



Ernst & Young
Entrepreneur Of The Year®

Connecting innovation to profit

Five key insights from the
world's leading entrepreneurs

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Quality In Everything We Do

To understand the secrets of connected innovation, ask the world's best entrepreneurs.

The business people who contributed views to this report are winners and finalists of our unique Ernst & Young Entrepreneur Of The Year® award. Nobody has a better real-world understanding of the need to connect innovation to profit.

They understand that innovation is the primary force that can catapult a company to market leadership and keep it ahead of its rivals. They know from experience that the passion for innovation that started them on their journey has to be protected and nurtured.

And they know how hard that can be. As a business grows, it's too easy to snuff out the creative spark with a stifling layer of process and bureaucracy.

Don't let that happen to your business. Learn the lessons that the world's best entrepreneurs share in this report.

We thank them for being so generous with their time and insights, in the knowledge that everyone who reads this report will improve their business as a result.

We can distill what entrepreneurs told us into five key questions for fast-growth companies.

Companies that get these questions right will accelerate their journey to market leadership. Governments that provide the support required will foster a vibrant, entrepreneurial business sector.

How can you make innovation a targeted, strategic and funded priority?

How well do you combine process *and* spontaneity?

How do you innovate around product or service details and the big picture?

How do you allow ideas to flower while exploiting those with potential?

How well do you innovate around *how* the business works, not just *what* it does?

Innovation and strategy

Some of the best and most profitable business ideas have sprung from the classic “eureka moment.” But that is not how sustainable innovation works.

Fully formed ideas do sometimes present themselves, as if from nowhere. But companies that sit around waiting for creativity to just happen will not grow and prosper.

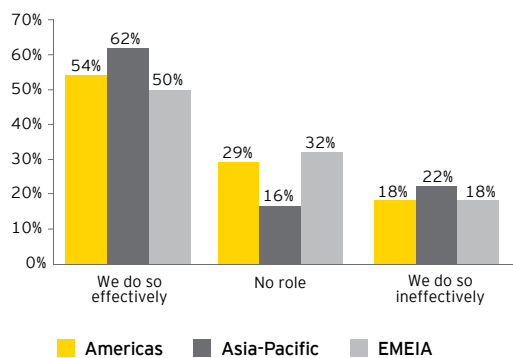
Entrepreneurial companies understand the importance of innovation to their growth journey. Yet not all of them set the kind of board-level objectives needed to drive innovation forward.

Our survey found:

- ▶ 82% of the entrepreneurs strongly agreed that innovation was **critical** to the growth of their business. The same percentage said it was the one **genuine advantage** they had over their rivals.
- ▶ Yet half of the entrepreneurs said that setting formal priorities for innovation played **no role in their strategic planning process**, or that they did this badly.

“Innovation is a long-term process that cannot be turned on and off as financial results vary; it requires consistent, long-term enduring support.”

What role, if any, does setting formal priorities for innovation play in your organization’s strategic planning process?



A culture of innovation

As entrepreneurial businesses grow, they need to protect the free-thinking, creative behaviors that launched them on their journey to market leadership. They need to foster a culture of creativity.

Without a high-level emphasis on the need to innovate, ways of thinking and acting can become ingrained; new ideas can seem impractical, unwise or threatening by default. Before long, innovation, if it happens at all, only takes place on the periphery, with the focus on small, incremental improvements to existing products and services.

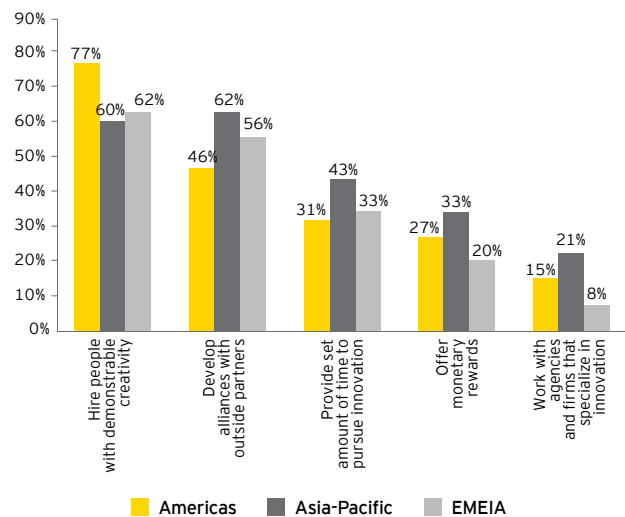
Our survey found:

