The Management of Global Innovation: Business Expectations for 2020

Toward a more global and more collaborative management of innovation
About the Global Innovation Index

The Global Innovation Index (GII), in its ninth edition this year, is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). Since its inception, the GII has become a leading reference on innovation.

The core of the GII Report consists of a ranking of world economies’ innovation capabilities and results. It provides a key tool and a rich database of detailed metrics for 128 economies, which represent 92.8 percent of the world’s population and 97.9 percent of global GDP. The index aims to capture the multidimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity, and job growth.

Understanding in more detail the human aspects behind innovation is essential for the design of policies that help promote economic development and richer innovation-prone environments locally. Recognizing the key role of innovation as a driver of economic growth and prosperity, and the need for a broad horizontal vision of innovation applicable to developed and emerging economies, the GII includes indicators that go beyond the traditional measures of innovation such as the level of research and development.

A.T. Kearney and its nonprofit subsidiary IMPprove – European Innovation Management Academy are proud to be—for the second time—knowledge partner to the GII. This year, we set out to analyze opportunities and challenges of global innovation management from a corporate perspective.
Foreword

Global Innovation, Local Innovators

For several years now, A.T. Kearney has taken a somewhat distinct stance on innovation. Innovation, in our view, is the culmination of a strong global network that, when combined with local expertise, forges a deeper understanding of the needs and dynamics of markets—ultimately triggering an unconstrained flow of ideas.

For us at A.T. Kearney, this plays out annually at our Global Innovator Days, an innovation competition in which colleagues from our offices in more than 40 countries form teams and submit their latest thinking on concepts that can add value for our clients. Team members are from a variety of practices, geographies, and ranks; they bring their local perspectives, expertise, and sheer enthusiasm to the table. Global Innovator Days is well known for regularly challenging our assumptions, frequently leveraging digital technologies, and always opening up new opportunities.

But executing a global innovation strategy and creating lasting value is a challenging task for any corporation. Our research, conducted as part of our work for the Global Innovation Index (GII), finds that the innovation activities of more than seven out of 10 companies—regardless of their local or global footprints—are becoming more global. Companies expect their innovation networks to grow and, within these networks, the roles of customers, start-ups, suppliers, research institutes, and academia will also grow. Innovation to a large extent will be spurred by the collaborative capabilities of all parties involved, a growing trend that is expected to continue.

Collaboration is essential for unlocking the innovation potential of large corporations as well as small and medium-sized companies that may have outstanding ideas but lack the market access to commercialize them successfully. But matching David with Goliath is not for the faint-hearted. Setting up and maintaining partnerships requires skills that many organizations lack or overlook. Differences in corporate culture, a fear of sharing, and keeping the partnership relevant can all become obstacles to successful innovation if not addressed early.

Our recent work as a knowledge partner of the World Economic Forum on collaborative innovation has shown that innovative approaches and a culture conducive to collaboration
from all parties involved are needed to make global innovation work. These capabilities are key to unlocking the leverage inherent in complementary resources.

Who will benefit most from these developments and how can others foster their innovation capabilities? A.T. Kearney, in collaboration with IMP³rove – European Innovation Management Academy (nonprofit), works with countries, regions, industries, sectors, and companies of all sizes and profiles to support innovation and digitization management capabilities. At the core of our approach and suite of services is a proprietary, growing database of 7,000 company-specific innovation assessments. These assessments allow us to support policy makers, intermediaries, and business leaders in profiling strengths and challenges in innovation management and to highlight areas in which action is needed to accelerate profitable growth and wealth.

I would like to thank the GII team for their excellent work on the 2016 report, and especially for their timely and in-depth research on the theme “Winning with Global Innovation.” We are delighted to be partners in the effort to advance global innovation, with local innovators, as a strategic priority.

**Johan Aurik**  
Managing Partner and Chairman of the Board  
A.T. Kearney
The Management of Global Innovation: Business Expectations for 2020

In 2016, A.T. Kearney and its subsidiary IMP³rove, the nonprofit European Innovation Management Academy, surveyed more than 100 executives of large international organizations in the Americas, Europe, Asia, and Australia to assess their perspectives on global innovation management.1

The survey focused on five areas of interest:

- The future role of innovation for their company
- Changes in the footprint of their innovation activities
- Changes in the structure of their innovation partner networks
- Key challenges and benefits of global innovation management
- The role of public organizations

The executives represent a broad range of companies—both centralized and decentralized—and the findings demonstrate surprisingly broad agreement that innovation activities are becoming increasingly global. This view of global innovation, in which the best-suited partner for a specific goal can be included in the innovation process regardless of his or her location, is both promising and challenging. An obvious challenge is how to find a partner for an innovation topic, which is especially difficult if the appropriate specialist is located far from innovation hot spots. Then there’s maintaining an overview of the changing needs of global customers, and a list of potential start-up and small business partners, two groups whose importance as innovation partners is expected to grow exponentially in the next five years. Such challenges were impossible to overcome before digital allowed companies to interact with global customers on an individual basis, and before small-business partners located in remote parts of the world could join innovation networks.

