Innovation: The New Imperative

This survey research report examines systemic innovation capability in Australian organisations.

2013
Acknowledgements

The Australian Institute of Management (AIM) and the University of Melbourne share a strong commitment to the need for Australian organisations to place a much greater emphasis on innovation as a driver of business success. The University of Melbourne and AIM agreed on a partnership arrangement for the production of this national innovation survey. The agreement followed an approach to AIM by Professor Danny Samson of the Department of Management and Marketing at the University of Melbourne.

Our thanks go to the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) for their support of the background research that preceded this survey. This support established the dimensions of systematic innovation capability used in the survey.

Finally, thanks to the more than 2,400 business professionals who contributed to the survey’s outcomes. We hope that the information in this report will provide the knowledge needed to help drive innovation leadership in Australia. The report highlights the best practices associated with high levels of innovation and organisational performance in Australian organisations.

The University of Melbourne and the Australian Institute of Management

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Foreword

Innovation does benefit the bottom line

As Australia looks to build its future beyond the resources boom, the findings of this major survey research make clear that innovation is a key profit driver for successful organisations. We find that firms with proven innovation performance are three times more likely to have higher revenue growth, profitability and productivity. Such firms are also three times more likely to report higher levels of cash flow, cost advantages and long-term competitive advantage.

The survey data confirms organisations that fail to embrace innovation as a systematic performance tool are likely to be chronic under-achievers. Such under achievement translates into lower levels of growth than innovative competitors, fewer development pathways for employees and greater difficulty in attracting, developing and retaining skilled people.

The survey results tell us that innovation needs to be much more of an organisational imperative across Australia.

The forecast end to the resources boom should act as a spur to leaders and managers to re-evaluate their organisation’s business model and in so doing examine how innovation is being used as a wealth generator and performance tool. Successful organisations are those in which all employees have the opportunity and inclination to contribute to innovative outcomes; whether that contribution be process or product related. In such organisations, innovation is reflected in the business strategy and leadership and we see that managers get actively involved in innovation and are role models for innovative behaviour.

As highlighted in this research report, the building blocks of innovation include:

- strategy and leadership;
- customer focus;
- orientation to risk and change;
- organisational culture;
- human resource management and training;
- whole of workforce participation;
- management of innovation processes; and
- partnerships and appropriate investments.

When the Australian Institute of Management was asked by Professor Danny Samson of the University of Melbourne to participate in the development and analysis of survey research on innovation we quickly responded in the affirmative because we saw the project as an opportunity to examine the link between innovation and business performance. This is a project that AIM has supported across Australia and special thanks for its success must go to the 2,499 AIM members and clients who participated in the innovation survey questionnaire.

The authors of this report, Professor Danny Samson and his colleague Dr Marianne Gloet deserve congratulations for the enormous effort they put into this important project. We very much enjoyed the opportunity of working with them and contributing to the outcomes of the report.

Tony Gleeson
CEO, Australian Institute of Management, Victoria and Tasmania
CEO, Idria
Executive Summary

Systematic Innovation Capability in Australian Organisations

Key Message

The findings of this survey reveal the key ‘building blocks’ of innovation and how they achieve improved business outcomes. The data confirms that organisations perform better when management embraces a structured, planned ‘whole of organisation’ approach to innovation including:

- managers get involved in innovation projects;
- innovation is prioritised in the business strategy;
- business strategy and technology is strongly aligned;
- willingness to take calculated risks;
- teamwork is emphasised;
- employees are highly skilled;
- clearly articulated employee capabilities relate to innovation;
- employees are rewarded financially for innovation contributions; and
- competitors are benchmarked.

The survey shows that revenue growth; profitability; productivity; cash flow; and other elements of business performance were higher for innovation ‘leaders’.

What this Report Provides

The University of Melbourne and the Australian Institute of Management recently undertook a large-scale survey of professional managers across Australia to determine their organisation’s ‘systematic innovation capability’. Systematic innovation capability is a sustained form of innovation that leads to a continuous stream of innovation, rather than haphazard or unplanned innovation, thus creating value and securing competitive advantage for organisations. Systematic innovation capability refers to the processes and relationships used by successful organisations to generate a series of innovations that deliver business value. The development of systematic innovation capability requires a holistic and integrated approach to innovation across the entire organisation.

Innovation means many different things to many different people. The Australian Institute of Management defines innovation as:

“Action undertaken to improve or create a product, process or service.”

Innovation is a key topic of public and professional interest in Australia. Given that Australia faces challenges in achieving and maintaining global competitiveness in terms of cost, service and quality, developing systematic innovation capability is vital to meeting these challenges.

The survey aims to test the strength of connection between innovation leadership and the workings of a corporation’s board; innovation strategies; innovation practices, resources and activities; innovation measures; and business outcomes.
Through the partnership with the Australian Institute of Management (AIM), a comprehensive, national online survey was sent to AIM members inviting them to participate in this study. The survey captured substantive data relating to innovation capability, innovation activities and innovation performance.

Highlights of the survey were:

• Innovation is increasingly seen as a means of achieving competitive advantage.

• Innovation performance is strongly linked to business performance.

• Sustainable and systematic innovation requires a holistic approach across a range of innovation activities in order to maximise innovation performance, from leadership through innovation, strategy and process management.

• We have identified significant differences between the top quartile (top 25%) and bottom quartile (bottom 25%) of innovation performers in Australia. These differences include the priorities given to innovation in business strategy, leadership factors, resourcing of innovation, measurement and cultural factors.

• The survey reveals specific innovation practices that are significant predictors of innovation performance including aspects of strategy and leadership; a strong customer focus; the embracing of risk and change; human resource management and a culture that supports innovation; strong innovation process management and a focus on sustainability.

