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CANON BUSINESS READINESS INDEX

2018 Innovation Edition

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EXECUTIVE SUMMARY

ARE AUSTRALIAN BUSINESSES APPROACHING INNOVATION THE RIGHT WAY?

The business landscape is changing at a breakneck pace. The rate of rapid change is led by globalisation, new and evolving technologies, increasing customer expectations and a shift in demographics to a growing Millennial marketplace. Innovation is now more important than ever. But are Australian businesses keeping up?

The Canon Business Readiness Index on Innovation is a comprehensive study that examines how well Australian businesses are equipped to keep up with these changes. The study, conducted by GfK Australia in April 2018 surveying over 530 senior executives, revealed Australian businesses see innovation as a critical catalyst for growth, but most aren't doing enough.

The study found that 78% of Australian businesses believe that innovation is important.

The key driver behind innovation is the customer with 58% of companies stating the most important reason for innovating is to respond to customers or improve the customer experience.

But while the majority of Australian businesses say innovation is important, just 38% rate themselves as innovative signalling a gap between the ambition of Australian businesses and their ability to innovate.

A number of forces appear to be holding Australian businesses back. While 1 in 2 companies cite lack of budget as an inhibitor, reluctance to change is a significant barrier for 1 in 3 companies. Large companies also battle with company culture and employees not recognising the value of innovation. Some 49% of smaller companies struggle with self-doubt and 70% of large companies see internal conflict as a major hurdle. Despite these recognised barriers, just 11% invest in change management; and only 22% invest in innovation related training. Overall, it seems smaller businesses feel two times less supported by the government when it comes to funding, policy, and skills/talent.

On the other hand, big businesses aren't walking the walk: 42% believe innovation is just a buzzword and only 46% feel their employees are motivated to innovate.

Whatever the reasons, in today's ever-changing business landscape, innovation is critical to a healthy economy. So what's holding Australian businesses back? And what can we learn from the more innovative businesses across Australia?

innovation
is critical to a
healthy economy

THE IMPORTANCE OF INNOVATION

The study found the majority of businesses in Australia understand the importance of innovation in today’s rapidly evolving, high-tech, customer-centric landscape.

Overall 78% of businesses agreed that innovation is very or extremely important. Two sectors in particular stood out, with 94% of Healthcare and Social Assistance and 84% of Education and Training sectors agreeing that innovation is important.

Customer-centricity is the driving force behind innovation for many companies, with 58% of businesses agreeing they innovate to improve the customer experience or respond to changing customer needs. Other factors behind the drive for innovation include gaining a competitive advantage and improving productivity and efficiency.

Furthermore, technology is seen as the most important factor in innovation (followed by people, policies and processes).

This drive for innovation is evidenced by the words of various study participants:

“All businesses need to move forward to meet the challenge of disruption.”

“It’s important for businesses to keep inventing and coming up with new ideas in order to keep up with the demands of customers.”

RATED LEVEL OF INNOVATIVENESS

(% Rated 8-10 on a 10 pt scale)

Your Business



Businesses within your industry sector

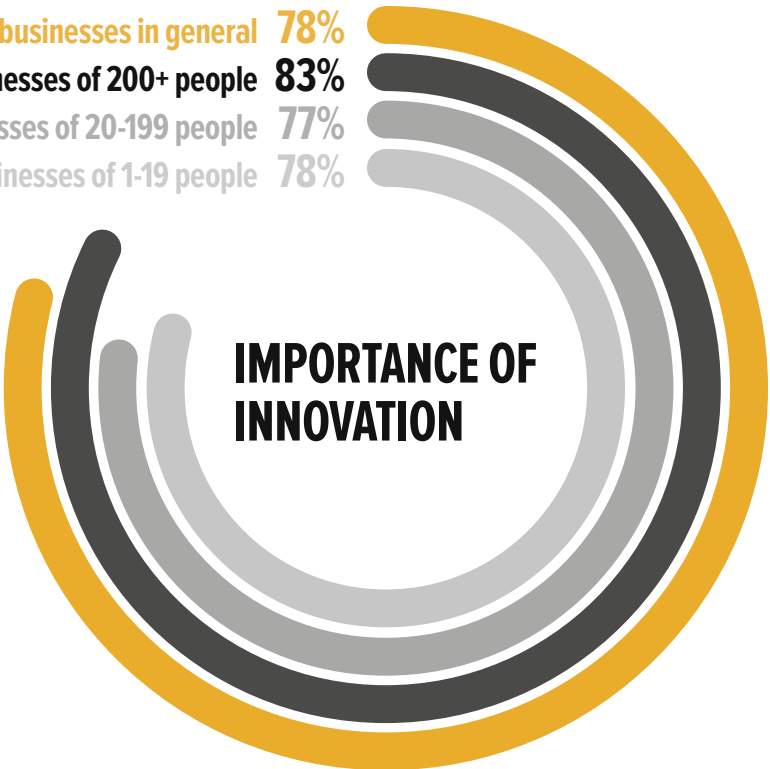


AU



On a scale of 1-10, how innovative do you believe Australian businesses are?
Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

AU = Australian businesses in general 78%
LARGE = Businesses of 200+ people 83%
MEDIUM = Businesses of 20-199 people 77%
SMALL = Businesses of 1-19 people 78%



How important do you think it is for Australian businesses to be innovative generally as well as within your industry sector? (% very/extremely important) Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

THE IMPORTANCE OF INNOVATION

IMPORTANCE OF INNOVATION BY INDUSTRY



WHY INNOVATION IS IMPORTANT (% RANK 1-3)

40% Responding to customers
or organisational needs

32% Achieving business
growth goals

18% Market
leadership

38% Gaining
competitive advantage

30% Anticipating
future trends

15% Engaging and inspiring employees to
create new products and processes

35% Improving
customer experience

26% Adapting to rapid
change/market disruption

12% Increasing
ROI

33% Making productivity and
efficiency gains

23% Cutting
cost

THE IMPORTANCE OF INNOVATION

RELATIVE IMPORTANCE OF TECH, PEOPLE & POLICIES TO DRIVE INNOVATION (100 points allocated across areas)



But while 78% say innovation is important, only 38% rate themselves as innovative. **So who's doing it right and how? →**

WHO'S DOING IT RIGHT?

The study points to a number of factors that highlight the difference between innovative companies and those that rated themselves as less adept at implementing innovation.