Almost half of executives say unexpected changes in national regulations have had a negative impact on their innovation success. This can be explained partly by the fact that policy development cycles are usually linked to election periods, while product life cycles or investment life cycles may require much longer time periods. For example, utilities investing in innovative power plants or pharmaceutical companies investing in new medicines require a longer planning time frame for their innovation activities than governments need to formulate and implement policies about these investments or products. This raises the question of how policy makers can systematically boost innovation success by making their regulation plans more transparent.

Today, more than half of executives anticipate that their organizations will lose one-fifth or more in revenues within five years as a result of disruptive innovation if they do not change the ways in which they operate. Digitization, the Internet of Things, and artificial intelligence are all disruptive sources of innovation that represent a clear call to action.

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1 Survey participants represent manufacturing (19 percent); energy and process industries (17 percent); consumer goods and retail (15 percent); communications, media, and high tech (14 percent); financial institutions (10 percent); automotive (10 percent); and other industries (14 percent).
The Increasingly Central Role of Innovation

Eighty percent of executives expect the revenue contribution from innovation to increase or significantly increase between now and 2020. This revenue growth is almost on a par with the revenue growth from launching existing products, services, and business models in new markets (see figure 1). Herein lies the overarching challenge: Companies will need to speed up or increase their innovation activities and nurture their impact in global markets.

Figure 1
By 2020, innovation’s contribution to revenue growth could be on par with revenue growth of existing products

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<td>Innovative business models</td>
<td>4%</td>
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<td>15%</td>
<td>58%</td>
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<td>Innovative processes</td>
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<td>3%</td>
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<td>Launch of existing products,</td>
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<td>services, or business models in new markets</td>
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Note: Innovation is defined as products, services, and business models introduced within the past three years.
Sources: IMP³rove – European Innovation Management Academy; A.T. Kearney analysis

Unless they change the way they operate, 60 percent of executives expect to lose more than 20 percent of revenues within five years as a result of disruptive innovation. The top three industries experiencing the biggest impact are financial institutions; communications, media, and high tech; and automotive. When asked what the major disruptions driving these estimates are, executives across all industries say digitization and the Internet of Things. Within industries, fintech execs point to technology-enabled financial services, high-tech leaders say artificial intelligence, and auto executives put electric cars and autonomous driving at the top of their list. The speed with which the disruption is occurring is best illustrated by the top five global fintechs. PayPal, Lufax, Zhong An, Square, and Wirecard now have twice the valuation of five leading German banks (Deutsche Bank, Commerzbank, Aareal Bank, pbb, and Comdirect).

Changes in the Reach and Complexity of Innovation Platforms

Seven out of 10 executives agree or strongly agree that their innovation activities are becoming more global. In this context, a more global innovation activity can, for example, relate to idea sourcing within a global community or collaboration on innovation projects with a geographically widespread team. This expectation is shared by organizations regardless of whether their business is centralized (more than 75 percent of employees are based in the corporate

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2 The definition of innovation used here involves a dimension of time; for the purposes of the survey, innovation is understood to mean products, services, or business models introduced in the past three years.

3 Klemm and Walter, 2016
headquarters’ country), decentralized (less than 25 percent of employees are based in the headquarters’ country), or set up as a hybrid with 25 percent to 75 percent of employees based in the headquarters’ country.

A majority of executives say innovation partnerships across countries will significantly impact revenues and global brand perception (see figure 2 on page 7). Fewer than half say innovation partnerships across countries contributed significantly to revenues in the past year, yet three out of four expect these partnerships to contribute significantly in the next five years. Similarly, fewer than half of executives think cross-country innovation partnerships contributed to global brand perception, but close to 70 percent agree when the issue is considered in a five-year context. The increasing role of digitization and the Internet of Things is an important factor in this regard. For example, partnerships can contribute to a major change toward a more innovative brand perception, increased differentiation, and higher revenues—as in the case of a manufacturer of white goods that collaborates with start-ups to develop Internet-of-Things applications such as self-refilling refrigerators.

Proximity to innovation partners is among the top five criteria when choosing a country in which to incubate an innovative new business. Also access to markets, access to talent, local regulations, and infrastructure (both information and communication technologies and transport) are key criteria. This is good news for governments, because to attract innovation, they can influence three out of these five factors directly: local regulations can be developed in the short to medium term, and both education and infrastructure can be fostered in the medium to long term. In the World Economic Forum report, Fostering Innovation-Driven Entrepreneurship in Europe, two out of nine leading European policy makers highlight their efforts to connect their innovation.