• The survey also reveals innovation practices that are significant predictors of business performance. These innovation practices contribute to various aspects of business performance including revenue growth; profitability; long-term competitive advantage; productivity; and customer satisfaction.
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Introduction and Objectives of the Project

The purpose of this research is to examine the factors associated with successful innovation at the enterprise level. This report examines the extent to which concepts and practices of ‘systematic innovation capability’ are present in Australian organisations across a range of levels and functions. For this reason, a broad range of AIM members were invited to participate in this survey, from CEOs to middle managers to team leaders and supervisors. In order to accurately assess the depth and breadth of innovation capability across Australian organisations, a wide net was cast in order to examine the issue from a range of perspectives.

This report includes answers to key questions such as:

- What business strategies do innovative organisations formulate and implement, and how do they go about this?
- How do these organisations resource their innovation capabilities and activities?
- How do innovation leaders measure their innovation success?
- How do innovation leaders reward, recognise and promote staff?
- How do these innovative organisations drive culture and behaviours towards innovation?
- What barriers exist to doing even better in terms of innovation?
- In what ways and to what extent is sustainable development being applied and used in innovation oriented companies?
- Who in these organisations are the critical contributors and catalysts of innovation?
- What are the characteristics of and differences between organisations that are innovation ‘leaders’ (top 25% of innovation performers) and those that are innovation ‘laggers’ (bottom 25%)?

Background: The Importance of Innovation to Australian Organisations

Innovation is a high priority for industry and government in Australia. Given that Australian organisations are often cost disadvantaged on an international level and that quality and service advantages are being rapidly eroded, the last large-scale dimension for achieving competitive advantage is innovation (See Appendix C: Prospering through Innovation in the Australian Context).

In this report, we examine innovation from a value creation perspective, where organisations engage in any variety of small to large changes to their products; services; processes; technologies; or business models in order to create business value and prosper. While we acknowledge that innovation can occur as the occasional ‘lucky break’, this is not the focal point of our interest, nor should any business rely on such an approach. Rather we focus on the phenomenon of systematic innovation capability, with the view that such capability is likely to lead to an ongoing stream of innovations. Innovation is the ultimate competitive weapon for organisations, as it has no ceiling on it, and can be applied in a broad range of ways, from achieving cost reduction through innovation in process management, to creating new streams of revenue.

The Building Blocks of Successful Innovation

Based on previous conceptual and case study work, as well as a comprehensive review of the literature, we formulated a model of Systematic Innovation Capability (See Appendix D) to shape the survey and provide a framework for analysis of the results. The model identifies the various ‘building blocks’, or success factors of systematic innovation in organisations. These interrelated building blocks of innovation lead first to innovation performance and ultimately to business performance.
Table 1 illustrates the detailed content of the approach (items that were measured via the online survey):

<table>
<thead>
<tr>
<th>STRATEGY AND LEADERSHIP</th>
<th>CUSTOMER FOCUS AND OPEN INNOVATION</th>
<th>EMBRACING RISK AND CHANGE</th>
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</tr>
<tr>
<td>CULTURE AND COMMUNICATION</td>
<td>OPERATIONS AND PARTNERSHIPS</td>
<td>KNOWLEDGE AND TECHNOLOGY</td>
</tr>
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</table>

Table 1: The building blocks of innovation success

Survey Method

The Australian Institute of Management invited members across Australia to participate in the online survey, which asked detailed questions about the items outlined in Table 1. A total of 2,499 AIM members attempted what was a complex survey; of these, 2,025 substantially completed the survey and 1,579 completed the survey in its entirety. This makes the study one of the biggest and most comprehensive measures of innovation practices and performance conducted in Australia. Further details regarding the research questions and methodology underlying the survey can be found in Appendix B.

Survey Background

The initial questions in the survey collected demographic data concerning the respondents and their organisations. This descriptive data is contained in Appendix A. Data was collected from business professionals across all industries and from very small to very large enterprises, being representative of the broader Australian economy.

The remainder of the survey explored the extent to which various elements of innovation capability, activities and performance were evident in the respondents’ organisations. This section provides details of these results. We then investigated aspects of each of the building blocks of successful innovation, by comparing and contrasting the top performers (top 25% of innovation ‘leaders’) with the bottom 25% of innovation ‘laggers’.

The analysis clearly shows which innovation practices are significantly more prevalent among top innovation performers in Australia, so that executives and managers can make conscious choices in order to:

- formulate an innovation strategy;
- build innovation capabilities; and
- resource innovation activities accordingly.

We also identify the top predictors of innovation performance across each of the building blocks of innovation. Finally, we report on the connection between the various success factors of innovation and how they can lead to both successful innovation performance and superior business performance outcomes.
Survey Findings Part 1- All Organisations

We report here on the findings of the survey, of participants’ overall strategies, leadership, practices and outcomes of innovation.

Aspects of Innovation Strategy

Responsibility for Innovation

It is more likely that innovation forms part of the business strategy when someone takes responsibility for it. If no one is assigned responsibility for innovation, there is a good chance that innovation will not have strategic significance. In response to the item concerning whether there was a specific person or group responsible for innovation within their organisation, 46% answered ‘Yes’, 44.8% answered ‘No’, and 9.2% responded ‘Don’t Know’. Although this is quite an encouraging proportion of organisations where explicit responsibility for innovation has been assigned, it is clear there is much scope for improvement.

Is there an individual or group specifically responsible for innovation within your organisation?

![Responsibility for innovation](image)

It is important for organisations to create a workplace culture where everyone feels they have an opportunity, if not an obligation to contribute to the innovation process. Therefore, to galvanise the collective brain power of an organisation, the Australian Institute of Management advocates that innovation should be viewed as a shared opportunity for all employees.

