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INNOVATION
PERFORMANCE
THE FUJITSU INNOVATION INDEX 2007

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PREFACE

The *Fujitsu Innovation Index 2007* continues and expands our exploratory innovation research from 2006. In a world that gets more and more dynamic every day, and where innovation is the cornerstone in any progressive company's knowledge portfolio, we explore the changes in our innovation landscape, and focus on the links between innovation and business value for organisations in Australia and New Zealand.

Last year's *Fujitsu Innovation Index* demonstrated how important innovation is for organisations in our region. We created the *Fujitsu Innovation Index* as a diagnostic tool for companies to understand how their innovation performance compares nationally and across individual industry sectors.

The responses we received from business, government, academia and the media were overwhelmingly positive. Most importantly, organisations found our methodologies and insights useful and practical.

In an environment of information overload, it has never been more important to ensure that we approach innovation with a concise and practical focus and the clear goal of creating value.

The *Fujitsu Innovation Index 2007* does exactly this - it makes innovation real. This report is packed with insights on how to sustain or accelerate innovation in your organisation.

If organisations in Australia and New Zealand embrace innovation and create an environment in which innovation can thrive, we believe the possibilities are infinite for our region.

Fujitsu is proud to be at the forefront of the innovation debate and we look forward to working with you in driving innovation performance in Australia and New Zealand.



Rod Vawdrey
Chief Executive Officer
Fujitsu Australia and New Zealand

EXECUTIVE SUMMARY

ACA Research, on behalf of Fujitsu Australia and New Zealand, surveyed 271 organisations across all industries in Australia and New Zealand to deliver the very latest business innovation barometer for our region: the *Fujitsu Innovation Index 2007*.

This represents a significant increase in respondents since 2006, when we surveyed 178 organisations. The research has resulted in new and important insights into innovation in our region: who's innovating, how are they doing it, and what benefits are they reaping?

COULD DO BETTER

Overall, the region's 2007 innovation performance remains at approximately the same level as in 2006. The *Fujitsu Innovation Index* for 2007 is 63 out of 100 (compared with 64 out of 100 in 2006). Essentially, this means that we're still only getting a pass on innovation performance.

Many other studies have demonstrated that at an aggregated level an Index, such as the *Fujitsu Innovation Index*, does not change significantly year-on-year, but nevertheless we were surprised and intrigued to find so little change, given that additional funding is being used to deliver innovation outcomes. We went in search of answers.

MONEY CANNOT BUY INNOVATION

In 2006, companies spent 4.9% of revenue on innovation. In 2007, this increased to 6.7% (or \$7.9 million), which constitutes a 37% increase in innovation investment.

So, if we spent more money on innovation, why has innovation performance not increased? The short answer is that innovation cannot be improved just by an increase in funding. There is no 'silver bullet'. Money cannot buy innovation. Maybe a more holistic approach is needed.

Our research identified significant increases in two major barriers to innovation: resistance to change, and short-term mindsets. Broadly defined, innovation is 'change that adds value', but if organisations resist change, innovation will not happen. Also, innovation takes time and careful nurturing. The ideas may come in a flash but their development and implementation can take months or even years. A short-term mindset does not help innovation.

INNOVATION: WHY BOTHER?

At Fujitsu we thrive on solving difficult challenges. True to this core value, our research has been instrumental in discovering the true worth of innovation to companies and organisations, while busting some long held assumptions or myths. One such myth is that only one innovation in ten (or some would suggest one in 100) is successfully implemented.

We asked respondents to tell us what they have experienced when introducing, encouraging and developing innovation, and we got a very different and encouraging response: 54% of all innovation commenced was successfully implemented within 12 months. There goes myth number one.

Another myth is that innovation really does not deliver the goods in terms of return on investment, however the companies we researched said innovation contributed almost one-third (29%) of the increases in key performance measures such as customer satisfaction, revenue, productivity and profit. Add those measures together and you can start to see a strong correlation between innovation and return on investment. Another myth busted.

WHAT REALLY DRIVES INNOVATION?

This year, almost a quarter (22%) of organisations believe that the key driver of innovation performance is an innovation 'culture'. More than half (54%) of our Index respondents said the chief method they would use to encourage staff to embrace an innovative culture is to establish open communication to boost and facilitate staff feedback. This method was used by most (66%) of the Innovation 'Leaders' and 'Progressives' (the go-getting, open and ever-modernising companies), compared to 45% of 'Laggards' (the more conservative, change-resistant organisations).

Establishing an innovation culture is so much more than just open communication and a 'suggestion box' in the canteen. Our research shows that the largest innovation performance gap between Leaders/Progressives and Laggards is companies' ability and willingness not just to ask for ideas but to capture them and identify those with the greatest likelihood of success. This innovation quality control is best performed when a formal innovation governance framework is established to enable a structured process for picking winners.

Innovation can be viewed as a continuum from Incremental Innovation (small steps forward with low risk and a high chance of success), to Radical Innovation (great leaps in the advancement of a product, service or technology). While organisations in Australia and New Zealand do well (6.6 out of 10) on incremental innovation, we need to lift our game when pursuing radical innovation, where the average performance was only 4.9 out of 10.

LESSONS FOR THE FUTURE

In a 'flat' world, where we are increasingly facing global competition, it is important that we strive to improve our innovation performance. The *Fujitsu Innovation Index 2007* shows what the leading companies are doing, and there are many lessons to be learned from these organisations by others wishing to improve their innovation performance.

This report provides new insights into innovation challenges facing Australia and New Zealand, and important ideas on how best to accelerate innovation performance by learning from the Leaders of innovation in our region.

OBJECTIVES

Australia and New Zealand have not been well served with up-to-date and forward-looking innovation studies. While there are several global reports on innovation, and local reviews and studies of past innovation performance, these have provided limited insight into how innovation is perceived and managed, and how it benefits organisations in this region.

The inaugural *Fujitsu Innovation Index* in 2006 received an overwhelmingly positive response from business, government, academia and the media. With this latest issue of the *Fujitsu Innovation Index* we wanted to build upon this success, and gain new insights into how to use innovation to create business value.

We also wanted to provide continuity by offering organisations in Australia and New Zealand the opportunity to enhance their understanding of innovation performance in our region. The *Fujitsu Innovation Index* is not just a highly useful barometer for our overall innovation performance, it is also an opportunity to understand how the 20 innovation attributes we have identified collectively and individually contribute to innovation performance.

The *Fujitsu Innovation Index 2007* offers organisations a clear view of the local innovation landscape based on three key areas of analysis:

1. How does innovation drive business value for organisations in Australia and New Zealand?
2. How do Australian and New Zealand industries and organisations score on the 2007 Innovation Index? Has innovation performance changed?
3. What are the Leaders of innovation in our region doing, and what can others learn from these organisations?

From the results, Fujitsu will provide organisations with valuable insights and a practical tool with which they can draw their own conclusions about their current innovation performance and what strategic decisions they should make to improve on this.

METHODOLOGY

In June and July 2007, market research company ACA Research conducted a survey of 271 organisations in Australia (181) and New Zealand (90), on behalf of Fujitsu Australia and New Zealand. The aim of the survey was to understand how local organisations - including private, public, government and not-for-profit - are responding to the innovation challenge.

The *Fujitsu Innovation Index 2007* follows the carefully constructed and proven methodology of the 2006 Index. We applied the same questions. In addition, we asked all respondents to provide examples of innovation initiatives undertaken. This was done primarily to deepen our understanding of what the best innovation activities are and how to undertake them efficiently.

A BENCHMARK FOR MEASURING INNOVATION

This approach also provides us with a way of re-checking an organisation's self-assessed innovation performance. It's all very well for an organisation to score itself '7 out of 10' but that's like marking your own exam paper. The *Fujitsu Innovation Index* compares these self assessments with those of other organisations who also gave themselves scores of '7 out of 10' and from that we can qualitatively ascertain if there are significant discrepancies in how '7 out of 10' is defined.

In other words, we are able to produce a benchmark for innovation scoring to ensure all companies score using the same criteria. This should ensure results and companies' positions on innovation league tables are fairer and more accurate.

THE SURVEY QUICK FACTS

- Quantitative research included 271 telephone interviews: 181 in Australia and 90 in New Zealand.
- In Australia, the research targeted companies and organisations with a minimum of 500 employees.
- To make the sample comparable to our 2006 research, we have included 25 of the fastest growing companies with fewer than 500 employees.
- In New Zealand, we targeted companies and organisations with a minimum of 200 employees.
- Companies were selected across all industries.
- All interviews and data remain confidential.
- 56% of interviewees were C-level. The other 44% were executives responsible for innovation.
- The research period ran from June to July 2007.
- For the purposes of this study, innovation was defined as the ‘significant improvement or introduction of a new service, product or process, and its successful implementation and/or commercialisation’. Broadly, we believe innovation is ‘any change that adds value’.

