BCG

REPORT

Innovation 2010

A Return to Prominence—and the Emergence of a New World Order

THE BOSTON CONSULTING GROUP

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Executive Summary

The Boston Consulting Group, working in partnership with *BusinessWeek,* recently completed its seventh annual global survey of senior executives on their innovation practices. This report summarizes that survey's results. It covers the full suite of interrelated activities involved in turning ideas into financial returns, going well beyond ideation and new-product development to include such issues as portfolio and life-cycle management, organizational alignment, and demands on leaders. It discusses what works and what doesn't and the actions companies are taking to make innovation happen. Finally, the report offers pragmatic advice for individuals who want to make a difference in their organizations.

Our survey revealed that, after a moderate retrenchment in 2009, companies have recommitted to pursuing innovation in 2010. They have pushed it back to the top of their priority lists and plan to boost their innovation spending—despite the stagnant economy. Indeed, many companies consider innovation a key weapon in their efforts to seize the benefits of a tentatively emerging economic recovery. The report also postulates that a new world order in innovation is taking hold, one in which rapidly developing economies (RDEs), led by China, India, and Brazil, will increasingly assume more prominent positions, while the United States and other mature economies continue to play major roles but gradually become less dominant.

This report examines these and a host of other innovation-related topics, including which types of innovation companies consider most critical to their success, what companies consider to be the biggest obstacles to raising their return on innovation spending, and how innovation is regarded within organizations. The report also suggests actions that companies and their leaders can take to maximize the return on their innovation efforts in this still very challenging economic and business environment.

After a pause in 2009 that reflected companies' growing concerns about the economy, innovation is once again a top priority for most companies.

- A large majority of companies consider innovation a top strategic priority for 2010. Seventy-two percent of respondents said that their company considers it a top-three priority, versus 64 percent in 2009. This percentage matches the highest reading seen in the seven years we have been conducting the survey.

- Fully 84 percent of respondents said their company considers innovation an important or extremely important lever in its ability to reap the benefits of an economic recovery.

Companies' willingness to spend on innovation, and their satisfaction with the return on innovation spending, are inching higher.

- The majority of companies expect to raise innovation spending in 2010. Sixty-one percent of respondents (versus 58 percent in 2009) said their company plans to boost spending; 26 percent said their company plans to raise it significantly (that is, by more than 10 percent). Only 8 percent of respondents said their company plans to *reduce* innovation spending, versus 14 percent who said so in 2009.

- Companies' satisfaction with their return on innovation spending continues to edge higher—but remains relatively low. Fifty-five percent of respondents said their company is satisfied, versus 43 percent in 2008 and 52 percent in 2009.

- The majority of senior executives (that is, C-level executives and vice presidents) and decision makers (that is, directors and managers) are satisfied with the return on innovation spending. In sharp contrast, little more than a third of other employees—36 percent of respondents—are satisfied.

Caution remains in the air, however, and companies are adjusting their strategies and tactics.

- Reflecting lingering caution about the economy, companies continue to ramp up their emphasis on innovation geared toward minor improvements to existing products and services (as opposed to, for example, innovation targeting the launch of new products). Eighty percent of survey respondents said their company considers this type of innovation important or extremely important, versus 55 percent in 2008 and 65 percent in 2009.

- Businesses are tempering their innovation investments in RDEs. Forty-one percent of respondents said their company plans to raise its R&D investment in RDEs in 2010, down from 45 percent in 2009. Simultaneously, companies are broadening the types of innovation functions they are targeting with those investments. In particular, they are aggressively expanding their emphasis on product development and idea generation.

Executives consider a risk-averse corporate culture, lengthy product-development times, and inadequate measurement practices to be key areas of weakness.

- Executives identify a risk-averse corporate culture and lengthy product-development times as the two biggest factors holding down the return on their innovation spending.

- The majority of companies are dissatisfied with their innovation-measurement practices. Only 41 percent of respondents said that their company is measuring effectively. Customer satisfaction and overall revenue growth are the two main gauges that companies use to determine the success of their innovation efforts.

The organizations that top our list of the most innovative companies remain unchallenged—but a longer-term change seems to be under way.

- For the fourth straight year, respondents ranked Apple and Google the two most innovative companies, with Apple once again the hands-down winner. Apple has held the top spot in our survey since 2005.

- There is much to suggest that a new world order is emerging, with RDEs, led by China, India, and Brazil, gradually assuming more prominent positions, while the United States and the other mature economies continue to play major roles but gradually become less dominant.

- Less than half of survey respondents believe that U.S. companies will remain the most innovative over the next five years.

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Innovation in 2010

Innovation, after a brief pause, is back. That was the headline message conveyed by our latest annual survey on the topic, which reflects the insights of nearly 1,600 executives. Companies had taken a relatively defensive stance on innovation heading into 2009, easing back on spending plans and keeping a closer eye on costs. While that caution has certainly not vanished, the general outlook is significantly more positive. Companies believe in innovation, consider it critical (especially in the current economic environment), and are increasingly willing to spend more to become more innovative.

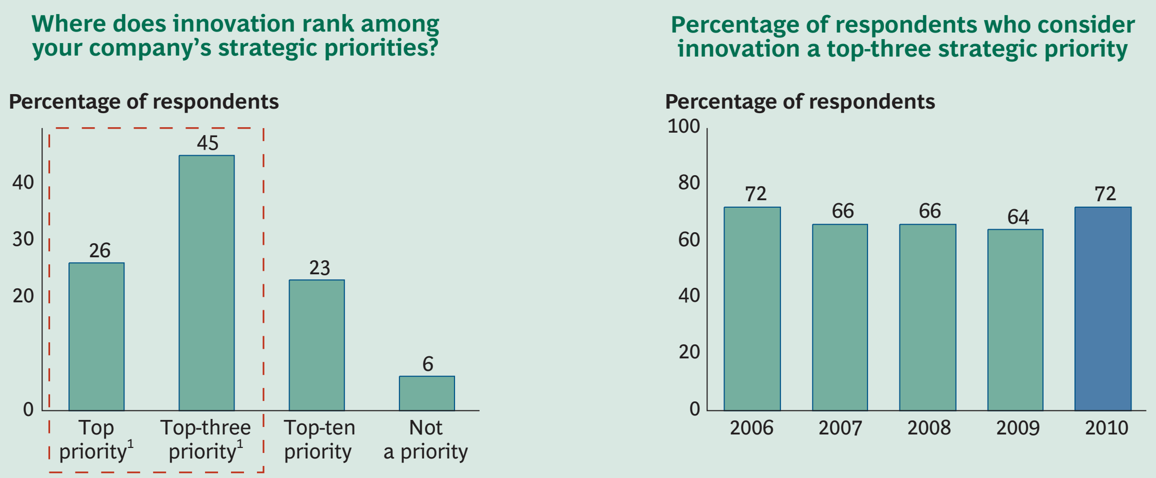
Simultaneously, there is much to suggest that a new world order in innovation is emerging, one in which RDEs, led by China, India, and Brazil, are in the ascendancy and gradually assume the reins from established economies, in particular the United States, which has long been (and remains) the torchbearer for innovation. The implications of this trend, especially for managers, are sizable.

Below we discuss the current state of play in innovation, starting with the importance companies are attaching to innovation and how that translates into spending plans.

Innovation Regains Its Priority Status

After falling for several years, innovation's status as a strategic priority bounced back strongly in 2010. (See Ex-

Exhibit 1. Innovation Returned to Prominence in 2010



Sources: BCG Senior Executive Innovation Surveys, 2010, 2009, 2008, 2007, 2006.
[1]The total percentage of respondents who said that innovation is one of their company's top-three priorities rounds to 72 percent.

