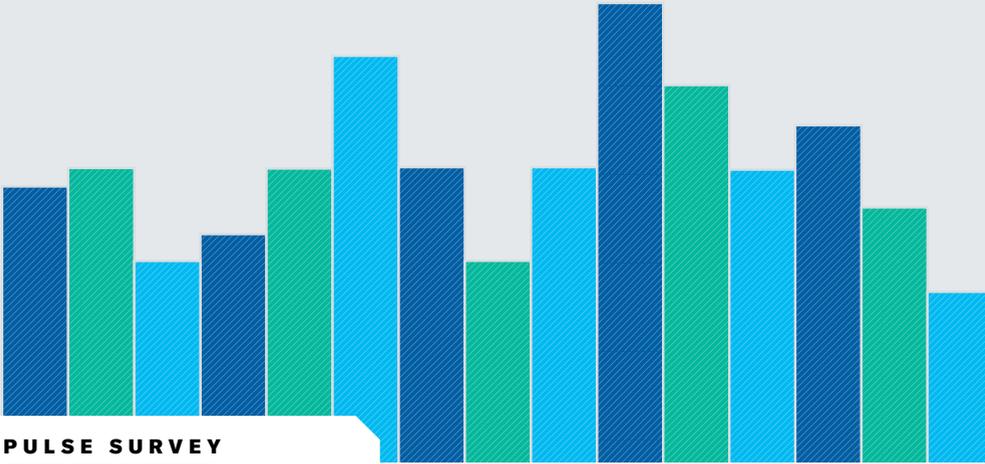




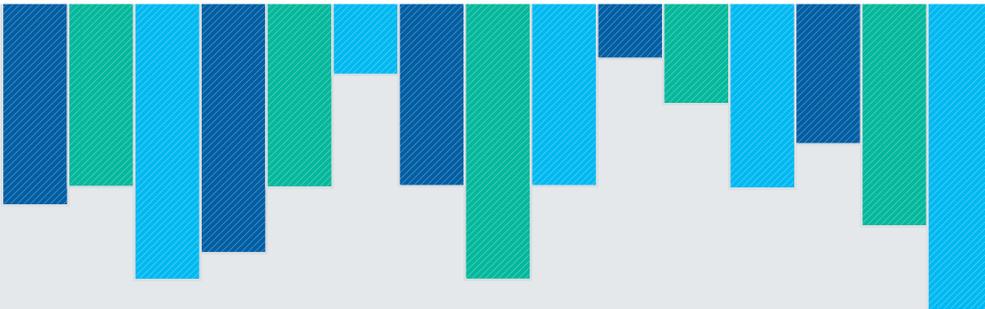
**Harvard
Business
Review**

ANALYTIC SERVICES



PULSE SURVEY

Delivering Customer-Focused Innovation



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At Amazon, we have a customer-obsessed approach to innovation and believe that innovation is everyone's job. That said, each organization has its own history, priorities, and approach, so we were keen to learn how other companies innovate, what barriers they encounter, what best practices they've identified, and how rapidly evolving market conditions have affected how they prioritize and approach innovation.

Perhaps unsurprisingly, we saw that innovation is a virtuous circle, where those who prioritize it seem to succeed more, which then leads to greater priority and therefore more success. External pressure often pushes people back to where they are comfortable, but innovation leaders are looking to speed up, not slow down. This means that the gap between innovators and others will only continue to widen.

In turn, innovation seems to have had a breakthrough from corporate buzzword to strategic priority. Innovation leaders focus on customers, business models, and breakthrough technology, all in service of their organization's mission. Other organizations focus more on competition, regulation, and profitability. What's interesting here is that those motivations for innovation leaders are durable—customers are never satisfied, and technology will keep providing opportunities. In contrast, the motivations of innovation laggards are internal and finite—you can beat your competition, satisfy regulations, and then declare victory. Meanwhile, innovators will keep on innovating.

What are the lessons here for organizations looking to innovate? Well, we see some useful patterns. Top-down sponsorship is essential. Innovation leaders consistently communicate and reinforce the importance of innovation through senior management. They are also twice as likely to favor an experimental approach to innovation, and they recognize that it takes a village—highly capable organizations see teams and individuals equally driving innovation.

