



**INNOVATION  
INDEX &  
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# INNOVATION INDEX 2017

## Learning from Leaders – Making Innovation Strategy Happen

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After two consecutive quarters of decline, South Africa's economy bounced back to life in the second quarter of 2017, posting a 2.5 percent growth in GDP. This has been welcome news, however the economic drought witnessed as a result of a stubborn GDP hovering around one percent over recent years is not over.

The current growth is not sufficient for South Africa to sort out the structural issues it faces. The unemployment rate is high at around 26 percent, investor confidence is low on the back of rating downgrades which have dented business and consumer confidence, and there

is a lot of uncertainty with regards to the policy environment. Further, the population is growing around 1.6 percent, outpacing economic growth and making it more difficult for South Africa to alleviate the economic trials it faces. This is forcing many organisations to move into a defensive mode, holding off on strategic investments. In short, economic activity of the country is just not good enough and far lower than the required rates of around 6 percent cited by economists to solve the country's challenges.

# HOW CAN SOUTH AFRICA DO BETTER?

Improving productivity and competitiveness are key measures that have to be stimulated to project the nation back onto a strong growth path. The best way to do this is to foster and drive an innovation-led economy.

Advanced digital technologies can spur economic growth in much the same way as the discovery of electricity or the technology revolution have. Cost-effective technology advancements powered by artificial intelligence will make achieving scale and efficiency easier. For any country, the future health of its economy rests on its innovations – the ability to ideate and deliver solutions powered by the ‘new’ to the market – that will be a key competitive differentiator for businesses and economies.

Sifting through this year’s Innovation Index results we have seen a moderate

continued upward trend, with scores increasing by just two points from 2016 to reach 52 points in 2017, and by six points over the last three years (Figure 1). This growth is, however, not advancing at the pace required to translate into stable economic growth.

**FIGURE 1  
SOUTH AFRICA INNOVATION  
INDEX SCORES (2015 – 2017)**



Top line results from our analysis suggest that South African companies at large are taking a defensive stance – innovation is taking a back seat as companies grapple with economic uncertainties. In fact, South African companies are not even spending their allocated budget on innovation: on average, companies are putting aside 45 percent of their annual revenue for the development of innovations, yet actual spending is cautious and conservative at 36 percent.

In a rapidly digitising business environment where new players are disrupting traditional revenue streams across all industry sectors, it is now more important than ever for companies to be

stepping up their innovation game. The key is to establish the most effective way to do so in these challenging times.

The good news, however, is that pockets of excellence do exist. There is a clear distinction between Innovation Leaders, those companies that are successfully managing to execute across the various stages of the innovation value chain scoring 65 points and above on the Index (27 percent of the total sample), and the rest of the market – i.e., those that are struggling to move beyond their innovation strategy and not achieving their true potential in terms of innovation.

## The Innovation Value Chain — Executing on the Strategy

Turning to the innovation value chain model, we measured innovation maturity across five stages – Innovation Strategy, Ideation, Absorption, Execution and Benefits & Impact (Figure 2).

**FIGURE 2**  
**INNOVATION VALUE CHAIN**



We found that as companies mature their innovation capability, their focus shifts from just developing ideas towards other aspects of a more comprehensive innovation value chain. Early innovation initiatives focused almost exclusively on brainstorming and ideation. This has recently been augmented with a concerted effort to ensure that relevant ideas are well executed.

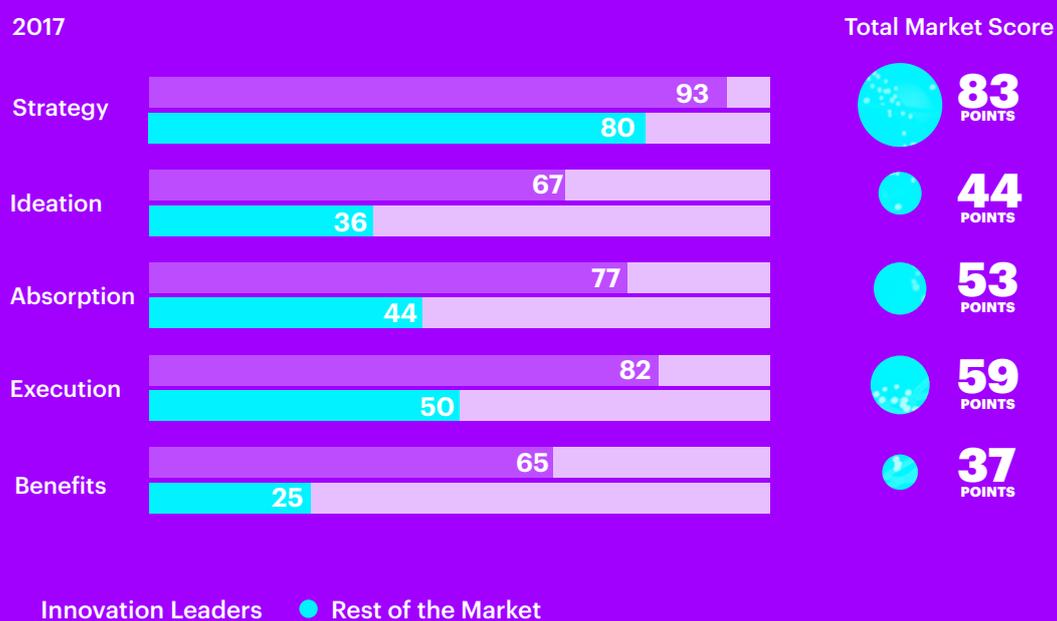
Interestingly, “absorption” emerged as a key stage between “ideas” and “execution”. Idea absorption indicates a company’s ability to successfully filter, prioritise and align around good ideas. This stage is a crucial linking stage between two very different innovation skills: the creative ideation space and the clinical execution space.

