Focus Intensely on a Few Great Innovation Ideas

by Georg von Krogh and Sebastian Raisch

The global companies that are the most successful at achieving growth through innovation (as opposed to acquisitions) tend to devote their energies to a small number of breakthrough ideas. They select the initiatives with the greatest market potential and marshal their resources to develop them. Leaders should be heartened by this as they continue to face severe cost pressures. Obviously, pursuing dozens of innovations is less expensive than developing thousands. But it also requires an intense focus on picking winners and commercializing them.

It's uncommon to consistently generate revenue growth through innovation—but prerecession, firms that did earned handsome rewards. Only about 80 of Fortune's Global 500 turned in an annual average of at least 5% organic sales growth over 10 years. In a study of these organic-growth champions—including GE, BMW, Nestlé, and Samsung—researchers at the Center for Organizational Excellence in Switzerland found that the firms' shareholder returns were almost double those of the other Global 500 companies (which had lower rates of organic growth).

Such success often relies on what we call "concurrent innovation" in processes, products, and business models. Progress in one type of innovation spurs progress in another, triggering progress in the third. Typically, savings from process improvements fuel product and business-model innovations. When Peter Brabeck-Letmathe became CEO of Nestlé, in 1997, he initially focused on operational efficiency. That allowed the company to more than double R&D expenditures, and one of the resulting products, Nespresso, created the market for portioned-coffee systems.

Take another example: In 2004, GE launched the Imagination Breakthroughs process in part to aggressively pursue areas such as nanotechnology and renewable energy. The new process cut the number of initiatives at GE Global Research from more than 2,000 to 80, each of which had the potential to produce at least $100 million in organic growth over three years.

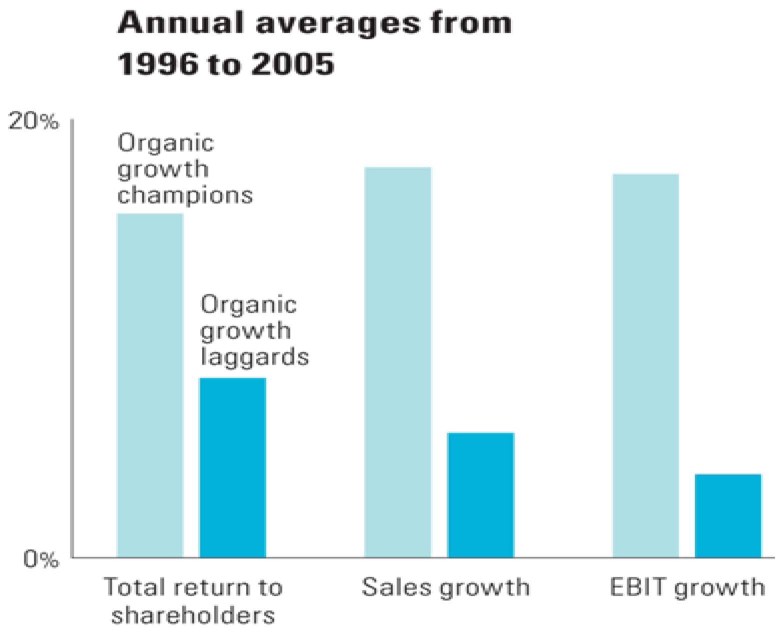
To maintain its intense focus on the most promising ideas, GE sends employee-generated ideas to an internal review board consisting of several top managers, including CEO Jeffrey Immelt, to assess their potential and estimate the level of investment required. As a rule, the board selects just a small number so that eight to 10 projects are in the pipeline at a time. These are then sponsored by top managers and defended against budget cuts. Nearly half the initiatives are geared toward changing the way existing products are produced or delivered—for example, consolidating the commercial finance business's 44 sales forces into a single team.

Similarly, Procter & Gamble focuses its R&D on just eight to 10 core technologies, and Nestlé has slashed its number of innovation initiatives by about half. Paul Bulcke, Nestlé's current CEO, allocates large budgets to the 10 most promising innovations and personally tracks their progress at monthly meetings.

The organic-growth champions do more than focus on breakthrough ideas. They also put innovation at the top of the agenda, work across functional and divisional boundaries, and empower employees with an entrepreneurial mind-set. Doing all this at once is a formidable challenge. But the companies' success positions them well to profit from the downturn. In the three difficult years following the 2000 recession, they maintained faster sales growth than the other Global 500 companies, and their return on equity suffered significantly less. Recessions produce winners as well as losers, and the winners this time around may once again be the organic-growth champions.

The Organic-Growth Advantage

Companies with high rates of organic sales growth tend to outperform those with lower rates.



Champions (the 80 companies within *Fortune*'s Global 500 with at least 5% annual organic growth)

Laggards (the companies in the Global 500 with less than 5% annual organic growth)