In terms of industry sectors, the Retail sector were more likely to rate themselves as being innovative (46%), followed by Healthcare & Social Assistance (43%). This might be due to the strong focus on customer and patient experience in these industries accelerating innovation efforts to keep pace with customer demands.

When it comes to demographics, millennials surveyed were more likely to believe their business was innovative (58% vs 38% overall). This raises an interesting question – do millennials choose to work for more innovative businesses or are they driving innovation in the businesses they are in? In either case, innovative organisations appear to recognise the value of having a diverse workforce to foster innovation with 55% agreeing it's important, compared to just 24% of less innovative businesses.

HOW INNOVATIVE DO YOU BELIEVE YOUR BUSINESS IS?

(% Highly Innovative)

BY DEMOGRAPHICS



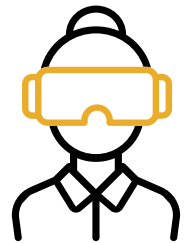
Average Business NET

38%

VS

58%

18-34 Millennial



Culture is a key differentiator, with 74% of innovative businesses agreeing they have an extremely strong culture of innovation and 69% who actively work on building a culture of innovation.

WHO'S DOING IT RIGHT?

HOW INNOVATIVE DO YOU BELIEVE YOUR BUSINESS IS?

(Rated level of innovativeness)

BY BUSINESS SIZE



BY INDUSTRY



On a scale of 0-10, how innovative do you believe Australian businesses are? Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174). (% rated 8-10 on a 10pt scale).

The role of the individual in driving innovation is also perceived more highly with 57% of innovative organisations seeing the role of innovation in the hands of non-management employees.

Intertwined with culture is the way that employees perceive innovation within the organisation. While less innovative companies* appear to struggle with 1 in 4 believing employees are indifferent about innovation efforts, innovative companies show a much higher level of motivation (66%), excitement (62%) and passion (42%). Suggesting innovative companies are able to create a self-perpetuating cycle of where employees value innovation efforts that in turn motivates and contributes to further innovation efforts.

Interestingly, innovative companies also appear to demonstrate visible progress of innovation efforts and are more likely to have a clear measurement of progress. "People need to believe that change can happen and to do that, they need to see tangible

results, no matter how small," says Gavin Gomes, Director, Canon Business Services.

A case can also be made for open collaboration - with innovative companies more likely to collaborate with businesses, customers and universities compared to less innovative organisations.

In further support of this, when asked if they agreed with the statement "My organisation is open to explore external sources to generate new ideas and drive innovation", 63% of innovative businesses agreed - versus 27% in less innovative companies.

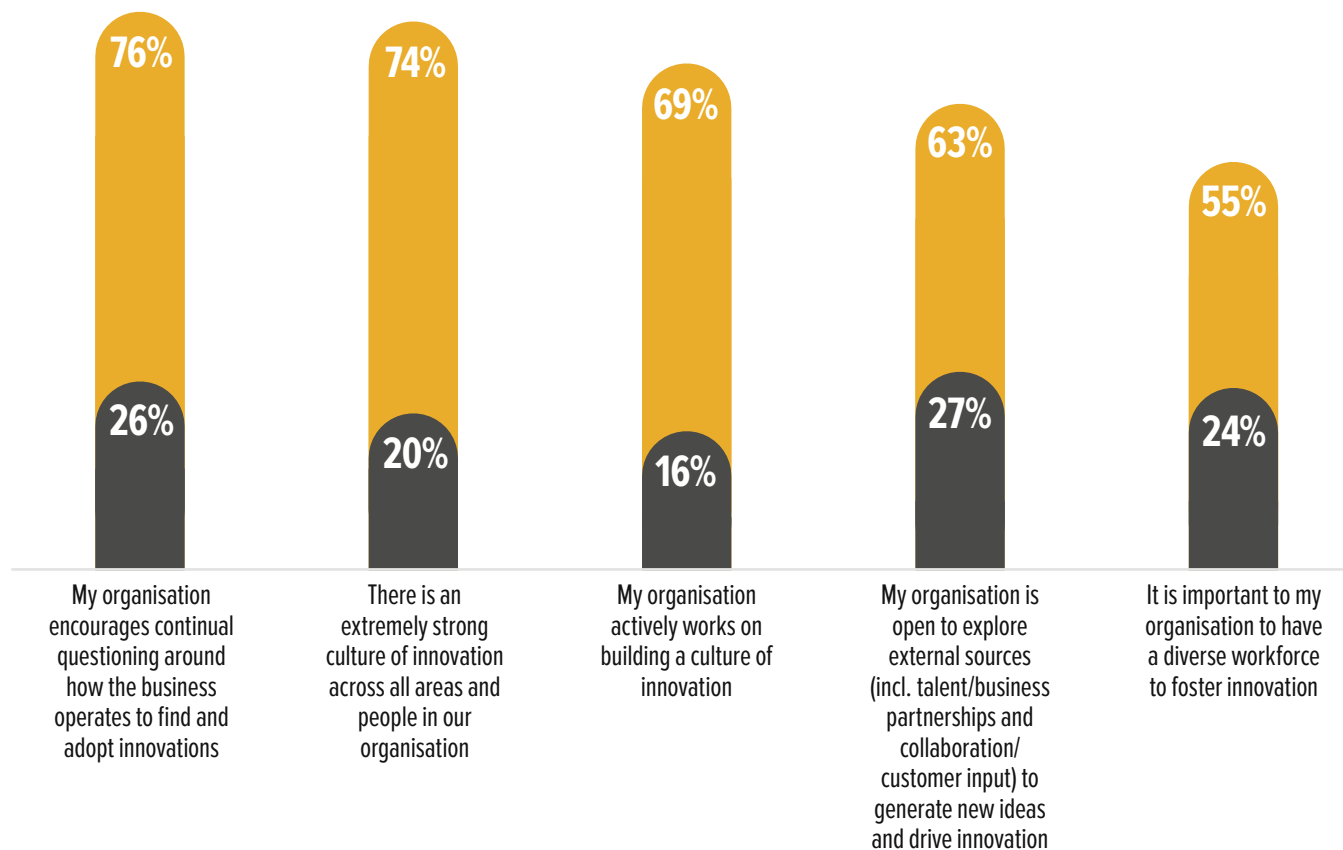
As the data suggests, the ones who are doing it right tend to be more likely to engage in collaboration while valuing individuals' ideas. This may come down to a culture of acceptable trial-and-error. "Reward attempts even if they 'fail', like a badge of honour," says Dr Jeroen Vendrig, CiSRA Research Manager. "It's not really failure if you learnt something along the way."