Finally, while the overwhelming majority of innovators see technology as an enabler rather than a driver of innovation, innovation leaders also intentionally explore new technologies: twice as many leaders attempt to be market leaders in new solutions. These leaders also have roughly half the level of concern around the risks of that technology, which in turn encourages them to pick themselves up, dust themselves off, and innovate again if and when a failure occurs. They embrace failure as an opportunity to learn, pivot, and persevere.

We hope that you enjoy the report and find it enlightening and actionable. We look forward to your feedback and to partnering with you as AWS accelerates your innovation journey.



Richard Halkett
Worldwide Lead,
Digital Innovation
Amazon Web Services

Delivering Customer-Focused Innovation

The disruptions of 2020 have tested companies' innovation capabilities. The organizations that seem to be handling this test best are those that let their customers drive their innovation efforts. They aim to solve their customers' problems first, and that informs how they innovate.

A survey of 585 business executives conducted by Harvard Business Review Analytic Services found that innovation leaders are much more likely to focus on customers, business models, breakthrough technologies, and speed. **FIGURE 1** Some 76% of these leaders—the 37% of respondents who assert that innovation is a high priority for their organizations—expect to accelerate the speed of innovation over the next 12 months, compared to 63% of all respondents.

The survey reveals that sustained innovation revolves around three core areas: culture, process, and technology. The findings highlight the importance of having an ideas-driven culture that helps democratize innovation by opening it up enterprise wide, especially to those employees close to the customer. In terms of process, innovation leaders favor agility and experimentation. Leaders approach technology as both a driver and an enabler to maximize impact for their customers. By contrast, followers tend to be motivated by profitability, competition, and regulations.

This report will describe how innovation leaders become capable at meeting—and exceeding—their customers' expectations. It will show how they accomplish this while being constantly disrupted by advancing technologies, new business models, or unforeseen events, such as the pandemic. Indeed, 92% of innovation leaders expect to emerge stronger from the disruptions of 2020 thanks to their innovation strategies, compared to 62% of innovation followers.

HIGHLIGHTS



66% of innovation leaders are **driven by customers**, compared to 51% of followers.



53% of innovation leaders are capable in the area of **innovating the customer experience**, compared to 22% of followers.



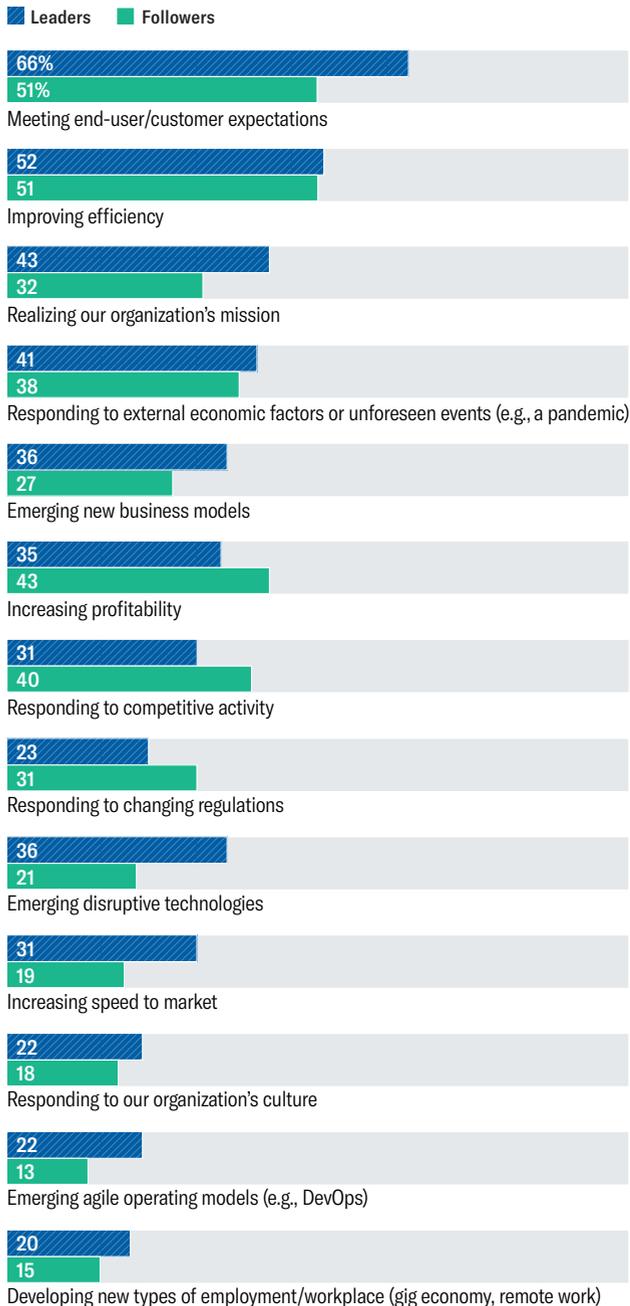
51% of innovation leaders say they **portray innovation as critical to the organization's mission and purpose**, compared to 29% of followers.