The prevailing logic was that innovation was linear and that ideas magically moved from fuzzy concept to sharply implemented. Having a low absorption rate limits businesses' ability to successfully execute and severely retards innovation efforts over the long term.

Scores clearly show that companies are aware of the need to innovate: they

score high at the strategy stage (83 points) which entails creating the plans and vision set to innovate. However, they score lower on all other aspects, from ideation (44 points) to absorption, at 53 points, execution at 59 points and, finally, achieving the desired benefits at 37 points (Figure 3).

**FIGURE 3  
INNOVATION VALUE CHAIN PERFORMANCE - INNOVATION LEADERS VS. THE REST OF THE MARKET**



Companies are struggling to seamlessly translate their innovation strategy to well executed innovations that realise maximum benefits. Our findings point to several areas creating this anomaly—from weak innovative cultures and poor organisational processes that do not fully support the innovation vision of organisations, to inadequate information dissemination and collaboration, and narrowly focused innovation policies.

Innovation Leaders, on the other hand, have scored significantly higher across

the value chain than the rest of the market. This sets a benchmark for corporate South Africa.

These leaders are comfortable with uncertainty and failure, and are aggressively progressing their innovation agenda in the face of challenging macro circumstances. To help South African companies close the gap, we looked at how the organisations we rated as Innovation Leaders are achieving success.

# STAGE 1 STRATEGY

## Fostering an Innovative Culture

Innovation is often mistakenly considered a specialised area within the CEO's office or the R&D unit when, in fact, it is the responsibility of every leader. No matter how committed, a CEO cannot create an innovation culture in an organisation on his or her own – the entire top team has to be on board. As innovation leaders, these individuals do not all have to be the most creative masterminds. They do, however, need to be highly effective at drawing out the skills of others to build an innovation culture.

An innovative culture is an important theme for organisations to understand. It is vital to institutionalise and formalise a structured innovative capability to fuel growth. Ninety percent of Innovation Leaders have instilled a culture in their organisation that not only encourages employees to be innovative but also see innovation as an important part of their day-to-day job (versus 67 percent of the rest).

Companies cannot build a culture of innovation without cultivating people to be innovative. When it comes to skills, only 56 percent of all organisations recruit new people with specific skill sets to support innovation-related activities

in their organisation, versus 100 percent of Innovation Leaders. Forty-one percent of organisations say they lack the skills to ideate or implement on innovation; only 15 percent of Leaders face this challenge.

## Power of Data

The explosion of data and, importantly, analytical solutions to help make sense of the data, has significantly improved how businesses inform their innovation agenda. It enables them to approach opportunities, risks, partners, and customers differently, providing the structure and foresight they lacked previously. Innovation Leaders see the full potential of business intelligence and analytics to drive innovation and inform their strategic direction. This is evidenced by a significant 80 percent response rate (versus 35 percent for the rest). They complement traditional data gathering methods with the use of digital platforms. For example, tapping into big data and social media channels helps companies to stay in touch with market perceptions and what competitors are doing, generate ideas and, more importantly, react.

# STAGE 2 IDEATION

Executives confirmed that the long-term success of their organisation depends on their ability to generate and develop new ideas, yet South Africa is behind the curve in this key area of corporate development. They score, on average, only 44 points in this dimension of the value chain.

## Collaboration is Essential

What sets the Innovation Leaders apart at this stage is their ability to collaborate within and outside the organisation. This has emerged as a key theme in improving ideation within organisations. It is supported and driven by strong adoption of digital platforms and technologies which facilitate collaboration and break down silos. Popular among Innovation Leaders is the recognition that having a dedicated innovation department centralises and encourages collaborative innovation.