*Less innovative: defined as rating themselves as 7 or less on a 10 point scale for "How innovative do you believe your business is?" Highly innovative: defined as rating themselves as 8-10 on the same scale.

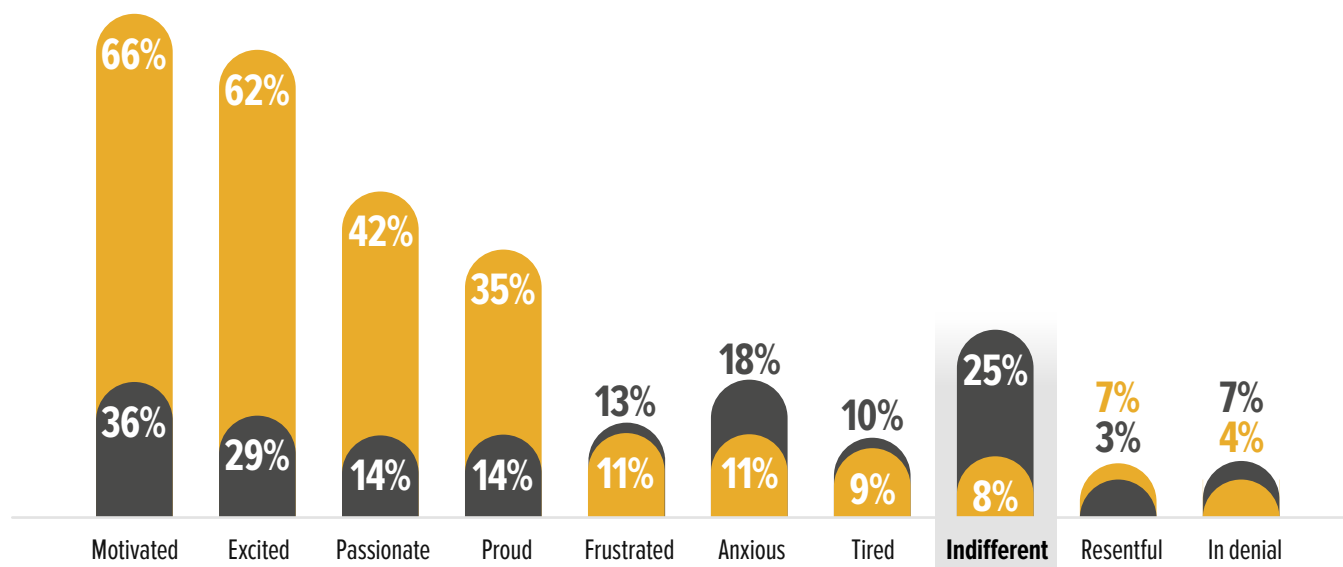
WHO'S DOING IT RIGHT?

ORGANISATIONS PERCEIVED TO BE INNOVATIVE

● Highly innovative orgs (self-rated 8-10) ● Less innovative orgs (self-rated 0-7)



To what extent do you agree with the following statements? (% agree to a great extent/very great extent)



Thinking about the people in your organisation, how do you think they feel in relation to innovation projects and innovation strategies? (n=534)

WHO'S DOING IT RIGHT?

COMPARING HIGHLY INNOVATIVE ORGANISATIONS

Less innovative (Self rated 0-7)

Highly innovative (Self-rated 8-10)

7%



Clear measurement of innovation progress

28%

20%

Collaboration/partnership with customers to advance innovation



25%

16%



Collaboration/partnership with other businesses to advance innovation

27%

5%

Collaboration/partnership with academics/universities



10%

Which of the following has your organisation implemented to drive innovation? (n = 534)



But while these kinds of behaviours certainly favour innovation, they're more often absent than seen in many Australian businesses. **So what's holding other businesses back? →**

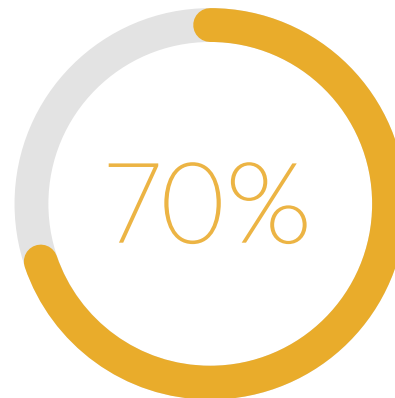
THE FORCES HOLDING US BACK

It's widely reported that Australia is falling behind when it comes to innovation, with Australia recently dropping to 23rd place in a benchmark of global innovation.

(Source: Cornell University, Global Innovation Index, 2017)

Data from our study identifies a number of forces – both emotional and rational – that are holding Australian businesses back when it comes to innovation. One of the most dominant forces, is a lack of funding with 1 in 2 businesses agreeing budget is a key inhibitor. Other common themes include company size, bureaucracy and a lack of resource to support innovation efforts.

Compounding these barriers in large organisations are internal factors, with 70% of large businesses believing conflict contributes to innovation efforts failing.



of large businesses believe conflict is a key contributing factor behind why innovation efforts fail.

BARRIERS TO BEING INNOVATIVE

	SMALL (1-19)	MEDIUM (20-199)	LARGE (200+)
Budget restrictions 50%	51%	41%	40%
Company size 39%	41%	20%	22%
Reluctance to change 33%	33%	37%	36%
Bureaucracy 27%	27%	24%	31%
Law/legislation 25%	26%	20%	17%
Under-resourcing 25%	25%	31%	25%
Employees not recognising the value of innovation 19%	18%	30%	33%
Lack of ongoing professional development 17%	17%	21%	23%
Company culture 17%	16%	31%	36%
Government funding for innovation 17%	16%	21%	18%
Lack of leadership drive/vision 15%	14%	30%	32%
Close-mindedness within the organisation 14%	14%	27%	22%
Lack of cross-industry/academic collaboration 12%	12%	20%	13%
Lack of access to/shortage of local talent 12%	12%	9%	9%
Conflict/disagreement between stakeholders 10%	9%	15%	17%

