Breakthrough innovation and growth
How can Nordic companies stay ahead in innovation?
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In September 2013, PwC released “Breakthrough Innovation and Growth” the largest ever study of its kind exploring innovation and its impact on growth from a global, multi-sector perspective.

**What were the top findings?**

There is a clear correlation between innovation and growth. Innovation is a driver for rapid and profitable revenue growth and is recognised by the executives we interviewed as being integral to sustaining the long-term future of their business.

Over the last 3 years, leading innovators have grown at a rate 16% higher than the least innovative. Moving forward, these same leading innovators forecast their rate of growth will increase to almost double the global average, and over three times higher than the least innovative companies. For the average company, this equates to $0.5bn more revenue than their less innovative peers. Companies who are less innovative need to think about the additional revenue they are forsaking and the impact this will have on their share price and shareholder returns.

**What sets leading innovators apart?**

We identified the leading innovators using a balanced scorecard of criteria – see “About PwC’s Global Innovation Survey” section at the end. They all take a more sophisticated approach to innovation. They:

- Have a well-defined innovation strategy
- Concentrate on a greater proportion of breakthrough and radical innovations
- Take a more formal and structured approach to innovation
- Are planning a wider range of innovation operating models
- Have a more diverse set of collaborators and plan to collaborate more than others to harness innovative ideas

This report summarises what the respondents from Sweden, Norway, Denmark and Finland said about how they manage innovation. How do businesses in the region compare with the rest of the world? How do the Nordics match up against the Top 20% of leading innovator companies?
How do the Nordics match up against the Top 20% of leading innovator companies?

1757 C-suite and executive-level respondents
25 From more than 25 countries
30 From across more than 30 sectors
59 With 59 executives from Nordic countries

Sector of respondents:
- Industrial manufacturing: 14%
- Retail: 12%
- Technology: 10%
- Entertainment & Media: 6%
- Information & communication: 5%
- Healthcare providers: 5%
- Pharmaceuticals: 4%
- Banking: 4%
- Automotive: 4%
- Petroleum, oil, gas: 4%
- Insurance: 3%
- Consumer packaged goods: 3%
- Utilities: 2%
- Medical devices: 2%
- Chemicals: 2%
- Aerospace and defence: 2%
- Metal: 2%
- Mining: 2%
- Transportation: 1%
- Agriculture: 1%
- Capital markets: 1%
- Business services: 1%
- Investment management: 1%
- Logistics: 1%
- Wholesale: 1%
- Engineering and construction: 1%
- Other: 4%

Role of respondents:
- CMO / Head of Marketing: 15%
- Head of R&D / Product Development: 13%
- HR Director / Head of HR: 13%
- Head of Innovation / Chief Innovation Officer: 12%
- Chief Information Officer (CIO): 9%
- CFO / FD: 8%
- COO / Head of Operations: 7%
- CEO / MD: 7%
- Head of Strategy / Strategic Planning: 5%
- Chief Technology Officer (CTO): 4%
- Chairman: 1%
- Other: 6%
How can Nordic companies stay ahead in innovation?

The headlines are positive – businesses have a great appetite for innovation in the region. In line with the global average (84%), 85% of Nordic companies say innovation is important to the success of their company now. This rises to 95% saying it will be important in five years’ time, which is ahead of the global average of 88% and almost as much as the top 20% of global innovators (98%).

And what are their expectations for growth? A number of factors indicate that growth via innovation is well and truly at the top of the agenda.

- **Faster growth** – Nordic companies anticipate growing somewhat faster than the global average, although far less than the top 20% of innovators five years from now.

- **Organic** – 91% say the biggest proportion of their revenue growth over that time will come from organic growth – in line with the global average.

- **Pioneers** – 24% of Nordic companies identify as ‘true innovation pioneers’ compared with 19% globally. 53% of Nordic companies describe themselves as ‘leaders but not leading’ compared with 50% globally.

These solid results are no surprise. The Nordics have long punched above their weight when it comes to innovation, even before the mid-1800’s when Alfred Nobel held 350 patents, the most famous being dynamite. The relatively small Nordic nations regularly hit the top of the global innovation tables. In the UN WIPO Global Innovation Index 2013 rankings, Sweden (2), Finland (6) and Denmark (9) all list within the top 10 most innovative countries. Iceland (14) and Norway (16) aren’t far behind.

And this has spilled over to today’s business community according to the results of our survey. But there’s a misalignment between their above average view of themselves as innovation pioneers and the future picture.

