

Explaining, the source of information for both the 'Ideal' and the 'Best of the Best' (BofB) benchmarks

October 1, 2012

An approach to measuring corporate innovativeness by using benchmarks from an on-line survey and research on the practices of highly-innovative companies

Background

Our research into the management practices of highly-innovative companies identified 25 Factors which are relevant to corporate innovative capacity - innovativeness.

We have recently made extensive use of our research and survey results in the analysis management practices¹ at RIM (under Balsillie and Lazaridis) and Apple (under Jobs). The results provide insight into the reasons why Apple has been so successful and RIM, at this moment, struggles. In the analysis of RIM and Apple, we make use of 18 of the Factors. The remaining 7 Factors are either less relevant to the analysis or are Factors for which we do not have sufficient information to provide comment.

The on-line survey

The on-line survey delves into the opinions of personnel within a corporation as to their attitudes and beliefs regarding innovation. The intention is to better understand the opinions, beliefs and values within the organization regarding innovation. Comparisons among levels and across large organization are possible. Problems and opportunities can be identified and prioritized through a careful interpretation of results, leading to focused corrective action.

Overview

We explain the data and sources of our rankings.

We comment on the use of the on-line survey.

We provide the results of our benchmarking 3 highly-innovative companies.

We organize Factors into 3 categories:

- Leadership
- Organization and management of day-to-day affairs
- Idea generation and realization

We introduce the application of this methodology to our recent review of Apple versus RIM.

¹ See Apple versus RIM report; <http://www.corporateinnovationonline.com>

This is how the online survey works for a corporation. For each Factor respondents enter their perception of the 'Ideal' corporate situation and then register their own corporate 'Reality'. A report is provided on-line and sent to the respondent. The report compares their opinion, for each Factor, with the average of all other respondents. This is useful to the respondent for marking his/her viewpoint and judging whether their own view might be extreme – or average. The difference between 'Ideal' and 'Reality' gives rise to a difference – referred to a 'Delta' - a measurement of satisfaction or not. A score by Factor and in total is provided to the respondent on completion of the on-line survey.

The 'Ideal' from this on-line survey is used in our report on Apple versus RIM and is one of two benchmarks used in assessing their innovativeness.

Researching highly-innovative companies

Our research into the management practices of highly-innovative companies encompasses several companies but the three we have chosen to make up the Best of the Best ratings are; 3M, P&G and John Deere, on which we have sufficient information to assign values by Factor. The Best of the Best (BofB) is an average of our rating results for these three companies.

The measure is subjective and is not based on any internal information. There is, however, a wealth of external data on each of these companies. We have sifted through most of the relevant material and are able to profile each of the companies at a point in time. There is also an observable pattern amongst highly-innovative companies which helps to answer why these companies are able to sustain innovation for such a long period.

Profiles are available for each of these 3 companies, and others, on the web site;
<http://www.corporateinnovationonline.com>.

How closely correlated are the on-line results with the ratings for the BofB?