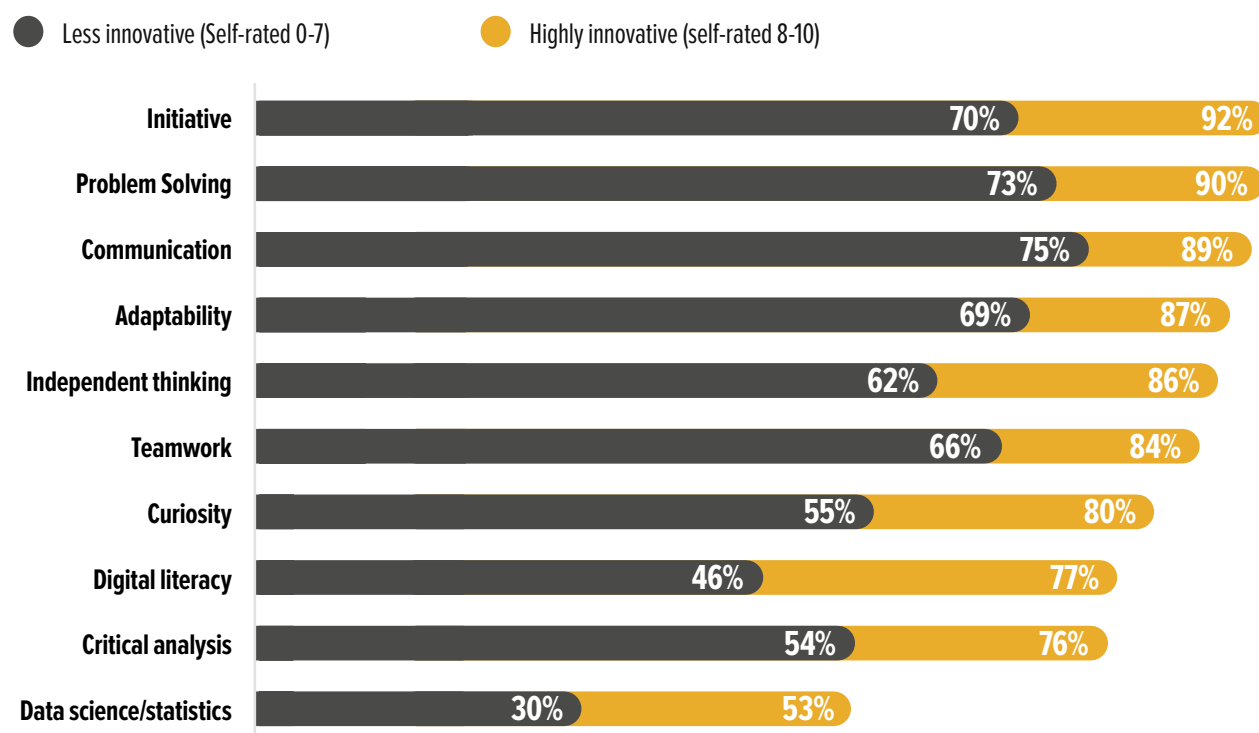
Below are a number of reasons that may hold Australian businesses back on being innovative. What are some of the main reasons that initiatives to implement innovative technologies fail in your business? Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

THE FORCES HOLDING US BACK

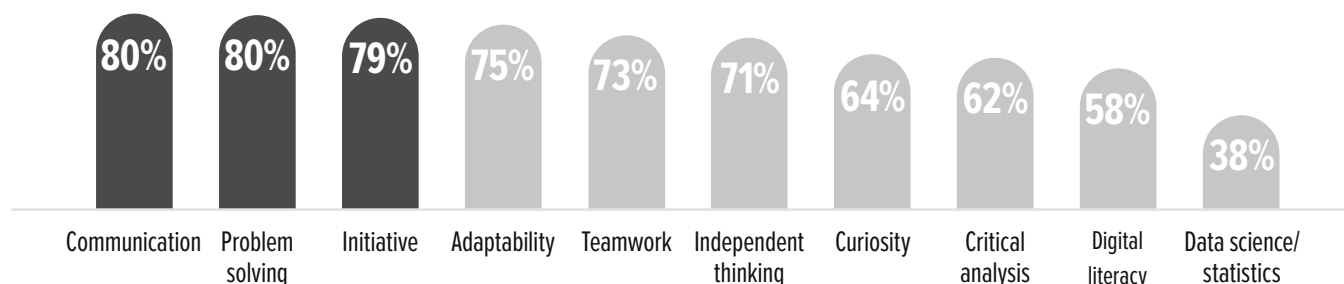
In looking at the skills that are valued by organisations to drive innovation, the study found that most businesses perceive the core skills of communication and problem solving to be the most relevant. However, the findings suggest many Australian businesses are not fostering other important skill sets for innovation which are growing in importance in today's fast paced business world.

The research found that less innovative companies index lower for recognising the importance of initiative, curiosity and independent thinking, all key aspects to the innovation process. Among the most undervalued skills, are digital literacy, recognised as important by just 46% of less innovative companies; and data science, recognised by just 30%.

WHICH SKILLS ARE IMPORTANT TO DRIVE INNOVATION? (% very/extremely important)



TOP SKILLS OVERALL



In your opinion, how important are the following skill sets when it comes to choosing the right people to implement and drive innovation at your organisation?
Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