Priorities for Achieving Competitive Advantage

Respondents were asked to indicate their organisation’s priorities for achieving competitive advantage, based on the following five categories:

- cost;
- quality;
- delivery;
- flexibility; and
- innovation.
The five categories added up to 100%. Quality was considered to be the biggest priority for achieving competitive advantage, followed by cost; delivery; innovation; and then flexibility.

What are your organisation's priorities for achieving competitive advantage?

![Bar chart showing priorities for achieving competitive advantage](image)

Figure 2: Priorities for achieving competitive advantage

Figure 2 shows that innovation generally tends to be ranked fourth (out of five) in most organisations' priority list. Often labelled the 'big three'—quality, cost and delivery performance relate to the production and cash cycle of the firm in their mainstream business activities. Innovation, on the other hand, is usually seen to be an investment in the next cycle; in the future. This data might also indicate that for many organisations, improvements in cost and quality still represent bigger and perhaps more immediate 'short term' opportunities than innovation.

**Resourcing Innovation**

In order to examine the ways in which innovation was resourced in their organisations, respondents were asked to report on the amount of investment over the past two years as a percentage of total revenue across the following three areas:

- Research & Development (R&D);
- New technology and equipment; and
- Training, education and skills development.

**Research & Development Budget as a Percentage of Total Revenue**

Research and development investment is often tied to new product and services development, including intellectual capital. Of the respondents, 23.5% reported R&D investment of between 0 to 1% of total revenue. A further 6.2% of respondents reported their R&D investment to be between 8.1 and 20%, while only 3.3% reported an investment of more than 20% of total revenue. A reflection of the lack of innovation culture in many organisations, is shown by the significant number of survey respondents who didn’t know this ratio (Figure 3).
Over the past two years, what was your organisation's average R&D budget as a percentage of total revenue?

Investment in New Technology and Equipment

Investment in this category includes infrastructure, technological upgrades, plant and equipment expenditure. Of the respondents, 2.8% reported no investment at all, while the largest group (38.4%) reported an investment of between 1 and 10%. Less than 2% reported investment of 56% or more of total revenue (Figure 4). Over 35% of respondents selected ‘Don’t Know’.

Over the past two years, what was your average investment in new technology and equipment as a percentage of total revenue?

Average Budget for Training, Education and Skills Development

This aspect of innovation investment relates to the development of employee skills and/or capabilities. For this item, 11% of respondents reported an investment of 0 to 1% of total revenue, while 28.3% reported an investment of between 1.1 to 3% and 7.9% reported an investment of more than 6% of total revenue. More than one-third (35.5%) of respondents selected ‘Don’t Know’ (Figure 5).
Over the past two years, what was your organisation's average budget for training, education and skills development as a percentage of total revenue?

It is interesting to note the high incidence of respondents selecting ‘Don’t Know’ in response to questions concerning investment in R&D, new technology and equipment, as well as in training and education (Figures 3-5). Further examination revealed that the majority of respondents who selected ‘Don’t Know’ for these items were employed in relatively junior management or support positions, such as team leader, supervisor or team member. Conversely, the highest proportion of those who knew the answer were CEOs, senior managers, board members or business owners.

Future Investment in Innovation

When asked how the organisation’s investment in innovation will change over the next two years, only 6.3% of respondents predicted a decrease, while 31.4% reported it would stay roughly the same. A large portion of respondents (46.7%) predicted an increase in their innovation investment (Figure 6). This points to the growing importance of innovation in Australia and a growing understanding of the need to invest in innovation in order to reap its benefits. It is highly encouraging, at least in terms of stated intentions of managers in Australia.

How will your organisation’s investment in innovation change over the next two years?
Aspects of Innovation Activities

Product versus Process Innovation

Product innovation is generally considered to be concerned with growing revenue through development or improvement of products and/or services, while process innovation concerns the implementation of improved work flows and internal efficiencies, often in order to reduce costs. Respondents were asked to report on their organisation’s relative investment in both product and process innovation, with the total adding up to 100%.

In your organisation’s innovation activities, what percentage of total investment over the last two years was spent on product innovation (improvement or development of products/services), and what percentage was spent on process innovation (implementation of improved processes)?

![Figure 7: Product versus process innovation investment](image)

These figures indicate that process innovation expenditure is more of a priority in terms of innovation investment. Figure 7 is consistent with the focus on quality, cost and delivery improvement expressed in managerial intent and priorities. It also serves to emphasise that innovation is regarded in Australian organisations as being much broader than just new offerings to the market.

Radical versus Incremental Innovation

Radical innovations can be relatively large-scale and involve the development of significantly new products or processes, while incremental innovation is characterised as small step improvements or modifications to existing products or processes.
Innovations can be characterised as incremental (small step improvements or modifications to products/processes) or radical (development of new products/processes).

*Over the last two years, what percentage of your organisation’s innovations have been incremental/radical?*

![Figure 8: Radical versus incremental innovation investment](image)

These figures clearly indicate that incremental innovation is by far the most prevalent form of innovation, as well as the most heavily resourced. Again, this shows maturity of innovation practice and resource allocation in Australian organisations, and is likely to be linked to a more systematic approach of innovation and improvement, beyond working on the ‘next new great product or service’ only.
**Obstacles to Innovation**

*What do you consider to be the major obstacles to innovation in your organisation?*

![Bar chart showing obstacles to innovation with values scaled from 0 to 7.](chart.png)

Respondents reported (Figure 9) the biggest obstacles to innovation were lengthy development times, a risk averse culture and remuneration not being tied to innovation outcomes. 'Not enough great ideas' was the least significant obstacle, and 'insufficient support from leadership and management' was not considered to be a major impediment to innovation. However, ineffective leadership is certainly a major contributor to the two highest ranked obstacles: 'risk averse culture' and 'lengthy development times'. Indeed, elsewhere in this report (Figure 15) we further examine leadership and strategy and we find there is a clear link between innovation pacesetter organisations and leaders who 'walk the talk' on innovation.