Figures 1 - 3 provide an overview of the survey sample.

FIGURE 1 SURVEY RESPONSES BY ORGANISATION TYPE

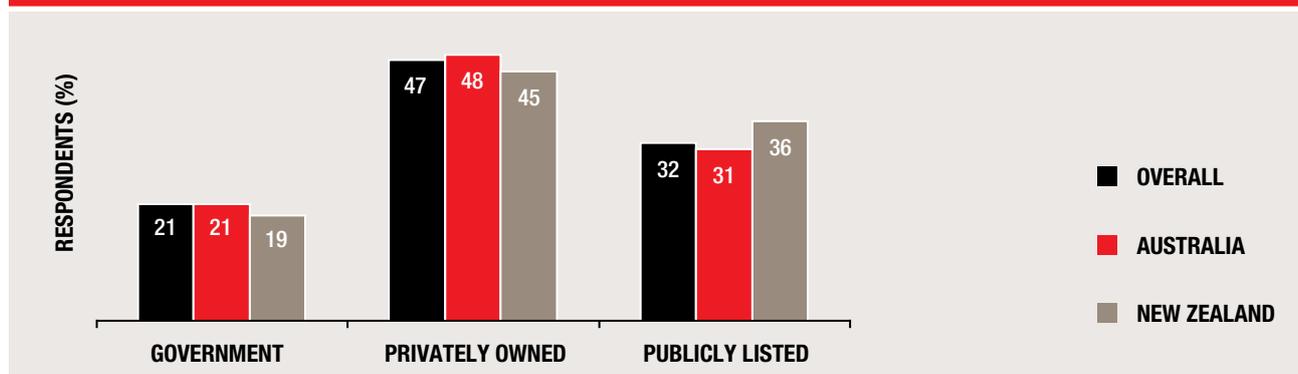


FIGURE 2 SURVEY RESPONSES BY NUMBER OF EMPLOYEES

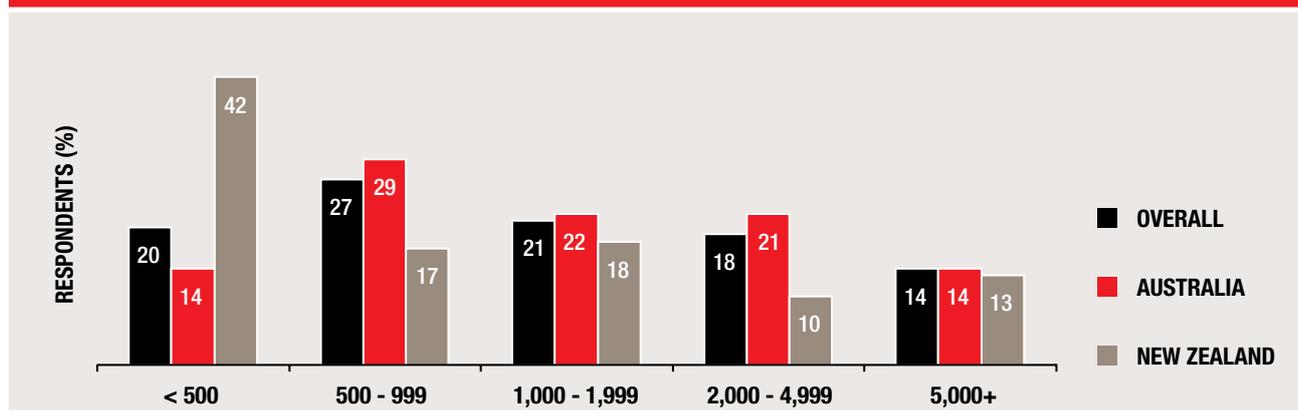
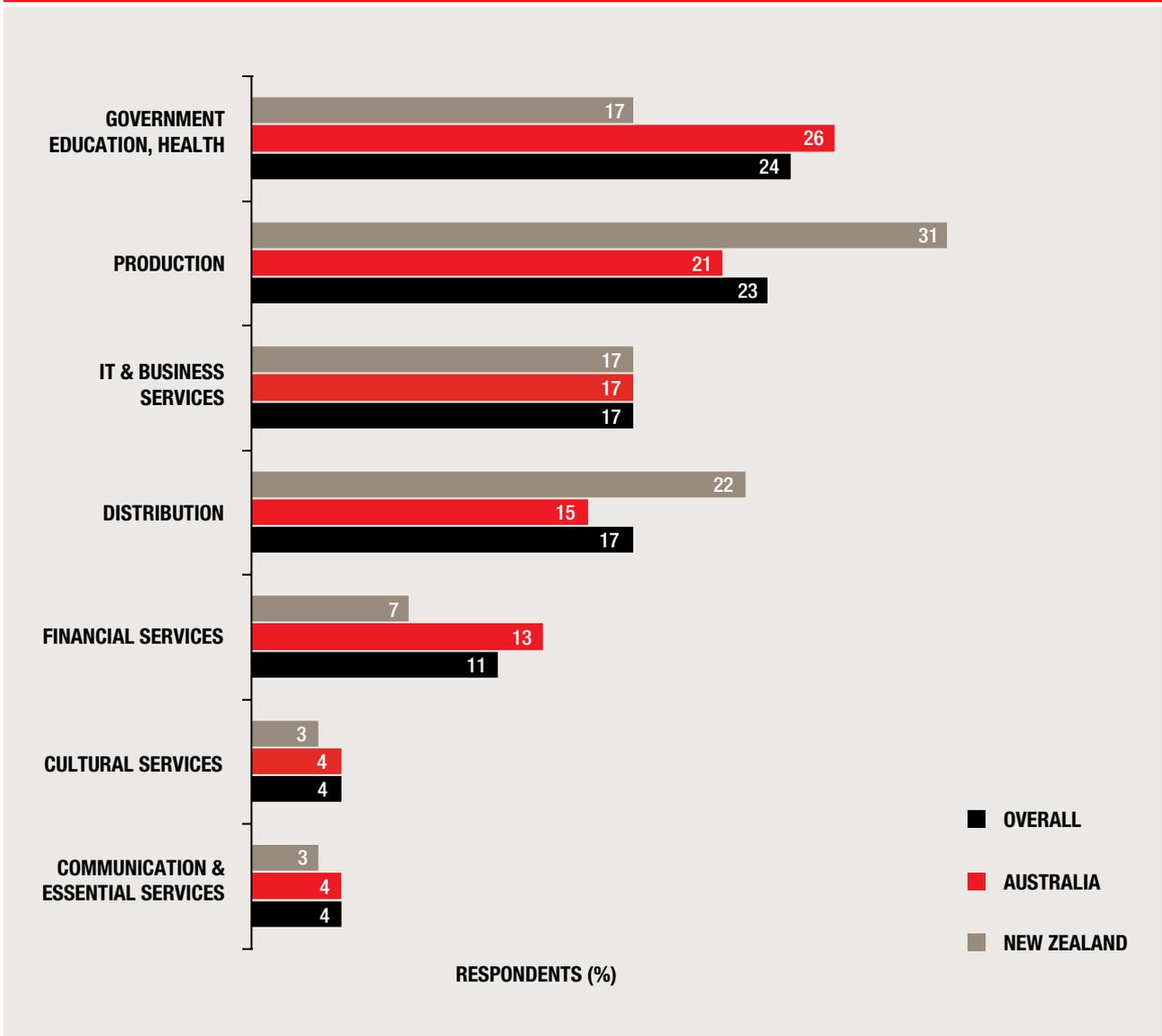