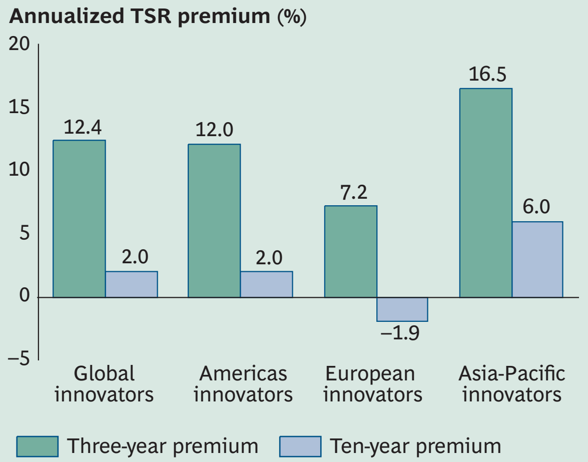
hibit 1.) Seventy-two percent of respondents said it is one of their company's top-three strategic priorities, up significantly from the 64 percent who said so in 2009. Innovation is deemed particularly important by the travel and tourism and retail industries; 79 percent and 77 percent of respondents from those industries, respectively, said that their company considers it important or extremely important.

A strong majority of respondents—fully 84 percent—also said they consider innovation important or extremely important for positioning their company to benefit from an economic recovery. This view held across industries, with automakers, in particular, deeming it essential (93 percent of respondents from that industry said they consider it vital).

As we have noted in previous reports, making innovation a top priority pays off. There is a strong correlation between innovation prowess and overall business success, as evidenced by the organizations that consistently top our list of the most innovative companies. Emphasizing innovation is also a proven boon to shareholders. We looked at the total shareholder returns of the most innovative companies (as identified by our survey respondents) versus those of their industry peers for the three- and ten-year periods ending December 31, 2009; the results were compelling. (See Exhibit 2.) Globally, on an annualized basis, innovators outperformed their peers by a whopping 12.4 percentage points over three years and by a more modest but still significant 2 percentage points per year over ten years. The bottom line: if you are an investor, you'd do well to seek out innovative companies.

Exhibit 2. Innovative Companies Typically Generate Superior Returns for Shareholders

Three- and ten-year annualized total-shareholder-return premiums of innovative companies compared with their industry peers



Sources: BCG 2010 Senior Executive Innovation Survey; BCG ValueScience Center analysis.
Note: Returns were annualized for December 31, 2006, to December 31, 2009, for the three-year comparison, and for December 31,1999, to December 31, 2009, for the ten-year comparison, and account for price appreciation and dividends. To generate the comparison data, we compared the TSR of each innovative company, as identified by survey respondents, with the TSR of its industry overall and averaged the differences globally and by region.

Companies' Spending Plans

Consistent with this heightened emphasis on innovation, companies are nudging up their spending. Sixty-one percent of respondents said that their company plans to boost its innovation spending (versus 58 percent in 2009); 26 percent said their company plans to raise spending significantly (that is, by more than 10 percent). And only 8 percent of respondents said their company plans to *reduce* innovation spending, versus 14 percent who said so in 2009. (See Exhibit 3.)

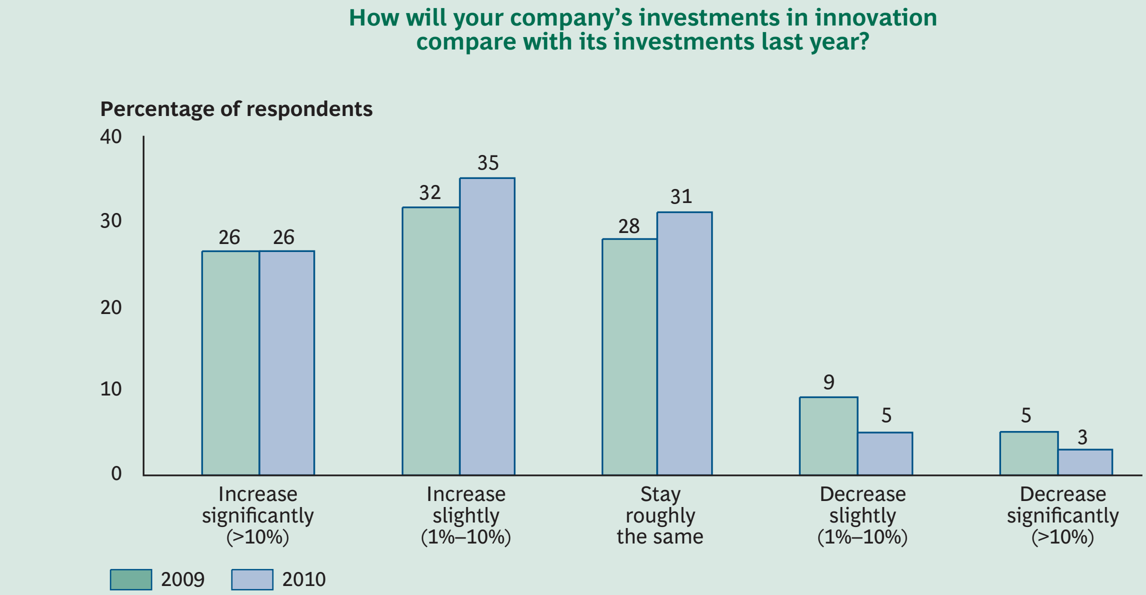
By industry, automotive companies are the most bullish: 69 percent of respondents said their company would raise innovation spending, and 36 percent said their company would do so significantly.

Satisfaction with the Return on Innovation Spending

One factor that may be driving the uptick in spending plans is rising satisfaction with the return on innovation spending. While the level of satisfaction is still low—only 55 percent of respondents said that their company is satisfied—it has been on the rise for the last three years. (See Exhibit 4.) Satisfaction is particularly strong this year among consumer products companies; 64 percent of respondents from that industry said that their company is satisfied.

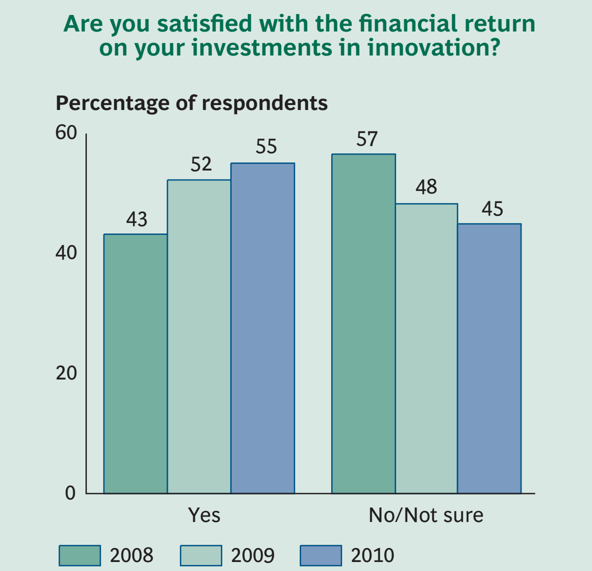
Worth noting, though, is the persistent difference in view between senior executives and decision makers and the

Exhibit 3. Sixty-One Percent of Companies Plan to Increase Their Innovation Spending, While Only 8 Percent Plan to Reduce It



Sources: BCG Senior Executive Innovation Surveys, 2010, 2009.