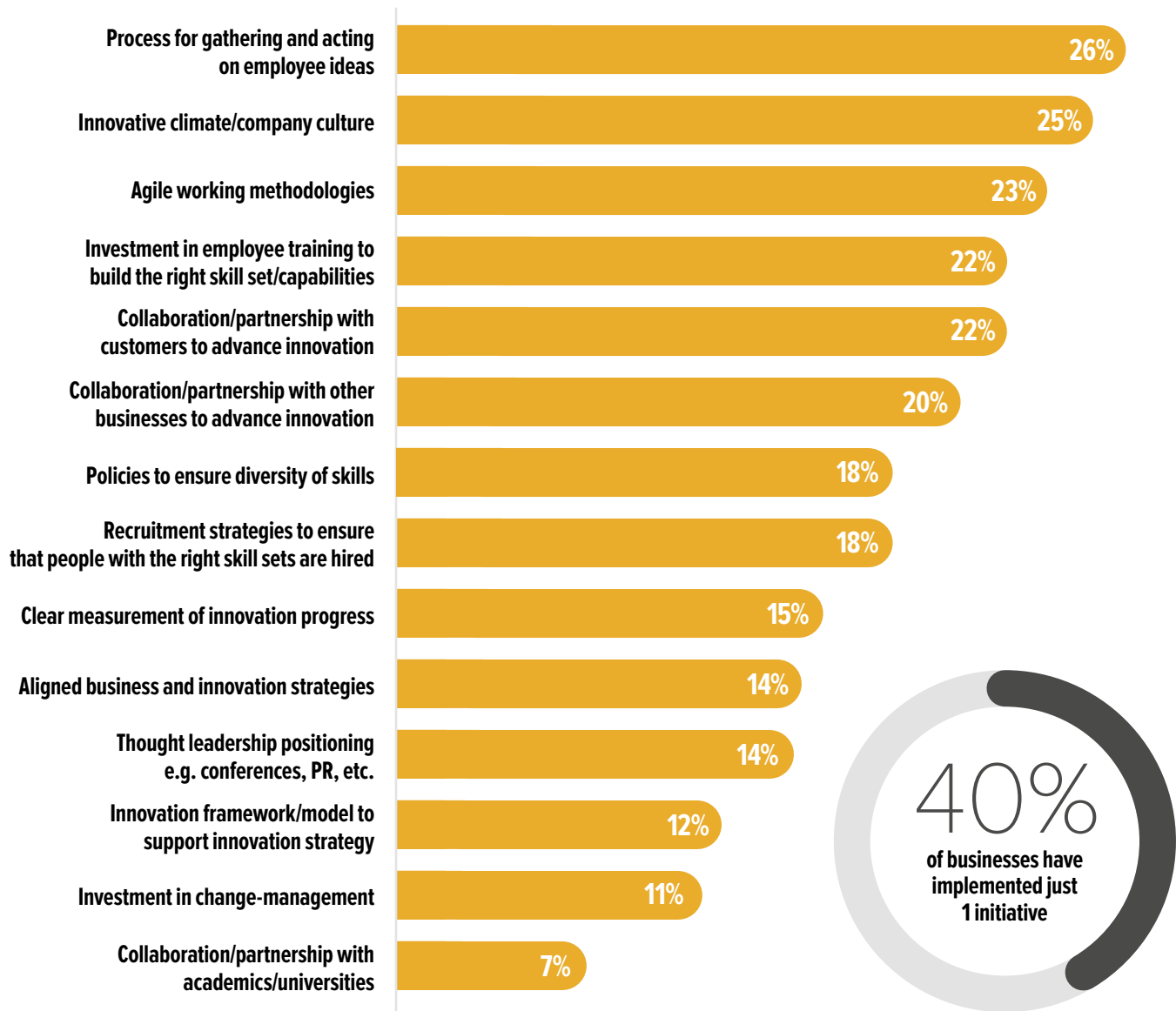
THE FORCES HOLDING US BACK

Across all businesses taking part in the study, an average of three innovation initiatives were implemented per company. The most common initiatives were processes for gathering employee ideas, fostering an innovative climate or culture and implementing agile ways of working. But Australian businesses can do much more, across these initiatives 40% of businesses have implemented just 1 program.

While the number of initiatives implemented is interesting, a more important consideration is whether

Australian businesses are approaching innovation in the right way. One of the missed opportunities appears to be around collaboration with universities. Australia is widely considered to be one of the leading centres for higher education and research (Source: Times Higher Education (THE), yet according to this study, just 7% of businesses have capitalised on this valuable source. There is clearly an opportunity to foster greater industry-university collaboration.

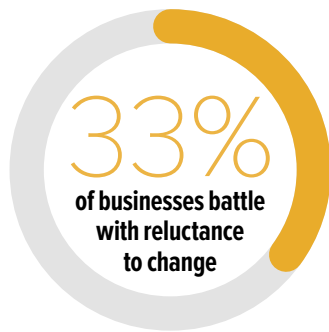
WHAT HAS BEEN IMPLEMENTED TO DRIVE INNOVATION



Which of the following has your organisation implemented to drive innovation? (n=534)

EMOTIONS AT PLAY

The report reveals a number of prevalent emotional barriers to innovation. Across the board, 1 in 3 businesses face reluctance to change as a barrier to succeeding with innovation efforts – the third highest barrier experienced by organisations (after budget restrictions and limited company size).



Yet while reluctance to change is recognised as a significant barrier, it seems that many companies are not doing enough to combat it. Just 11% of companies reported investing in change management to help support innovation efforts. And while larger companies are more likely to invest in change management (27%), it would be interesting to understand whether they are approaching it in the right way.

“Reluctance to change is a major challenge for Australian businesses that needs to be addressed,” says Gomes. “Many companies approach change from

a Project Management perspective and it becomes a tick the box exercise. But reluctance to change is a result of human emotion, it stems from our fear that we won’t be able to feed our families. To truly harness innovation in Australia, we need to help people turn this fear into ambition.”

While all businesses share similar reasons for this resistance, the dominant emotional barriers differ vastly depending on company size.

Some 49% of smaller companies battle self-doubt, while in larger organisations internal conflict is a major barrier. Generally speaking, emotional barriers rise as companies get larger – including anxiousness, frustration, tiredness, denial and resentment.

“Larger organisations often have to disrupt their own business to innovate, which can lead to cannibalisation of other parts of the business. We also see some traditional business models, for example bonus structures, disincentivising people from adapting to new ways of working. This can cause friction between different departments and stall new initiatives,” added Gomes.

EMOTIONAL REASONS WHY INNOVATION INITIATIVES FAIL (% agree/strongly agree)

	SMALL (1-19)	MEDIUM (20-199)	LARGE (200+)
Doubt 49%	49%	59%	61%
Conflict 44%	43%	63%	70%
Denial 43%	41%	62%	63%
Pride 42%	41%	60%	64%
Lost excitement 41%	39%	60%	17%

Denial – Going into the process without acknowledging existing factors that would make success difficult or impossible	Lost excitement – As the project matures, the initial excitement is lost, and the team get distracted by newer initiatives
Doubt – Losing faith in the original idea and/or value it will bring to the business	Pride – Failing to bring in help from other external or internal sources with a different skill set
Conflict – Relationship between people/parties involved breaks down/is difficult	

