How Innovators Actually Innovate

Idea In Short

Study how top innovators find ideas before funding labs and incubators. Five of the twelve discovery sources are free to any alert company, from customer complaints to employee ideation. Acquisitions capture innovation only for practiced acquirers, and uncoordinated innovation efforts waste more than they discover.

A Familiar List, Read Critically

BCG's eleventh annual survey of the most innovative companies is brief, uncontroversial and worth reading with an active pen.1 The top fifty holds no shocks: the dominant technology platforms, plus Tesla, Uber, Nike, SpaceX, Intel, Samsung, IBM and Disney as easy choices. It is pleasing to see the oldie-goldie case-study companies still ranked, from DuPont and 3M to Southwest, Marriott and Honda, and to watch Huawei charging in, with business-to-business industrials like Siemens and General Electric represented. The genuine surprise is absence: few emerging market growth companies appear. A second critique concerns depth, since the report offers no analytical framework for thinking about innovation differently, focusing instead on the how of discovery and nurturing, and it reads as though fifteen pages of point of view went missing between the surveys.

Cast a Wide Net, Then Manage the Mix

The report's core finding sounds obvious and rewards attention: innovators cast a wide net across many discovery channels, some internal and many external, some proactive like patent searching and some reactive like customer complaints. What the report skips is the strategist's next question, and it is the valuable one: the pros and cons of each discovery approach, the applicability of findings from each and how to place bets across an innovation investment mix. Notably, competitive intelligence ranks as the second most common identification method, which raises its own uncomfortable question of whether copying can ever be a source of differentiation. Peter Thiel's answer is a flat no, since competition copies and monopoly creates.2

The Free Sources Nobody Uses

The most actionable insight hides in plain sight: five of the twelve discovery sources are essentially free and available to any alert, responsive company. Customer suggestions, customer complaints, supplier and vendor ideas, employee ideation and social or big-data mining cost attention rather than capital. The gate is cultural, not financial. Complaints must be addressed and feedback appreciated, employee ideas must survive skeptical managerial review and bubble upward, and suppliers must feel safe bringing ideas forward without fear of reprisal or a punitive procurement process. Companies that cannot monetize free idea flow will not do better with expensive idea flow, which makes these five sources the honest diagnostic of innovation readiness.

Acquisition as Innovation Capture

Mergers drive real innovation capture for a specific class of company. Serial acquirers make it a core competency, astutely identifying targets, paying reasonable prices and integrating well, with one networking giant having bought 175 companies at an average of eight per year, and platform companies buying their way into photos and virtual reality soon after going public. Even automakers have bought technology startups in pairs.3 The caveat cuts hard: for most companies, meaning poor innovators, acquisition is the lazy way to bolt on functionality, a one-off transaction that rarely succeeds and routinely destroys shareholder value. The tool works exactly as well as the hand that practices with it.

Data, Explored but Not Explained

Innovators reportedly use data effectively, which sounds obvious and remains surprisingly uncommon, since most corporations cannot harness data they already own, drowning instead in tactics, inputs and project details while skipping the consulting question of what problem is actually being solved. The report lists six uses of big data for innovation, from identifying themes and feeding ideation to revealing trends, mapping ecosystems, spotting external players and informing investment decisions. An honest reading finds all six exploratory rather than explanatory: excellent for awareness, thin for driving insightful, sustainable recommendations. Lots of brainstorming and understanding, little help for executives facing difficult decisions, which is where innovation programs actually live or die.

A Diagnostic Before the Investment

Leadership teams tempted by the tooling can run a cheap readiness test first. Trace the last three customer complaints that reached product decisions, and time the journey, because a complaint that takes two quarters to influence anything predicts the fate of costlier idea channels. Count employee suggestions submitted and implemented over a year, since a ratio near zero means the skeptical-manager filter is set to kill. Ask procurement whether any supplier proposed an improvement recently, and ask the supplier why not if the answer is no. Then inventory existing innovation efforts across the company, with owners, budgets and strategic rationale on one page, an exercise that regularly surfaces twice the expected count and half the expected coordination. Companies that pass these checks can spend on labs and ventures with confidence. Companies that fail them have found their real innovation agenda, and it costs almost nothing.

Leadership Is the Missing Framework

The survey documents the rise of corporate venture capital, accelerators, incubators and innovation labs, with incubators and partnerships growing fastest, and the takeaway is that differentiating through innovation demands using every available tool. Reality on the ground is messier. Large companies routinely run dozens of uncoordinated research and innovation efforts, starved of critical mass, stepping on each other's toes, over-matrixed with sales units and unclear how their work maps to the larger strategy. The remedy is the familiar trio of leadership, direction and trust. Look again at the top innovators and the pattern sharpens: these companies do different things in a coordinated way, with direction, a sense of identity and no fear of being different. Innovation is not a managerial problem of minimizing risk. It is a leadership challenge of taking calculated ones, and no survey can outsource that.

- 1Boston Consulting Group
- 2Zero To One
- 3Corporate Venture Capital

Summary

The innovation rankings hold familiar names, and the useful lessons hide in the mechanics: wide discovery nets, free sources exploited by healthy cultures, acquisition competence and coordinated bets under real leadership. Surveys describe innovation. Direction, identity and calculated risk produce it.