Innovation
As a Business
Imperative
Opening Summary

At its simplest definition, innovation is the process of creating new ideas, methodologies, services or products that lead to business transformation.

Innovation is a continual challenge for many across the business landscape, independent of location, industry or business sector. The latest YPO Global Pulse survey reveals that chief executives’ appetites for innovation are not keeping up with their beliefs in the urgency for proactive innovation investment.

Customers are cited as a primary source of innovation inspiration and customer experience as a primary business area needing innovation. Plans for innovation investment over the next 12 months are most likely to be focused on products, internal processes and technology. Geographic location, industry, company size and length of job tenure greatly influence chief executives’ opinions and future innovation action plans.

Key Findings:

57 percent of chief executives strongly believe there is an urgent need for their business to be innovative. However, more than one-third of those respondents — 37 percent — indicated they are not likely to invest in innovation in the next 12 months.

36 percent of chief executives strongly agree that changing market conditions are disrupting their business; 24 percent strongly agree their industry is being disrupted by technology; and 20 percent strongly agree new competitors threaten their business.

Customer experience is the primary business area needing the most innovation with nearly one in five respondents citing it before products, data/business intelligence or technology.

Over the next 12 months, chief executives are extremely likely to invest in innovation in the following areas — products (45 percent), internal processes (44 percent) and technology (42 percent).

More than four in 10 chief executives strongly believe they have the appetite for experimentation and risk when they do business (this grows to 90 percent when factoring in those who “strongly” and “somewhat” agree they have an appetite for experimentation and risk). Those leading companies with annual revenues between USD25 million and USD99 million appear to be the most risk averse compared to those leading smaller businesses and those leading businesses with more than USD100 million in annual revenues.

Nearly half of chief executives cited customers as their top source of innovation inspiration (48 percent) with employees (35 percent) ranking second and business colleagues third (27 percent). Consultants (10 percent) and think tanks (7 percent) lag far behind.
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Urgency to Innovate Amid Business Disruption

Bridging the gap between the urgent need to innovate and taking the necessary steps to do so remain a significant challenge to business leaders. Fifty-seven percent of chief executives strongly agree there is an urgent need to be innovative. However, only 31 percent strongly agree their company is proactively planning for innovation, and just 19 percent strongly agree their company is an innovation leader.

**Sources of business disruption**

When chief executives were asked where they saw disruption coming from, they identified changing market conditions as the primary source, over technology or new competitors.

Thirty-six percent of chief executives responding to the Global Pulse strongly agree changing market conditions are redefining their business; 24 percent strongly agree their industry is being disrupted by technology, and 20 percent strongly agree new competitors threaten their business model.
Regional Differences

Chief executives in emerging markets (Africa, Latin America and the Middle East) feel an urgency to innovate, while those in Europe are more likely to proactively plan for it.

Chief executives in Latin America (19 percent) and Asia (14 percent) are more concerned that technology is making their business model obsolete, especially when compared to their peers in Europe (9 percent) and the United States (7 percent).

U.K. respondents (43 percent) were much more likely than their European peers (31 percent) to strongly agree that changing market conditions are redefining their business. Respondents in the Middle East/North Africa had the strongest agreement with this statement (51 percent), followed by Africa (44 percent).

Chief executives in MENA (10 percent) and Asia (9 percent) are more likely to strongly believe their competitors are innovating faster compared to the respondents across all regions (6 percent).
What Needs Innovating?

Overall, customer experience tops chief executives’ responses of what needs innovating the most with nearly one in five citing it as a top area of focus. Products, data/business intelligence, business model and technology were also named as important areas to innovate.

For chief executives with the most innovation urgency (most likely to innovate and invest), the top area of focus for innovation was the business model, while for those with the least innovation urgency (least likely to innovate and invest), products were the priority of innovation focus.
Areas of Investment Over the Next 12 Months

When it comes to plans for innovation investment in the next 12 months, survey respondents indicate that their strongest innovation investments will most likely be in products (45 percent), internal processes (44 percent) and technology (42 percent).

The likelihood that chief executives will invest to innovate their products in the next 12 months (45 percent) aligns with the DHR International-Sponsored report by Harvard Business Analytic Services, The State of Innovative Leaders Report 2018. In that report, just 45 percent of 636 respondents drawn from the Harvard Business Review audience of readers defined their innovation focus as transforming their existing business models, products and services.