FIGURE 1

Drivers of Innovation

Customer is key for innovation leaders.

Which of the following are the biggest drivers of innovation at your organization?



Source: Harvard Business Review Analytic Services Survey, August 2020

Innovating through Disruption

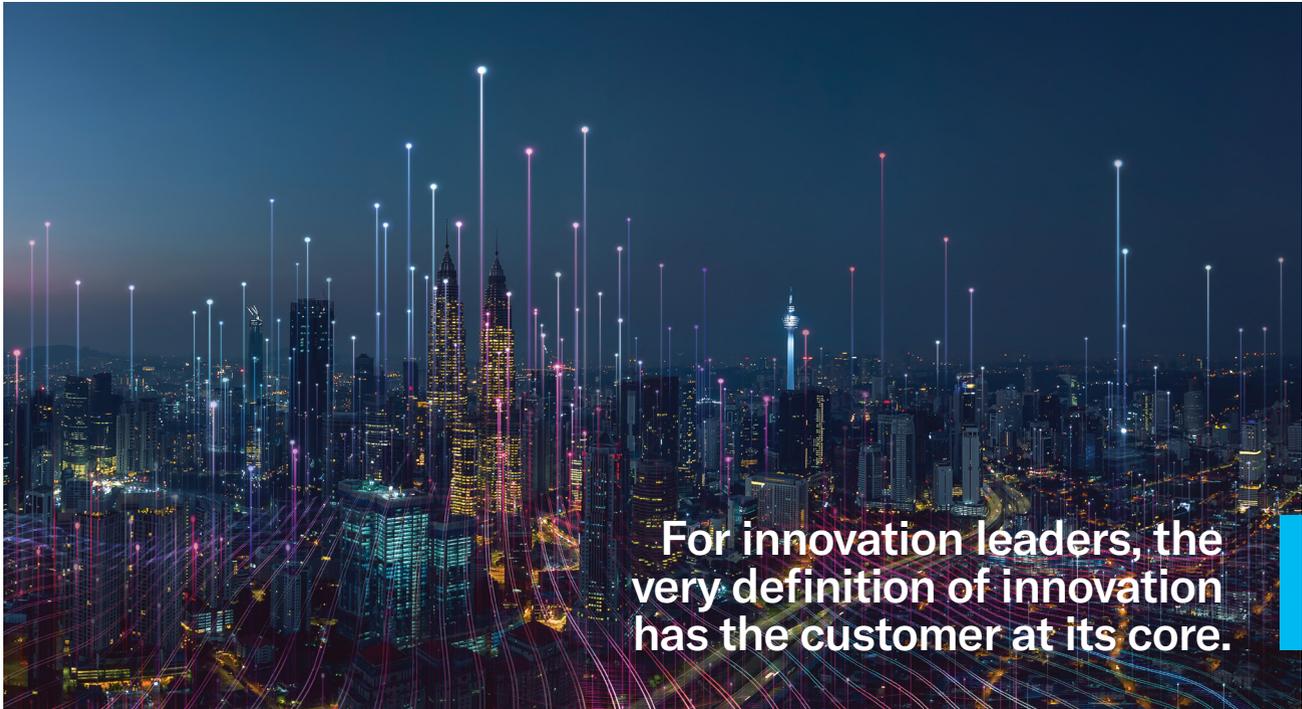
The rapidly changing needs of customers during the pandemic increased the need for speed in innovation. A majority of innovation leaders (59%) have increased the speed of customer/end-user innovation during the pandemic, compared to 43% of the followers. Moreover, nearly 80% of leaders expect to increase the speed of end-user innovation over the next 12 months, compared to 57% of followers.