FIGURE 3 SURVEY RESPONSES BY INDUSTRY¹



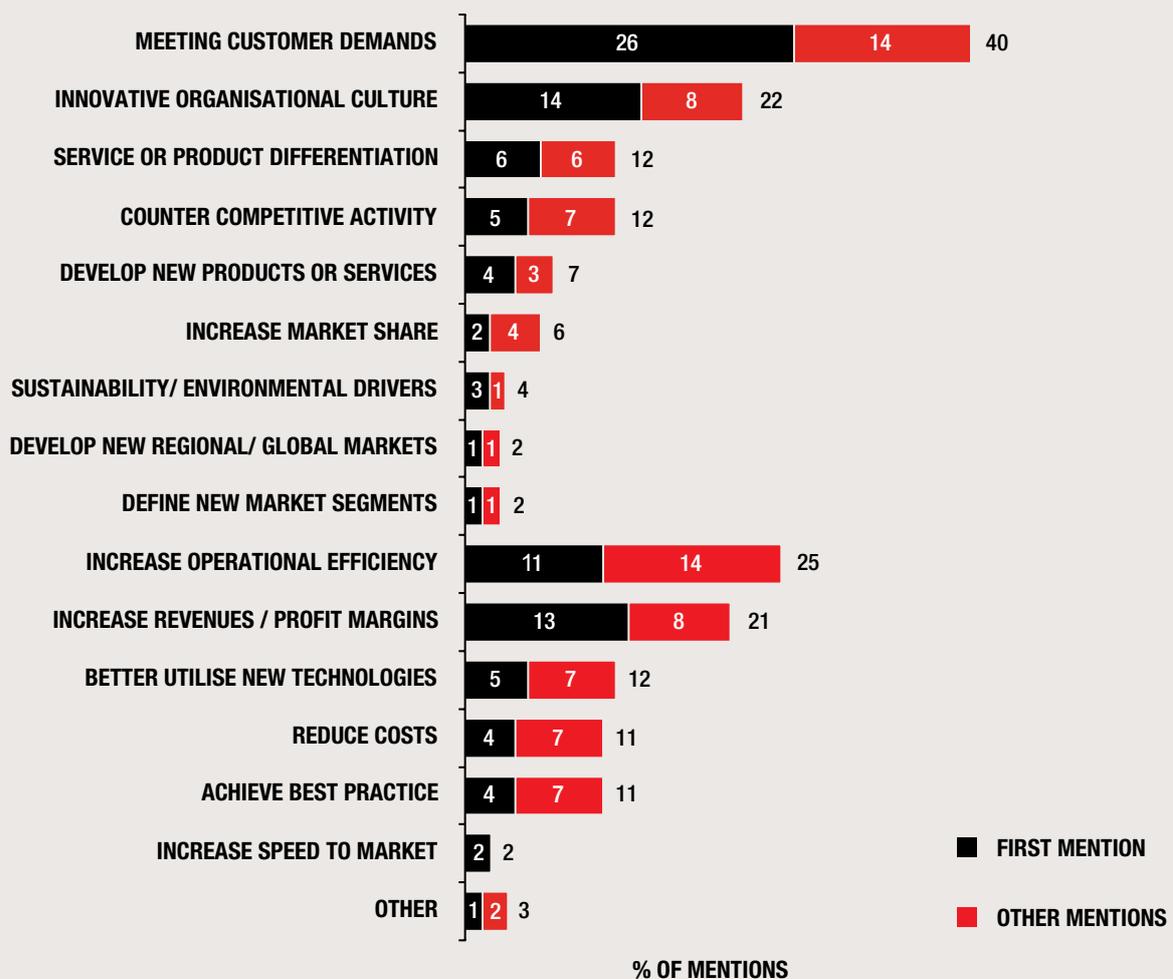
¹ Government includes Federal and State; Production includes Manufacturing, Mining and Agriculture; IT and Business Services includes Accounting, Legal, Real Estate, Information Technology, Engineering and Security; Distribution includes Retail, Wholesale and Transport; Financial Services includes Banking, Insurance and Finance; Cultural Services includes Non-profit, Sporting, Entertainment, Tourism and Hospitality; and Communication and Essential Services includes Telecommunication, Media, Postal Services and Utilities.

DRIVERS AND BARRIERS

DRIVERS OF INNOVATION

The main drivers of innovation for organisations in Australia and New Zealand were ‘meeting customer demand’ and ‘increasing operational efficiency’. Together these two drivers constitute 65% of the first and second mentions by the survey respondents. Figure 4 shows the drivers of innovation for organisations in Australia and New Zealand.

FIGURE 4 DRIVERS OF INNOVATION



When we compared the ‘drivers of innovation’ responses for 2007 with the 2006 report we found that having an ‘innovative culture’ was mentioned by 22% of the responses as a key driver. This is particularly important and interesting, since this driver was not mentioned at all by respondents in 2006. The increasing influence of an innovative culture as a driver means other innovation drivers are probably becoming less important.

Figure 5 illustrates this important insight. Our research uncovered how organisations encourage staff to embrace an innovative culture. Some of the most common approaches can be grouped into either process or structure:

- **PROCESS:** CEO encouragement; embedding innovation in company values and measures through KPIs - cascaded from departmental level to the individual team member; open communication; on-line ‘suggestion box’; rewards, recognition (internal as well as external) and incentive programs (financial and non-financial, such as free company products or weekend-away awards).
- **STRUCTURE:** Appoint a Chief Innovation Officer; formal functional and/or cross-functional (within the organisation) continuous improvement programs; ensure all team meetings have a regular ‘innovation moment’ where innovation is discussed and encouraged; regular and formal review sessions; nominated innovation coordinators who capture, consolidate and disseminate ideas.

FIGURE 5 DRIVERS OF INNOVATION - 2006 VERSUS 2007

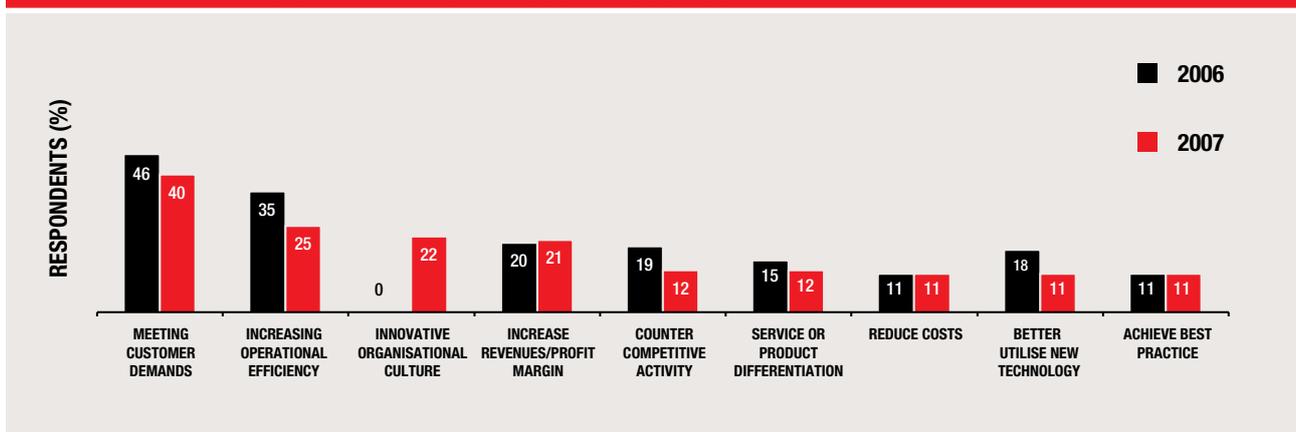


Table 1 illustrates the drivers of innovation by segment, i.e. the innovation Leaders/ Progressives versus the Laggards segments. The insights here are that the Laggards appear to be driven by a short-term focus on financial rewards and are less likely to benefit from an inherently innovative culture. The Laggards are also less likely to be driven by achieving best practice.

TABLE 1 DRIVERS OF INNOVATION BY INNOVATION SEGMENT			
TOP RESPONSES	OVERALL (N=271)	PROGRESSIVES & LEADERS (N = 43)	LAGGARDS (N = 42)
Meeting customer demands	40%	39%	45%
Increasing operational efficiency	25%	31%	29%
Innovative organisational culture	22%	28%	16%
Increasing revenues / profit margins	21%	8%	25%
Countering competitive activity	12%	11%	9%
Differentiating services or products	12%	8%	5%
Cost reduction or cost savings	11%	8%	18%
Utilising new technologies better	11%	13%	15%
Achieving best practice	11%	20%	6%

BARRIERS TO INNOVATION

The main barrier to innovation for organisations in Australia and New Zealand was insufficient resources, such as lack of personnel, dedicated time and funds. Together these areas constitute 79% of the most frequently mentioned reasons for lack of innovation performance. Figure 6 provides a more detailed overview of the barriers to innovation.