Although only 19 percent of YPO’s chief executive respondents are “extremely likely” to invest in business model innovation in the next year, that figure grows to 55 percent when accounting for both “extremely likely” and “moderately likely.” This finding is consistent with the 2018 Gartner CEO and Senior Business Executive Survey, where 63 percent of global executives said they are likely to change their business models between 2018 and 2020.

The key differences between innovation investments in the next 12 months among company size types are seen in data/business intelligence, where chief executives of larger organizations (USD250 million+) are far more likely to plan for investing in this area (47 percent) compared to those leading smaller companies.

The top innovation investments in the next 12 months among those leading USD25 million-USD250 million businesses are internal processes (45 percent) followed by products (43 percent) and technology (42 percent).

Chief executives of smaller organizations (USD25 million or less) reported they will be focusing their innovation investments in the next 12 months on product innovation (45 percent).
Regional Differences

When looking across global regions, chief executives differ in their views on innovation investment in the next 12 months:

**Likelihood of investing in product innovation**

Respondents in Europe (54 percent) have the highest response to the likelihood of investing in product innovation.

**Likelihood of investing in business model innovation**

Chief executives in Latin America (26 percent) and the Middle East/North Africa (25 percent) are more likely to invest in business model innovation compared to their peers in the United States (16 percent) and Canada (13 percent). This compares to the overall response of 19 percent.

**Likelihood of investing in talent**

U.S.-based business leaders (34 percent) are slightly more likely to invest in talent compared to all others (29 percent).
Frontrunners of Innovation

Who drives innovation?

When asked “Who drives innovation strategy in your company?”, more than half of chief executives responding — 64 percent — indicate they personally drive innovation at their organization, with 41 percent saying innovation is integrated across their leadership team.

YPO chief executives take a more distributed approach to innovation leadership. According to the DHR International-Sponsored Harvard Business Analytic Services report The State of Innovative Leaders Report 2018, 85 percent of respondents consider the CEO the most important executive to lead innovation efforts. Sixty-four percent of chief executives in the Global Pulse study indicate they are the ones who are driving innovation strategy within their company. In addition, 26 percent of respondents to the The State of Innovative Leaders Report 2018 indicate that a chief innovation officer is the most important driver for innovation. In the latest YPO Global Pulse, 11 percent of chief executives indicate that an innovation officer drives innovation at their companies.

<table>
<thead>
<tr>
<th>Who drives innovation strategy in your company?</th>
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<tbody>
<tr>
<td>I do</td>
<td>64%</td>
</tr>
<tr>
<td>Integrated across leadership team</td>
<td>41%</td>
</tr>
<tr>
<td>Technology team</td>
<td>27%</td>
</tr>
<tr>
<td>Operations team</td>
<td>26%</td>
</tr>
<tr>
<td>Marketing team</td>
<td>24%</td>
</tr>
<tr>
<td>Board of directors</td>
<td>23%</td>
</tr>
<tr>
<td>Engineering team</td>
<td>17%</td>
</tr>
<tr>
<td>Dedicated innovation team</td>
<td>13%</td>
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<tr>
<td>Chief product officer</td>
<td>12%</td>
</tr>
<tr>
<td>External consultants</td>
<td>11%</td>
</tr>
<tr>
<td>Innovation officer</td>
<td>11%</td>
</tr>
<tr>
<td>Other officer-level leader</td>
<td>9%</td>
</tr>
<tr>
<td>Chief customer officer</td>
<td>8%</td>
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</tbody>
</table>

YPO Global Pulse - May 2019 1,661 total responses
Industry Type Drives Approach to Innovation

Industry seems to play a large role on defining chief executives’ approach to innovation.

Chief executives responding with the highest urgency to innovate and highest likelihood to invest in innovation in the next 12 months are in service industries including advertising/marketing and insurance, as well as from more capital-intensive industries such as aerospace/defense and logistics.

On the opposite side of the spectrum, chief executives with the least urgency to innovate and invest in innovation in the next 12 months came from industries such as manufacturing, agriculture and utilities.

Chief executives in the media/publishing industry indicate high urgency to innovate with moderate likelihood of investment in innovation in the next 12 months.

Chief executives who are likely to invest in innovation in the next 12 months, but feel less urgency to innovate, come from the investment, travel and restaurant industries.
Appetite for Experimentation and Risk

The balance between risk and security has grown more complex to navigate for chief executives. Where there is a desire to innovate, there is also a fear of investing in something not yet tried and true.

Family business leaders, entrepreneurs and professional managers differ in their mindset when it comes to taking risks and investing in innovation.