Pioneers from the north
The Nordics have a strong tradition of innovation and are aligned with the top 20% innovation leaders on its super importance to their success five years out. They also expect most growth to come from innovation. Why, then, don’t Nordic companies expect equally as strong a growth rate as the leading innovation companies over that same time period? Is their image as pioneers more a reflection of their past success? Is their lower-than-leading growth expectation a sign of complacency - an indication that they don’t recognise the changing nature of innovation? Or is it the opposite? Do Nordic companies see innovation newcomers as a threat to their position unless they change their strategy?

In the rest of this report we’ll examine what is it about their innovation strategy, approach or execution that Nordic companies have been getting right. We’ll highlight the practices that truly set them apart from the rest of the world. And most importantly, we’ll consider how they can stay ahead now that the innovation cat is out of the bag.
The 20% most innovative companies globally are active across the entire spectrum of innovation.

So are Nordic companies, but they are more focused on execution right now.

Leading companies have an approach to transforming their companies so that they make sustained growth via innovation a reality. That involves starting with the business need and linking it with a well-defined innovation strategy, an appropriately-configured operating model and disciplined execution of the strategy. According to our survey, Nordic companies are currently most concerned (34%) about implementing their innovation operating model to make innovation happen, this compares with just 29% globally. The leading global innovators are most likely to be focused on their innovation strategy right now: 32% cite this as the greater concern currently. Only 24% of Nordic countries cite this as the greatest concern currently.

At the same time, Nordic companies are slightly less likely (61%) than the global average (63%), and significantly less than the Top 20% (79%) to agree they have a well-defined innovation strategy.

Leaders are changing the way they make innovation happen, becoming more structured and formal.

So are Nordic companies.

In addition to changing the strategy for innovation, leaders are changing the way they make innovation happen. The Top 20% are shifting away from informal approaches and are becoming more formal and structured in their approach to innovation, just like any other management process. 44% of Nordic companies say they manage their innovation in a structured way with alignment from concept to market. 31% manage innovation formally - only 24% say they manage it informally.

The Nordic approach to innovation today – execution and structure

Formally, all innovation activities are co-ordinated and managed for maximum efficiency

31%

In a structured way, there is alignment from concept to market

44%

Informally, projects arise out of market needs or good ideas

24%

26%

21%

Nordic companies
Global average
20% most innovative companies globally
Inside innovation

It’s good news that Nordic companies have a structured approach to innovation. Executives stress the importance of having enough structure to allow the innovation engine to be both dependable and scalable.

What about Nordic companies’ greater than average focus on execution, though? Are they missing the essential step of getting the strategy right before they focus on execution? The results may partly reflect the cultural tendencies of these nations to be pragmatic and execution-focused. Additionally, the Nordics have been successfully driving innovation for a long time – perhaps longer than other parts of the world. So it follows that they are solidly in the execution phase.

However, there’s a danger in continuing to operate and execute based on a successful innovation history. Approaching innovation the way they always have increases the risk of companies missing the rapidly changing nature of innovation itself. If Nordic companies want the kind of exponential growth that innovation leaders expect in the next five years, there could be a fairly urgent need for them to shake up their innovation strategies created 10, 5 or even 3 years ago and align them with today’s changing innovation game. To successfully bring more breakthrough innovations to market (see next section), they first need to revisit the upstream part of their innovation process - the innovation strategy and innovation operating model.

There are signs that Nordic companies have begun to recognise this need. Even though their current focus is on innovation execution, they give less than average endorsement of their innovation strategies.
Leaders concentrate on a greater proportion of breakthrough and radical innovations.

Breakthroughs are also a priority for Nordic companies. Breakthrough and radical innovations are seen as drivers of revenue, and the picture is fairly good in the Nordics. Innovation portfolios in the region tend to have a greater proportion of breakthrough innovation, typically 30-45%, compared with 20-30% globally. Levels are particularly high for technology and business model innovation.

Nordics prioritise customer experience more than global average and leaders.

In line with others, over the next 12 months, Nordic companies will prioritise product innovation. However, something that stands out for the Nordics is their above average focus on customer experience innovation.

17% of Nordic companies say that customer experience will be an innovation priority area for the year ahead. This is greater than the 9% who prioritise this globally, and even the 10% of leading global innovators who prioritise customer experience.

<table>
<thead>
<tr>
<th>Innovation Area</th>
<th>Nordic Companies</th>
<th>Global Average</th>
<th>20% Most Innovative Companies Globally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>34%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>29%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Customer experience</td>
<td>29%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>17%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Business model</td>
<td>16%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Systems and process</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Supply chain</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Markets</td>
<td>4%</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3: Above average focus on customer innovation over the next 12 months.
The 20% most innovative companies collaborate more. So do Nordic companies, especially with customers and academics. Nordic companies have a high degree of collaboration with all audiences, apart from competitors, where the collaboration is lower than global averages. 71% of Nordic companies plan to collaborate with academics compared with just 56% of companies globally. In spite of this, 51% of Nordic respondents say finding the right partners to collaborate with is challenging.