FIGURE 6 BARRIERS TO INNOVATION

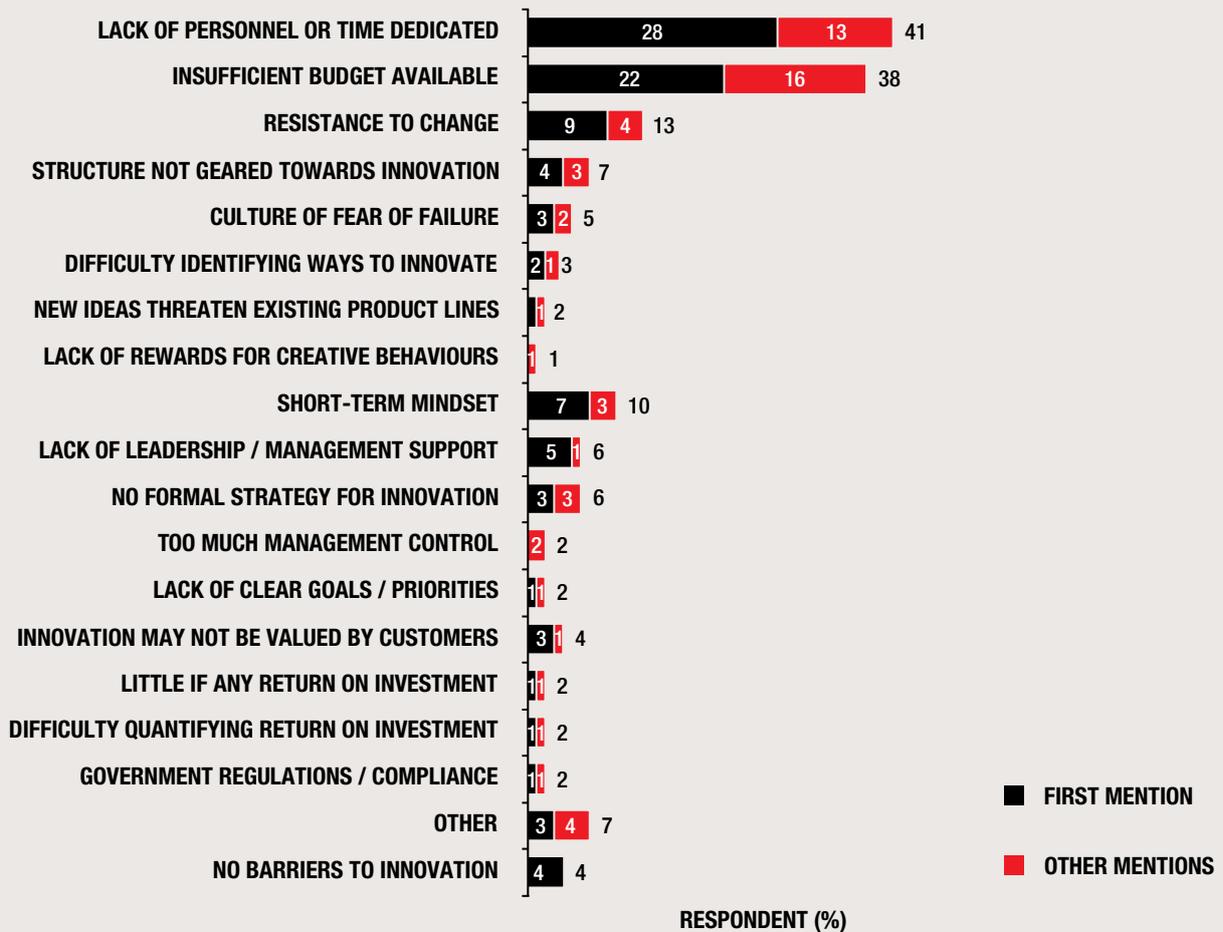


Figure 7 compares the 2007 barriers with the 2006 barriers and shows a significantly higher proportion of companies stating that a lack of personnel or time is a barrier to innovation. Also of interest are the increases in the ‘resistance to change’ and ‘short-term mindset’ barriers, indicating an increase in cultural and leadership hindering innovation performance. In 2007, 23% of all respondents said these two barriers were the highest.

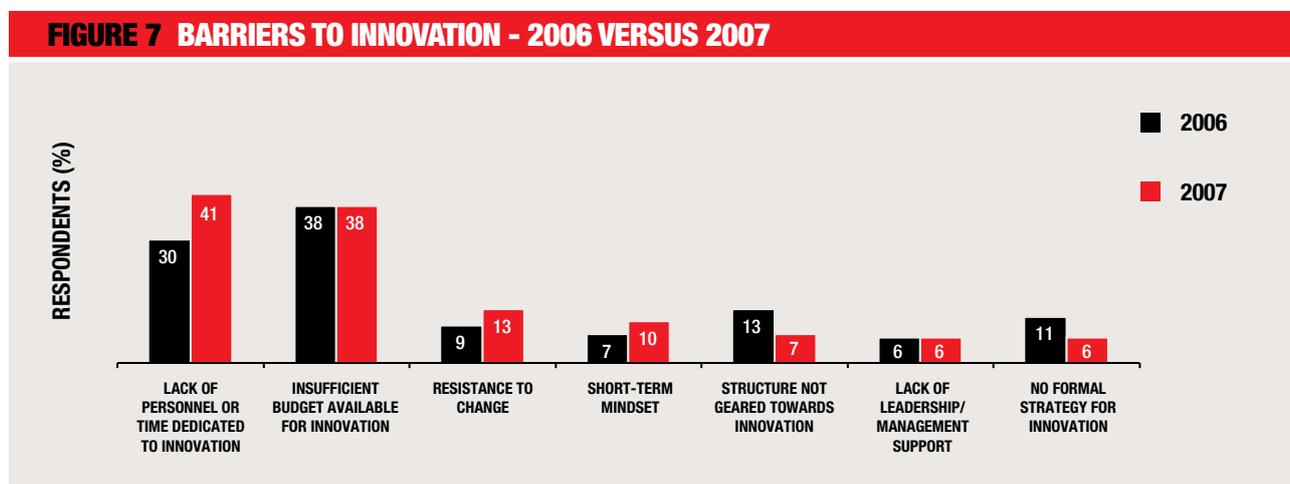


Table 2 illustrates the barriers to innovation across the innovation segments. Three barriers are significantly higher for the innovation Laggards, when compared with the Leaders/Progressives: resistance to change, short-term mindset and no formal strategy for innovation. We can probably assume that it is unlikely that the Laggards will increase their innovation performance significantly by a single focus on innovation resources. These Laggard companies need to develop an innovation strategy, and senior management must actively work on breaking down the cultural barriers to innovation performance.

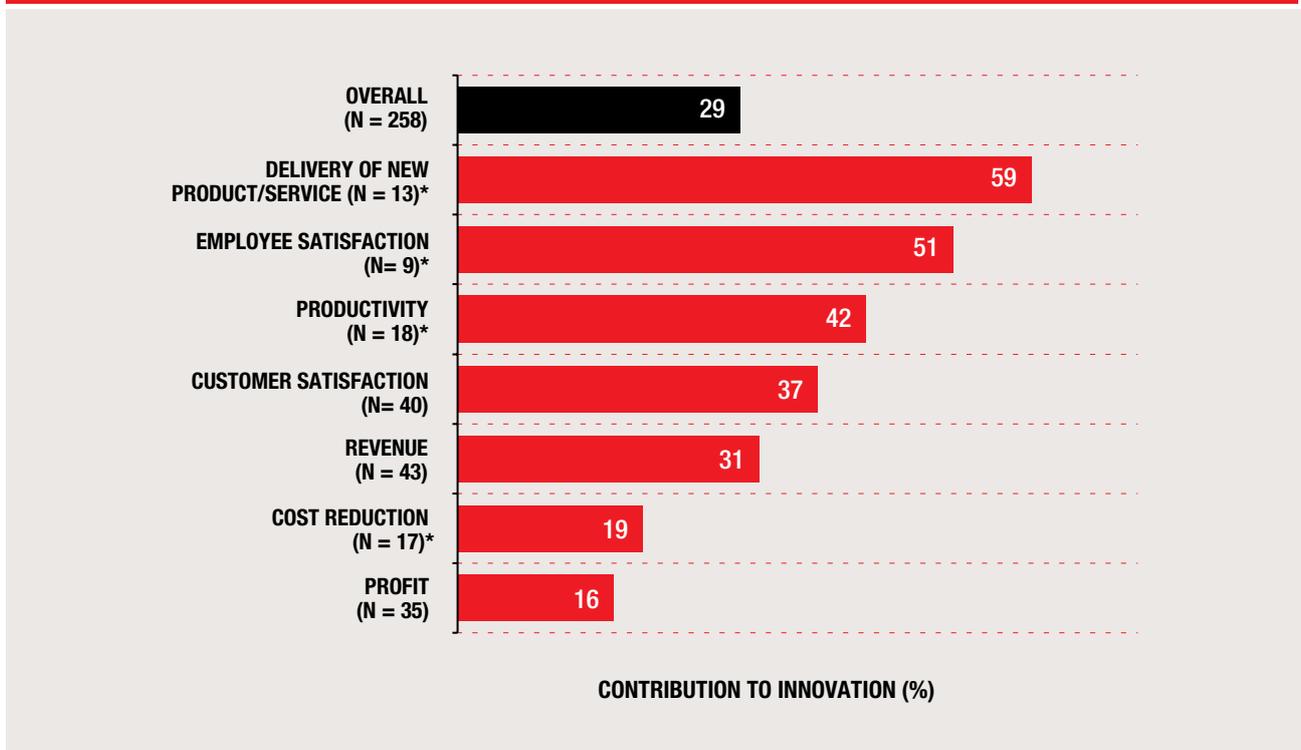
TABLE 2 BARRIERS TO INNOVATION BY INNOVATION SEGMENT

TOP RESPONSES	OVERALL (N=271)	PROGRESSIVES & LEADERS (N = 43)	LAGGARDS (N = 42)
Lack of personnel or time	41%	28%	34%
Insufficient budget for innovation	38%	46%	39%
Resistance to change	13%	4%	25%
Short-term mindset	10%	8%	17%
Structure not geared to innovation	7%	3%	4%
Lack of leadership/mgt support	6%	6%	7%
No formal strategy for innovation	6%	2%	19%
Culture of fear of failure	5%	5%	5%

INNOVATION OUTCOMES

Innovation is about delivering business outcomes and adding value. So, what value do organisations attribute to their innovation initiatives? How do they measure their own return on investment from innovation? Figure 8 shows how much (in percentage terms) companies believe that innovation contributed to a range of key performance indicators (KPIs).