Pinterest, a visual discovery engine, responded to its customers' need for information, comfort, and community at the outset of the pandemic by accelerating the release of its "Today" tab, a curated set of ideas that opens in a new window. It shows more topical and immediate discovery information about Covid-19 in response to what customers are likely going to be interested in rather than personalized recommendations based on Pinners' (users) interests. "We were just experimenting with the Today tab, and we decided that we had to launch it overnight because we wanted people to understand what was happening with Covid," says Jeremy King, Pinterest's head of engineering.

Vistaprint, which produces digital and physical marketing products for small businesses, reinvented its production lines to make customized face masks and protective shields for its clients. But Ricky Engelberg, Vistaprint's chief marketing officer, sees far deeper changes afoot. He believes that the pandemic will lead to a new dynamic between small businesses and their vendors. "A lot of small businesses, particularly in the U.S., have been confused about the rules that are made for them during the pandemic," says Engelberg. "The next generation of small-business owners is going to expect to have partners that truly help them operate versus simply being vendors. A true partner for small business goes above and beyond their direct product and service offerings to help business owners survive and thrive every day."

This new type of partnership can be accomplished in many ways, like vendors establishing small-business grants or loan opportunities or helping advocate for small businesses at the highest levels of government, Engelberg explains.

Much of the innovation has centered on recreating in-person meetings disrupted by the need for social distancing. For example, Accenture is recreating its innovation hubs via its Immersive Collaboration Platform, which recreates the company's physical innovation hubs in photorealistic detail and allows for participation in an augmented, mixed, or virtual reality experience. The company is taking advantage of the new circumstance to rethink how it translates from physical to digital by adding features that are not possible in the physical world, such as virtually "teleporting" participants across different spaces within the hubs.



For innovation leaders, the very definition of innovation has the customer at its core.

The Science and Art of Being Customer-Driven

Innovating the customer experience is key to being able to meet customer expectations. Some 53% of innovation leaders believe they are capable in the area of innovating the customer experience, versus 22% of innovation followers. For innovation leaders, the very definition of innovation has the customer at its core. “Innovation is solving a problem for a customer in a new way that doesn’t exist in the world,” says Aaron Levie, cofounder and CEO of Box, a firm that provides cloud content management and file-sharing services for businesses. “We’re constantly trying to push the boundaries of how can we do that in the best way possible, to have our clients say, ‘That was a magical experience that we had.’”

Meeting customers’ expectations is as much art as it is science, and this balance is what creates the difficulty. Data can help companies refine their understanding of their customers, with information such as age or income levels as well as different life stages, preferences, or buying patterns. But customers are much more than segments defined by data. “You have to really understand the essence of what the customer is trying to solve and deliver that solution to them,” says Levie. “You need to develop good intuition about what solutions to innovate for.”

Vistaprint focuses on small-business owners. Two problems that small-business owners face are that they do not have the same access to resources as big companies do and that they do not have enough time to focus on certain areas of their

business. Vistaprint solves these problems by giving small-business owners access to a global network of designers and manufacturing facilities and enabling them to create state-of-the-art and affordable marketing materials. “Giving them that time [to spend on their core business] and putting them on a more level playing field with the big players is really a large portion of the focus of innovation in our organization,” says Vistaprint’s Engelberg.

Making sure that customers embrace companies’ innovations rather than being put off by them is among the trickiest areas for companies to handle. “We don’t want to disrupt them so much that they become confused and turn

“You have to really understand the essence of what the customer is trying to solve and deliver that solution to them,” says Aaron Levie, cofounder and CEO of Box.





**“Innovation is cultural,
because it is human
beings who make
the decisions about
what, when, and how
to innovate.”**

**Anthony Bartolo,
chief product officer, Avaya**

away from us,” says Pinterest’s King. Box’s Levie agrees that creating the right customer experience boils down to making the product simpler, faster, more intuitive, and more secure.

Culture Is Key to Democratizing Innovation

The people element of innovation cannot be overstated. “Innovation is cultural, because it is human beings who make the decisions about what, when, and how to innovate,” says Anthony Bartolo, chief product officer at Avaya, a firm specializing in unified business communications and collaboration solutions. He notes that dealing with human inertia and fears is among the top obstacles to overcome when innovating. Indeed, 51% of all respondents say creating a culture that best supports innovation is their most common challenge, closely followed by creating an efficient organizational structure to support innovation (50%). Other common challenges include aligning different functions around innovation (40%) and measuring the success of innovation (36%). **FIGURE 2**

What type of culture best supports innovation? Having an ideas-driven, informal innovation culture gives companies an edge, respondents say. Formal cultures, according to 59% of respondents, were more of a barrier to innovation than informal ones (40%). Companies with ideas-driven, informal cultures are more likely to focus on becoming market leaders (56%), versus simply staying competitive, than are those with formal cultures (44%).