- ▶ Combining innovation and scale is a pressing challenge. Half (49%) of the entrepreneurs said that **innovation had become more difficult** as their organization had grown in size and complexity.
- ▶ Entrepreneurs from the Americas were more likely to solve this problem by **hiring creative people** (77%). Those from the Asia-Pacific and EMEIA regions liked this approach, but they were more likely than their Americas peers to develop alliances with outside partners.
- ▶ The majority of entrepreneurs did not offer their staff monetary rewards in order to encourage innovation or give them a set amount of “ideas time.” However, those from the Asia-Pacific region were more likely to use these methods.
- ▶ Most entrepreneurs in the Americas (62%) told us that innovation takes place **throughout their organization**, indicating that – to an extent – innovation is seen as part of everyone’s job. By comparison, the most common answer from Asia-Pacific (44%) was that innovation was the responsibility of a **centralized leadership team** or the company owner.

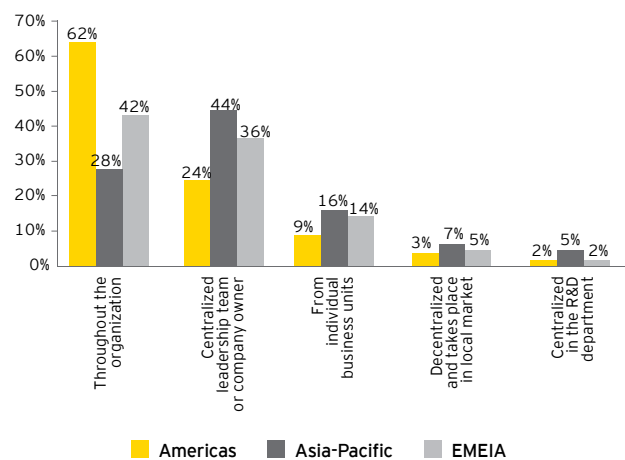
■ “Innovation is not a department, it is a mentality.”

“We assume that 50% of revenue in five years’ time must come from sources that do not exist today. That’s why we innovate.”

In what ways do you encourage innovation?



Where does innovation more frequently take place in your company?



Organized innovation

Innovation is the fuel that can power a fast-growth company along the path to market leadership. But as a business grows, its ability to innovate has to become organized and scalable.

This can be difficult if the creative drive in an organization resides with an entrepreneurial founder or a small leadership group. The challenge is to strike the right balance between process and spontaneity.

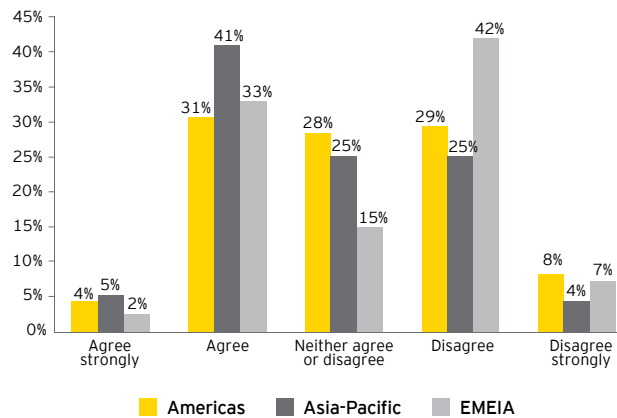
Our survey found:

- ▶ One third (39%) of the entrepreneurs in each region (Americas – 35%, Asia-Pacific – 46%, EMEIA – 35%) felt they innovated well in parts of their business, but they **rarely scaled** this across their organizations.
- ▶ The solution for many Asia-Pacific entrepreneurs was to seek a more structured approach to innovation. They were more likely than their peers in other regions to say that they executed well on a few good ideas but wanted to create a robust **pipeline** of new ideas (71%).
- ▶ Entrepreneurs in EMEIA may be **ahead of the pack** on this point – 41% said their approach to innovation was a structured and managed process, compared to 35% for Asia-Pacific and only 22% for the Americas. By contrast, those from the Americas tended to see their approach as unstructured and free-flowing (77%).

