

# Forrester Consulting

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## **Business Managers Don't View Innovation As Strategic**

Companies' innovation efforts are inwardly focused and seek operational efficiencies — not top-line growth

The following is a commissioned study conducted by Forrester Consulting on behalf of Microsoft.

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## Table Of Contents

|   |   |
|---|---|
| Executive Summary .....   | 3 |
| Most Firms Innovate To Reduce Cost — Not To Drive Top-Line Growth .....               | 4 |
| Firms' IT And Human Capital Investments Reflect Their Tactical Innovation Focus ..... | 6 |
| Conclusions .....   | 8 |
| Appendix: Supplemental Material .....   | 9 |
| Related Forrester Research .....  | 9 |
| Forrester Methodology .....   | 9 |

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### Executive Summary

Microsoft commissioned Forrester to conduct a custom study that examines how companies are investing in IT and human capital to improve customer relationships. On behalf of Microsoft, Forrester Consulting undertook a Web-based survey of 630 business process owners and business managers and a phone survey of 205 senior IT decision-makers in November 2006 and February and March 2007. We selected survey respondents that were responsible for managing customer relationships, establishing and/or managing partnerships, managing innovation, improving operational efficiency, contributing to strategic planning, recommending or evaluating technology investments, managing a team of information workers, or specifying the types of training employees receive. Nearly a quarter of the people we surveyed (23%) had responsibility for managing innovation.

Despite all the media hype about innovation, we found in this study that only 41% of business respondents ranked innovation as the first or second area of strategic importance for their organizations, compared with customer relationships (75%) or operational excellence (52%). That doesn't mean these managers don't value innovation at all — actually none of the business managers surveyed said they don't — but rather that they assign higher value only to innovations that positively impact customer experience (75%) and increase operational effectiveness (73%).

The survey data shows that companies are well advanced in the deployment of techniques, tools, and business processes that help drive innovation, with an impressive 60% running formal idea management programs to source innovative ideas from across their enterprises. While companies seem to reward good ideas — sourced either internally or externally — that lead to business success, they don't tolerate bad ideas that generate failure. Indeed, 55% of interviewees believe that their risk-averse corporate culture doesn't tolerate failure associated with "innovations gone bad". Yet, that hasn't stopped nearly half (49%) of companies in 2006 from ranking innovation capability as their first or second largest area of technology spending in 2006. Among the 130 big spenders who ranked innovation as their top investment, the most popular tool deployed to foster innovation isn't a sophisticated functional one like portfolio management (32%) or mind-mapping (29%) but plain vanilla collaboration software like employee portals, which are used by more than half of the firms to support innovation.

It's also worth noting that 34% of the managers spending heavily on innovation believe that supply chain management software also enables innovation — re-emphasizing the importance they place on operational innovation. This obsession with operational efficiency becomes even more evident when the respondents were asked to list the key benefits that could result from improved ability to innovate: cost reduction tops their list (50%) — even more than improved customer experience (45%) or top-line growth (41%). In other words, if the managers with whom we spoke could invest more in innovation, they would rather direct that money to invent new processes that streamline cost structure rather than use that funding to create new products or services that delight customers or building new businesses! But companies don't seem to realize that innovation, unlike operational efficiency, is a human-mediated activity — which explains why only 47% of companies ranked innovation capability as their No. 1 or No. 2 area of human capital investments in 2006.