Understanding the obstacles to innovation is the first step to implementing processes and organisational improvements that can overcome innovation limitations. An example is to conduct innovation projects in cross-functional teams where problem-solving becomes a means to deal with blockages in the organisation. Risk aversion can be reduced by committing budgeted resources for innovation projects. Remuneration can be tied to innovation by including innovation contributions as an item in employees’ performance appraisal systems.
**Measures of Innovation Outcomes**

*How important are these measures of innovation success to your organisation?*

<table>
<thead>
<tr>
<th>Measure</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>5.60</td>
</tr>
<tr>
<td>Overall revenue growth</td>
<td>5.20</td>
</tr>
<tr>
<td>Cost reduction through innovation</td>
<td>5.02</td>
</tr>
<tr>
<td>Profit margins</td>
<td>4.93</td>
</tr>
<tr>
<td>New product success ratios</td>
<td>4.56</td>
</tr>
<tr>
<td>Return on innovation spending</td>
<td>4.44</td>
</tr>
<tr>
<td>Number of new products/services</td>
<td>4.12</td>
</tr>
<tr>
<td>Speed to market</td>
<td>4.02</td>
</tr>
<tr>
<td>Number of patents</td>
<td>3.24</td>
</tr>
</tbody>
</table>

*Figure 10: Importance of innovation measures*

Respondents provided assessments of their organisation’s views of the relative importance of measures related to innovation. A number of traditional business success measures related to customers, revenue, cost reduction and profit were considered to be much more important than indirect measures such as patent activity. Innovation success for many was almost synonymous with business outcomes, such as in the case of profit performance. However, those reporting a high level of innovation success measured their innovation success across a broader range of indicators.

**Innovation and Business Performance**

Measuring innovation takes many forms and can involve assessing diverse areas such as innovation strategy, capability development, processes, people and culture. A major aim of this survey is to determine the nature and extent of strategic innovation capability that leads to innovation performance, and ultimately to business performance. While business performance is heavily dominated by profit drivers such as revenue growth and cash flow, innovation performance measures have a broader focus and include such dimensions as product and/or service development, employee engagement and responsiveness to or leadership of the market.
Identifying the Innovation Performers

Survey respondents were asked to provide feedback on a number of items that related to each of the innovation building blocks that make up the Strategic Innovation Capability Model (see below).

<table>
<thead>
<tr>
<th>STRATEGY AND LEADERSHIP</th>
<th>CUSTOMER FOCUS AND OPEN INNOVATION</th>
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<td>KNOWLEDGE AND TECHNOLOGY</td>
</tr>
</tbody>
</table>

Table 2: The building blocks of innovation success

This feedback provided insights into various aspects of innovation capability and innovation activities of Australian organisations. The following charts (see Figures 11 to 26) highlight the level of strategic innovation capability and activities of the top 25% of innovation performers (‘Innovation Leaders’) and the bottom 25% of innovation performers (‘Innovation Laggers’) who undertook the survey. Respondents rated their organisations’ innovation performance across a range of relevant indicators (as shown in Table 2). Respondents’ organisations were assessed and classified as Leaders or Laggers based on their average score across the various innovation performance indicators.

It is interesting to note that there were no significant demographic differences between the Innovation Leaders (the top 25%) and the Innovation Laggers (the bottom 25%). Both Leaders and Laggers represented a broad range of industry sectors, and there were no significant differences in terms of organisational size, ownership or Head Office location. In other words, any organisation can potentially be an innovation leader, or a lagger.

We then examined each of the success factors, or building blocks of innovation (See Table 2) to determine how Leaders and Laggers ranked on a number of items relating to innovation processes and activities within each of the building blocks. These results are displayed in Figures 11 to 26. The results shed light on the various innovation inputs and practices that are characteristic of top performers. In revealing the differences between Leaders and Laggers on these measures, we can respond to this challenge by asking the question:

“So you want your organisation to be a top quartile innovator? What do top quartile innovators do more, better or differently from bottom quartile (non-) innovators?”

The data represented in Figures 11 to 26 below sheds significant light on these matters, and shows clearly that top quartile organisations engage in many aspects of innovation strategy, capability development and innovation activities, thereby demonstrating superior levels of innovation success.

Innovation Performance and Business Success

The relationship between innovation performance and business outcomes was examined by considering the business assessments made by managers in the ‘Leader’ and ‘Lagger’ innovation companies. Figure 11 shows the differences, which are large, between Leader and Lagger firms on reported business performance measures. On all the business outcomes that were assessed, the innovation leaders were achieving significantly higher performance levels. More specifically, levels of revenue growth, profitability, productivity, cash flow and other elements of business performance as shown in Figure 11 were higher for innovation Leaders. The survey findings show there are clear links between innovation performance and business performance. Innovation Leaders are two to three times more likely to be strong business performers than Innovation Laggers (see Figure 11). Innovation pays! Highly innovative companies showed higher customer satisfaction and long-term competitive advantage, in addition to the monetary performance outcomes.
Innovation Performance and its Impact on Business Performance

Figure 11: Business performance levels - leaders versus laggers
**Business Performance Predictors**

Following further analysis of the data, the most significant predictors of business performance were identified across each of the building blocks of innovation. The results are displayed in Table 3 below. This data analysis highlights the fundamental importance of effective management and leadership to organisational performance. The findings provide a clear means for organisations to focus on the relevant factors that influence innovation outcomes. By so doing, organisations can evaluate if they have any capability gaps or deficiencies that are undermining innovation levels and in turn compromising their bottom line.