The contrast between Leaders and the rest of organisations in terms of collaboration and interaction across teams is stark:

44 percent of organisations encourage or make use of cross-teaming and collaboration between different stakeholders versus 85 percent of Innovation Leaders.

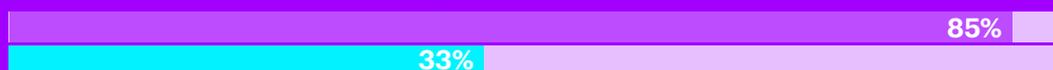
37 percent of organisations have digital platforms for employees to interact and share ideas versus 80 percent of Leaders (Figure 4).

33 percent of organisations say employees have the opportunity to work and collaborate with different business units versus 85 percent of Leaders.

Innovation Leaders operate with an open innovation mindset and are receptive to ideas from different disciplines – 65 percent of Leaders actively encourage innovative ideas from outside the organisation as an important source of competitive advantage versus 37 percent of the rest.

**FIGURE 4  
WHAT DOES YOUR ORGANISATION HAVE IN PLACE TO ENCOURAGE EMPLOYEES TO COME UP WITH INNOVATIVE IDEAS AND PURSUE INNOVATION RELATED ACTIVITIES?**

33 percent of organisations say employees have the opportunity to work and collaborate with different business units versus 85 percent of Leaders.



Employees are able to use digital platforms to interact and share



65 percent of Leaders actively encourage innovative ideas from outside the organisation as an important source of competitive advantage versus 37 percent of the rest



# STAGE 3

# ABSORPTION

the organisation in innovation and includes successfully channelling the most promising ideas to execution. Innovation Leaders outscore the rest of the market by over 25 points at this stage of innovation.

## **Ideas are the Currency – Speed is the Premium**

In today's highly competitive markets, innovation is an area of competitive advantage. Ideas are the new currency, which means that we need to leverage our talent pool and collective genius.

While it's easy to copy a new product these days, it is still incredibly difficult to copy an innovative culture. Rather than cherry pick a few good ideas from a few employees, companies need to invest in laying a solid foundation for a high performing innovation culture. This will ensure a steady flow of ideas from an engaged workforce. But having good ideas is not good enough – companies need to implement quickly in order to maintain their competitive advantage.

The old rules of the game were to play it safe. Nowadays, playing it safe is risky. There are obvious risks to moving quickly, but the upsides far outweigh the potential downsides. A fundamental leadership and management paradigm shift is required to rotate to this new model...but it's worth it.

Leaders are very focused on deploying lean innovation that is fast, iterative, agile and internally inclusive to get innovation into the market or into play within the organisation faster. This makes them more adept at taking 12 months or less from initial prototype development to full commercialisation of an innovative product or service (80 percent versus 67 percent of the rest of South African companies). They are able to implement both employee and customer feedback systems and analytics to ensure that the ideas that make their way to execution are the most successful ones (90 percent versus 35 percent).

The results of this year's Innovation Index are testament to how Leaders are generating better ideas and implementing these ideas at a pace that is the envy of their competitors. The evidence is the Leaders' ROI – it is almost double the score of the rest of the market.

## **Consistent Integration of Innovation**

Within many organisations there is a lot of innovation happening. However, this innovation is often very specific to certain areas of the business and may be misaligned to the innovation vision and growth objectives of the company at a corporate level. This clouds absorption. As a result, companies often struggle

to prioritise innovations to move to execution. A consistent approach of integrating and measuring all innovations to align them to a common vision is therefore key as it will ensure seamless follow through of innovations beyond the absorption stage.

To facilitate this, a dedicated innovation department is critical. It will drive collaboration across the organisation as well as provide an influx of useful knowledge, which is important to further develop ideas that provide competitive advantage. These departments need to be equipped with the tools, skills and ability to pinpoint and manage risks inherent in innovation. They also need to be agile and disciplined – they need to, for example, be able to prioritise projects well and reprioritise when circumstances change.

# STAGE 4 EXECUTION

## Driving Efficiencies Through Process Innovation

Looking at the innovation investment portfolio mix of South African companies across four key innovation categories, it was no surprise to see innovations focused on business improvements top the list with 68 percent of companies doing it as they look to drive efficiencies to fuel growth and navigate current economic challenges (Figure 5).

Innovation Leaders have placed a strong emphasis on reducing the need for more capital expenditure on legacy systems that have been long running in the marketplace (62 percent versus 18 percent for the rest of South Africa).