And yet by these measures, a majority of all respondents do not have such pro-innovation cultures. Fifty-three percent have innovation cultures that are formal and process-driven, while 42% describe their innovation cultures as informal and ideas-driven. Innovation leaders, meanwhile, are more likely to have informal, ideas-driven cultures than followers (49% versus 38%).

To succeed, however, an ideas-driven culture needs to be more than informal. It also needs to be ingrained throughout the whole organization. “We don’t really think of innovation as a separate part of the company. It’s an integral part of our culture,” says King. “I think about my job as making sure that any person can drive innovation.”

Democratizing innovation, namely the ability to motivate and enable individuals and teams to innovate, is an important marker of innovation success. A key component of this is talent management and getting different groups of individuals engaged in innovation. Some 53% of innovation leaders say they are better able to activate both individuals and teams equally to drive innovation, versus 30% of innovation followers. The data thus shows the importance of creating processes, providing technology tools and platforms, and setting innovation expectations for individuals and teams.

FIGURE 2

Culture Is Critical for Successful Innovation

Top challenges to supporting innovation are human-centric.

What are the biggest challenges to innovation within your organization today?



Source: Harvard Business Review Analytic Services Survey, August 2020

For innovation to be customer-driven, it is valuable to have a bottom-up approach. The culture must be especially inviting to employees who have direct access to and relationships with customers to offer their input. This bottom-up approach to encouraging new ideas is especially present among innovation leaders. Sixty-five percent of innovation leaders encourage innovation via senior management communicating and reinforcing its importance, compared to just 41% for followers. Power is in the message, as 51% of companies that are innovation leaders say they portray innovation as critical to the organization’s mission and purpose, compared to 29% of followers. “It takes leadership to facilitate the culture,” says Avaya’s Bartolo. “Leaders need to provide



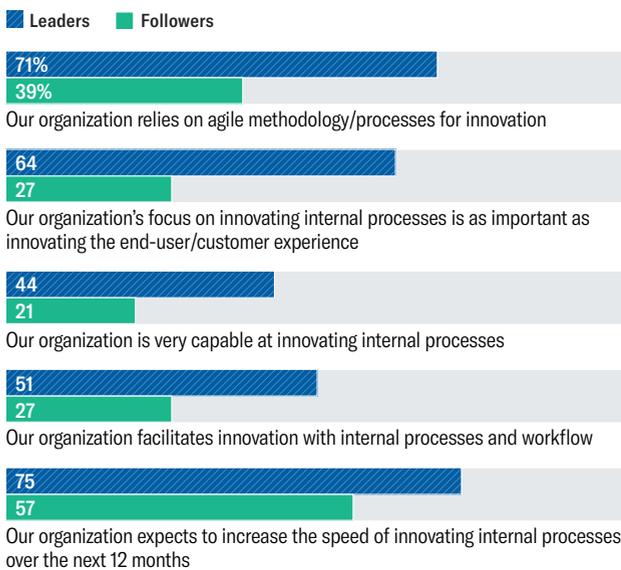
It is valuable to have a bottom-up approach to innovation. The culture must be especially inviting to employees who have direct access to and relationships with customers to offer their input.

FIGURE 3

Keeping the Innovation Engine in High Gear

Innovation leaders are more agile and internally focused.

The innovation processes utilized by innovation leaders and the rest of companies



Source: Harvard Business Review Analytic Services Survey, August 2020

people the confidence, camaraderie, environment, and the ethos to innovate.”

Focusing Internally on Process

Creating an efficient organizational structure to support innovation is necessary for new ideas to gain traction consistently. And yet 50% of all respondents say erecting such an efficient structure is their largest challenge. “Innovation is never really one eureka! moment; what it takes is a higher coalition across an organization to make really impactful innovation happen,” says Engelberg.

Every individual idea needs a focused, multitalented team to consider its merits and then, if the idea is approved, to

implement, market, and scale it. Mary Hamilton, managing director and head of Accenture Labs in the Americas, talks about “jumping the gap” between when the idea is born to when it is morphed into a real-life product or service used by the customer. Bridging this gap requires a thoughtful, end-to-end process of linked capabilities that extend from ideation to funding to prototyping to piloting. Then it has to be moved to scale and advertising. The building blocks of such a process include team and reporting structures, project management methodologies (e.g., agile or waterfall), and software systems and other technologies. These building blocks are an underpinning for the culture, which refers more to the inclusivity and motivational aspects of innovation.