<table>
<thead>
<tr>
<th>BUILDING BLOCKS OF INNOVATION</th>
<th>TOP PREDICTORS OF BUSINESS PERFORMANCE</th>
</tr>
</thead>
</table>
| Strategy & Leadership         | 1. Managers get involved in innovation projects  
                              | 2. Innovation is prioritised in the business strategy  
                              | 3. Decision-making is decentralised |
| Customer Focus & Open Innovation | 1. Ideas come from external sources such as lead users  
                                    | 2. Developing and creating new value is a priority  
                                    | 3. Collaboration with outside partners |
| Orientation to Risk & Change  | 1. The organisation is willing to take calculated risks and has a risk management strategy  
                              | 2. Changes are implemented effectively  
                              | 3. Project management of innovation activities |
| Human Resource Management, Training and Learning | 1. Clearly articulated employee capabilities relate to innovation  
                                           | 2. Training and development activities focus on innovation and teamwork  
                                           | 3. Employees are rewarded financially for innovation |
| Sustainability                | 1. Working proactively to improve social and community impact of the business |
| Management of Innovation Processes | 1. Balancing a portfolio pipeline of innovations  
                                        | 2. Assessing risk versus potential value of projects  
                                        | 3. Idea generation |
| Culture & Communication       | 1. Employees are highly skilled  
                              | 2. Innovation is an embedded part of daily work and there is ample opportunity for informal conversations among employees  
                              | 3. Employees strive to improve organisational processes |
| Operations & Partnerships     | 1. Benchmarking competitors  
                              | 2. Business strategy and technology strongly aligned  
                              | 3. Sufficient investment in technology and infrastructure |
| Knowledge & Technology        | 1. Customers’ technological knowledge is valuable  
                              | 2. Rapid response to technological changes in the industry  
                              | 3. Ability to obtain knowledge from suppliers |

Table 3: Predictors of business performance

Table 3 can be used by managers as a guide to ‘best practices’ in pursuing systematic innovation capability and performance. The elements of Table 3 are significantly related to higher levels of such performance.
Survey Findings Part 2 - Innovation ‘Leaders’ versus Innovation ‘Laggers’

While Part 1 of the Survey Findings reported on the results across all respondents and their organisations, this section reports on results across the top quartile and bottom quartile of innovation performers (respectively called Innovation Leaders versus Innovation Laggers) to determine whether there are significant differences between these groups on various aspects of innovation capability, activities and performance.

**Resourcing Innovation – Leaders versus Lagers**

Is there a person or group specifically responsible for innovation in your organisation?

![Bar chart showing the comparison between Innovation Leaders and Laggers](image)

Innovation Leaders are almost three times more likely to assign responsibility for innovation to an individual or group than are Innovation Laggers (Figure 12). This indicates that innovation performance can be driven more strategically when explicit responsibility is assigned for innovation. Assigning responsibility for innovation leads to a high likelihood that there is a strategy in place regarding innovation within the organisation.

For organisations wishing to become Innovation Leaders, it is advisable as part of the strategic planning process to task individuals and groups with responsibility for innovation; whilst at the same time creating a culture where everybody is encouraged - if not expected - to contribute to the process of innovation.
Figure 13: R&D Investment as a percentage of total revenue – leaders versus laggers

From Figure 13, we can see that Innovation Leaders invest far more heavily in R&D than do Innovation Laggers. A significant percentage of Innovation Laggers reported spending little or nothing (0 to 0.5% of total revenue) on R&D over the past two years. This is contrasted with Innovation Leaders, a significant proportion of whom reported spending more than 5% of total revenue on R&D.

Given the potential of R&D to drive new product and services development, investment in this area should be a major contributor to innovation performance.

Investment in New Technology & Equipment as a Percentage of Total Revenue

Figure 14: Investment in new technology and equipment – Leaders versus Laggers

As can be seen in Figure 14, Innovation Leaders consistently invested more than Laggers in new technology and equipment. Although many forms of innovation do not require such significant investment in technology infrastructure and related equipment, organisations seeking to become Innovation Leaders would be wise to consider the potential value of such investment.
Innovation Leaders are more than twice as likely to be making innovation a high priority in their business strategy, as well as encouraging support for innovation at senior leadership levels. Leaders also encourage managers to get involved in innovation projects and to act as role models for innovative behaviours. There is a big difference between Leaders and Laggers on the measure of ‘managers get involved in innovation projects’. It would appear that ‘hands-on’ managers who are focussed on innovation do indeed drive innovation forward.

It is interesting to note that decentralised decision-making is more prevalent in Laggers, although the percentage scores are fairly close. Although there were no significant differences between industry sectors or organisational size on this measure, it would suggest that a clear innovation strategy and strong leadership and management to support innovation are more significant in supporting innovation than decision-making style within organisations.

In summary, this data set confirms a significantly higher emphasis on strategy and leadership in supporting and driving innovation among Innovation Leader organisations, than Laggers. If you want to be successful in innovation performance, then strategic leadership of innovation is a core element to embed within your organisation.
Customer Focus

The differences in intensity of approach to customer value creation between innovation Leaders and Laggers is stark. Leaders generally focus strongly on obtaining customer inputs, feedback, ideas and on creating value for the customer. On the other hand, Laggers do not demonstrate a commitment to seeking customer feedback or on value creation geared toward customers.

Innovation Leaders also engage more heavily in various forms of open collaboration, such as collaborating with outside partners to develop new products and/or services. Open innovation also includes working closely with external parties, such as lead users, who can provide input and feedback at various stages of product/service development and implementation. Further, leaders more consistently engaged in various forms of open innovation to a greater extent than Laggers. This highlights the significance of a strong customer orientation to innovation success.

So for organisations wishing to become Innovation Leaders, creating value for customers should be a central concern, and there should be a strong focus on seeking input, ideas and feedback from customers at various stages of product/service development.
Innovation is clearly about change, whether it is the introduction of new goods/services, processes or changes to business structures. Leaders in innovation are certainly more open to change, and they indicated on average a more enlightened approach to taking calculated risks. Innovation Leaders were much more likely to have a strategy for managing risk. It would appear that planning for change and developing a strategic approach to risk management means that Leader organisations have more information at hand to make decisions when it comes to assessing potential risk versus potential value of innovation projects.

