

# The Innovation *Index*

In the fourth quarter of 2006, the ILO Institute asked 50 senior executives at multi-billion-dollar companies a series of questions about support for innovation inside and outside their companies, to establish a baseline for an annual *innovation index*.

The results were clear. With a score of 1.0 representing no change over one year ago, the overall average score was 1.41. In other words, support is rising for innovation across the categories we explored.

The most notable finding at a finer level of detail is the significant gap between the perception of internal support for new-product development and market friendliness to new-product development initiatives. Surveyed executives rated internal support, on average, at 1.475, while they rated market friendliness at 1.275.

The questions we asked required respondents to compare the current climate of support for innovation to one year ago, in four areas—inside the company, in the marketplace, among suppliers and vendors, and among employees. In each of these areas, the questions specifically asked about support for new product development, new market entry, and development of new business processes.

The gap between internal support for innovation and external marketplace realities might suggest problems ahead for companies that have adopted *innovation!* as a theme without fully understanding or preparing for the inevitable high rate of new-product failures.

ILO Institute research in 2006 has clearly supported the notion that *failure* is a necessary and often positive part of the process of crafting new products and entering new markets. Firms that lower the cost of failure and shorten the cycle time of experimentation are best positioned to apply the lessons of these failures to refine or redirect innovation initiatives.

However, the ILO Innovation Index provides a glimpse of the brick wall that a number of companies are running toward. *Innovation* is in the air as the big new idea—it's reaching the state that *excellence* achieved in the late 1980s and early 1990s.

Although the internal support number is at a pretty high level, the marketplace does not care about business trends.

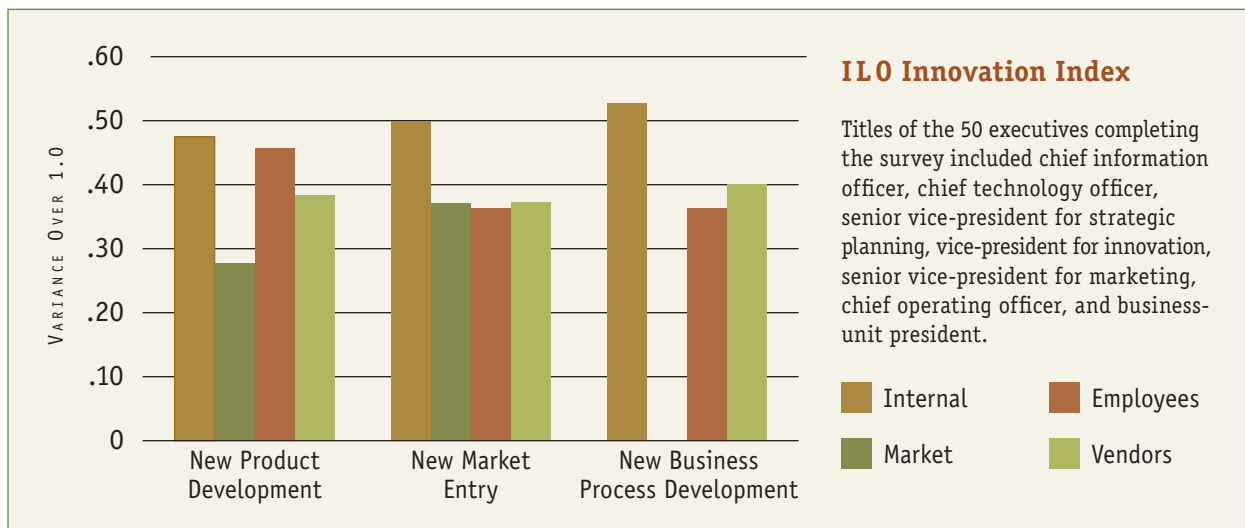
New products usually fail. Smart companies learn from

those failures and use them as platforms for bigger and better things. The real question now is how much companies are willing to invest in time and money to bridge that gap between internal enthusiasm and market realities.

It won't come for free, it won't be easy, but long-term success is all about bridging that gap. ■

**Corporate enthusiasm for innovation is rising but consumers don't always care.**

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Source: ILO Institute