FIGURE 8 INNOVATION CONTRIBUTION TO INCREASES IN KPIS



* Some measures should be viewed as indicative only due to small sample sizes

On average, our respondents said innovation contributed 29% to increases in key performance indicators (KPIs), such as customer satisfaction (37%) and profit (16%).

Business value creation is significantly higher for Leaders/Progressives, than for Laggards. For Leaders/Progressives, innovation has contributed 50% to increases in KPIs, whereas for the Laggards innovation has contributed only 15% to increases in KPIs. Effectively this means that the Leaders/Progressives are achieving more than three times the business value from innovation as the Laggards.

Irrespective of the KPIs considered, this is a very important message to the leadership of companies not currently performing well on innovation.

We also analysed how the Leaders/Progressives are performing compared with the Laggards on key strategic business outcomes. Table 3 illustrates this important information.

TABLE 3 INNOVATION AND STRATEGIC OUTCOMES					
STRATEGIC OUTCOME	OVERALL (N=271)	PROGRESSIVES & LEADERS (N = 40)	LAGGARDS (N = 38)	DIFFERENCE (#)	DIFFERENCE (%)
Increasing employee acquisition and retention	5.8	7.9	3.5	4.4	126%
Increasing profit per employee	5.9	7.7	3.5	4.2	120%
Increasing intellectual capital	6.5	8.2	4.2	4.0	95%
Increasing customer acquisition and retention	6.5	8.1	4.4	3.7	84%

Scoring scale: 1 = Poor performance to 10 = Outstanding performance

Table 3 shows that overall Leaders/Progressives are performing significantly better than Laggards when it comes to using innovation to achieve strategic business outcomes. If the Laggards implemented similar innovation activities to the Leaders, they would be likely to see an increase of 126% in employee acquisition and retention, and 120% increase in profit per employee.

INNOVATION PERFORMANCE INDEX

77% of respondent organisations believe their innovation performance had increased during the previous 12 months.

Last year Fujitsu launched the inaugural Australia and New Zealand Innovation Index. We have continued this study in 2007, increasing our respondent base by 93 companies to a total of 271 and developing our pioneering and exploratory innovation research.

We have used the same questions and research techniques, and adjusted the overall index score so that the two samples are comparable, i.e. adjusted for country, industry, organisational type and size.

The respondents were asked to assess their performance across 20 innovation attributes, using a score of 1 (very poor) to 10 (outstanding).

At a regional (Australia and New Zealand) level, the overall result for the *Fujitsu Innovation Index* is 63 out of 100. This is a decrease by one percentage point from 2006. From these results we re-assessed the categories (or innovation performance segments) we used last year. How companies scored determined whether they were branded as Leaders, Progressives, Early Followers, Late Followers or Laggards.

The following Innovation Index score thresholds (out of 100) apply to the five innovation performance segments of the *Fujitsu Innovation Index 2007*:

- 'Leaders': 91 or higher
- 'Progressives': 77 to 90
- 'Early Followers': 63 to 76
- 'Late Followers': 49 to 62
- 'Laggards': 48 or lower

At a country level, organisations in Australia are significantly more innovative than those in New Zealand, with overall innovation performance scores of 64 and 58 respectively.

Figure 9 shows that there is a significant difference in innovation performance between industries. The most innovative industries are IT and business services (including real estate, IT, legal, accounting, engineering and security) and communication and essential services, and the least innovative industry is government, education and health, with average innovation performance scores of 65 and 61 respectively. The lowest scoring industries were government, education and health production, and distribution. At a macroeconomic level this is of great concern, since our dominant industries are the least innovative.

When the Index compared perceived barriers to innovation across all industries, the production and the distribution industries did not identify any significantly high barriers to innovation. Could they be in denial, perhaps, or was this their way of admitting that there are few barriers and the fault lies in a lack of motivation?

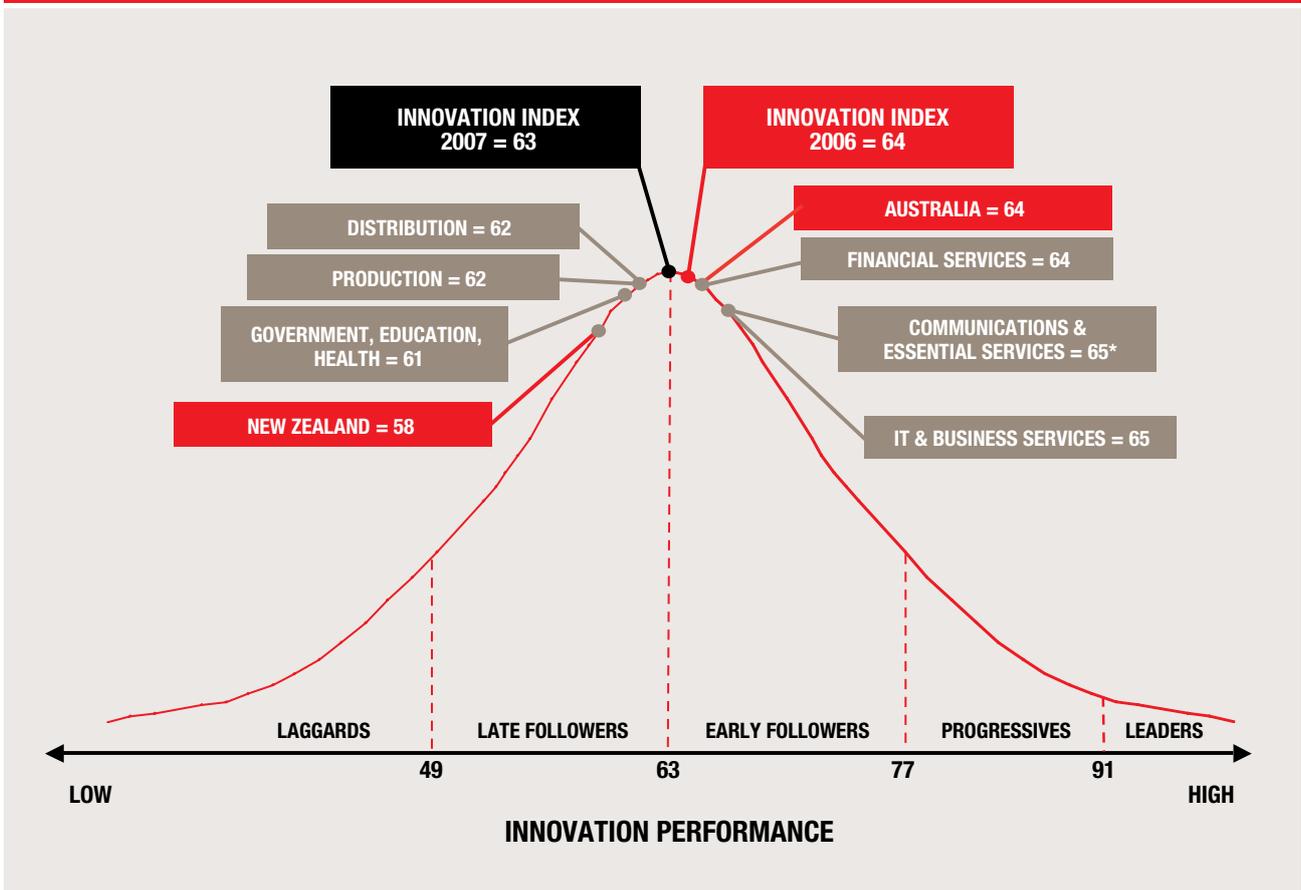
The government, education and health segment was far more outspoken. More than any other segment, it identified 'insufficient budget' and 'lack of leadership support' as significantly high barriers to innovation.

The Index also looked at how organisations believe innovation could be encouraged within their respective country. Respondents from the production industry mentioned 'government funding and support', and 'decreased regulation' more frequently than any other industry did.