While Leaders did report a stronger sense of project management of their innovation activities, they demonstrated only a marginally superior effectiveness when it came to implementing changes effectively. For five of the six areas of practice shown in Figure 17, including acceptance and effectiveness of change, risk and project management, Innovation Leaders reported much stronger orientation and practice levels than Laggers.

The question for practitioners in the light of these findings relates to how well their organisation manages risk, change and innovation projects, and from that, what changes can be implemented in order to move forward toward ‘Innovation Leader’ status?
When it came to organisational culture surrounding innovation, there was little difference between Leaders and Laggers on the extent of encouragement for learning from mistakes. Even the innovation leaders had a low proportion who reported positively on this dimension.

However, there was a clear difference between Leaders and Laggers on the extent of teamwork, with Leaders far more likely to structure innovation work in teams. Utilising team structures for innovation projects enhances collaboration, brings cross-functional expertise to bear, and drives forward the confidence and sense of collective ownership of innovation ideas as they traverse the challenging road towards commercialisation. We also note that the professional practice of measuring (and hence likely managing) of employee satisfaction was more frequent in Innovation Leaders.

So if you want to be an Innovation Leader, a focus on team structures for innovation projects should be on the agenda. Encourage employees at every level to learn from mistakes, rather than burying them; this will reduce the chance of these errors happening again. Finally, by measuring the level of employee satisfaction, the organisation can gain important feedback regarding the level of employee engagement.
Articulating desirable employee capabilities linked to innovation will guide the recruitment and selection process. It will help identify candidates who are the best ‘fit’ for an innovative organisation. Training and development initiatives should further develop capabilities and skills related to innovation. Performance appraisal systems should include measures of employee contributions to innovation, and this should be tied to remuneration and rewards.

The challenge for those wishing to lift their innovativeness is to strengthen their HRM practices in the knowledge that ‘people innovate’ and hence must be given the skills and motivation to do so.
Innovation Leaders were significantly more engaged in all aspects of sustainable development, than Laggers. Overall, Leaders were far more engaged not only in measuring their social and environmental impacts, but working proactively to improve on these measures.

This may have to do with the notion that just as being an Innovation Leader requires strong proactive leadership and a desire to be out front in your industry, so do activities that pertain to sustainable development – and these need to be measured. It is also the case that striving for improvements in social and environmental impacts tends to illuminate innovation opportunities and motivate organisations to pursue them.

Sustainable development approaches and systematic innovation are not only ‘sympathetic’ to each other: they go hand-in-hand, both philosophically and in practice. So for managers wishing to pursue higher levels of innovativeness, a core question is whether advances can be made in sustainability as a part of that pursuit.
Managing Innovation Systematically

What innovation process steps are used to manage innovation in a systematic way?

We examined the critically important process of moving innovation initiatives from the idea stage to commercialisation. Innovation processes are the challenging aspects of progressing innovative ideas through to implementation and ultimately value capture. Even when strategy and leadership of innovation is strong, many would say the ‘proof of the pudding’ is in these processes of implementing innovations.

On most of the key process steps, Innovation Leaders were generally three times more likely to report competence in aspects of opportunity identification, idea creation, and the management and progression of innovation projects. Leaders also excelled in assessing the risk associated with innovation projects, and then capturing value from these projects.

Exceptions to these significant differences between Leaders and Laggers were in the aspects of ‘killing off’ underperforming projects, and prioritising innovations. Even the Innovation Leaders were not very strong on these two aspects, and should question this aspect of their capability, as business performance could be adversely affected by prioritising the wrong innovation ideas, or by failing to identify innovation projects that are unlikely to succeed.

For those organisations seeking to become Innovation Leaders, strengthening the process step elements of progressing innovation projects is a vital area for improvement.

Figure 21: Management of innovation processes
Importance of Innovation Activities

How important are the following innovation activities to your organisation?

![Figure 22: Importance of innovation activities](image)

As a subset of the management of innovation processes, it is instructive to consider the relative importance assigned to various innovation activities by both Leaders and Lagers.

The innovation activities from process improvement to market expansion were much stronger in Leaders. Leaders report ‘across the board’ a significantly stronger emphasis than Lagers on all aspects of innovation activities.

One might conclude that: “You get what you deserve and pay for”, in the sense that Lagers who do not prioritise and pursue those ends with much intensity, fall behind as a result.
Another subset of the management of innovation processes involves the source of ideas for innovation. A very large difference was noted between Innovation Leaders and Laggers on the extent of use of employees’ ideas for innovation, where Innovation Leaders utilised employee ideas on a significantly higher basis. This is a crucial measurement in determining the innovative capacity of an organisation.

Using competitors’ ideas as a source of innovation was utilised to the same extent by both Leaders and Laggers, while underperforming organisations were more likely to use information from ‘associations and trade shows’ or ‘internal sales and service units’.

Since Innovation Leaders appear to practice more strategic forms of human resource management (see Figure 19), their ability to recruit employees with high innovation capabilities means that these employees can be more useful as a source of ideas for innovation. Innovation leaders also invested more heavily in targeted skills and capabilities development for their employees.

A key to achieving innovation success is not only to recruit employees with high innovation capabilities, but also to develop such capabilities in employees. In summary, Leaders are getting much more innovation ‘bang’ from their staff and are clearly more engaged in open innovation with a range of stakeholders in general.
Culture and Communication

Innovation Leaders reported significantly more frequent employee activities related to innovation, and that their firms gave more time for employees to converse in informal ways. They also reported higher skill levels among employees. It is likely that in Laggers, employees are working under short-term pressures such that there is less time for idea creation, discussion and teamwork related to innovation projects, and lower levels of the skills necessary to contribute to those innovations.