Key Findings

Innovation is expected to transform revenue generation. Sixty percent of executives think they will lose more than 20 percent of their company’s revenues within five years as a result of disruptive innovation if they do not change the way they currently operate. Eighty percent expect the revenue contribution from innovation to increase or increase significantly between now and 2020.

Innovation will be increasingly global and collaborative. Most companies work with external partners on their innovation agendas. Three types of innovation partnerships are ranked as having a high or very high impact: customers (60 percent), large suppliers (40 percent), and research institutes or academic institutions (34 percent).

The trend in leveraging innovation partners is expected to rise, with executives projecting an increase or significant increase in the role of customers (78 percent), the role of start-ups and small suppliers (67 percent), and the role of research institutes or academic institutions (45 percent).

Seven out of 10 executives agree or strongly agree that their innovation activities are becoming more global. Indeed, 80 percent consider five factors to be important when choosing a country to incubate a new business: proximity to innovation partners, access to markets, access to talent, supportive local regulations, and sufficiently high-quality infrastructure (information and communication technologies, transport).

Most companies’ innovation platforms are not ready to fully navigate this new landscape. The increasing size of innovation networks drives the need for excellence in governance structure and processes. The majority of executives rate their capabilities to identify, select, build and operate, and exit innovation partnerships as (very) poor or fair.

From a policy maker’s perspective, the capability gap and its implications will need to be addressed. To date, four out of 10 executives are not aware of nonfinancial support and incentive programs. Moreover, close to 50 percent of executives report that unexpected changes in national government regulations have had a negative impact on their innovation successes in the past.
ecosystems with global hubs such as Silicon Valley to unlock the benefits of proximity to the world’s top innovators.4

Changes in the Structure of Innovation Platforms

The extent to which partners are being integrated into company innovation activities is on the rise. According to our findings, today three types of innovation partnerships are ranked as having a high or very high impact: customers (60 percent), large suppliers (40 percent), and research and academia (34 percent). Key expected trends include a further increase in the role of customers (78 percent of those surveyed expect an increase or significant increase in the impact of customers as innovation partners), in the role of start-ups and small suppliers (67 percent), and in the role of research and academic institutions (45 percent) (see figure 3 on page 8).

Executives not only expect their innovation networks to change in structure over the next several years, but also to grow geographically: seven out of 10 anticipate having a larger innovation network on their headquarters continent, and four out of 10 expect to have a larger, broader network across all continents.

4 World Economic Forum, 2014
This expectation seems achievable when considering the effect of digitization on innovation management. While 20 years ago, a network of 100 innovation partners was exceptional, in recent years GE has run its Ecomagination Challenge to solve the world’s most challenging problems and within six months had an online community of 60,000 innovators located in 90 countries, and has crowd-sourced more than 5,000 ideas.5

The Central Challenge: Immature Platforms and Missed Opportunities

There are prerequisites for successfully managing an innovation network. One is anchoring global innovation as a topic that CEOs endorse and actively support throughout the corporate hierarchy. Another is implementing processes that institutionalize collaboration, for example, creating separate units for investing in innovative ventures or engaging in collaborative innovation.6

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5 King and Lakhani, 2013
6 World Economic Forum, 2013
Yet, 58 percent of executives rate their governance structures and processes to drive innovation activities across geographies and business units as fair, poor, or very poor (see figure 4).

Consider IBM: In 1999, the company failed to commercialize a number of promising technologies such as the commercial router, which was developed by IBM but became a commercial success for Cisco. Analyzing reasons for its failures helped IBM identify major roadblocks: incentives for execution that rewarded short-term impact; a myopic focus on existing markets and existing offerings; and a lack of discipline in selecting, experimenting, funding, and terminating new growth business. Recognizing the need for innovation-specific governance and processes, IBM launched the Emerging Business Organization (EBO). Since 2000, EBO has generated more than $25 million in new revenues for IBM.7

More than half of executives are critical of their existing formal processes intended to identify, select, build and operate, and exit innovation partnerships, rating them as very poor, poor, or fair. Time-consuming, cumbersome, and costly processes can become high hurdles before an innovation partnership even begins. Executives especially cite a lack of flexibility when it comes to working with smaller companies or start-ups, as only five out of 10 executives adapt their processes for small or start-up partners (see figure 5 on page 10). Yet, as discussed earlier and shown in figure 3, partnerships with smaller partners are expected to see significant growth in the next five years, going from 18 percent today to 67 percent by 2020.