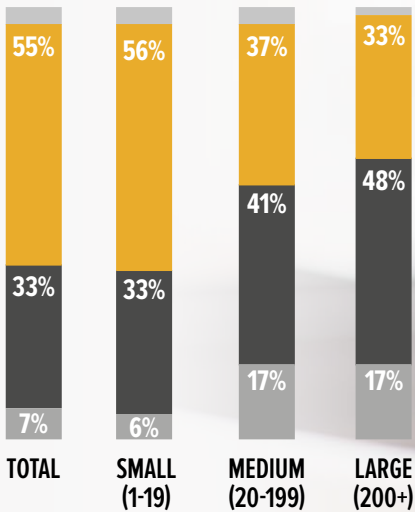
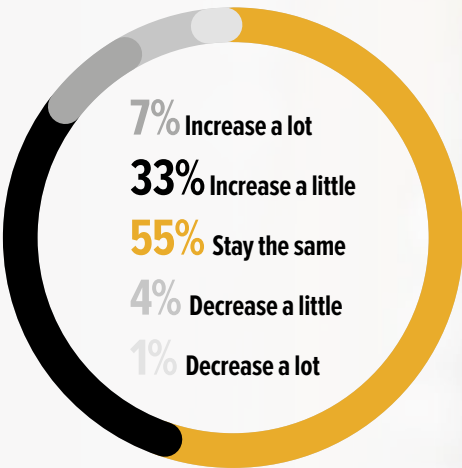
There are also a number of emotional reasons why initiatives to implement innovations may fail. (% agree/strongly agree)
Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

MONEY MATTERS

Innovation is an iterative process that thrives on a chain of repeated failures and learnings; all of which cost time, resources and therefore money. With a lack of budget being the major innovation inhibitor for one in two Australian companies, it's interesting to note that a similar number (55%) intend to maintain their innovation spend, with another 33% planning to increase their investment by just a little.

Medium and large businesses are more likely to increase their investment over the next year with 59% of medium businesses and 65% of large businesses increasing their spending. Similarly innovative organisations are more likely to see the benefit of investment with 55% intending to increase spending.

INTENDED SPEND ON INNOVATION IN THE NEXT YEAR

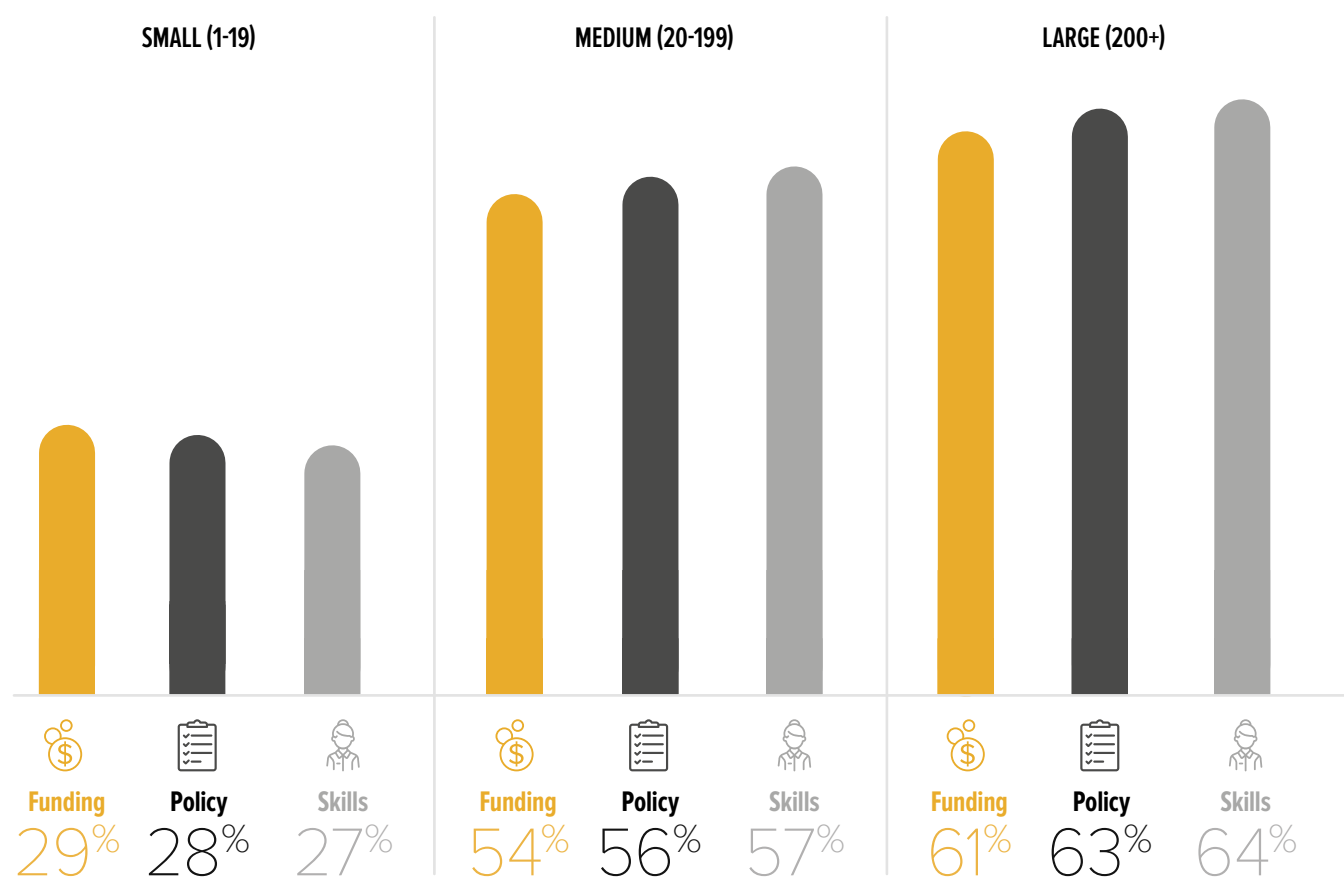


Do you think the amount your organisation spends on innovation across the entire organisation next year will... Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

SEEKING SUPPORT

The study shows that small businesses feel unsupported when it comes to innovation. Small business respondents were half as likely to agree that they felt supported by the government, across funding, policy, skills and talent.