Agile processes better foster innovation. A substantial majority (71%) of innovation leaders rely on agile methodologies and processes. **FIGURE 3** Leaders are also more likely to focus on innovating internal processes and facilitating innovation with internal processes and workflow. And while they are already ahead, leaders are ready to strengthen their advantage, as more of them (75%) are planning to speed up innovation of internal processes over the next 12 months than are followers (57%).

For Levie, the most efficient innovation process relies on creating small teams with very clear charters and a high degree of autonomy so they can make decisions on their own as much as possible without checking in with management. “Then you facilitate their agility by having a really good software development framework, so people can build off of the innovation of other teams,” he says.

The key to efficient innovation for King, meanwhile, is having an experimentation platform to run multiple experiments at a time. Pinterest launches hundreds of experiments every month, with some 25% of them going to production. Everyone on King’s 1,000-plus person team can run experiments on the platform. He notes that it is important for everyone to see what experiments are being run and to have access to data to be able to validate if they are working or not.

More innovation leaders (46%) tend to favor a more experimental approach than do innovation followers (30%). “We facilitate experimentation by who we hire, how we train people on the platform, and how we set innovation expectations once they are here,” King says.



A majority of innovators see technology as an enabler rather than a driver. Three-quarters of respondents start with the issues and then find ways to solve them with technology, rather than the reverse.

Harnessing the Full Potential of Technology

Innovation leaders are far more confident about their ability to handle the risks of technology than followers (73% versus 49%). They are also much more comfortable about using the newest emerging technologies than are followers (55% versus 33%). **FIGURE 4** A majority of innovators see technology as an enabler rather than a driver, with three-quarters of respondents starting with the issues and then finding ways to solve them with technology, rather than the reverse.

Innovation leaders make the most of technology, as 72% of innovation leaders attempt to be market leaders in new solutions, double the percentage of followers (36%). Such breakthrough, disruptive innovation is typically carried out and tested by dedicated innovation teams.

“When it comes to emerging technology, we want to be out front and we want to be shaping the future,” says Accenture’s Hamilton. “We don’t want to be just predicting or capturing the future. We want to be shaping what the alternatives look like for us and for our clients, what the trigger points are, and how we are evaluating them.”

Much of the innovation is incremental, aimed at increasing efficiency and improving business models of customers rather than disrupting them. Such democratic, step-by-step inventiveness is possible thanks to the advancement in technology, especially the cloud. “Companies that have been already well established digitally in the cloud were in a much better position when the disruption came,” says Hamilton. “They already had that digital set of capabilities, which allows them to quickly take advantage of business opportunities.”

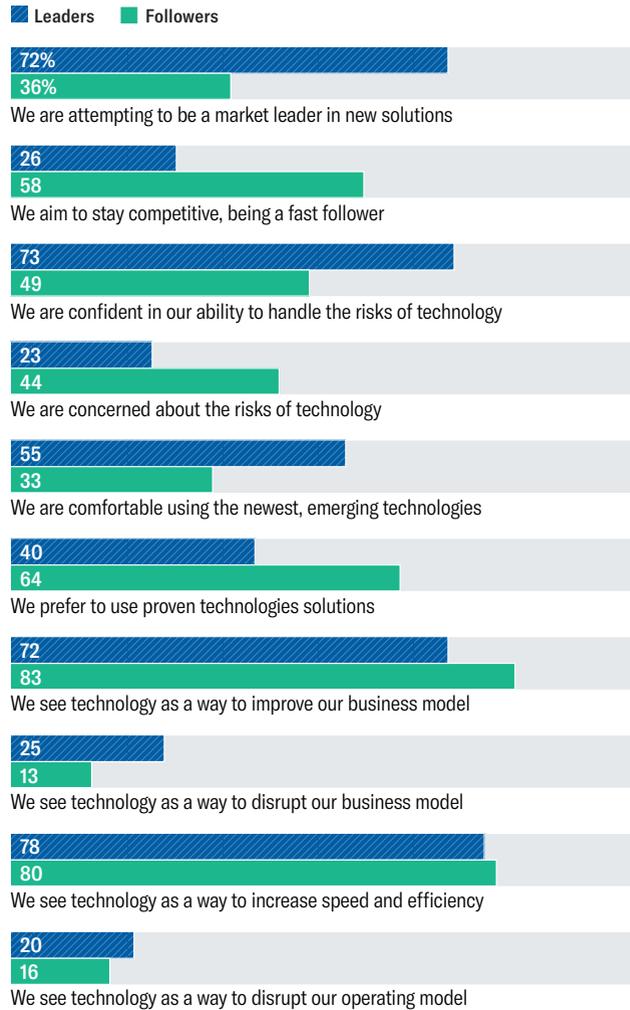
Thanks to cloud technology solutions, the tools that were previously only used by people who were able to code and build algorithms are now available and accessible to other