Exhibit 4. Satisfaction with the Return on Innovation Spending Has Risen for the Past Three Years but Remains Low



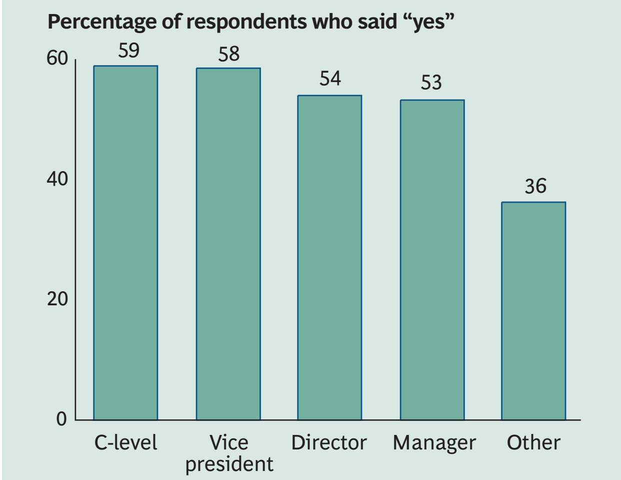
Sources: BCG Senior Executive Innovation Surveys, 2010, 2009, 2008.

rest of the company. Simply put, the top brass are far more satisfied. In 2010, the majority of C- and VP-level executives, directors, and managers said they were satisfied with their company's return on innovation spending, versus only 36 percent of other employees. (See Exhibit 5.) C-level executives are the most satisfied (59 percent of respondents), as they have been historically in our surveys. Given the role that these executives, particularly the CEO, play in their organizations' innovation efforts—the CEO has consistently been identified as the biggest force driving innovation in our surveys—this enthusiasm is perhaps not surprising. (See Exhibit 6.) In fact, it's probably vital to have a bullish CEO if innovation is critical to your company.

But the ongoing gap in perspective between top executives and the rest of the organization may be indicative of problems—or problems to come. Assuming that the CEO is, in fact, correct in his or her assessment, he or she should ultimately be able to sell that vision to the rest of the company. But clearly this hasn't happened. Could it be that CEOs and other top executives are wrong? Does the rest of the company have a better read on the true state of affairs? Obviously both sides can't be right.

Exhibit 5. Satisfaction With the Return on Innovation Spending Correlates Closely with Position in the Organization

Are you satisfied with your company's return on innovation spending?



Source: BCG 2010 Senior Executive Innovation Survey.

A final thought on the topic of leadership: CEOs are the most recognized leaders of companies' innovation efforts. Yet only 28 percent of survey respondents identified the CEO as the key driver at their company. This suggests a general absence of high-level leadership regarding innovation—and a real opportunity for many companies to improve.

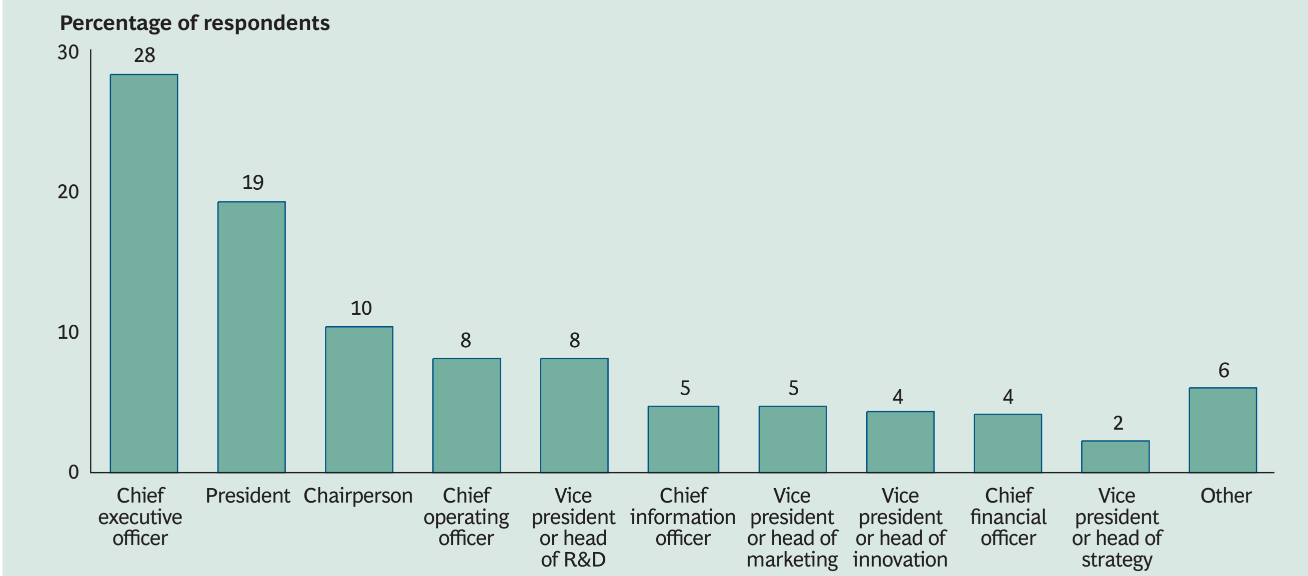
Measurement Practices

Gauging returns on innovation spending with any confidence requires proper measurement. Are most companies hitting the mark? Based on our survey, the answer is no. Only 41 percent of respondents said they are satisfied with their company's measurement practices.

The choice of metrics is undoubtedly part of the problem. Companies' biggest flaw is typically that they undermeasure. Our 2009 report *Measuring Innovation 2009: The Need for Action* revealed that the majority of companies use only 5 or fewer metrics. In contrast, our experience has shown that 10 to 12 metrics are required to provide the information necessary to really manage, rather than

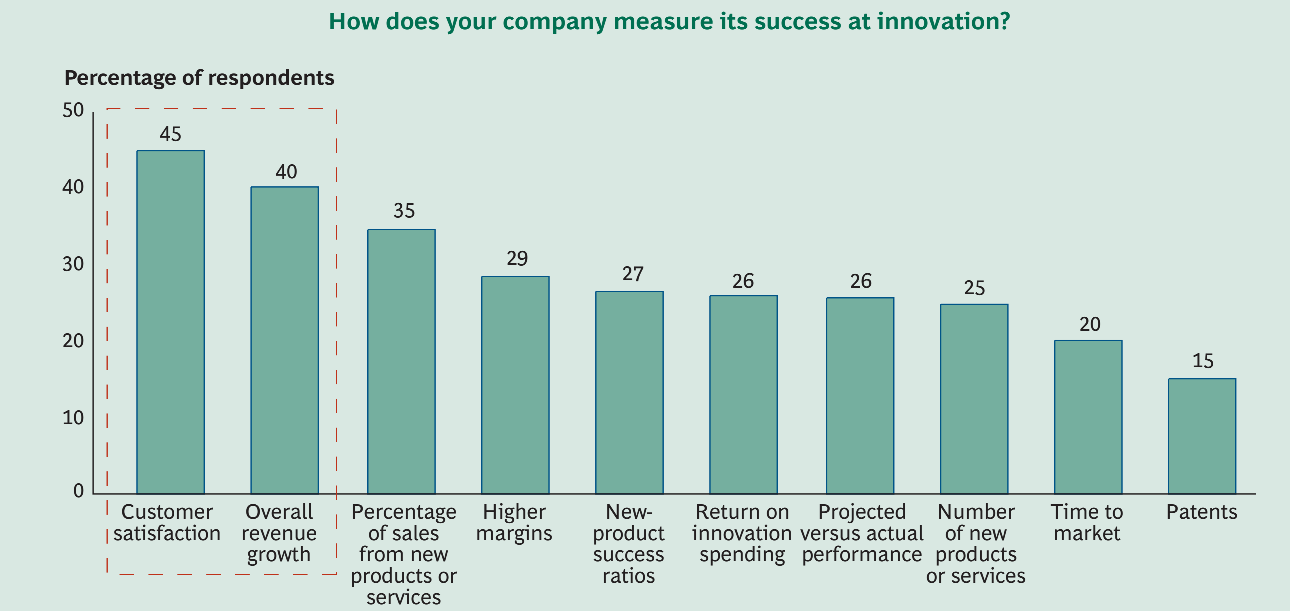
Exhibit 6. CEOs Are Innovation's Biggest Champions

Who is the biggest force driving innovation at your company?