Collaboration is a core competency of innovation leaders who collaborate to become the “Partner of Choice” in their innovation ecosystem. Leaders set themselves up as the company that others want to bring their best ideas to. Other companies seek them out and offer to jointly fund and develop breakthrough products or offer them market channels to jointly test prototype innovations. As a result the Partners of Choice have a competitive advantage that is akin to a first mover advantage. Partners of Choice are able to deliver innovations better, cheaper and faster. The propensity of Nordic companies to collaborate widely across their ecosystems is a real opportunity for them to secure their future position as innovation leaders.

Another characteristic that sets Nordic companies apart is their customer-centricity. Keeping customers at the heart of their innovation strategy could help create future innovation leadership for Nordic countries. Markets are becoming more fragmented, customers’ needs shift more rapidly, social networking gives customers a greater voice than before. The ability to capture these shifts quickly will be critical to successful innovation and providing a differentiated customer experience will be essential to competitiveness.

Collaborate with academics?
Global average 56%
Top 20% 67%
Nordics 71%
What are the key challenges for Nordic companies?
All companies, even the Top 20%, are still working to get all the elements of innovation right. So are Nordic companies. In particular, they cite time to value as a key challenge.

Taking innovative ideas to market quickly and in a scalable way is cited as a challenge by over two-thirds (70%) of all Nordic companies. This is by far their greatest challenge to making innovation happen and is significantly higher than the 53% who find this a challenge globally.

Finding the right external partners to collaborate with is also a key challenge, but perhaps this is because external collaboration is so important to Nordic companies.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Not at all a challenge</th>
<th>Fairly easy</th>
<th>Neither easy nor a challenge</th>
<th>Somewhat challenging</th>
<th>Very challenging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taking innovative ideas to market quickly and in a scalable way</td>
<td>5%</td>
<td>15%</td>
<td>10%</td>
<td>51%</td>
<td>19%</td>
</tr>
<tr>
<td>Net challenging:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>Finding the right external partners to collaborate with</td>
<td>5%</td>
<td>24%</td>
<td>19%</td>
<td>44%</td>
<td>7%</td>
</tr>
<tr>
<td>Net challenging:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>51%</td>
</tr>
<tr>
<td>Finding and retaining the best talent to make innovation happen</td>
<td>3%</td>
<td>19%</td>
<td>29%</td>
<td>41%</td>
<td>7%</td>
</tr>
<tr>
<td>Net challenging:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>48%</td>
</tr>
<tr>
<td>Establishing an innovation culture internally</td>
<td>8%</td>
<td>19%</td>
<td>25%</td>
<td>29%</td>
<td>19%</td>
</tr>
<tr>
<td>Net challenging:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>48%</td>
</tr>
<tr>
<td>Having the right metrics to measure innovation</td>
<td>10%</td>
<td>8%</td>
<td>44%</td>
<td>29%</td>
<td>7%</td>
</tr>
<tr>
<td>Net challenging:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36%</td>
</tr>
</tbody>
</table>
Inside innovation
Why do Nordic companies say that getting to market is such a significant problem when innovation has been an important part of their business practice for longer than in other parts of the world?

One reason for this may lie in the somewhat higher level of breakthrough innovations that Nordic companies expect. Innovations can be incremental, breakthrough or radical. As they move from incremental towards radical, they require more effort, change and investment to implement.

Incremental innovation follows a more classical way of working – through new product development, stage gates and processes that can be standardised and made more efficient.

At the other end of the scale, companies focused on breakthrough innovations have a bigger challenge in getting these innovations to market. They are dealing with new ideas, different scenarios, larger changes, greater need for prototyping and testing in different ways and new approaches needed for commercial scale. These are challenges that naturally increase companies’ focus on innovation implementation. Consequently, more radical changes generate more revenue and growth as they are difficult for competitors to imitate.

Nordics companies prioritise a greater proportion of breakthrough innovation compared to the global average (30-45% vs. 20-30%). This presents a challenge in sustaining the speed to market/speed to value desired for each innovation. At the same time, if sufficient effort hasn’t been devoted to updating the innovation strategy and designing the right operating model to accommodate breakthrough innovations (as we noted earlier), bringing innovations to market will take even longer and growth will be slower.