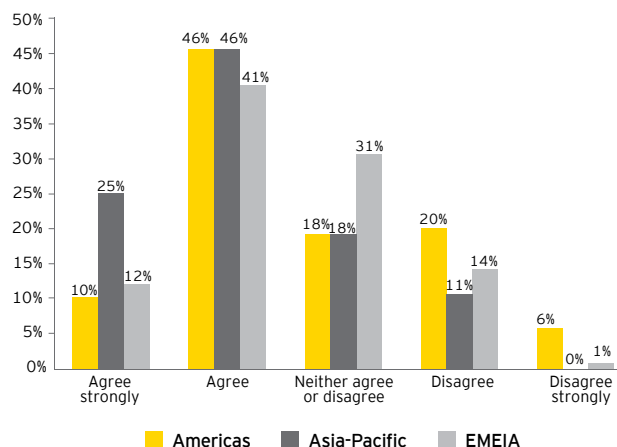
- “It is hard to pick one standout innovation. Every day there are new things happening, fed by ideas from across the team.”

“For a growing organization a structured process is critical. Innovation needs to scale through the company.”

We have pockets of successful innovation, but it is rarely scaled throughout the organization.



We execute well on the few good ideas, but we need a more robust pipeline of big ideas.



Profitable innovation

A business that cannot turn new ideas into products and services that contribute to the bottom line will find that its journey to market leadership slows or stops.

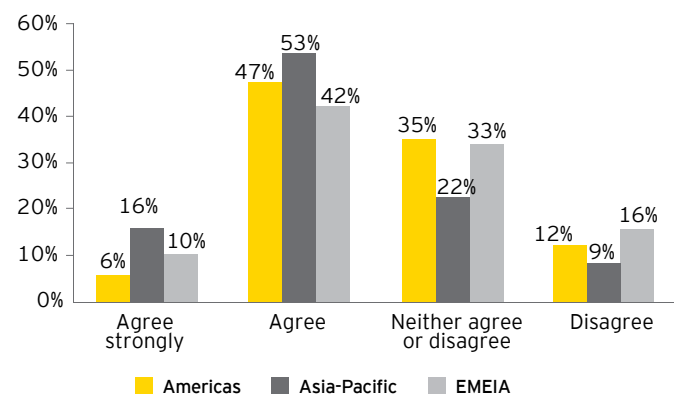
“Consistently maintaining a market-driven product strategy, combined with a culture of innovation, has been the key to our success.”

Innovation “for the sake of it” is often essential, but the speed at which a fast-growth company moves forward will depend on its ability to connect creativity to profit. A fast-growth business needs to strike the right balance between creative thinking and making money. Many of the entrepreneurs in the survey were not sure they had this balance right.

Our survey found:

- ▶ Connecting creativity to profit is a struggle. While the majority in each region felt they had the balance right, few said so with any enthusiasm, and **many were unsure**.
- ▶ Those in the Asia-Pacific region were more likely to feel they had the **balance right**. This is probably a reflection of our finding that they were putting more effort into building a structured pipeline of ideas (see page 5).

We have the right balance between good ideas and effective commercialization.



- “Don’t fall into the rut of becoming satisfied with current processes or procedures. Just because something made sense a few years ago, doesn’t mean it’s the best way today.”

Innovation roadblocks

Fast-growth entrepreneurial companies understand innovation better than most. They know that their ability to achieve market leadership is intimately linked to their ability to generate new, profitable ideas. But that doesn't make innovation any easier.