Source: BCG 2010 Senior Executive Innovation Survey.

Exhibit 7. Customer Satisfaction and Overall Revenue Growth Are the Most Commonly Used Metrics



Source: BCG 2010 Senior Executive Innovation Survey.

merely react to, the innovation process. Companies go wrong in other ways as well. They measure the wrong things, they fail to tie incentives to metrics so that the metrics "stick"—or, in some cases, they do not measure at all.

When companies do measure innovation, which metrics do they use? In past surveys, the two most widely employed yardsticks were customer satisfaction and overall revenue growth. That remains the case in 2010, with 45 percent and 40 percent of respondents, respectively, naming these two metrics. (See Exhibit 7.) Neither of these measures is perfect, it should be noted, since both are influenced by many other factors besides a company's innovation capabilities or success.

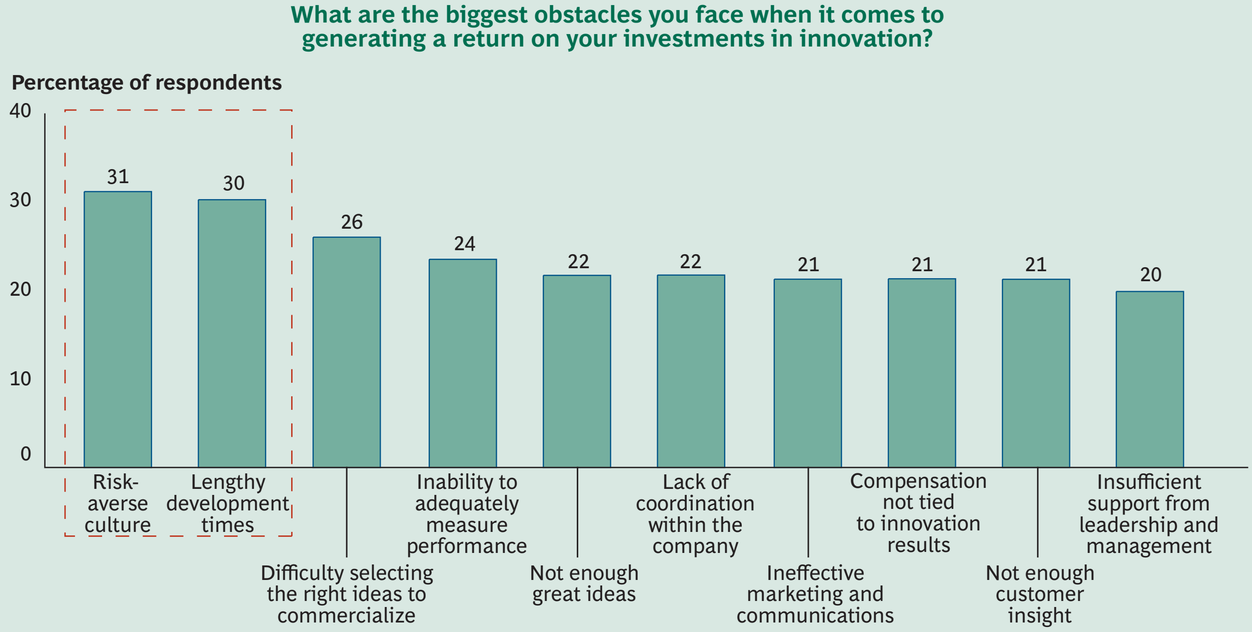
One metric that continues to be underutilized is time to market—this year, only 20 percent of respondents said their company monitored it. Given that respondents have consistently identified lack of speed as one of their company's biggest weaknesses, as well as one of the biggest hurdles to raising their return on innovation spending, the neglect of this measure remains perplexing. Given the persistent failure to measure the time it takes to turn ideas into cash, however, the lack of progress in actually improving time to market is totally understandable.

Hurdles to Generating a Higher Return on Innovation Spending

What do companies believe is weighing down their return on innovation spending? Respondents identified a broad mix of challenges. (See Exhibit 8.) The most frequently cited were a risk-averse corporate culture (31 percent of respondents) and lengthy development times (30 percent), which have been the top two responses for the past several years. A risk-averse culture is a particular problem for retailers (40 percent of respondents from that industry identified it) and makers of consumer products (36 percent). Long development times are a major barrier for entertainment and media companies (40 percent of respondents) and, not surprisingly, pharmaceutical companies (38 percent).

It is noteworthy that, as in past years, relatively few respondents (22 percent) identified a shortage of great ideas as a major hurdle. (The noteworthy exception is

Exhibit 8. A Risk-Averse Culture and Lengthy Development Times Are the Biggest Hurdles to Improving the Return on Innovation Spending



Source: BCG 2010 Senior Executive Innovation Survey.

travel and tourism companies: 34 percent of respondents from that industry identified it as a challenge.) In fact, most organizations have any number of promising ideas. But generating ideas and turning those ideas into cash are two entirely different things, as most companies learn fairly quickly.

Goals and Tactics

Our survey revealed some interesting shifts in companies' innovation goals and how they plan to achieve them. Specifically, we looked at the types of innovation that companies target and their use of RDEs.

What Kind of Innovation?

Innovation comes in a variety of forms, from small changes to existing products and services to new offerings that launch whole industries. For the past four years, we have asked respondents to identify the importance of innovation leading to five different types of output:

- "New to the world" products or services that create entirely new markets
- New offerings that allow expansion into new customer groups
- New offerings for existing customers
- Incremental changes to existing offerings
- Lower production costs for existing offerings (through the use of cheaper materials, for example)

As Exhibit 9 shows, innovation leading to new offerings for existing customers has been the top choice each year, followed by new offerings that allow expansion into new customer groups. The importance that companies assign to the latter has been and remains rock solid, but there has been an ongoing easing back of the priority attached to new offerings for existing customers. This trend continued in 2010.

Simultaneously, there has been a noticeable change in the importance attached to the more conservative end of the innovation spectrum. Innovation leading to minor changes in existing products and services has been climbing as a priority and jumped a full 15 percentage points in 2010. And while the importance of innovation leading to cost reductions in existing offerings didn't rise in 2010, it stayed essentially unchanged from 2009, which saw a strong jump from the previous year.

