most Competent Sources of Support

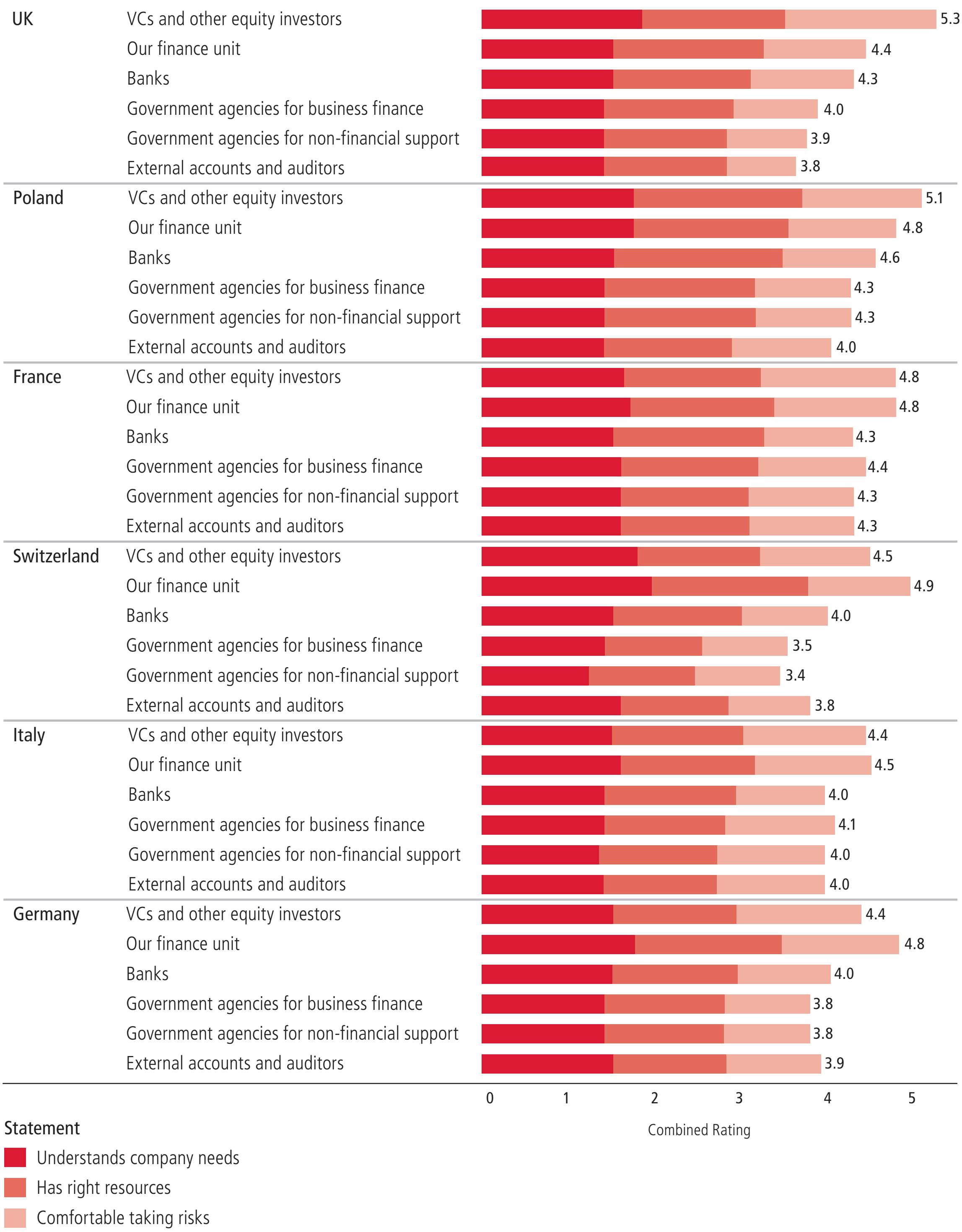
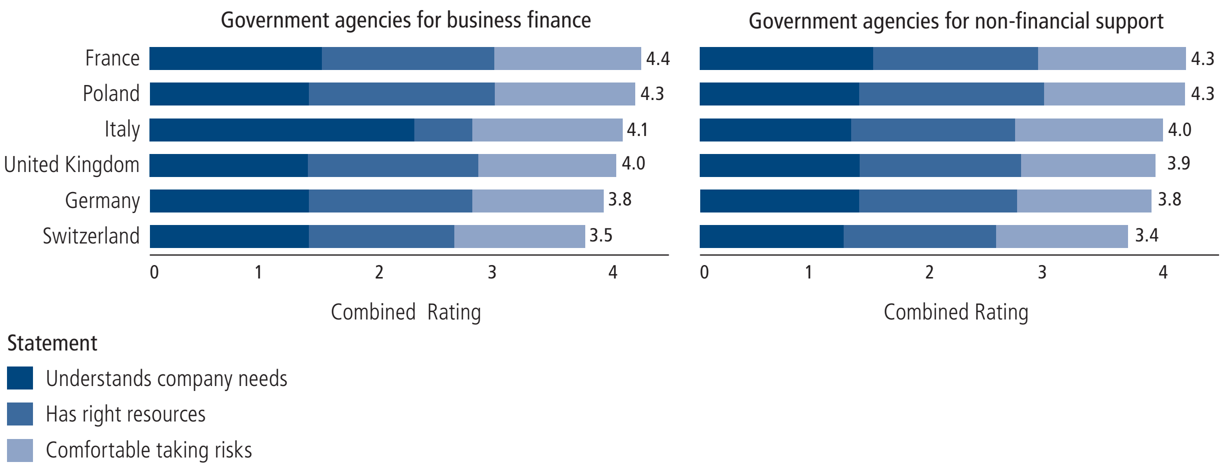