Within distribution, 'learning from other countries' was mentioned significantly more frequently. There was some agreement: across all industries, the two most frequently mentioned ways to encourage innovation were 'government funding and support', and 'tax breaks for innovation'.²

² Although of significant importance for innovation performance in our region, it is beyond the scope of this report to provide suggestions to how government funding, support and tax concessions could be provided.

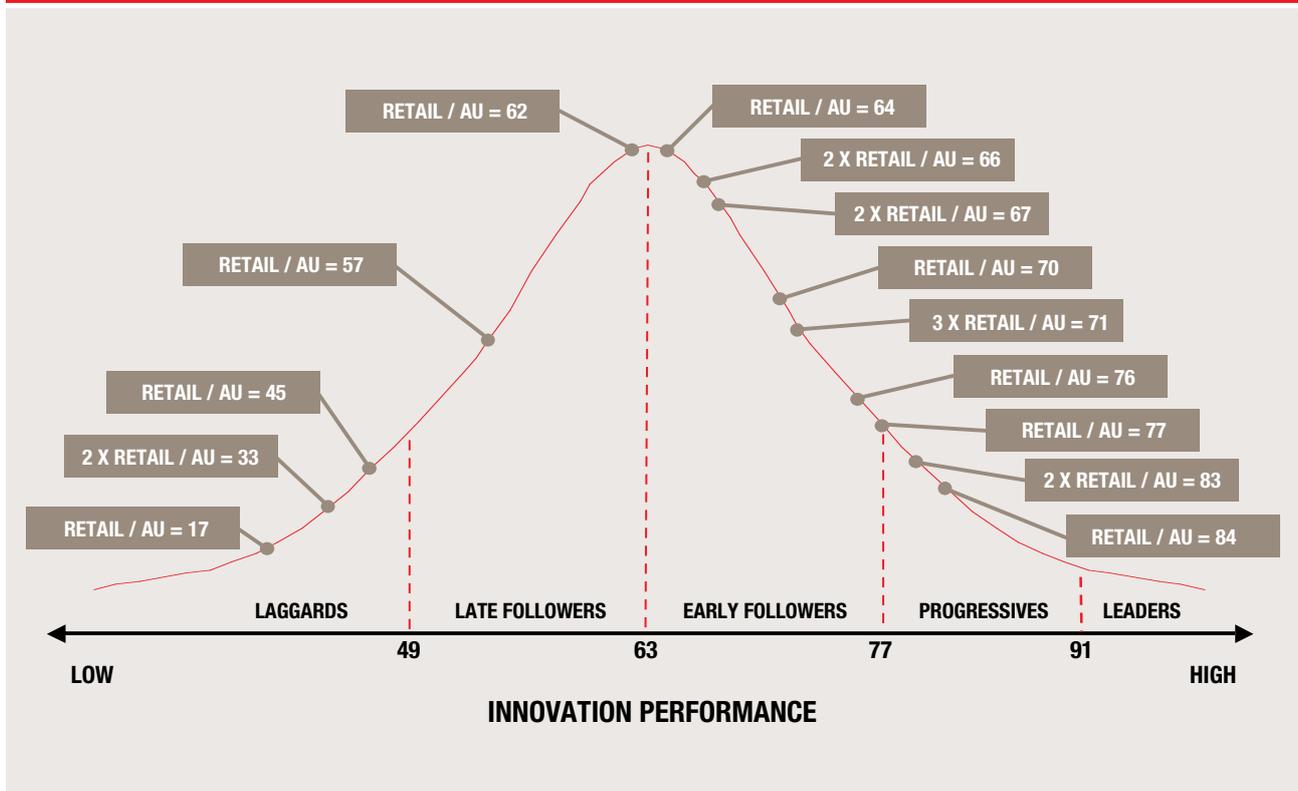
FIGURE 9 COUNTRY AND INDUSTRY INNOVATION PERFORMANCE



* Score for communication and essential services are indicative only, due to small sample size (n = 11)

We have also created separate charts for each industry. A ‘deep dive’ into innovation performance within an industry illustrates a wide spread of companies across the Innovation Index. As a representative example of this, Figure 10 provides an overview of the spread of companies in the Australian retail industry.

FIGURE 10 AUSTRALIAN RETAIL INDUSTRY INNOVATION PERFORMANCE



INNOVATION PERFORMANCE PROFILE

Fujitsu has developed a tool to assess an organisation's innovation performance. We call this the Innovation Performance Profile (IPP). The IPP is a 'drill-down' view of an organisation's innovation performance. It provides a detailed assessment of the innovation performance across 20 innovation attributes and can be used as a good self-assessment tool. It can identify where an organisation is performing well and compare that against where it needs improvement.

It can also be used as a further benchmarking tool by comparing an organisation's innovation performance with others within the same country or industry, or with a specific peer group of companies, such as those with the same number of employees, similar revenue or annual innovation expenditures. Figure 11 provides an overview of the IPP for the Leaders/Progressives and Figure 12 reveals the Laggards.