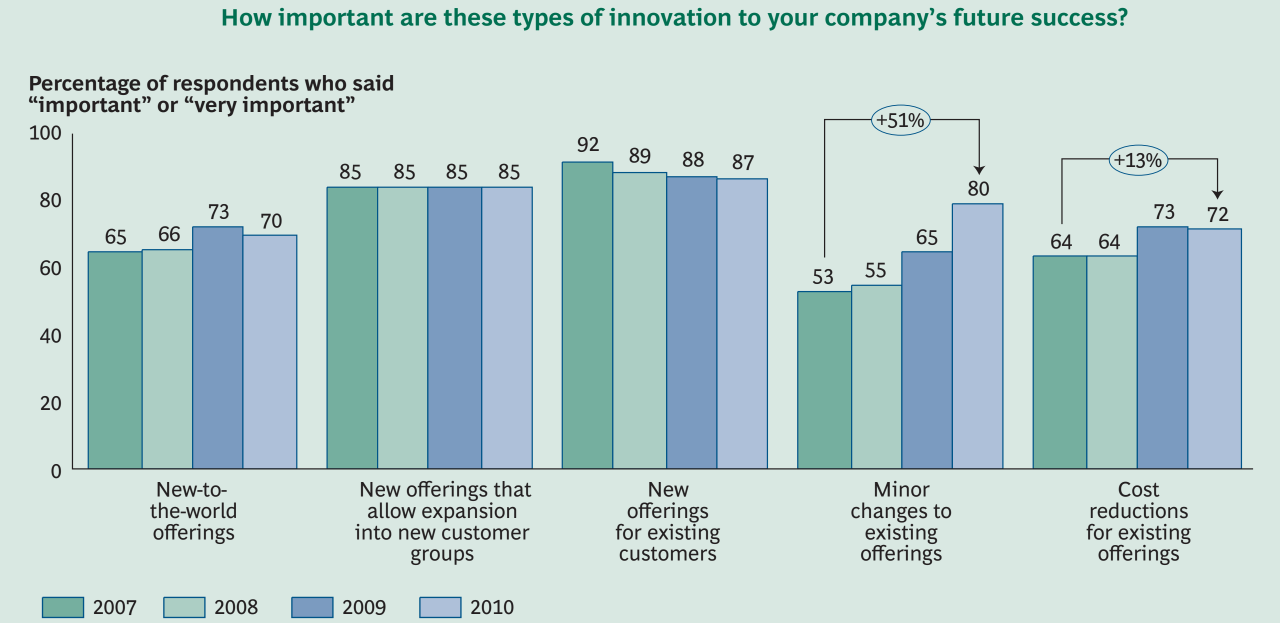
What this suggests is that, while companies have pushed innovation to the front burner in terms of priority and are loosening their purse strings a bit, they remain cautious and are hedging their bets about the economy. Rather than moving aggressively to discover, invent, and capitalize on new growth areas, they are emphasizing safe bets and trying to prepare for a range of scenarios.

There were some noteworthy findings by industry. New products and services for new customer groups were deemed a particularly key objective by automakers (93 percent of respondents said this category was important or very important) and energy companies (88 percent). New offerings for *existing* customers were identified as a high priority by manufacturing companies (90 percent of respondents). Minor changes to existing products and services were identified as key by travel and tourism companies (93 percent) and retailers (85 percent).

Leveraging RDEs

Interestingly, after a strong rise in commitment to RDEs in 2009—45 percent of survey respondents said that their company planned to raise its investment in RDEs, versus 37 percent who said so in 2008—companies now appear

Exhibit 9. Companies Are Raising Their Emphasis on the Conservative End of the Innovation Spectrum



Sources: BCG Senior Executive Innovation Surveys, 2010, 2009, 2008, 2007.

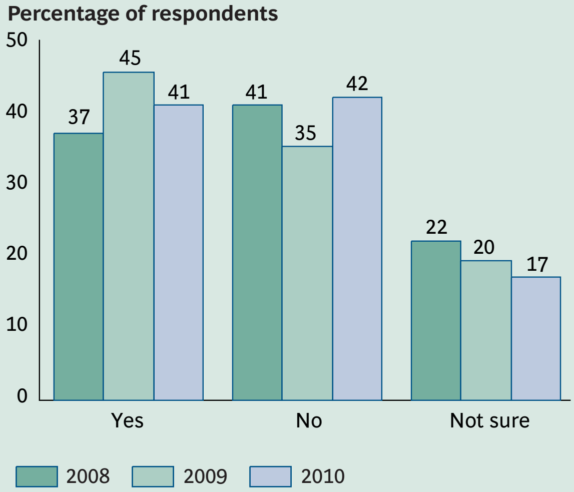
to be tempering their enthusiasm. (See Exhibit 10.) Forty-one percent of respondents said that their company would raise its investment in RDEs in 2010. And 42 percent said that their company would *not* do so, up from 35 percent in 2009. There could be a number of reasons for the change in sentiment, ranging from general concerns about risk to political constraints (moving jobs overseas in the current economic climate risks a major backlash and damage to a company's brand).

In terms of country and regional allocations, China looks to be the biggest winner in 2010—fully half of the respondents who said that their company would increase its RDE investment said it would raise its spending there. By industry, the most bullish on China are manufacturers (57 percent of respondents), pharmaceutical companies (54 percent), and technology and telecommunications businesses (54 percent). At the other end of the spectrum are consumer products companies—only 39 percent of respondents from that industry said their company would raise its spending in China.

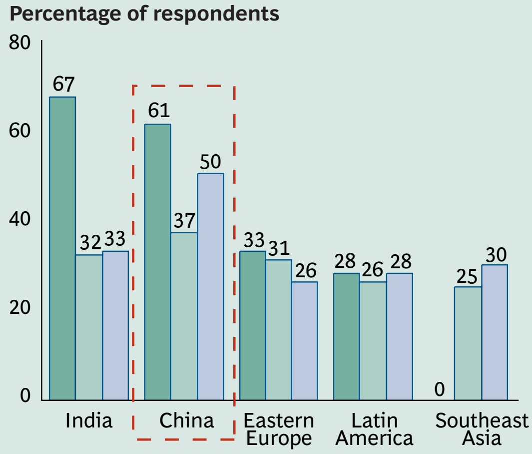
Interestingly, while companies have turned more cautious on increasing their aggregate RDE investment, they have also broadened the focus of their investments. (See Exhibit 11.) Perhaps most noteworthy, they are planning to raise investments in testing, design, and basic research—a clear signal that they are growing increasingly comfortable with utilizing RDEs for higher-value-added functions. Companies are also planning significant increases in product development and idea generation. Sixty-two percent of respondents said that their company would raise its RDE investments in product development in 2010 (versus 49 percent who said so in 2009), led by financial services companies (64 percent) and manufacturers (63 percent). Forty-one percent of respondents said their company would raise its investment in idea generation (versus 28 percent in 2009).

Exhibit 10. Growth in RDE Spending Is Slowing Down...

Is your company planning to increase its innovation investments in low-cost countries or regions?



