Expanding the Innovation Horizon: The Global CEO Study 2006

Ginni Rometty
SVP, Enterprise Business Services, IBM
CEO Panel

- James "Jay" R. Bertelli, Chairman, President and CEO, Mercury Computer
- Ken Denman, Chairman, President and CEO, iPass
- Brian A. Gallagher, President and CEO, United Way of America
- Richard C. Kelly, Chairman of the Board, President and CEO, Xcel Energy
- Ronald A. Williams, CEO and President, Aetna Inc.
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Marc Chapman
Global Leader, Strategy and Change Services, IBM
CEO Perspective

Myth: “Flat world” trends only affect a few firms

CEO perspective: CEOs plan imminent and radical change
Two-thirds of CEOs see significant change in next 2 years

Extent of **Fundamental** Change Needed Over the Next Two Years

- **Significant change 65%**
- **Moderate change 22%**
- **Little or no change 13%**

Past Level of Success at Managing **Fundamental** Change

- **Successful 32%**
- **Some success 33%**
- **Little to no success 15%**
- **Very successful 5%**
- **No change experience 5%**

Business Consulting Services
CEOs told us...

“The market imposes innovation.”

“Business Model change is dramatic …40% sales now on the internet”

“Globalization, commoditization, higher cost structure, increasing specialization…”

“We must innovate to justify our existence.”

“Last year’s products are last year’s dollars.”

“no growth without changing ourselves and the industry itself.”

“Competitors are emerging from everywhere”
CEO Perspective

Myth: “Flat world” trends only affect a few firms

- CEOs plan imminent and radical change

Myth: Innovation is too critical and proprietary to involve outsiders

- Collaborative innovation is indispensable
Partners and customers edge out employees for ideas

Sources of New Ideas and Innovation

**External**
- Business partners: 45%
- Customers: 35%
- Consultants: 25%
- Competitors: 15%
- Associations, trade groups, conference boards: 5%
- Academia: 0%

**Internal**
- Employees (general population): 45%
- Sales or service units: 35%
- R&D (internal): 25%
- Other: 15%
- Think tanks: 5%
- Internet, blogs, bulletin boards: 0%

“Today...more capability and innovation in the marketplace than we could try to create...”
Out-performers source 30% more ideas from outside

- 3 industries — Media & Entertainment, Telecommunications, and Chemicals/Petroleum — source >50% from outside
- 9 industries source more than 40%

“If you think you have all of the answers internally, you are wrong.”
Collaboration gap looms large in the mind of the CEO

“Without collaboration innovation would be impossible.”

“It would be counterproductive to do everything yourself.”

“Partner...extract maximum value and avoid reinventing the wheel.”
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Myth: “Flat world” trends only affect a few firms

CEOs plan imminent and radical change

Myth: Innovation is too critical and proprietary to involve outsiders

Collaborative innovation is indispensable

Myth: Innovation means inventing new products and services

Business model innovation matters
We need to develop a business model based on strategic partnerships that creates value for our company... and for the industry... in this era of specialization.
Outperformers double their focus on the business model

“The business model we choose will determine the success or failure of our strategy.”

“Products and services can be copied, the business model is the differentiator.”

“Our greatest focus is on business model innovation, which is where the greatest benefits lie.”
What stands in the way?

Obstacles to Innovation

External

- Government and other legal restrictions
- Economic uncertainty
- Inadequate enabling technologies
- External workforce issues

Internal

- Unsupportive culture
- Limited funding
- Internal workforce issues
- Process immaturity
- Inflexible infrastructure
- Insufficient access to information
Who is responsible?

Responsibility for Innovation Leadership

- CEOs: 35%
- No Owner: 27%
- Division Mgrs: 14%
- Functional Mgrs: 24%

CEOs Innovation Leadership

- Product, Services, Markets: 0%
- Operations: 0%
- Business Model: 50%
CEO Perspective predicts dramatic innovative change

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Key Definitions

- **Innovation**
  - Using new ideas or applying current thinking in fundamentally different ways that result in significant change

- **Business Model Innovation**
  - Significantly changing the structure and / or financial model of the business

- **Operations Innovation**
  - Improving the effectiveness and efficiency of core business processes and functions

- **Product/Services/Markets Innovation**
  - Creating new or significantly differentiated products, services or go-to-market activities