FIGURE 11 INNOVATION PERFORMANCE PROFILE - LEADERS/PROGRESSIVES

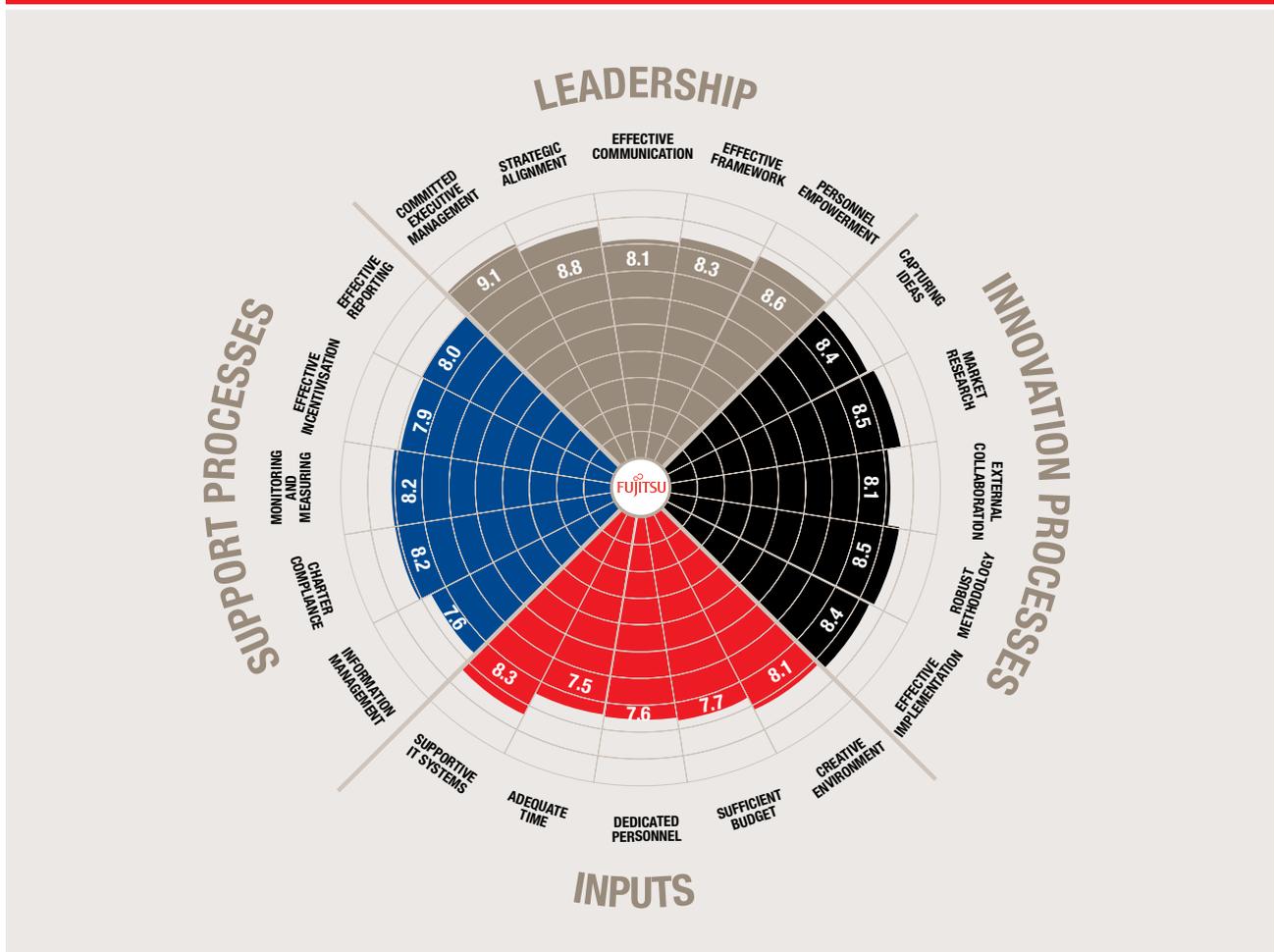
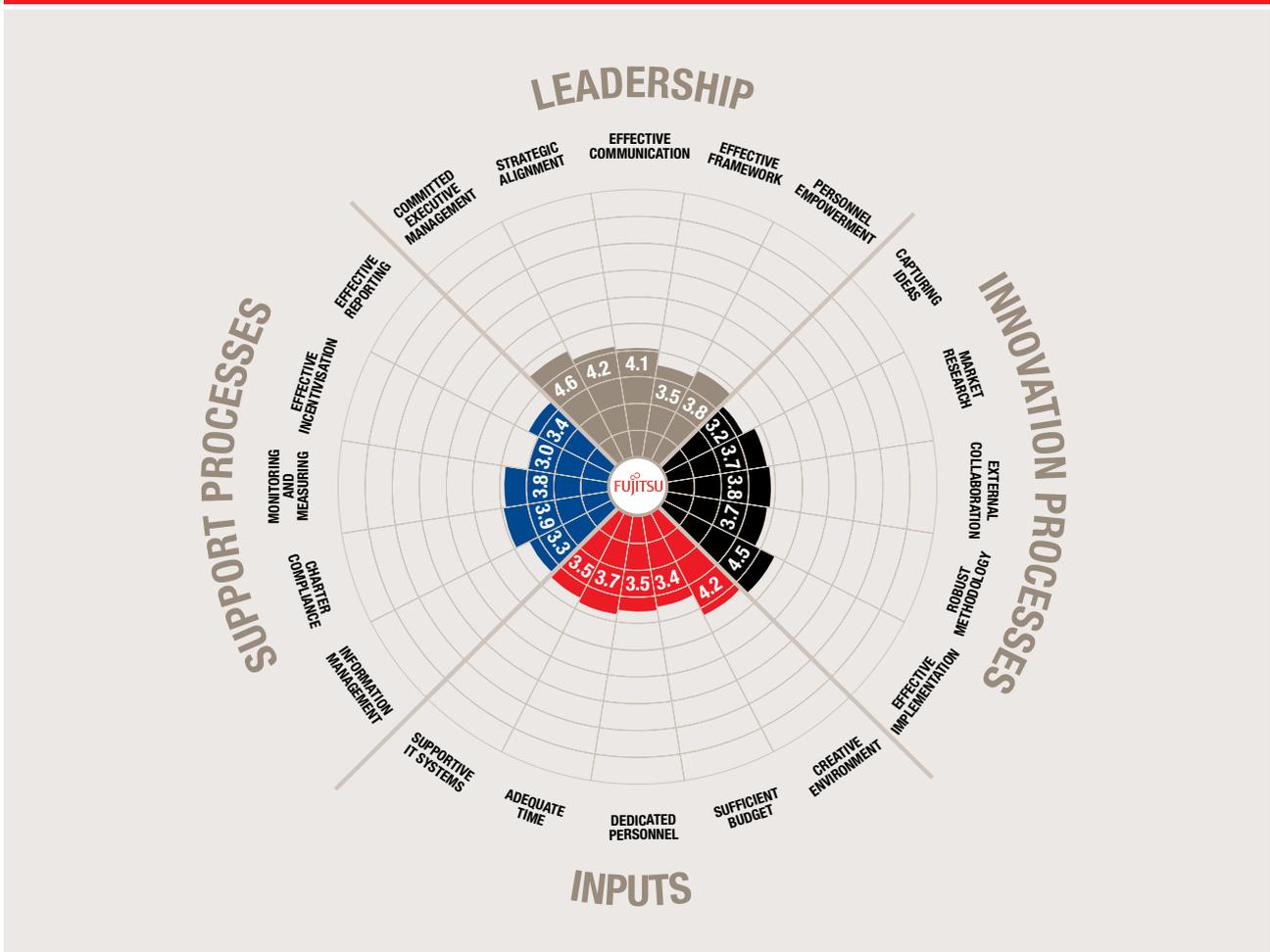


FIGURE 12 INNOVATION PERFORMANCE PROFILE - LAGGARDS



The Innovation Performance Profiles of the Leaders/Progressives versus Laggards provide a good illustration of the ‘top’ versus ‘bottom’ of innovation performance in our region. Further analysis shows that the biggest differences in innovation performances between these two groups of innovators are:

- Capturing good ideas from a wide variety of sources and systematically identifying the innovations with the greatest likelihood of success; and
- Effectively recognising and rewarding individuals and teams in order to encourage an innovative culture.

To increase our understanding of what organisations need to focus on to achieve the highest return on their innovation investment, we conducted further analysis on the innovation attributes. We were able to determine how attributes within leadership, process and input affect innovation performance.

Our analysis shows that process was the most influential group when it comes to affecting innovation performance (44%).

We were able to rank the innovation attributes within these three groups to highlight the top five factors affecting the variability in innovation performance (see Table 4).

Table 4 shows that the most important factor within the process group is recognising and rewarding individuals and teams in order to encourage an innovative culture. Within input, it is providing an environment that drives creativity and open-minded thinking for employees, and within leadership it is setting innovation goals that are aligned with company strategy.

TABLE 4 TOP 5 INNOVATION ATTRIBUTES BY INNOVATION GROUP

PROCESS (44%)	INPUT (31%)	LEADERSHIP (25%)
1. Recognising and rewarding individuals and teams in order to encourage an innovative culture	1. Providing an environment that drives creativity and open-minded thinking for employees	1. Setting innovation goals that are aligned with company strategy
2. Implementing a new process or commercialising new products, services or ideas for maximum commercial or bottom-line effect	2. Having IT systems that support innovation processes	2. Providing a framework in which innovation can be owned, managed and resourced
3. Collaborating (outside the organisational boundaries) for greater, faster innovation	3. Having sufficient budget for innovation	3. Empowering all personnel involved in the innovation process
4. Ensuring that innovation teams are effective in their charter	4. Allowing adequate time for innovation to occur	4. Having effective communication strategies and channels in the organisation that support innovation
5. Conducting research on customer and stakeholder needs to understand potential markets and opportunities	5. Dedicating human resources to work on innovation	5. Having Executive Management who are committed to and active in the

INNOVATION PRIORITIES

The highest barrier to innovation is the lack of dedicated personnel or time, so one of the most critical decisions required of executives is how to prioritise innovation activities. Table 5 shows how Leaders/Progressives and Laggards prioritise the 20 innovation attributes of the *Fujitsu Innovation Index*.

Table 5 demonstrates how the priorities differ between the Leaders/Progressives and Laggards. The differences provide an indication of how the Leaders/Progressives, who are at a higher level of maturity of innovation performance, are focusing their time and resources.

The Laggards are focused on implementing or commercialising new processes, products or services, and monitoring the innovation process. The Leaders/Progressives have, in many cases, already been through this phase of innovation, and are more mature, focusing on following a rigorous and robust end-to-end innovation process and empowering personnel involved in the process.

In order for innovation to thrive, organisations need to empower all personnel involved in the process. A critical factor for successful innovation is to create a safe environment where people have permission to fail and the authority and autonomy to explore radically different concepts and ideas.

TABLE 5 TOP 5 INNOVATION PRIORITIES - LEADERS VERSUS LAGGARDS

INNOVATION ATTRIBUTES	PROGRESSIVES & LEADERS (N = 40)	LAGGARDS (N = 38)
Having Executive Management who are committed to and active in the innovation process	1	2
Setting innovation goals that are aligned with company strategy	2	3
Conducting research on customer and stakeholder needs to understand potential markets and opportunities	3	4
Designing, developing and testing the innovation following a rigorous and robust methodology	4	Not a top 5 priority
Empowering all personnel involved in the innovation process	5	
Effectively implementing a new process or commercialising new products, services or ideas for maximum commercial or bottom-line effect	Not a top 5 priority	1
Monitoring and measuring the innovation processes and outcomes		5

One of the surprises in our innovation research was that external collaboration does not appear to be as high a priority for organisations in our region as it is for innovative companies in other parts of the world.

International research shows that external collaboration is critical to high innovation performance. International case studies of organisations which have successfully leveraged external collaboration (companies such as Boeing, Procter & Gamble and Eli Lilly) also show that careful attention to cultural change is another crucial ingredient in the recipe for successful collaborative innovation models.

It appears that the innovation Leaders in our region are very focused on creating innovative cultures, and as such we expect to see external collaboration becoming a higher priority for these organisations in the next year or two.

INNOVATION EXPENDITURES

Table 6 provides an overview of how innovation is budgeted. The majority of organisations (49%) do not have a specific innovation budget. This is particularly the case for the Laggards, where 79% of the respondents do not have a specific budget for innovation. A possibly more surprising result is that 43% of the Leaders do not have a specific budget for innovation. Money may not be able to buy innovation but it certainly helps.