PERCEIVED SUPPORT BY AUSTRALIAN GOVERNMENT FOR BUSINESSES TO INNOVATE (% agree/strongly agree)



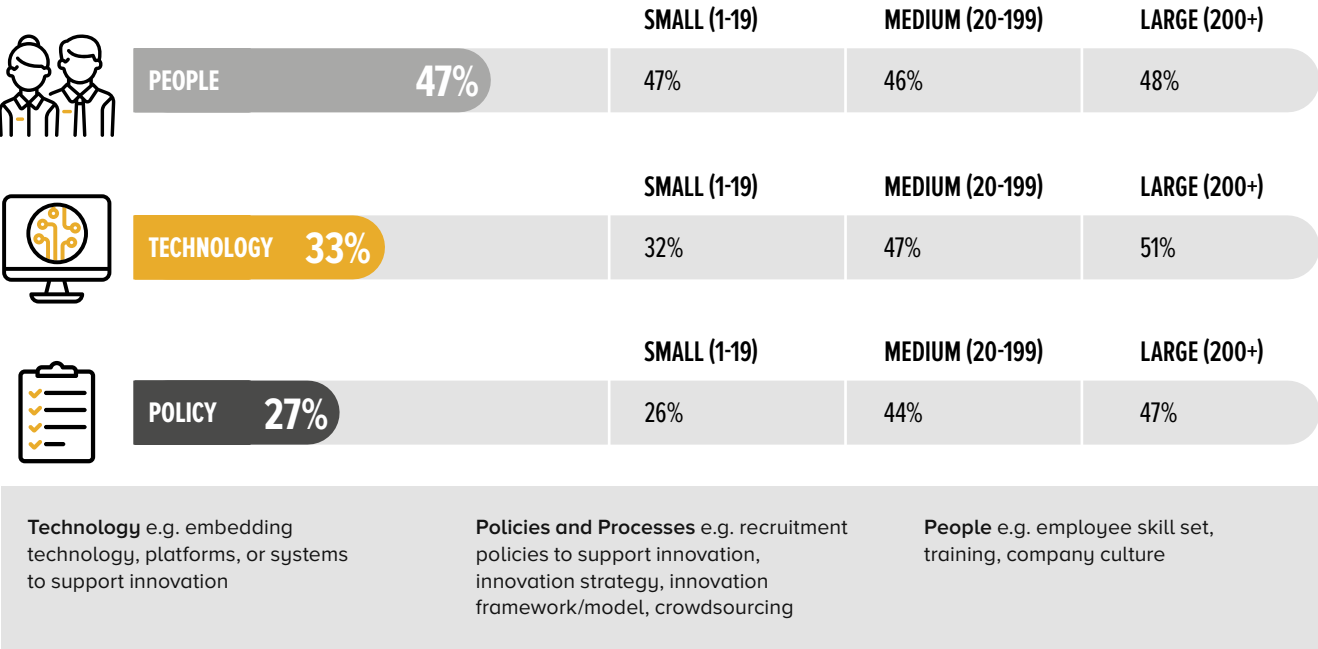
To what extent do you agree that the Australian Government is supporting innovation for Australian businesses in the following areas?
Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

But it's not only government help they feel they're lacking. Smaller businesses also perceive themselves as less innovative when it comes to technology with just 32% perceiving themselves as innovative in this area. In contrast, around half of medium and large businesses believe themselves to be innovative across people, technology, policies/processes.

And while medium and large organisations have a more positive view of the Australian education system in helping develop the skills required to drive innovation, only 2 in 10 small businesses agree.

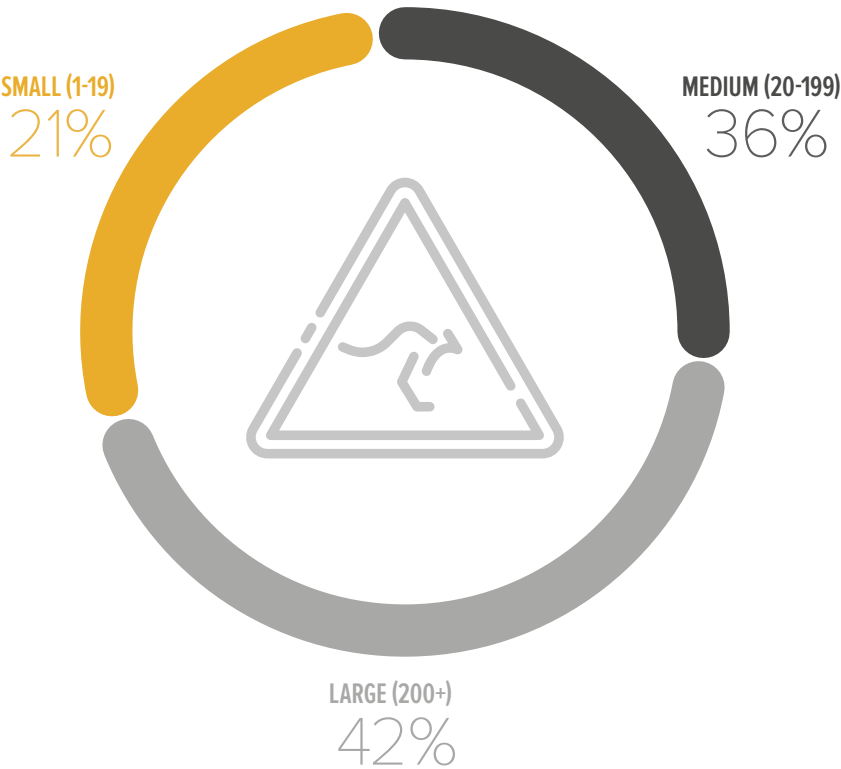
SEEKING SUPPORT

PERCEIVED LEVEL OF INNOVATIVENESS (% Top 3 pts out of 10 pt. scale)



On a scale of 0-10, how innovative do you perceive your organisation is within these three areas (n=534)

TO WHAT EXTENT DO YOU THINK THE AUSTRALIAN EDUCATION SYSTEM HELPS STUDENTS TO DEVELOP THE SKILL SETS REQUIRED TO DRIVE INNOVATION?
(% Top 3 pts out of 10 pt. scale)



Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

WALKING THE WALK

When we shift our focus to large businesses, the problem is less fiscal and more attitudinal. Some 42% believe innovation is just a buzzword – indicating an endemic lack of faith in the entire concept of innovation, presumably from too much talk and too little action. And while 46% of business leaders agreed their people feel motivated about innovation efforts, 1 in 2 large companies also believe that their employees' initial enthusiasm and motivation tends to cool off quickly after new initiatives are implemented. This is despite the fact that 53% of large businesses agree they actively work on building a culture of innovation.

With high levels of doubt and lost excitement, particularly for large organisations, it's critical that business leaders look to how they can foster belief in their teams.

"Doubt is due to a lack of belief that change is possible" says Gomes.
"To overcome this, businesses cannot expect 'blind faith' from employees and need to focus on building belief in their people by showing them tangible evidence that change is happening. If there's no visible progress, it's hard to believe that it is happening. The rapid pace of change in today's business is an added complexity, as belief inevitably falls when people see the outside market evolving faster than their own business."