Organisations wishing to become Innovation Leaders should ensure that employees have the requisite skills and attributes required for supporting innovation, and that appropriate communication flows and opportunities for knowledge sharing prevail across the organisation.
Innovation Leaders demonstrated higher performance overall in terms of innovation and process management, particularly in the areas of knowledge management and technology management. Well defined knowledge resources and processes, coupled with sufficient investment in technology to support innovation were associated with increased levels of innovation performance.

Both Innovation Leaders and Laggers reported that they benchmarked competitors, but more Innovation Leaders did so. Leaders also were almost twice as likely to report that there was a strong alignment between the organisation’s business strategy and technology capabilities. Improvement in all these areas is a challenge for those organisations who wish to become Innovation Leaders.

Interestingly, the only large differentiating factor between Innovation Leaders and Laggers in respect of knowledge acquisition sources was that Leaders work more closely with suppliers to gain technological knowledge. It would appear that Laggers are more dependent on customers as a source of technological knowledge.
Conclusion

Achieving Innovation Performance and Business Results

While it may be increasingly difficult for organisations to achieve competitive advantage through cost, service and quality, the good news is that sustainable advantages of another kind are possible. This comes from true differentiation through innovation. And while no single innovation lasts forever, what can last for a long time is advantage through superior systematic innovation capability. In order to achieve this advantage, innovation needs to be the key focus of your organisation, as is the case in leading innovation-oriented organisations such as Apple, Google, Samsung, Sony and 3M. Systematic innovation capability means that:

1. Business strategy must be centred on finding innovative solutions to your customers’ problems. From proactively solving these problems, one creates business opportunities. Strategies need to include looking for new and different ways to solve problems for clients and new and different ways to conduct your own business processes. This means developing brand new products and services too. This work and orientation also allows your firm to win the ‘war for talent’ because many talented people have a natural affinity for innovation and will be attracted to organisations which are demonstrating innovation leadership.

2. Systematic innovation needs to be properly resourced, and processes must allow for some experimentation, thinking outside the square, and taking carefully judged and calculated risks when needed. This includes stimulating creativity in all staff, which is a training and skilling-up opportunity. Knowledge management provides the means by which knowledge can be created, shared, disseminated and recombined to create new forms of knowledge. Human Resource Management to support innovation is an opportunity here too, requiring systems capabilities and forums for exchanging ideas between staff.

3. If a firm is serious about systematic innovation capability as against just paying a ‘lip service’ approach, then innovation must be measured and be a central part of the business KPI (key performance indicator) system of the organisation. Remember the saying that is indeed a truism: “What gets measured gets done!”

4. The business innovation measures are even more powerful when they are then translated into personal incentives for all staff. This means that staff are recognised, rewarded and promoted at least partly on their contribution to innovation capability and innovations. Without this, staff can get away with not ‘buying in’ to innovation. However, with this factor in place, staff achieve personal gains while doing great innovative things in the business and for clients. When the business measures are strongly aligned with personal and team success drivers and incentives, a huge amount of energy is unleashed in the workforce!

5. Emphatic leadership of innovation behaviours and culture works wonders. When we see Australian senior executives thinking outside the square; trying new initiatives; demonstrating and encouraging some sensible appetite for risk; and tolerating the occasional failure as a learning opportunity then fear is removed and people embrace innovation.

Taking Innovation Forward

One thing is certain: an innovation capability will not develop on its own; it needs to be consciously formulated, resourced and driven into place. Some key questions you may wish to ask yourself and those in your organisation are:

- Can your organisation survive and prosper without innovation?
- Do you have a strategy in place for innovation?
- Do you have the right resources, skills, and systems in place to achieve systematic innovation?
Does your business measurement system include prioritisation of innovation measures, including inputs, innovation process intensity and innovation outputs?

Are staff recognised and rewarded for their contribution to innovation?

Do leaders ‘talk and walk’ innovation, and lead innovation by example?

**Appendix A: Demographic Survey Data**

*Which of the following categories best describes your organisation’s industry sector?*

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>1.0%</td>
</tr>
<tr>
<td>Rental, Hiring &amp; Real Estate Services</td>
<td>1.1%</td>
</tr>
<tr>
<td>Accommodation, Cafes &amp; Restaurants</td>
<td>1.1%</td>
</tr>
<tr>
<td>Arts &amp; Recreational Services</td>
<td>1.9%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2.4%</td>
</tr>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>2.5%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>3.0%</td>
</tr>
<tr>
<td>Mining &amp; Petroleum</td>
<td>3.2%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.2%</td>
</tr>
<tr>
<td>Administration &amp; Support</td>
<td>4.1%</td>
</tr>
<tr>
<td>Information Media &amp; Telecommunications</td>
<td>4.3%</td>
</tr>
<tr>
<td>Transport, Postal &amp; Warehousing</td>
<td>4.4%</td>
</tr>
<tr>
<td>Electricity, Gas, Water &amp; Waste Services</td>
<td>6.3%</td>
</tr>
<tr>
<td>Financial &amp; Insurance Services</td>
<td>7.7%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>8.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.5%</td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>9.8%</td>
</tr>
<tr>
<td>Public Administration &amp; Defence</td>
<td>12.6%</td>
</tr>
<tr>
<td>Professional Scientific &amp; Technical Services</td>
<td>13.4%</td>
</tr>
</tbody>
</table>

*Figure A1: Respondents by industry sector*

By industry sector, the largest groups or categories of respondents were Professional Scientific and Technical Services (13.4%), Public Administration and Defence (12.6%), Education and Training (9.8%), Manufacturing (9.5%), Health Care and Social Assistance (8.5%), and Financial and Insurance Services (7.7%)

**Location of Head Office and Operational Scope**

Over 90% of the respondents represented organisations with Head Offices located in Australia. Only 8.2% of respondents had Head Offices located overseas.
Which of the following best describes the operational scope of your organisation?