This is encouraging to see because the idea of innovation has predominantly been associated with new product

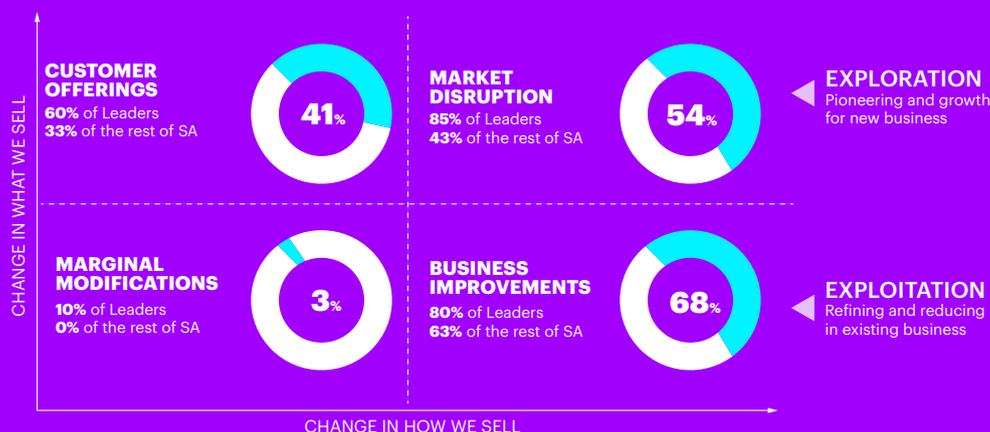
development. When innovation is at the center of a company's way of doing things, it finds ways to innovate not just in products, but also in services, processes, people, functions and business models.

Organisations are focusing on significantly improving existing products, adding new products to their portfolio and delivering a positive end-to-end customer experience.

## Staying Relevant Demands Disruptive Thinking

Thus, to drive innovation in the rapidly digitising era we live in, Innovation Leaders are very focused on market disruptive innovations (cited by 85 percent of respondents). This will position them well to achieve significant competitive advantage.

**FIGURE 5  
INNOVATION INVESTMENT MATRIX**



# STAGE 5

# IMPACT &

# BENEFITS

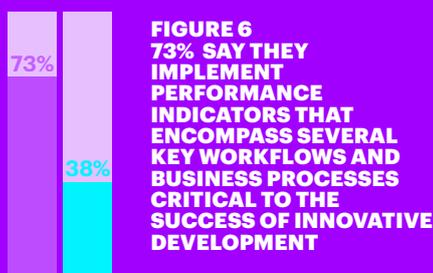
## Measuring Success

It is difficult for organisations to measure innovation and it's hard to pin down the future value of an idea that exists only as a concept. Nevertheless, Innovation Leaders find ways of measuring innovation performance across various stages of the value chain. These include accounting for inputs such as leadership and employee time, skill levels, ideas generated and the absorption of those ideas – from concept to prototype – and measuring the number of innovations that reach the market in a given period and the ROI achieved.

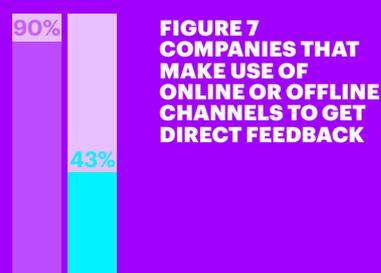
Our peer group of Leaders apply rigorous and thorough accounting measures, from operating margins to cashflows, to ensure they have a good grip on the

financial health of their innovations – 73 percent say they implement performance indicators that encompasses several key workflows and business processes critical to the success of innovative development, versus 38 percent of the rest (Figure 6).

Leaders continuously monitor, evaluate and look for improvements by evaluating the changes over time in the ratio of innovation outputs to inputs, the mix of different types of innovation investments and their related risks. They also evaluate customer and process dimensions by engaging with customers for feedback as a means to measure and improve – 90 percent of Innovation Leaders say they engage with their customers to get direct feedback through online and offline channels, versus 43 percent of the rest of South African companies (Figure 7).



● Innovation Leaders  
● Rest of the Market



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● Rest of the Market

# INNOVATION IN 2018

## Learning from Leaders – Making Innovation Strategy Happen

For South African companies the most important Innovation Index insight for 2017 has to be: following through by implementing your innovation strategy.

Innovation creates a foundation for growth and business sustainability in a digital era, so getting the right people, business, technology and innovation structures in place is vital. To gear up for 2018 and beyond, take note of how Innovation Leaders in 2017 enable, measure and drive success:

- They have built strong innovation engines by investing more in innovation skills and culture.
- Are 100 percent focused on a balanced portfolio mix of lean, rapid and disruptive innovation informed and powered by data insights.
- Encourage open innovation, measure impact, and leverage digital technologies and tools extremely well to drive collaboration, ideation, focused absorption and execution.