Family business (family-owned for more than one generation) leaders tend to be more conservative in their approach to innovation, being cautious about changing the model that make multigeneration businesses successful. They are more risk averse, careful to adopt new practices and are less likely to plan for major innovation initiatives, staying focused on internal processes and company culture.

Conversely, entrepreneurs (company founders) are more likely to be innovators and have an appetite for risk. Entrepreneurs tend to make quick decisions, experiment as they build and grow their business, and pivot as they align their company culture and talent with their bigger personal vision.

Professional managers (hired executives) are more likely than entrepreneurs and family business leaders to invest in business model and technology innovation. They are more concerned about customer experience while more hesitant to invest in innovation.

Industry and the size of the organization play significant roles in a chief executive’s attitude toward embracing experimentation and risk:

- Executives in the IT & software, health care and advertising & marketing industries are more likely to have an appetite for experimentation and risk (more than 55 percent) while leaders in the distribution, automotive and apparel industries are more risk adverse (35 percent).
- Companies with annual revenues between USD25 million and USD99 million are the most risk averse compared to those leading smaller businesses and those leading businesses with more than USD100 million in annual revenues.

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### I have an appetite for experimentation and risk when I do business

<table>
<thead>
<tr>
<th></th>
<th>STRONGLY AGREE</th>
<th>SOMEWHAT AGREE</th>
<th>NEITHER AGREE NOR DISAGREE</th>
<th>SOMEWHAT DISAGREE</th>
<th>STRONGLY DISAGREE</th>
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</thead>
<tbody>
<tr>
<td>Professional Manager</td>
<td>41%</td>
<td>50%</td>
<td>8%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Family Business Leader</td>
<td>31%</td>
<td>55%</td>
<td>10%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>51%</td>
<td>42%</td>
<td>4%</td>
<td>2%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>All Chief Executives</td>
<td>42%</td>
<td>48%</td>
<td>7%</td>
<td>2%</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

YPO Global Pulse - May 2019 1,661 total responses 0% 25% 50% 75% 100%
Who and What Inspires Innovation?

- Forty-eight percent of chief executives indicate they look to their customers for inspiration.
- More than one-third selected their employees and conferences/seminars as top inspiration sources.
- More than 20 percent also chose other companies, business colleagues, media/periodicals and YPO as innovation inspirers.

What are your top three sources of innovation inspiration?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Customers</td>
<td>48%</td>
</tr>
<tr>
<td>Employees</td>
<td>35%</td>
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<tr>
<td>Conferences/seminars</td>
<td>35%</td>
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<tr>
<td>Companies</td>
<td>28%</td>
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<tr>
<td>Business colleagues</td>
<td>27%</td>
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<tr>
<td>Media and periodicals</td>
<td>25%</td>
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<tr>
<td>YPO</td>
<td>23%</td>
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<tr>
<td>Books</td>
<td>14%</td>
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<tr>
<td>Universities/academics</td>
<td>11%</td>
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<tr>
<td>Other CEOs outside of YPO</td>
<td>11%</td>
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<tr>
<td>A specific innovation leader</td>
<td>10%</td>
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<tr>
<td>Consultants</td>
<td>10%</td>
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<tr>
<td>Think tanks</td>
<td>7%</td>
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<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>Blogs</td>
<td>4%</td>
</tr>
<tr>
<td>Family</td>
<td>4%</td>
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About the Survey

The YPO Global Pulse focuses on gathering insights from chief executives around the world on the topics that influence businesses and drive leadership decisions.

The survey was conducted between 29 April and 6 May 2019 via an online questionnaire and gathered insights from 1,661 member respondents across 105 countries and 34 industry sectors.

### Chief Executive Type

- **Entrepreneur**: 42%
- **Family Business Leaders**: 35%
- **Professional Managers**: 23%

### Region

- **Africa**: 5%
- **Asia Pacific**: 15%
- **Canada**: 7%
- **Europe**: 15%
- **Latin America**: 10%
- **Middle East/North Africa**: 4%
- **U.S.**: 44%

### Time Leading Company

- **Less than one year**: 3%
- **1-3 years**: 15%
- **4-6 years**: 18%
- **7-10 years**: 12%
- **More than 10 years**: 52%
About YPO

YPO is the premier global leadership organization for more than 27,000 chief executives in over 130 countries and the global platform for them to engage, learn and grow. YPO members harness the knowledge, influence and trust of the world’s most influential and innovative business leaders to inspire business, personal, family and community impact. Today, YPO member-run companies, diversified among industries and types of businesses, employ more than 22 million people globally and generate USD9 trillion in annual revenues. For more information, visit ypo.org.