![Pie chart showing the distribution of operational scopes]

Respondents reported that 40.2% of their organisations are located and operate primarily within a single Australian state or territory, while 31.1% are located and operate primarily within Australia. In contrast, 21.5% are located and operate throughout the Asia-Pacific region and 7.2% reported that their organisations operated on a global basis.

**Number of Employees**

Organisations with up to 199 employees (small) made up 31.7%, those with 200-999 employees (medium) represented 24.6% of the respondents, and larger organisations (1,000 employees and over) represented 41.2% of the sample.

**What is the total number of employees in your organisation?**

![Bar chart showing the distribution of employee numbers]

*Figure A3: Number of employees across organisations*
**Number of Levels in the Organisation**

As can be seen in the following chart, over 43% of respondents reported there were between 1 and 5 levels in the organisational structure, while almost 49% reported over 6 levels.

**How many levels are there in the organisational structure from top (CEO or equivalent) to bottom?**

![Number of levels in respondent organisations](image)

**Job Title: who filled out the survey?**

**What is your job title within the organisation?**

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Middle Manager</strong></td>
<td>20.7%</td>
</tr>
<tr>
<td>Professional/Specialist</td>
<td>19.7%</td>
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<tr>
<td>Senior Manager/Executive</td>
<td>18.3%</td>
</tr>
<tr>
<td>Team Leader/Supervisor</td>
<td>12.3%</td>
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<tr>
<td>Team Member</td>
<td>7.8%</td>
</tr>
<tr>
<td>Business Owner</td>
<td>7.2%</td>
</tr>
<tr>
<td>CEO</td>
<td>5.1%</td>
</tr>
<tr>
<td>Board Director</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

**Table A1: Job title of respondents**

**Ownership**

Privately owned companies had the largest representation (31.4%), followed by government organisations (26.3%), publicly owned companies (22.5%), and not-for-profit organisations (15.4%). Partnerships (3.3%) and franchises (1.1%) were marginally represented.
Appendix B: Research Questions, Framework and Methodology

Research Questions and Framework

This project utilises a framework based on Samson’s (2010) report on Systematic Innovation Capability, which involved in-depth case studies of ten Australian organisations across a range of industry sectors. This national survey validated and further tested the factors identified in the research framework with a view to mapping the landscape of innovation in Australia. As part of a comprehensive research study to examine the nature of systematic innovation in Australian organisations, this project sought to address the following questions:

- What is the nature of innovation inputs, processes and innovation performance across a range of Australian organisations?

- How do the organisational characteristics of leadership - including board of directors; competitive strategy; innovation strategy and priorities; resources allocated to innovation; innovation activity priorities (product versus process); innovation processes (decision-making and innovation steps); behaviours and culture related to risk taking and innovation are relevant individually and collectively to innovation performance?

- How does innovation performance relate to business performance?

Methodology

The study was based on previous conceptual development and case study work, as well as previously validated material from the literature on innovation.

The comprehensive online survey was launched in October 2012, and AIM members across Australia were invited to participate in the survey. The survey took an average of 30 minutes to complete fully. A total of 2,499 AIM members attempted the survey, 2,025 substantially completed the survey and 1,579 completed the survey in its entirety. Data was analysed using descriptive statistics and techniques of association, factor analysis, correlation, regression, structural equation modelling, and related methods.
Appendix C: Prospering through Innovation in the Australian Context

The Australian Government, which helps provide infrastructure and incentives (such as tax incentives) to support innovation, needs to be well informed about factors associated with successful innovation, as well as to understand how to help develop and maintain superior systematic innovation capability. The same can be said for Australian companies in all industries which constantly seek ways to improve their overall performance and competitiveness.

For Australian companies wishing to achieve and sustain business success and profitability, there are some important facts to face in terms of competitive advantage. First, in global terms we are an expensive country in which to operate, especially when it comes to the cost of labour. Everyone from accountants and engineers through to senior executives, shop floor workers, tradespeople and our administrative support people cost much more to employ here than in many other countries; particularly in Asia. So when it comes to considering global competitiveness, we can’t compete easily at all on labour cost in most industries (nor do we as a community and nation wish to be a low wage economy). But it’s not just labour cost: rent in our capital cities, travel, infrastructure, utilities, services, raw materials and regulatory compliance costs are all higher in Australia when compared to other Asia Pacific countries.

So if cost competitiveness is a tough challenge in Australia, one then wonders if it might be possible to achieve competitive advantage through service and quality. Whereas a focus on service and quality used to be a way of getting and staying ahead, its potential is dissipating. The growth of the Internet and the popularity of setting up offshore operations in low wage countries have reduced the potential for ‘value adding’ onshore, even if it keeps these businesses surviving for longer than would otherwise be the case. Further, producers from low cost countries continue to improve the quality of their goods and services. Given this context, innovation becomes a powerful means by which to gain competitive advantage in Australia.
Appendix D: Systematic Innovation Capability Model

The Systematic Innovation Capability Model

Innovations can be in the form of new products or services, cost-reducing process improvements, or innovative business models and methods. The benefits of innovation will accrue in all aspects of the profit/loss statement: innovators drive additional sales volume, achieve price premiums and reduce costs through process improvements. In addition to the financial benefits, innovation goes hand-in-hand with sustainable development initiatives, as both require progressive leadership and an appetite for change, combined with a tolerance of experimentation and some risk.

Figure A6 shows the elements of systematic innovation which were identified in the case study work preceding this investigation of AIM members’ organisations. These elements of systematic innovation formed the basis for the survey items to which AIM members responded.
Appendix E: References


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