We believe that a specific budget for innovation is required for organisations to effectively manage innovation activities and investment decisions.

TABLE 6 HOW IS INNOVATION BUDGETED?

HOW IS INNOVATION BUDGETED?	OVERALL (N = 271)	LEADERS & PROGRESSIVES (N = 40)	LAGGARDS (N = 38)
There is no specific budget for innovation	49%	43%	79%
Innovation is part of the R&D budget, but not specifically itemised	16%	16%	7%
Innovation is part of the R&D budget, but itemised separately	11%	26%	5%
Innovation is budgeted completely separately and independently	12%	4%	4%
Innovation is a line item in various budgets	6%	8%	4%
Other	6%	3%	1%

Table 7 shows financial data from the 51% (139) of organisations that have a specific innovation budget. The average innovation budget was \$7.4 million in 2007. The average innovation budget in Australia (\$8.8 million) is significantly higher than that in New Zealand (\$4.0 million).

For Australian organisations, the average innovation budget was 7.4% of revenue, but only 5.3% for New Zealand. Overall, this ratio is 6.7%. Last year (2006) this ratio was 4.9%. This means that organisations have increased their innovation budget by 37%.

Overall, organisations expect to increase innovation spending by 12% from the current (2007) level to next year (2008). The percentage increase is slightly higher at 13% for organisations in New Zealand than Australia (11%).

Our analysis shows that there is not a significant correlation between innovation budget and innovation performance but it is an important area to watch in future Innovation Indexes to see if a pattern emerges.

TABLE 7 INNOVATION SPENDING

INNOVATION SPENDING	OVERALL (N = 139)	AUSTRALIA (N = 97)	NEW ZEALAND (N = 42)
Current (2007) innovation budget	\$7,351,169	\$8,794,091	\$3,996,375
Next year (2008) innovation budget	\$8,251,165	\$9,789,367	\$4,509,595
Change in innovation budget from 2007 to 2008	12%	11%	13%
Current (2007) innovation budget % of revenue	6.7%	7.4%	5.3%
Last year (2006) innovation budget % of revenue	4.9%		

TYPES OF INNOVATION

Innovation can be viewed as a continuum from incremental innovation (small steps forward with low risk and a high chance of success), to radical innovation (great leaps in the advancement of a product, service or technology).

In *Fujitsu Innovation Index 2006* research we looked at the types of innovation pursued by organisations in our region. Using a scale of 1 to 10, where 1 represents total focus on incremental innovation and 10 represents total focus on radical innovation, we found that the majority of organisations (59%) were pursuing a combination of the two (scores between 4 and 7). Incremental innovation (scores between 1 and 3) was pursued by 33% and radical innovation (scores between 8 and 10) by only 8%.

In 2007, we went one step further in our research. We wanted to understand how organisations are performing by comparing the successes and failures of radical and incremental innovation. Overall, organisations do well (6.6 out of 10) on incremental innovation. However, they need to lift their game when pursuing radical innovation, where the average performance was 4.9 out of 10. Since organisations are primarily focused on incremental innovation it is encouraging that the performance is higher for these activities.

Table 8 shows that Leaders/Progressives are performing far better than the Laggards across both incremental and radical innovation. This performance gap is significantly higher for radical innovation. However, even the Leaders/Progressives are not performing particularly well on radical innovation. We believe that a higher performance on radical innovation is possible only if costs and risks are shared with external collaboration partners.

IT'S ALL ABOUT SMART LEADERSHIP

At first people may think such open innovation models will lead to a loss of control and leadership, so careful attention to managing cultural change will be required to make collaborative innovation models more successful.

This will happen only if the CEO is totally committed and visibly involved in driving this business transformation. For many organisations, more radical innovation will require new structures, processes and capabilities.

For some organisations it is important to decentralise innovation to get closer to the customer experience (as opposed to forming a central innovation team). This is particularly true in organisations with 'silo-thinking'. There is no 'one size fits all', but it's a good bet that if your company is scoring low on innovation performance, its structure and processes will require change to improve both radical and incremental innovation.

TABLE 8 INNOVATION PERFORMANCE BY SEGMENT AND TYPE OF INNOVATION

INNOVATION TYPE	OVERALL (N = 271)	LEADERS & PROGRESSIVES (N = 40)	LAGGARDS (N = 38)
Incremental Innovation	6.6	7.6	4.8
Radical Innovation	4.9	6.4	2.9

MOST INNOVATIVE ORGANISATIONS

We have all seen numerous international studies revealing the most innovative organisations in the world, but which organisations in Australia and New Zealand do we believe are the most innovative? We asked this question directly to our respondents and Table 9 provides the answer:

The most innovative company in Australia and New Zealand is perceived to be Virgin, closely followed by Macquarie Bank, Fisher & Paykel and Vodafone. What is it though, that makes us perceive these companies as innovative? The *Fujitsu Innovation Index* has the top three answers:

- Innovative products and services (31%);
- The right people and culture in place to innovate (20%); and
- Different approach to traditional business model (15%).

Six out of the ten most innovative organisations in Table 9 participated in our research, and interestingly there is a significant difference between how they were ranked on innovation by other firms and how they ranked themselves.

For reasons of confidentiality we cannot provide the names of the six participating organisations or their individual *Fujitsu Innovation Index 2007* scores, but we can reveal that the mean Index score for the six was 65 out of 100, which is only slightly above the *Fujitsu Innovation Index 2007* of 63 out of 100.

TABLE 9 PERCEIVED MOST INNOVATIVE ORGANISATIONS IN AUSTRALIA AND NEW ZEALAND

RANKING	COMPANY
1	Virgin
2	Macquarie Bank
3	Fisher & Paykel
4	Vodafone
5	Cochlear
6	CSIRO
7	Fonterra
8	McDonald's
9	BHP Billiton
10	Icebreaker

INNOVATION IS IN THE EYE OF THE BEHOLDER

The highest innovation score was 76 (which ranks as an Early Follower) and the lowest score was 43 (a Laggard). Not one of the six companies that took part in our research and appear in Table 9 rated its own organisation in the Progressives or Leaders segment.

We believe this apparent misalignment is not simple modesty or a lack of self-confidence but underscores the importance of measuring innovation performance using a balanced set of innovation attributes. We also believe the most reliable innovation performance assessment is derived by involving the organisations being assessed.

In future research we will continue to explore which organisations are perceived to be innovative by their peers and which ones class themselves as innovators: whether there is a correlation between the two sets of results: and what that tells us about the concept and branding of innovation.

CONCLUSION

The *Fujitsu Innovation Index* has again succeeded in benchmarking innovation performance in Australia and New Zealand, as well as demonstrating the important strategic links between innovation and business value within organisations in this region.

Innovation is critical in driving business outcomes. Overall, innovation contributed 29% of increases in KPIs such as customer satisfaction and profit.

Money doesn't buy innovation. Our research proves that organisations in our region are spending more on innovation in 2007 compared with 2006, yet the overall innovation performance has not changed (it actually declined slightly). The overall innovation performance is 63 out of 100 - that's still only a pass.

To achieve a significant return on innovation investments, companies need to perform well across the three key business arenas for innovation: leadership, process and input. Process can be the most influential when it comes to affecting innovation performance - it accounted for 44% of the variability of the overall Innovation Index performance of 63/100. Input offered 31% and leadership, 25%.

KEY LESSONS FROM THE INNOVATION INDEX

From our extensive research we offer the following advice to companies wishing to increase their innovation performance:

PROCESS - Ensure effective processes are in place to recognise and reward individuals and teams, and encourage an innovative culture;

INPUT - Ensure your company creates an environment that drives creativity and open-minded thinking for employees; and

LEADERSHIP - Set innovation goals that are aligned with company strategy.

If organisations in Australia and New Zealand wish to significantly increase their innovation performance, they need to be willing to change, take a strategic view of the return on investment in innovation and, most importantly, ensure that they have a culture that embraces innovation.

ACKNOWLEDGEMENTS

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Above all, we thank the 271 CEOs, Business Executives, Public Sector Leaders and Innovators across Australia and New Zealand who generously shared their time with us. Their insights and experiences made our study possible and the findings invaluable.

We would also like to thank ACA Research for their research expertise, conducting the interviews and analysing the results.

Without the executive support of our CEO, Rod Vawdrey, and our Executive General Manager, Consulting, Martin North, the *Fujitsu Innovation Index* would have remained just another innovative idea.

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CONTACTUS

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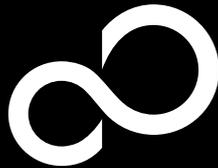
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FURTHER INFORMATION

To find out more about this study or to speak with a Fujitsu expert, please send an email to innovation@au.fujitsu.com



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