In our work as knowledge partners of the World Economic Forum, we find that challenges and suggested response strategies can be grouped into three categories—prepare, partner, and pioneer.8 Our report, Collaborative Innovation: Transforming Business, Driving Growth, demonstrates that the most significant challenge and the greatest positive impact springs from how well firms prepare to collaborate. This implies having well-defined objectives, a carefully designed business case, and suitable organizational processes. A supportive culture and links to relevant networks are important predictors of success, as are processes designed and tailored for collaboration between large and small partners. As one example, to ease the procurement process with smaller partners, Royal Dutch Shell simplified its governance of collaborations, decentralizing decision making and changing procedural requirements.9

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7 O’Reilly et al., 2009
8 World Economic Forum, 2014
9 World Economic Forum, 2015
The Role of Public Organizations

When asked about the role of public organizations, eight out of 10 executives are aware of public innovation support programs providing financial resources for innovation. However, more than 40 percent are not aware of programs providing nonfinancial support (including co-creation support services) or demand-oriented programs such as preferential purchasing, regulatory measures in building codes, automobile emissions, or energy generation. In light of the finding that companies consider global and collaborative management of innovation a challenge for their current governance structures and processes, there could be untapped opportunities here. Governments can make a difference with specific programs for capability-building and ecosystem development.10

Forty-six percent of executives report that unexpected changes in national government regulations have had a negative impact on innovation. This is particularly evident in industries with long planning horizons, such as the utilities industry. The German utilities industry, for example, invested heavily in modern gas and nuclear power plants, capitalizing on what were then the newest power plant technologies. Changing government regulations, favoring renewable and distributed energy generation, had a severe impact on these power plants and thus an unfavorable return on investment.

Notes: 55% of executives adapt their processes for small and start-up partners specifically, which is a key success factor for these partnerships. Numbers may not resolve due to rounding.
Sources: IMP³rove – European Innovation Management Academy; A.T. Kearney analysis

Recommendations from Innovation Leaders: How to Excel in Global Innovation Management

A recent study finds that better innovation management practices are linked to higher shares of EBIT driven by innovation. When asked, “What do you consider most important in managing a global innovation agenda?” innovation leaders gave the following answers:

“A clear focus on search fields for innovation is imperative.”

To get their innovation strategies right, leading innovators invest upfront in understanding market dynamics, technology dynamics, and service dynamics. They invest time more than money. Once they have their innovation strategy right—not just on paper but in the minds of all their influential internal decision makers—they begin collecting potential ideas into a “portfolio of search fields,” which subsequently becomes the wellhead of the innovation flow.

“Insulate key performance indicators from innovation in the existing business.”

To measure progress in the search fields of the innovation strategy, leading innovators establish key performance indicators (KPIs) that are specific to innovation. These indicators are distinct from the company’s other KPIs and measures. It is remarkable how readily many executives talk about the key performance indicators for their innovation strategies—for example, referring to the “new product vitality index” (the share of innovative products, services, or business models compared to overall revenues), or time to market and time to profit.

“Consistent innovation processes across all our business units and geographies ensure we can integrate and work with innovation partners from all over the world.”

Structured processes help to identify, select, operate, and, when necessary, withdraw from partnerships—indeed, here is the critical value of innovation management: even independent from the business units or geographies involved.

“Nourish freedom of thought and freedom of action in order to spark creativity.”

The fairly consistent result is innovation and a spike in new business.

“Digital infrastructure helps to decrease transaction costs between partners.”

A good structure provides transparency around needs and capabilities and enables a completely new scale of interaction.

“Consistency in regulation is critical.”

In some countries disparities exist everywhere, making it difficult to launch products and services on a national basis.

11 IMP³rove – European Innovation Management Academy, 2016
12 Engel et al., 2015
Catching the Next Wave of Innovation

Findings in this global study reveal a dichotomy: Although innovation is expected to drive revenue growth and brand perception across industries in the short term, challenges remain in building the needed capacity to harness this growth. For example, to benefit fully from the evolving central role of innovation, its management must become more global. Furthermore, innovation that is customer-driven or derived in collaboration with start-ups or with small and medium-sized enterprises not only represents the largest potential but also presents a real challenge. Many executives rate their own capacity to integrate innovation partners globally into their process as very poor, poor, or fair. The challenge then is to systematically harness partner ecosystems for innovation, building on disruptive procurement methods and sustainable partner relationships. Organizations that do so will be best prepared to catch the next wave of innovation.

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Take Action

We invite you to reach out to us to start an innovation capability measurement of your company, using the unique IMP³rove Assessment already applied by more than 5,000 companies globally.
References


A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world’s foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

The IMP³rove – European Innovation Management Academy offers innovation management benchmarking, advisory services, and training. With a holistic approach to innovation management and a global network, IMP³rove Academy sets the standard for innovation management assessment and related support services. IMP³rove Academy emerged from the European Commission’s flagship program “IMP³rove.” For more information, visit www.improve-innovation.eu.

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.