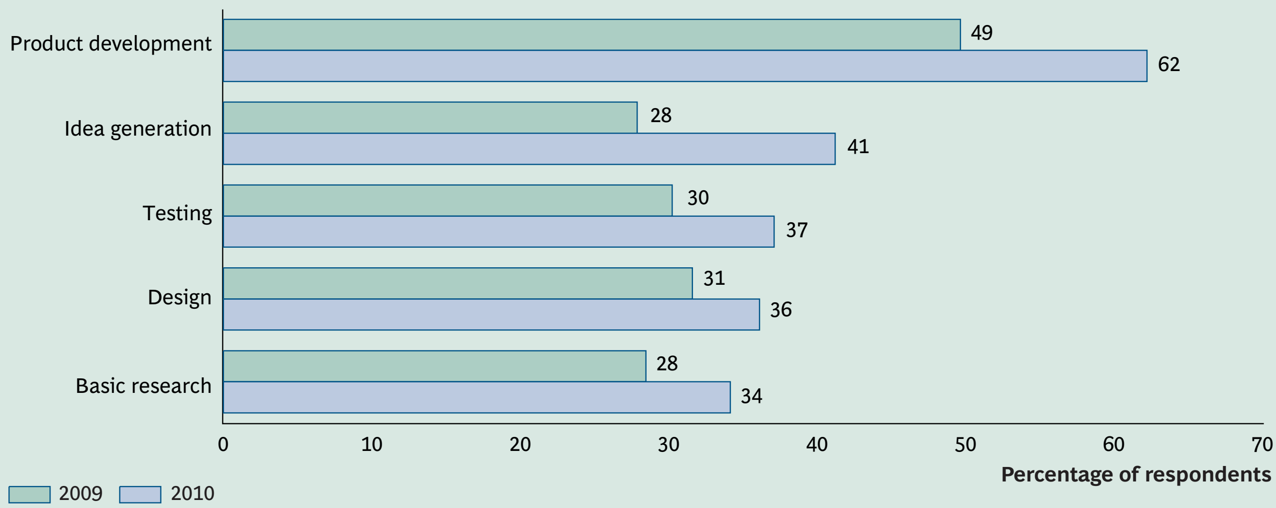
If so, in which countries or regions will it be increasing its investments?



Sources: BCG Senior Executive Innovation Surveys, 2010, 2009, 2008.

Exhibit 11. ...but Companies Are Broadening the Focus of Their RDE Investments

If your company plans to increase its allocation to RDEs, which of the following types of innovation investment will it be making?



Sources: BCG Senior Executive Innovation Surveys, 2010, 2009.

The Most Innovative Companies

Which are the world's most innovative companies? We put the question to survey respondents and, as we have done for the past three years, supplemented their answers with a weighted average of their respective companies' performance along three financial measures: three-year shareholder returns, three-year revenue growth, and three-year margin growth. (Respondents' votes counted for 80 percent of the ranking, shareholder returns for 10 percent, and revenue and margin growth for 5 percent each.)

The results are presented in Exhibit 12. There were few surprises at the very top of the list. Apple and Google once again took the top two spots, as they have for the last four years. Apple's ongoing dominance, in particular, merits comment. The company has held the number-one ranking since 2005. Can it maintain its viselike grip on the top spot? To gauge opinions, we asked respondents to name the company they consider most likely to topple Apple within the next five years. The two names mentioned most often, perhaps not surprisingly, were Google and Microsoft. But it is worth noting that the third most frequent response was "no one," suggesting that many believe Apple will not fade anytime soon. Time will tell.

There is also a fair amount of year-over-year consistency elsewhere near the top of the list, despite some shuffling in rank. But the list is far from static. Indeed, newcomer BYD Company, a Chinese manufacturer of automobiles and rechargeable batteries, notched an impressive eighth-place ranking. The company is the torchbearer for a small but noteworthy collection of companies from RDEs that this year made the top-50 list for the first time. (See Exhibit 13 and the next chapter.)

In addition, there were a number of big moves among more widely known businesses. LG Electronics, for example, moved to 7th place on the list from 27th in 2009. Intel (which moved to 12th place from 33rd) and Ford Motor Company (which moved to 13th from 31st) also saw large rises in rank.

Finally, we asked respondents to identify the most innovative companies within their respective industries. Exhibit 14 shows the top five in each industry. These results are based solely on respondents' votes (no financial criteria were used in these rankings).

Exhibit 12. The Most Innovative Companies

Which global companies do you consider the most innovatiive?

Rank	Company	Headquarters
1	Apple	United States
2	Google	United States
3	Microsoft Corporation	United States
4	IBM Corporation	United States
5	Toyota Motor Corporation	Japan
6	Amazon.com	United States
7	LG Electronics	South Korea
8	BYD Company	China
9	General Electric Company	United States
10	Sony Corporation	Japan
11	Samsung Electronics	South Korea
12	Intel Corporation	United States
13	Ford Motor Company	United States
14	Research in Motion	Canada
15	Volkswagen	Germany
16	Hewlett-Packard Development Company	United States
17	Tata Group	India
18	BMW Group	Germany
19	The Coca-Cola Company	United States
20	Nintendo	Japan
21	Wal-Mart Stores	United States
22	Hyundai Motor Company	South Korea
23	Nokia Corporation	Finland
24	Virgin Group	United Kingdom
25	Procter & Gamble	United States
26	Honda Motor Company	Japan
27	Fast Retailing Company	Japan
28	Haier Electronics Group	China
29	McDonald's	United States
30	Lenovo	China
31	Cisco Systems	United States
32	The Walt Disney Company	United States
33	Reliance Industries	India
34	Siemens Corporation	Germany
35	Dell	United States
36	Nestlé	Switzerland
37	British Sky Broadcasting	United Kingdom
38	Vodafone Group	United Kingdom
39	JPMorgan Chase & Company	United States
40	Oracle Corporation	United States
41	Petrobras Brasileiro	Brazil
42	Banco Santander	Spain
43	Fiat Automobiles	Italy
44	China Mobile	China
45	The Goldman Sachs Group	United States
46	Nike	United States
47	HTC Corporation	Taiwan
48	Facebook	United States
49	HSBC Group	United Kingdom
50	Verizon Communications	United States

Source: BCG 2010 Senior Executive Innovation Survey.
Note: Rankings are based on a combination of survey responses (80 percent weighting), three-year TSR (10 percent), three-year revenue growth (5 percent), and three-year margin growth (5 percent).

Exhibit 13. The Emergence of a New Guard?

All but one of the first-time entrants to our most-innovative list hail from outside the United States

	Rank	Industry	Headquarters
BYD Company	8	Automotive	China
Fast Retailing Company	27	Retail	Japan
Haier Electronics Group	28	Industrial	China
Oracle Corporation	40	Technology/telecom	United States
Petrobras Brasileiro	41	Energy	Brazil
China Mobile	44	Technology/telecom	China
HTC Corporation	47	Technology/telecom	Taiwan

Source: BCG 2010 Senior Executive Innovation Survey.

Exhibit 14. Respondents Named the Most Innovative Companies by Industry

Industry	Companies	Industry	Companies
Financial services	1. The Goldman Sachs Group 2. HSBC Group 3. JPMorgan Chase & Company 4. Citigroup 5. ING Group	**Energy**	1. BP 2. Royal Dutch Shell 3. E.ON 4. Exxon Mobil Corporation 5. Chevron Corporation
Technology and telecommunications	1. Apple 2. Google 3. Microsoft Corporation 4. IBM Corporation 5. Cisco Systems	**Automotive and motor vehicles**	1. Toyota Motor Corporation 2. Ford Motor Company 3. Volkswagen 4. BMW Group 5. Honda Motor Company
Pharmaceuticals, biotechnology, and health care	1. Pfizer 2. GlaxoSmithKline 3. Bayer 4. Novartis Corporation 5. Merck & Company	**Retail**	1. Wal-Mart Stores 2. Amazon.com 3. Target Corporation 4. Fast Retailing Company 5. Tesco
Entertainment and media	1. The Walt Disney Company 2. Sony Corporation 3. Apple 4. News Corporation 5. Google	**Consumer products**	1. Apple 2. Procter & Gamble 3. Unilever 4. Sony Corporation 5. Samsung Electronics
Industrial goods and manufacturing	1. General Electric Company 2. Siemens Corporation 3. 3M 4. Toyota Motor Company 5. Boeing	**Travel, tourism, and hospitality**	1. TUI Travel 2. Hilton Hotels Corporation 3. Marriott International 4. Starwood Hotels & Resorts Worldwide 5. Virgin Group

Source: BCG 2010 Senior Executive Innovation Survey.