FIGURE 4

Technology as the Great Enabler

Leaders are much more likely to offer new technology solutions.

Which of the following statements better describe your organization’s approach to technology and innovation?



Source: Harvard Business Review Analytic Services Survey, August 2020

parts of the organization. “Pinterest was built completely in the cloud and completely with experimentation in mind,” says King. This accessibility organizationwide leads to a narrowing of the gap between the idea and the solution and helps speed innovation cycles because the tools are closer to or in the hands of the people who know the customers best.

Cloud technology also provides an unrivaled ability to experiment rapidly and cheaply, according to King. Some of the tools and solutions allow ideas to be put on trial quickly and for next to nothing. In the past, such testing would have



Following the lead of innovation leaders means undertaking a three-track approach that addresses people, process, and technology within the organization.

taken hundreds of thousands of dollars, several months, and hiring coders, says King. Democratizing this process is possible, however, because when innovating with the cloud-based tools, there is no need to spend huge resources and bet the company's future on an idea, he adds.

Sharpening Focus on Customer-Driven Innovation

Organizations looking to excel at innovation would do well to start by focusing on their customers. That commitment has to be constant. As noted, innovation leaders more than followers concentrate on customer-driven innovation not only now but in the future.

Following the lead of innovation leaders, however, means undertaking a three-track approach that addresses people, process, and technology within the organization.

Getting the people part right is the trickiest part, according to Bartolo. He says this situation calls for leadership to “evangelize” innovation, making it central to the organization. That message needs to reach and engage as many employees as possible so that they become interested in becoming active participants in innovation, says King. It is especially important to involve those employees who are close to customers and who understand customers’ needs and problems.

When it comes to process, King says, having agile methodologies and experimentation platforms to make innovation accessible to as many employees as possible is most important. Implementing such tools is easier in a digitally native company, but King says brick-and-mortar operations can consider extending the use of experimentation platforms to as many engineering and products teams as possible, and create a better process for communication between these innovation teams and the customer-facing employees, by employing collaboration tools.

The use of technology has gotten a boost during the pandemic, as the adoption of collaboration tools has accelerated. But what will happen in more normal times? King says investing in workforce technologies, which has been traditionally neglected, must be continued after the pandemic to provide innovation tools for employees. Cloud-based tools have become simpler to use and much cheaper, enabling more democratic access to innovation, he says. They allow all companies to behave like digital natives, King adds, and to start on the road to becoming innovation leaders.

“Innovation leaders have a culture where people come up with ideas, collaborate, brainstorm, try new experiments, and test those experiments against customers, all at speed,” says Levie. “It cannot happen without a very agile process or technology.”

METHODOLOGY AND PARTICIPANT PROFILE

A total of 585 respondents drawn from the HBR audience of readers (magazine/ newsletter readers, customers, HBR.org users) completed the survey.

Size of Organization

26%
10,000 or more
employees

28%
1,000 – 9,999
employees

33%
500 – 999
employees

13%
Fewer than 500
employees

Seniority

28%
Executive
management/
board members

17%
Senior
management

36%
Middle
management

15%
Other grades

Key Industry Sectors

13%
Manufacturing

11%
Financial services

9%
Technology

9%
Education

All other sectors
less than 8% each.

Job Function

22%
General/executive
management

11%
Sales/business
development/
customer service

All other functions
less than 8% each.

Region

40%
North America

22%
Europe

20%
Asia Pacific

9%
Latin America

7%
Middle East/
Africa

All other regions
less than 2% each.

Figures may not add up to 100% due to rounding.



Harvard Business Review

ANALYTIC SERVICES

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