

Radical Innovation, Part II: Managing the Unmanageable

A new survey by the Boston Consulting Group – “*The Most Innovative Companies of 2014*” – finds that the most successful companies tend to centralize the decision-making of their innovation efforts. “What we’ve found is some very stark lines between companies that ... are average innovators to those that are strong innovators and those that are breakthrough innovators,” says Kimberly A. Wagner, a partner and managing director at BCG. Wagner discusses the survey findings, which garnered more than 1,500 responses from “CEOs down to engineers on the shop floor,” in this Knowledge@Wharton interview.

An edited transcript appears below.

Knowledge@Wharton: We’re meeting today with Kim Wagner, who is a partner and managing director at the Boston Consulting Group or BCG. And Kim is an expert in corporate innovation. And she has been author of a recent study called “Managing the Unmanageable – Radical Innovation.” But her latest work, just out, is something called “The Most Innovative Companies of 2014.” Would you tell us about the methodology and some of the highlights?

Kimberly A. Wagner: This is our ninth time doing the survey. We do it roughly on an annual basis. We go out to about 1,500 individuals who are involved in corporate innovation. They range from CEOs down to engineers on the shop floor, and we ask them about which companies they find are the most innovative, why they think that they’re innovative. We combine that result with estimates of revenue and margin and success in general in the financial markets, and that generates our list of the top 50 companies.

Each year it varies a little bit. Last year we had a lot of automotive players on the list. The year before we had a lot of industrial goods players on the list. This year I would call it the return of the tech and the consumer companies to the list. And so, digital innovation and innovation in the consumer electronic space has boosted those quite substantially on the list.

Knowledge@Wharton: So, it’s not just the companies that came out with cool, innovative products or very useful products. It’s companies that actually did well selling them.

Wagner: Right. But realize we’re polling essentially executives. And so, to some extent this is a peer study. If executives believe other executives are innovative then they end up on the list.

Knowledge@Wharton: What do you think they think about when they want to choose the most innovative companies? What are their criteria?

Wagner: What’s interesting is we actually ask them how innovative they think they are. And this year we added some extra questions around culture, because innovative culture became a big theme this year as we talked to our clients, as well as what it takes to do radical innovation. Do they believe they are breakthrough innovators or just incremental innovators? And just using the results of what they believe and the way that they behave, I would say that they’re looking at the strength of the senior management focus on innovation, the resolve to stand up and say, “I’m going to continue to invest in this even when other people say no,” the strength of their processes, both around portfolio and new product development, the strength of their IP management and the focus on the customer. It’s very much customer and consumer driven.

Knowledge@Wharton: Are there common themes around the winners?

Wagner: Well, the common themes, when you look at the list – common is probably the uncommon, meaning that it’s a very diversified list. The auto players are still on there. The electronic players are still on there. There’s been some shuffling up and down – a couple financial services companies. I’d say it’s very diverse and that’s exciting.

Knowledge@Wharton: Apart from the industries that you mentioned, how else has the list changed over the last couple of years – not just last year but maybe the last three or four years?

Wagner: Over time the health care players have dropped off the list. Maybe that’s not so surprising given that the health care industry almost by definition is a breakthrough radical innovator. And when they often go out in the public and say, “We have an innovation problem” everybody believes them. What most people don’t realize is just how innovative they are relative to every other industry. And so, it’s almost like the smartest kid on the block saying, “I’m not very good at this.” But realize that they have an extraordinarily high bar. There’s very little incremental innovation in the pharmaceutical industry.

Knowledge@Wharton: Anything else that would be interesting to know about your report this year?

Wagner: We’ve dug into the cultural aspects of innovation. And what we’ve found is some very stark

lines between companies that you would say are average innovators to those that are strong innovators and those that are breakthrough innovators. And they vary along multiple dimensions. In your breakthrough and strong innovator group, being part of a new product development team is something that people aspire to. It’s a cool kid role. It’s a profession. It’s not something somebody does as one of the things on their list of things to do.

What we often find in some companies that aren’t very good at innovation is that new product development is a piece of everybody’s job, as opposed to being some people’s full time job. And so, we found that that was quite important. We’ve also found that centralizing the decision making and control over how innovation resources are managed is also quite important. And the stronger and more breakthroughs, the more likely it is that those decisions are centralized as opposed to decentralized. So, there have been some interesting things on the culture front that we’ll be talking about.



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