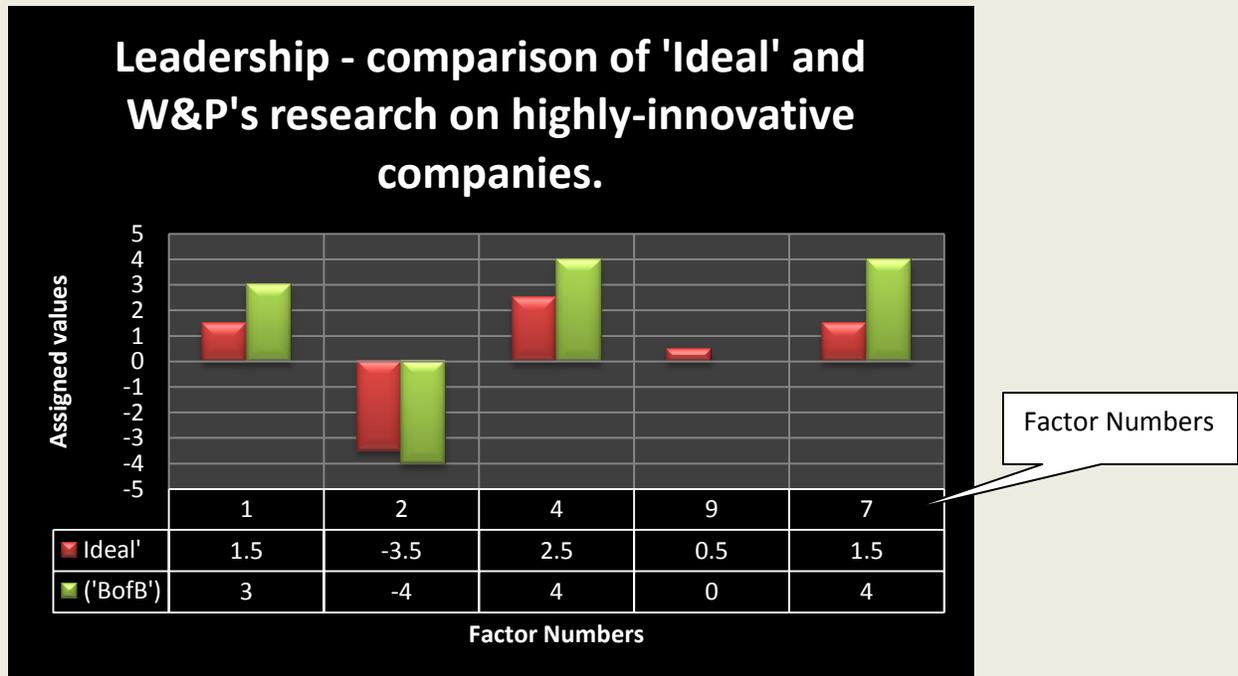
In this report we have taken 18 of the Factors organized under three headings;

- Leadership,
- Organization and management of day-to-day affairs, and
- Idea generation and realization.

Two benchmarks are compared; i.e. the results from the on-line survey and, based on our own research, the values assigned to the BofB.

Leadership

Leadership includes 5 Factors, as illustrated below. In 4 of the 5 Factors, respondents to the on-line survey were less demanding than the benchmarks set for the BofB.



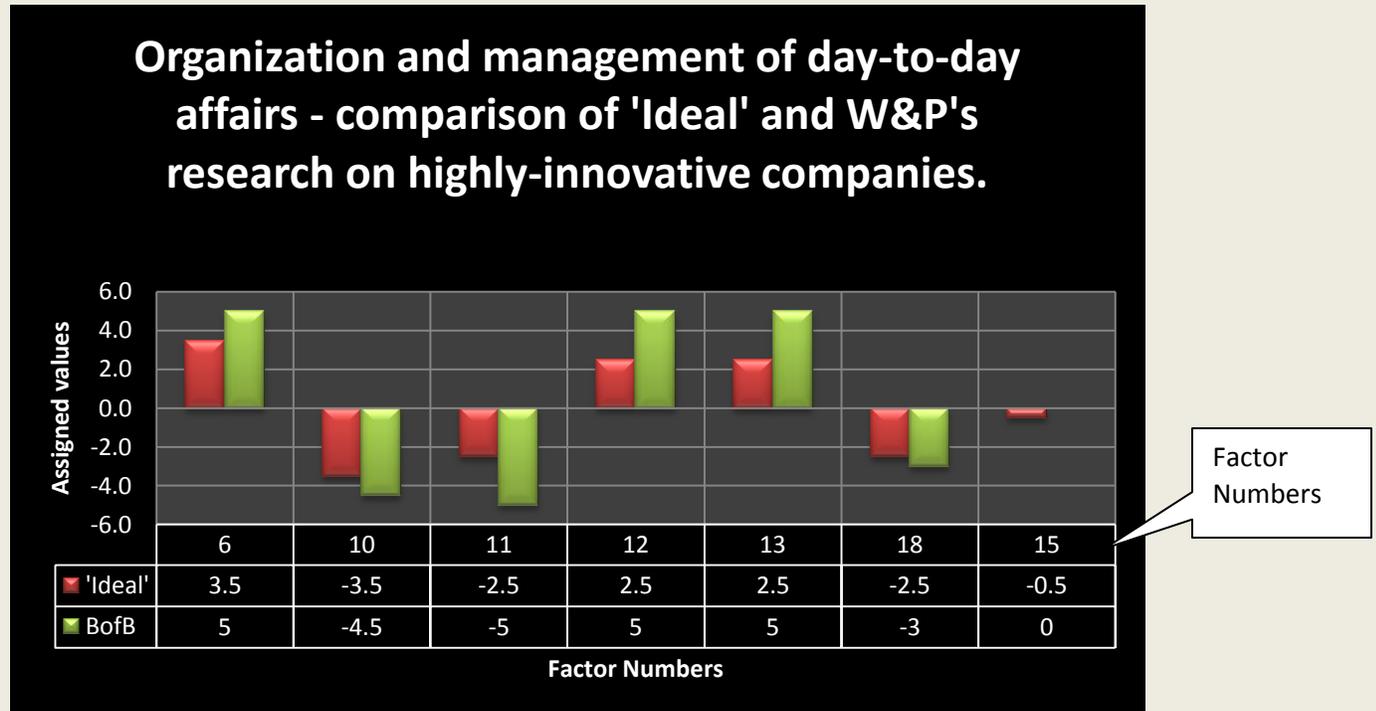
The Factors are each further described in the Appendices to this paper along with the two extremes for each Factor. Factors address:

- Factor #1: Management view on profits.
- Factor #2: Management view on the importance of innovation.
- Factor #4: Planning emphasis.
- Factor #9: Tolerance for risk (in the planning process)
- Factor #7: Careers for innovators

In each case, with the exception of Factor #9, the BofB ratings are higher than the respondent's view of what should be the 'Ideal situation.

Organization and management of day-to-day affairs

Leadership includes 7 Factors, as illustrated below. In all 7 Factors, respondents to the on-line survey were less demanding than the benchmarks set for the BofB.



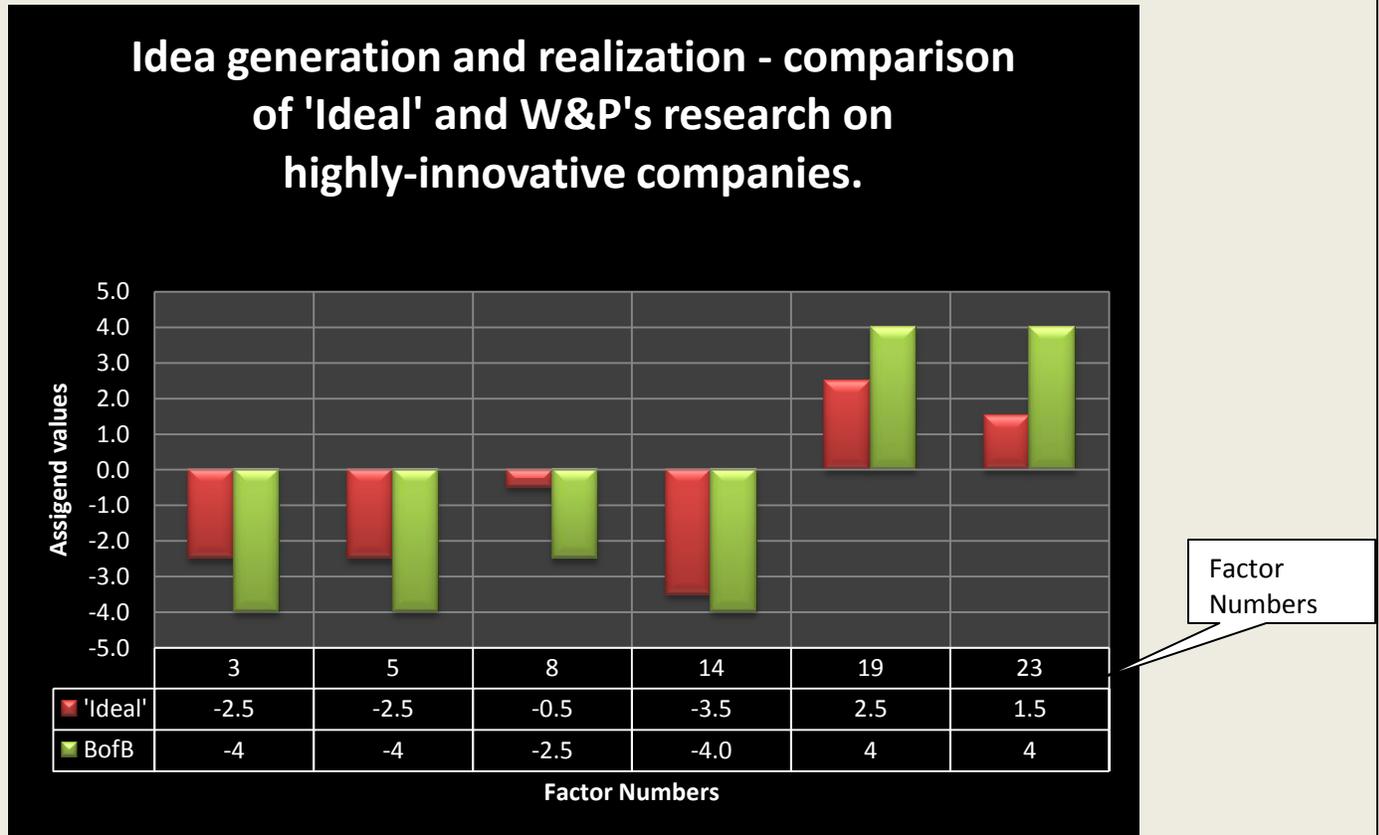
The Factors are each further described in the Appendices to this paper along with the two extremes for each Factor. Factors address:

- Factor #6: People and their interactions.
- Factor #10: Intra firm communications.
- Factor #11: Independent work groups.
- Factor #12: Broad based decision making.
- Factor #13: Decision process formality
- Factor #18: Hierarchical or decentralized
- Factor #15: Planning or action oriented

In each case, with the exception of Factor #15, the BofB are rated higher than the respondent's view of what should be the 'Ideal situation.

Idea generation and realization

Idea generation and realization includes 6 Factors, as illustrated below. In all 6 Factors, respondents to the on-line survey were less demanding than the benchmarks set for the BofB.



The Factors are each further described in the Appendices to this paper along with the two extremes for each Factor. Factors address:

- Factor #3: Tolerance for mavericks
- Factor #5: Tolerance for failure.
- Factor #8: Corporate norm (adherence to)
- Factor #14: Rewards for innovators
- Factor #19: Resource availability
- Factor #23: R&D spending levels

In each case benchmarks set for the BofB are rated higher than the respondent's view of what should be the 'Ideal situation.

Apple versus RIM

Both these companies offer an opportunity to learn lessons respecting the management practices which either encourage or discourage innovation. There is much written about both. Success is enormous on one side and a current disaster on the other. Correlations therefore among good and bad practices are easier to identify. Examples are obvious.

For this review we have chosen to apply the two measurements; on-line survey results and the BofB to Apple and RIM's management practices. That report is available on the web site and is free!

For those who read the report, it is clear that Apple exceeded our benchmarks, exceeding in many cases the rating for BofB. The opposite is true for RIM!

The following comments are summarized from our report, which is available on the web site; <http://www.corporateinnovationonline.com> under Apple versus RIM.

Leadership

Apple has an even better ranking than the 'Ideal' thus placing the company in an 'outstanding' category and raising the specter that RIM has been competing with the most innovative company in the world.

RIM, overall, has a significantly higher Delta [RIM versus the Ideal] than Apple. The difference is magnified even further since Apple's ranking is much better than the Ideal for 4 of the 5 Factors.

Organization and management of day-to-day affairs

Neither Apple nor RIM had an enviable reputation for their day-to-day management. Under this category, neither firm ranked better than the 'Ideal' but Apple was closer to the 'Ideal' than RIM.

RIM's performance is ranked below or has a larger Delta than Apple for all 7 Factors.

Idea generation and realization

Apple scores higher than the 'Ideal' in 5 of the 6 Factors thus confirming their outstanding performance in this category.

RIM's score relative to the Ideal shows a significant negative difference for 3 of the 6 Factors.

The comparison is even more stark when RIM is compared to Apple; a Delta of 20.5 (out of a total of 22) - accounted for by 4 of the 6 Factors.

For full details on the ratings please also refer to the paper; *Apple versus RIM score development*, also on the web site.