FIGURE 16: France and Poland Give Relatively High Ratings to Government Agencies



Even in these difficult times, the UK's financial industry is still seen as capable of taking on risk to an extent that its peers on the Continent are not. This is rarely the perception on the ground, of course, nor is it always shared by British policymakers. But in the context of international comparisons, this still appears to be the case, and these findings are consistent with those of a recent Forbes Insights study,[6] which found that small and midsize companies in the UK were more likely to get all of the funding they needed from various sources than their peers elsewhere, although they were less likely to apply.

In Italy, business support institutions in general, and public organizations in particular, are seen as more comfortable with risk than their peers elsewhere in Europe. While conclusions on the Swiss sample are tenuous due to the small sample size, it is interesting to note the high level of trust in finance departments. The Swiss respondents in particular have a strong belief that finance departments both understand the needs of the business and have sufficient resources to help them.

Among the parties who organizations look to for support, the most problematic from the perspective of entrepreneurs are government agencies and external accountants and auditors. Relatively few respondents believe that they understand the entrepreneurial firm, and both are believed to spurn risk. Such perceptions were, moreover, found to be significantly correlated with poorer innovation performance—though in fairness, encouraging auditors in particular to embrace risk might not always be in the public interest. Bankers are thought to understand the organization's needs, but are seen as too risk-averse to be much help in funding innovation.

A finding that deserves further examination is that financial and non-financial support from government agencies had widely divergent effects on innovative performance. As a rule, financial support was found to be negatively associated with innovation, while non-financial support was positively associated with innovation. Both appeared to influence the implementation, as opposed to the championing, of innovations.

It is hard to know what to make of this finding. More sophisticated (and thus more effective) business support systems may rely more on non-monetary support, while direct grants and other financial interventions are generally blunt instruments. It suggests that government support may be most effectively aimed at helping businesses with existing innovative ideas; increasing an economy's overall innovative capacity in this way does not appear to be a realistic proposition.

[5] "Small and Medium-Sized Enterprises: Rebuilding a Foundation for Post-Recovery Growth" Forbes Insights in association with ACCA, CGA-Canada and CNDCEC, October 2010, http://www.acca.co.uk/pubs/general/activities/library/small_business/sb_pubs/SMERebuildingAFoundation.pdf

CONCLUSION

In today's flat world, where productivity and the ability to connect with the customer are so important in creating value, a high rate of innovation is one of the few ways to sustain competitive advantage. Support of innovation is crucial. It's not about creating entrepreneurs—it's about nurturing and encouraging those who put forward innovations wherever they may be. This support can come from within an organization, from external advisers and from the government.

Six lessons from the report:

Diversity helps. No one type of person corresponds to the notion of the entrepreneur. Furthermore, personality traits that are valuable in the conception of ideas may be irrelevant, or even a hindrance, when it comes to implementation. Innovation and enterprise therefore benefit strongly from a diverse workforce.

International comparisons are overrated. Comparisons by peoples and countries are overridden by the importance of the effects of structure, resources and personality. Once the structural effects are taken into account, country effects become negligible.

Clarity and mandates channel the direction of innovation. Within organizations, innovation and enterprise are most likely to manifest themselves where the benefits are easiest to document—in business functions with a concrete mandate or in the pursuit of input and output efficiencies. Management's metrics and controls may end up dictating whether and how organizations innovate.

Size matters. There is an optimal size for innovative firms because the pursuit of the new requires resources and hands-on engagement with the business. Smaller firms cannot always adequately support innovation; very large firms can stifle it with command-and-control bureaucracies. "Some people like to be segmented in a bureaucracy," says 7digital CEO and co-founder Ben Drury. "I find a specialized role in a large organization too constricting."

Enterprises are in need of designated "innovation budgets." Innovation is not cheap, let alone free; and it is more often firms themselves, rather than external finance providers, that fail to allocate resources to it. Bottom-up approaches to innovation are rightly hailed as more effective. But if strategic plans do not allow for the resources to pursue serendipitous innovation, then they can stifle it altogether. In difficult economic times an even more likely scenario is one with companies sitting on cash reserves that, with appropriate planning, could have been funding innovative work.

Finance can do more to help drive innovation - talent management is one place to start. The finance department is highly regarded as a support mechanism for entrepreneurial firms throughout most major European economies. Yet its inability to propel one particularly entrepreneurial personality type (Star Pupils) to the higher levels of finance presents a limitation, likely the result of an underdeveloped coaching and mentoring culture.

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BRUCE ROGERS
CHIEF INSIGHTS OFFICER

BRENNA SNIDERMAN
SENIOR DIRECTOR

CHRISTIAAN RIZY
DIRECTOR

KASIA MORENO
EDITORIAL DIRECTOR

CLARA KNUTSON
RESEARCH MANAGER

DAN ARMSTRONG
REPORT AUTHOR

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60 Fifth Avenue, New York, NY 10011 | 212-367-2662
www.forbes.com/forbesinsights