BELIEFS ABOUT INNOVATION

(% agree to a great extent/agree to a very great extent)



To what extent do you agree with the following statements?

Base: Total (n=534), Small Business 1-19 empl (n=210), Medium Business 20-199 empl (n=150), Large Business 200+ empl (n=174).

THE WAY FORWARD

So what are the opportunities for Australia's future innovation?

It seems there are a number of key skills that aren't being nurtured in Australian businesses.

The most undervalued skills include digital literacy and data science, recognised as important by just 46% and 30% of less innovative companies – compared to 77% and 53% for their more innovative counterparts. As Dr Vendrig points out data is a wellspring of innovation for new systems or products, “Data is new oil and every company has it. If you struck oil, would you just let it seep away?”

There's an opportunity for businesses to use these skills to accelerate their innovation by upskilling employees through internal workshops or to facilitate the transferral of these skills through collaboration – be it with other businesses, customers or government institutions like universities.

Critical analysis and curiosity are two other skills which rank much lower for importance among the less innovative, at 54% and 55% respectively – versus 76% and 80% when you talk to the more innovative organisations. Companies need to find a way to instil behaviours like curiosity and independent thinking within their culture – because it's the urge to find a better way that drives innovation forward.

We also need to consider the role of change management and how it can be better used to transition to a more innovative culture. A greater investment in change-management needs to also address the emotional factors holding back Australian businesses, such as reluctance to change and doubt.

More open and collaborative approaches to innovation could significantly expedite innovation for Australian businesses. Businesses can take advantage of Australia's strength in academia and related government programs. For example, the Australian Government provides subsidised APR internships, where PhD students and their supervisors work with an organisation to solve a business problem over a specified period. An affordable option that smaller businesses might do well to take up.

In summary, Australian businesses face a challenge. With recent reports finding Australia continues to slip behind the rest of the world on measures of innovation performance (Source: Cornell University Global Innovation Index, 2017), we urgently need to make a change. This study identified a number of areas where Australian businesses can pivot their approach.

Australia has the right ambition and this study has provided us some clues for the way forward. The next step is to make sure we get there.

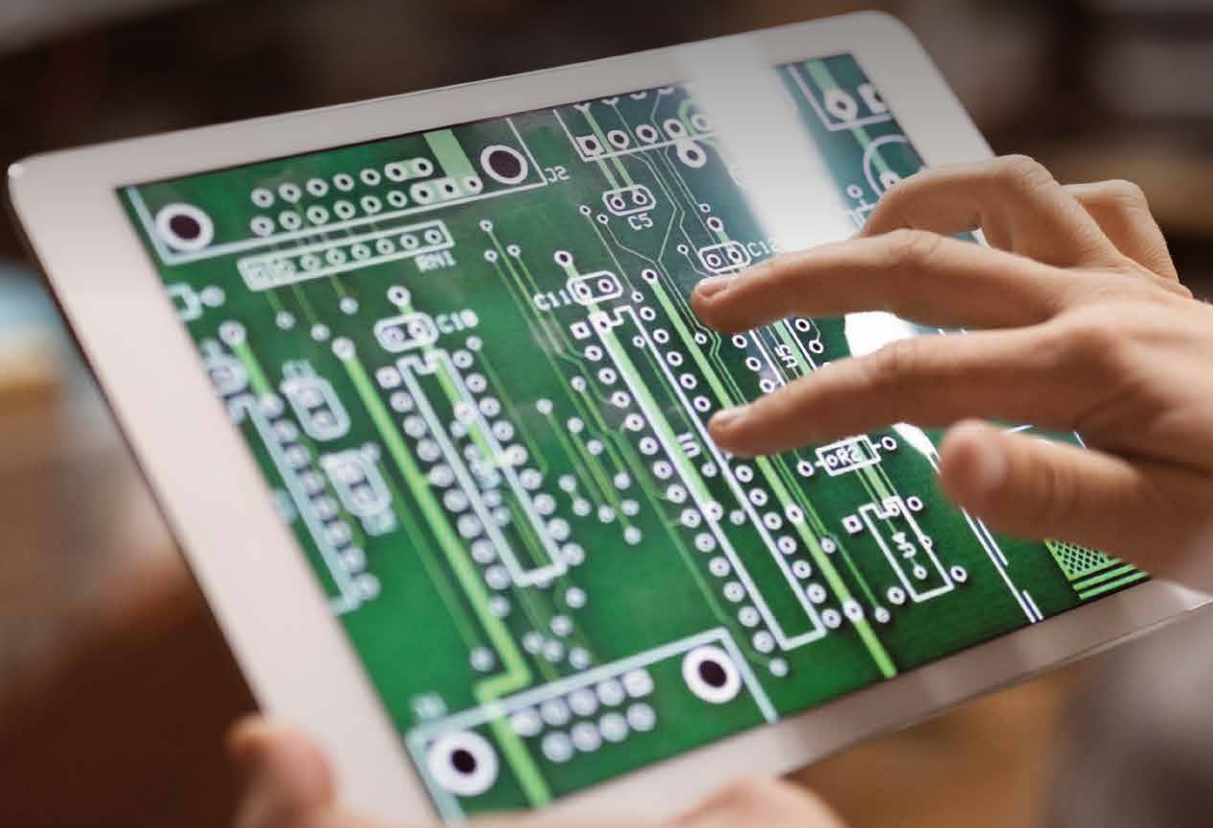
*more open and
collaborative
approaches to
innovation could
significantly expedite
innovation for
Australian businesses.*

ABOUT THE STUDY

The Canon Business Readiness Index: 2018 Innovation Edition is a comprehensive study that examines how well Australian businesses are equipped to keep up with the changes demanded of them by today's rapidly evolving business world.

The study, conducted by GfK Australia in April 2018, gathered insights from 534 senior executives of Australian businesses. The aim was to assess businesses' attitudes toward their own innovativeness, and that of the wider business community. The interviews were conducted via a 15 minute online survey and the sample was weighted to reflect a representative view of Australian businesses by company size and industry.

Technology, globalisation and evolving demographics are changing the world we work at a rapid pace. Innovation and disruption are becoming increasingly important for businesses of all sizes and across all industries. To survive and thrive in today's challenging business world, Canon believes that Australian businesses need to be innovative, trusted, and agile.



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like you*

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To find out more contact:
Canon Australia Pty Ltd
Email: canongroup@canon.com.au
Phone: **1300 620 856**
canon.com.au/business