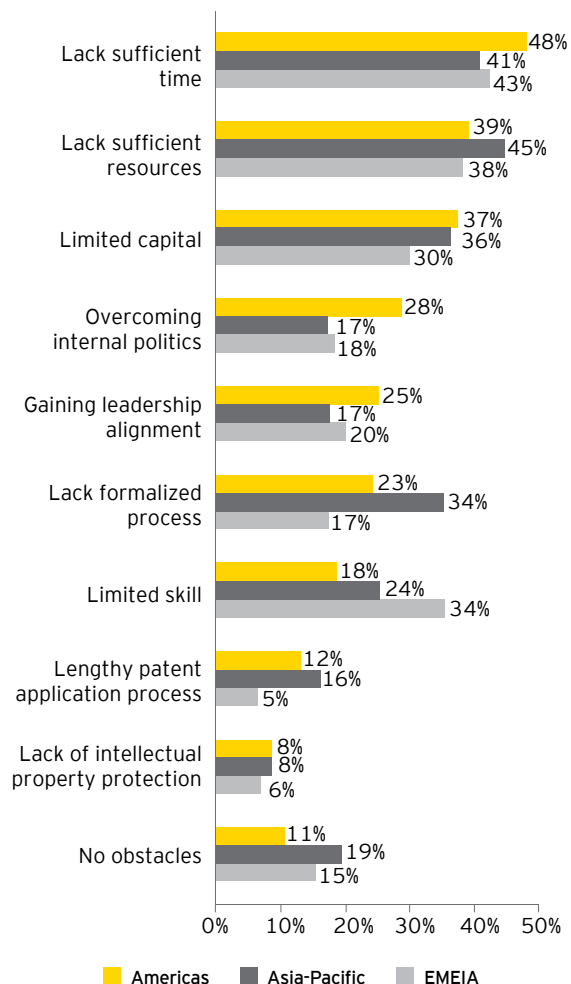
The vast majority of respondents said there were barriers in the way of innovation, which they were working hard to overcome.

Our survey found:

- ▶ Their biggest roadblock is a lack of time and resources. Perhaps this is no surprise, given our earlier finding that the majority do not set aside time for staff to innovate (see page 4).
- ▶ Internal politics is an innovation roadblock for nearly a third (28%) of entrepreneurs from the Americas – something that their peers in other regions did not find such a big challenge.
- ▶ Asia-Pacific entrepreneurs see **lack of formal process** as one of their biggest roadblocks. Again, this may reflect their standout desire to build a more structured approach to innovation.
- ▶ A third of entrepreneurs in each region told us that **lack of capital** was a roadblock to innovation. Measures to increase the resources they could direct at innovation was the main area where they wanted government help (see page 8).

“Innovation has to be sponsored and strongly supported by top management. That is the only way to keep the flame burning.”

What obstacles do you find to innovation?



Encouraging creativity

Fast-growth companies need to make innovation a predictable, scalable activity. It has to be nurtured, managed and – above all – funded. There is a capital gap here, and governments can play a part in helping to bridge it. Many are failing to do so.

Politicians can play an important part in helping entrepreneurs to build successful businesses. Their role can be especially important in both, developing economies and those suffering from an economic slowdown.

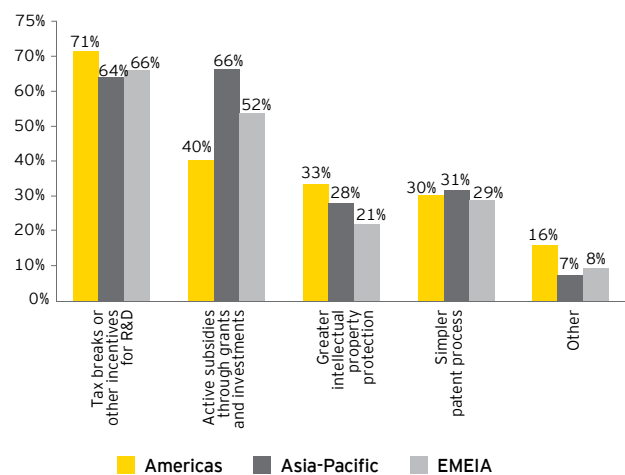
Different countries around the world have their own ideas about how to encourage entrepreneurs. Many seem not to be working.

Our survey found:

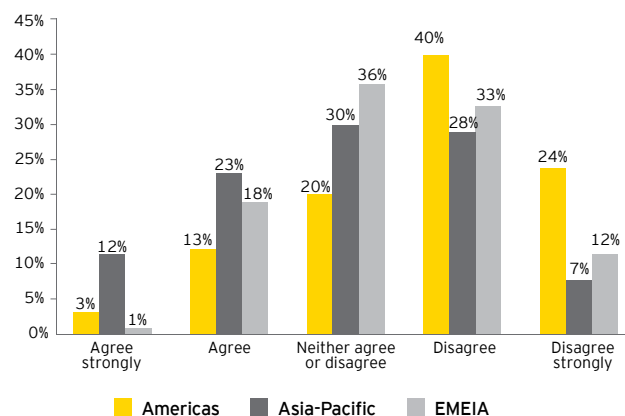
- ▶ The majority of the entrepreneurs in the Americas told us their **governments did not encourage** them to innovate. Those from the Asia-Pacific region thought their governments were more supportive.
- ▶ Across the regions, entrepreneurs broadly agreed about the kind of government support they wanted. They called for tax breaks and R&D incentives and direct subsidies to **help finance innovation**. However, those from the Asia-Pacific region had the greatest appetite for direct investments and grants (66%).