Appendices
Illustrating, by Factor, the extremes which are used in the on-line survey to measure opinions on management practices impacting corporate innovativeness

1. Leadership	F#	How do you characterize leadership practices?	How do you characterize leadership practices?	F#	Ideal'	('BofB')
Management view on profits. This factor deals with management's emphasis on short-term versus long-term profits	1	<i>Management is looking for short-term profits</i>	<i>Management is prepared to wait for big payout</i>	1	1.5	3
Management view on the importance of innovation. This Factor measures the extent to which management explicitly looks for innovation	2	<i>Management explicitly looks for innovation</i>	<i>Management does not explicitly look for innovation</i>	2	-3.5	-4
Planning emphasis. This Factor measures the degree to which planning emphasizes rationing resources versus identifying opportunities.	4	<i>Planning focuses on rationing resources</i>	<i>Planning focuses on identifying opportunities</i>	4	2.5	4
Tolerance for risk. This factor concerns tolerance for risk in the planning process	9	<i>Management has a low tolerance for uncertainty (as distinct from risk)</i>	<i>Management has a high tolerance for uncertainty (as distinct from risk)</i>	9	0.5	0
Careers for innovators. This Factor concerns the use of career ladders and recognition of innovators.	7	<i>The organization offers no career ladders with appropriate power and titles for innovators</i>	<i>The organization offers a career ladder with appropriate power and titles for innovation</i>	7	1.5	4
2. Organization and management of day-to-day affairs	F#	Does the organization and management of day-to-day affairs encourage or discourage innovativeness?	Does the organization and management of day-to-day affairs encourage or discourage innovativeness?	F#	Ideal'	('BofB')
People and their interactions. This factor concerns the emphasis on management of people and their interactions.	6	<i>Leaders put little emphasis on the management of people and their interactions</i>	<i>Leaders put strong emphasis on the management of people and their interactions</i>	6	3.5	5
Intra firm communications. This factor deals with the degree of formal communication within the organization	10	<i>Lots of informal communication within the organization</i>	<i>Little communication in organization outside formal channels</i>	10	-3.5	-4.5
Independent work groups. This factor deals with the use of independent work groups for special purposes.	11	<i>Management encourages the systematic use of independent work groups for special purposes</i>	<i>Management discourages independent work groups for special purposes</i>	11	-2.5	-5
Broad based decision making. This factor deals with the degree to which management decisions are made with input from the rest of the organization.	12	<i>Management decides without much input from the rest of the corporation</i>	<i>Management actively seeks and considers recommendations from many levels in the organization</i>	12	2.5	5
Decision process formality. This Factor measures the formality of the decision process internally.	13	<i>Decision process is elaborate and formal</i>	<i>Decision process is short and informal</i>	13	2.5	5
Hierarchical or decentralized. This factor deals with decentralization versus centralized hierarchy.	18	<i>The organization has a decentralized structure and minimum hierarchy</i>	<i>The organization has a highly centralized structure with considerable hierarchy</i>	18	-2.5	-3
Planning or action oriented. This factor deals with planning orientation versus action orientation.	15	<i>The organization structure is planning-oriented (analysis/paralysis syndrome)</i>	<i>The organization structure is action-oriented (hip-shooting syndrome)</i>	15	-0.5	0

3. Idea generation and realization	F#	Do management practices encourage or discourage idea generation and realization?	Do management practices encourage or discourage idea generation and realization?	F#	Ideal'	('BofB')
Tolerance for mavericks. This factor measures management's tolerance of those in the organization who are regarded as mavericks.	3	<i>Management has a high tolerance for innovative mavericks</i>	<i>Management has a low tolerance for innovative mavericks</i>	3	-2.5	-4
Tolerance for failure. This Factor addresses management's tolerance for failure.	5	<i>Management has a high tolerance for failure</i>	<i>Management is not tolerant of failure</i>	5	-2.5	-4
Corporate norm	8	<i>Not much difference.</i>	<i>Not much difference.</i>	8	-0.5	-2.5
Rewards for innovators. This factor deals with the availability of reward mechanisms for innovation.	14	<i>There are specific reward mechanisms for innovation</i>	<i>There are no reward mechanisms for innovation</i>	14	-3.5	-4.0
Resource availability. This factor deals with the availability of resources (budget, personnel, time, etc.) for new ventures.	19	<i>Few resources are available for new ventures (in terms of budget, personnel, time, etc.)</i>	<i>Resources are generally available for new ventures (in terms of budget, personnel, time, etc.)</i>	19	2.5	4
R&D spending levels. This factor deals with R&D budget levels versus the competition.	23	<i>The R&D budget is much less than the competition</i>	<i>The R&D budget is much more than the competition</i>	23	1.5	4