An Emerging New World Order in Innovation?

The world's economically mature countries, led by the United States, have been the principal players on the innovation stage for decades. But there is much to suggest that this era of unquestioned dominance is fading. RDEs led by Brazil, India, and China (the BIC countries) are in the ascendancy and appear poised to put a major dent in the mature economies' self-image and position, if not to assume their leadership role outright.

Driving the BICs

What is powering the companies based in RDEs? First, consider the projected economic growth rates of some of these countries. (See Exhibit 15.) China and India, in particular, dwarf the mature economies. Even Brazil's projected growth, which is far more modest, is double that of the United States. Why does growth matter? Especially when it is not solely commodity based, growth means more customers, more revenues, and, ultimately, greater wherewithal to fund innovation efforts. So growth by itself provides a strong tailwind that supports innovation.

Many RDEs add highly supportive government policies to the mix, creating an even more potent brew. Such policies take a range of forms. Some have a specific focus and an immediate effect, such as large, permanent R&D tax credits. Others have a less direct impact but can translate into sizable benefits—for example, building a high-quality workforce through educational programs and immigration policy.[1]

In short, many of these countries, and in particular the BIC countries, are committed to innovation and are investing heavily to build their innovation competitiveness. They realize that innovation is the next battleground, and they are aggressively fighting that battle now. Anecdotal evidence from our 2010 survey makes this crystal clear. For example:

- Eighty-two percent of respondents from the BIC countries said that their company considers innovation a top or top-three priority—for respondents from China, it was 92 percent—versus 68 percent of respondents from mature economies. Thirty-six percent of BIC respondents said their company considers innovation its *top* priority, versus 22 percent of respondents from mature economies. (See Exhibit 16.)

- Fifty-two percent of BIC respondents consider innovation extremely important to their ability to benefit from an economic recovery, versus only 31 percent of respondents from mature economies. Note that these respondents are in countries that will come out of the Great Recession far faster than those in more mature economies.

- Eighty-five percent of BIC respondents said their company plans to increase its innovation spending in 2010, versus 53 percent of respondents from mature economies. And again, given the higher growth rates of the BIC economies, and the fact that they started to come out of the downturn sooner, BIC companies will have the ability to fund these increasing levels of investment more easily (and more consistently) than might be the case for companies in the mature economies.

1. See *The Innovation Imperative in Manufacturing: How the United States Can Restore Its Edge,* BCG and the National Association of Manufacturers report, March 2009. This report takes a comprehensive look at the innovation backdrop in more than 100 countries around the world.

Exhibit 15. RDEs, Led by the BIC Countries, Are Projected to Significantly Outshine Their More Mature Counterparts

	Real GDP growth (%)	2009	2010	2011	2012	2013	2014
Fast-growing economies	Brazil	–0.3	5.5	5.1	4.9	4.6	4.6
	India	6.8	7.7	8.0	8.2	8.0	7.9
	China	8.7	9.6	8.1	8.3	8.3	8.1
	Singapore	–2.1	4.9	4.8	5.2	4.9	5.3
	South Korea	0.1	5.1	4.0	4.3	4.2	4.0
Mature economies	Euro zone	–4.0	0.8	1.1	1.6	1.8	1.9
	France	–2.2	1.4	1.3	1.7	1.9	2.0
	Germany	–5.0	1.1	1.2	2.0	2.1	2.2
	United Kingdom	–5.0	0.7	0.9	1.2	1.5	1.4
	Italy	–4.9	0.8	0.8	1.0	1.0	1.0
	Spain	–3.6	–0.3	0.8	1.2	1.6	1.9
	United States	–2.5	2.5	1.4	2.0	2.2	2.3
	Japan	–5.1	1.5	1.1	1.2	1.0	0.9

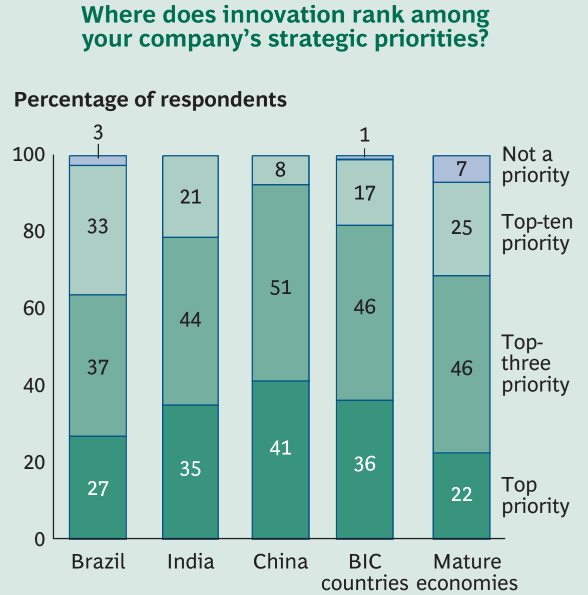
Source: Economist Intelligence Unit.

- Eighty percent of BIC respondents said their company considers innovation leading to new-to-the-world products for new markets important or very important to their success, versus 67 percent of respondents from mature economies. While the days of "copy cat" innovation in the BIC countries are certainly not over, the aspiration and funding for a new approach are increasingly in place.

- Seventy-two percent of BIC respondents said their company is satisfied with its investment return on innovation spending, versus 49 percent of respondents from mature economies. While there are a number of possible reasons for this significant difference, the upshot is that if a company is more satisfied, it is more likely to continue, or even to increase, its investments.

Also worth highlighting is the difference between companies in the BIC countries and their established counterparts when it comes to perceived challenges going forward. Companies from mature economies are most concerned about idea development and being able to identify and fund the right ideas. BIC companies, by con-

Exhibit 16. Innovation Is a Much Higher Priority in the BIC Countries Than in Mature Ones



Source: BCG 2010 Senior Executive Innovation Survey.

trast, see the ability to find, hire, train, and retain talent as their biggest challenge related to innovation. This is likely to be only a transitory concern, though, for several reasons.

First, the educational systems in these countries, especially China and India, are already turning out large numbers of trained science and engineering graduates and have stated goals (and investment plans) to increase those numbers significantly. Second, there are increasing numbers of nationals returning to many of these countries, which also have programs in place to lure even more of them home.

Finally, companies in these countries realize that talent is a major issue and are attacking the challenge aggressively—and with money. Samsung, for example, undertook a program as far back as 2006 to hire 250 world leaders in fields it was interested in and to bring them to South Korea. Companies in Singapore have been very aggressive in hiring life-science professionals.

In sum, companies from the BIC countries are attaching greater importance to innovation, are more confident, and are more focused on creating new markets than are their counterparts in the mature economies. Not surprisingly, the presence of BIC companies on our list of the most innovative companies is expanding, while the presence of U.S. companies, in particular, is fading. In fact, when we asked respondents whether the United States will maintain its acknowledged leadership role in innovation over the next five years, only 49 percent said yes. (See Exhibit 17.)