“We need more incentives and an emphasis on supporting innovation in whatever way provides value and growth.”

How should government encourage innovation?



Innovation is encouraged by government.



Becoming an Exceptional Enterprise

Our understanding of what makes fast-growth companies thrive tells us that the margin between success and failure is very slim: getting it right means getting your focus right.

As our Exceptional Enterprise diagnostic shows, your ability to move from growth company to market leader depends on your ability to successfully execute priority tasks in just six core business areas.

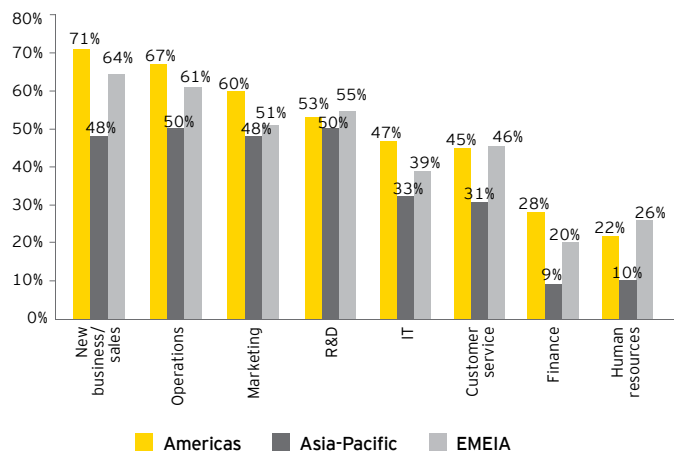
Innovation is one of these areas, and it is an activity at which fast-growth companies need to excel. However, they need to apply their creative enthusiasm to other elements of the diagnostic, too. Not all do this.

- ▶ Fewer than 1 in 10 entrepreneurs in the Asia-Pacific region told us they **innovated in their finance function**. At least twice as many entrepreneurs from the other regions sought innovations in this area.
- ▶ Companies intent on market leadership also need to excel in the recruitment and management of both people and customers. Yet the majority of entrepreneurs from the Asia-Pacific region **did not look for innovative approaches to either challenge**. And entrepreneurs from all regions rated human resources as among their lowest sites of innovation.

Ernst & Young Exceptional Enterprise diagnostic



Where does innovation most often take place?



Then ideas are very different. They ask questions others don't see and challenge the status quo. They inject a vibrant optimism into markets and for

Who are these world-class entrepreneurs?

Ernst & Young's Entrepreneur Of The Year award program is the only truly global program that identifies and recognizes the best entrepreneurial talent in the world each year.

Entrepreneurs in more than 50 countries, covering more than 90% of the global economy, are judged by a jury of senior entrepreneurs and business leaders. These businesses are typically dominant players in their industries and have achieved long-term success.

The fieldwork for this survey was undertaken during the third quarter of 2010. We analyzed the 263 responses in terms of three broad geographic areas to highlight regional differences between the Americas, EMEIA (Europe, Middle East, India and Africa) and Asia-Pacific.

The purpose was to discover the actions that entrepreneur-led companies are taking to encourage innovation.

Questions focused on:

- ▶ The importance of innovation
- ▶ How to encourage innovation
- ▶ The challenge of capitalizing on innovation
- ▶ How governments might better support innovation

All quotes in this publication are taken from survey respondents. Not all of the answers for each question are charted.

Due to rounding, some of the percentages in the charts in this publication may not add to 100%.

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About the Ernst & Young Strategic Growth Markets Network

Ernst & Young's worldwide Strategic Growth Markets Network is dedicated to serving the changing needs of rapid-growth companies.

For more than 30 years, we've helped many of the world's most dynamic and ambitious companies grow into market leaders. Whether working with international mid-cap companies or early stage venture-backed businesses, our professionals draw upon their extensive experience, insight and global resources to help your business achieve its potential.

It's how Ernst & Young makes a difference.