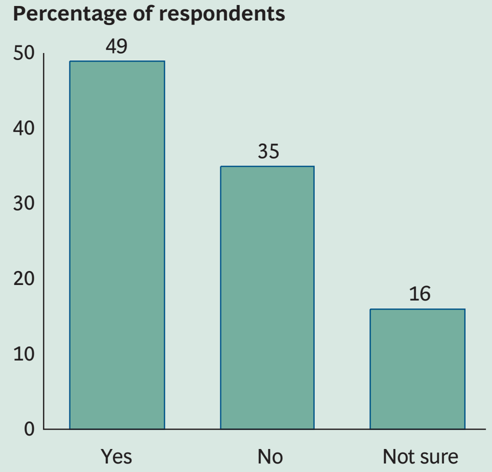
Implications for Leaders

What does all this mean for the managers of businesses in established economies? We believe there are four major implications that most of these executives have not yet fully come to grips with.

1. Becoming better at innovation is probably the single most important thing you can do this year. Why? First, if you have survived the Great Recession so far, you have largely mastered the cost, productivity, and operational excellence playbook. While you probably still have a lot of work to do on those fronts, you also have a line of sight into your next tranche of savings. But so do your

Exhibit 17. The Ongoing Leadership Role of the United States Is in Question

Do you think U.S. companies will continue to be the world's most innovative over the next five years?



Source: BCG 2010 Senior Executive Innovation Survey.

competitors. So all the work you are undertaking will, at best, keep you running toward the next round of cost cuts.

Second, your competitors are themselves working very, very hard to become more innovative—they, too, see innovation as a top strategic priority, are increasingly investing more in it, and have redoubled their efforts in order to be positioned to thrive in the recovery. In fact, in our recent experience with companies, we have seen a very significant increase in innovation work, dating back to about the middle of 2009. That was when the first wave of companies realized first, that the world was not going to end, second, that they were going to survive, and third, that large parts of the world were not going to grow much anytime soon.

In response, these companies ramped up their activities in the faster-growing parts of the world, started to think seriously again about M&A, and turned their attention to dramatically improving their innovation productivity. If you are not one of these companies, you are about a year behind. So you have to improve your innovation capabilities if you want to grow and have any real advantage over your competitors (who are trying to do exactly the same thing).

2. If you don't get better at innovation, your boss (or board) will eventually either stop spending money on it—or find someone who *can* improve things. When executives are satisfied with the financial return on an activity only 55 percent of the time—and when little improvement has been made in whatever is holding back those returns—they won't continue to spend money on it forever. (Remember, a risk-averse culture and lengthy development times have been cited as the major hurdles holding down innovation returns for many years running in our surveys.) Part of the issue may be that most companies can't even define what they really mean by innovation, let alone measure it. And while there is no right or wrong definition, you do need a definition that everyone agrees on and that aligns with your company's strategy (never forget that the purpose of innovation is to make money). Do you have such a definition? And do you know whether your company's innovation efforts are generating adequate returns? If the Great Recession has taught us one thing, it's that activities that don't pay don't survive.

3. Top management is really going to have to get its head into the game this year. In every highly innovative company we know, the CEO truly has innovation near the very center of his or her radar screen. Indeed, the difference between a company whose CEO and leadership team have an "all in" mentality regarding innovation and one whose leadership supports innovation merely at an abstract level is unmistakable—and so is the impact on culture and results.

If you think your company can win at innovation without your being truly committed, you are wrong and will be increasingly exposed. Too many companies are being led by fully committed and engaged leadership teams that have linked innovation to the company's business strategy, put in place the needed measurement systems, and are investing to see the results. If you think innovation is important, make it a genuine priority.

4. Your company cannot afford to cut back on its innovation investments in the BIC countries and other RDEs. If you thought competition was tough in the past, just wait. Increasingly, the companies that are coming into your rearview mirror (or even worse, from your blind spot) will be from countries that you did not have to worry about in the past. Even if your company is headquartered in China, India, Brazil, or any of a handful of other RDEs, you rarely had to think of companies from those countries as truly innovative. Well, now you do. As can be seen from our list of the most innovative companies, the "BIC-plus" world has arrived on the innovation front and is quickly moving into the mainstream. To deal with this new reality, you need to increase your investments in these countries, not decrease them. These markets and locations offer talent, growth, large and dynamic markets, innovative companies, often lower costs, and demanding consumers exposed to the newest of the new. You lower your investment in these countries at your own risk.

We believe that 2010 will be a year in which certain companies and countries create innovation capabilities and results that will take their competitors years to match, if they ever can. To the readers of this report we say, you can't claim that you did not see it coming.

Keeping pace, let alone flourishing, in this environment will demand a two-pronged attack. Your company needs to be actively innovating both in and for the slower-growth, mature economies, which remain very large and profitable. Simultaneously, you need to be ever more focused—no matter how focused you think you already are—on the much faster-growing developing economies, especially China, India, and Brazil, with their promise of large markets and newly innovative competitors. Striking the right balance here will obviously be highly challenging. But the potential competitive rewards of hitting the mark are vast—as is the downside of coming up short. Indeed, skillful leadership in innovation has never been at such a premium.

Survey Methodology

In November 2009, this year's survey was sent electronically to senior management members of the *BusinessWeek* Market Advisory Board, an online reader panel. Participation was voluntary and anonymous. The survey closed in January 2010. In total, 1,590 executives responded, representing all major markets and industries. The responses broke down as follows:

Country or region

United States	469
China	146
Other Asian country	127
Germany	123
Japan	116
France	97
United Kingdom	93
South America	84
Italy	73
India	66
Spain	65
Mexico	41
Other European country	28
Africa	18
Other	44
Total	**1,590**

Industry

Financial services	330
Technology and telecommunications	264
Industrial goods and manufacturing	252
Energy	236
Pharmaceuticals, biotechnology, and health care	144
Consumer products	143
Retail	73
Entertainment and media	58
Travel, tourism, and hospitality	47
Automotive and motor vehicles	42
No response	1
Total	**1,590**

Position

C level	
Chief executive officer	188
Chief technology officer	128
President	117
Chief operating officer	115
Chief financial officer	90
Chief information officer	85
Chairperson	58
Chief innovation officer	36
Subtotal	**817**
Manager of marketing	172
Manager of R&D	126
Director of marketing	74
Director of strategy	67
Vice president of marketing	50
Director of R&D	44
Vice president of strategy	42
Vice president of R&D	18
Other	180
Total	**1,590**

For Further Reading

This survey is a part of BCG's extensive work and research on innovation and how to make it more effective and profitable. A sample of related publications includes the following:

Innovation 2009: Making Hard Decisions in the Downturn
A BCG Senior Management Survey, April 2009

Measuring Innovation 2009: The Need for Action
A BCG Senior Management Survey, April 2009

Innovation 2008: Is the Tide Turning?
A BCG Senior Management Survey, August 2008

Measuring Innovation 2008: Squandered Opportunities
A BCG Senior Management Survey, August 2008

Tripling the Innovation Success Rate—with Less Effort
BCG Opportunities for Action in Industrial Goods, February 2008

Payback: Reaping the Rewards of Innovation
James P. Andrew and Harold L. Sirkin (Boston: Harvard Business School Press, 2007)

Note to the Reader

Acknowledgments

Nearly 1,600 executives from around the world, representing all major markets and industries, responded to BCG's 2010 Senior Executive Innovation Survey. We thank them sincerely for their participation. We would also like to thank the entire BCG team that drove and supported the survey, in particular Mariya Akmal, Dustin Burke, and Michael Greenway. Finally, we would like to acknowledge the editorial and production assistance of Gary Callahan, Kim Friedman, Gina Goldstein, and Gerry Hill.

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