A second reason companies sometimes give is the nature of the markets they serve. In spite of their history of innovation, it’s a common argument from large, well-established companies that they have a customer base that isn’t always ready for the next wave of innovations due to their being locked in to current products and solutions. Take a manufacturer of packaging machines for the food and drinks industry. How rapidly can innovations diffuse in these more traditional client-bases? The risk though is that by not expanding the innovation scope and approach, Nordic companies leave the door wide open to competitors and new entrants.

Again this is a strategic question. Do companies want to continue bringing newness to their customers? If so, what’s the right innovation strategy and operating model to deliver that? Even with a challenging customer base the right innovation mix can ensure competitive advantage whether it’s through the service dimension, the business model or product capabilities.
Which areas are causing Nordic companies difficulty in getting innovations to market?
PwC’s Innovation Blueprint can help leaders think through the right construct for growth via innovation, from strategy to disciplined execution. This framework provides ideas on where Nordic companies may find room for improvement in bringing ideas to market.

Many of the Blueprint dimensions have already been discussed earlier in this document.

One additional dimension that Nordic companies may consider though is culture. While they see the importance of leadership commitment and having an environment where trial and error is tolerated, Nordic companies might also need to do more to encourage collaboration across the organisation. Setting up internal communities of interest was selected as the least important factor in creating and fostering an innovative culture. However, innovation does not thrive in silos, so these communities are essential for allowing people at all levels of the organisation to ‘connect their own innovation dots’.

**Figure 5**
PwC’s Innovation Blueprint provides a framework for thinking through tough choices about innovation.

**PwC’s Innovation Blueprint**

1. Business and innovation objectives

2. Innovation strategy

Operating model dimensions

3. Leadership
4. Culture
5. Talent
6. Ecosystem
7. Process

8. Portfolio
9. Governance
10. Organisation
11. Funding
12. Metrics and motivators

New products, services, technologies, business models, processes, channels & value chains
Is it time to innovate around innovation in the Nordics?
If we fast-forward 5 to 10 years, will the world still cast its eye northward to Scandinavia for leadership in innovation? Nordic companies themselves appear to understand the need to maintain their innovative edge as new competitors emerge. 61% of them say innovation will be a ‘competitive necessity’ within the next five years, compared with just 51% of companies globally.

So how are Nordic companies positioned to innovate through the disturbances to heritage businesses caused by the world’s five megatrends?

We’ve seen that innovation is correlated to growth and that it will remain high on the competitive agenda. Robust growth via innovation requires rapid implementation and adoption of the practices illustrated by top innovation leaders. Is there a risk of innovation inertia setting in in the Nordics?

Nordics companies are well-practiced and well-positioned but they can’t afford to be complacent. In an increasingly global, volatile, fragmented, connected, networked and technologically driven market, their future competitive positioning hinges on their ability to innovate around innovation.

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**Figure 6: The impact of mega-trends on Nordic innovation**

<table>
<thead>
<tr>
<th>Mega-trend</th>
<th>Demographic shift</th>
<th>Shift in global economic power</th>
<th>Technological breakthroughs</th>
<th>Climate change &amp; resource scarcity</th>
<th>Accelerating urbanisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>How the Nordics are positioned in terms of innovation</td>
<td>Relatively well-positioned: Nordics do well at using the full range of human resources available through gender equality and diversity opportunities. They also have a very well-educated and mobile workforce. However, this mobility may present the threat of a millennial brain-drain in the future.</td>
<td>Remaining competitively positioned will be a challenge for Nordic companies: Rising economies (such as China) are catching up fast as they shift from being imitators to innovators. Nordic countries have the competitive disadvantage of being higher social-cost countries.</td>
<td>Well-positioned: Scandinavia is a technology savvy region, with an aptitude for applying technological breakthroughs into areas such as environmentalism, life sciences and pharmaceuticals. Their strong competitive position is also reflected in the high proportion of breakthrough innovation in technology that Nordic companies say they expect.</td>
<td>Well-positioned: Traditionally there is great respect for nature in the region and public environment awareness is high. This has led to the Nordics being a leading region for environmental innovation, for example in the area of Clean-Tech.</td>
<td>Well-positioned: Nordic countries have historically good linkages between education, infrastructure, human capital and market and business sophistication.</td>
</tr>
</tbody>
</table>
Our quantitative and qualitative research was conducted among board-level executives responsible for innovation within their company. In this context innovation was taken to encompass products, services, business model and customer experience. Twenty percent of interviews were from companies that generate more than $1bn+ revenue. Interviews were conducted by PwC and Meridian West.

For the purpose of our analysis, from the 1,757 companies interviewed we have identified the top 20% innovators (359 companies), and the bottom 20% innovators (395 companies) to compare and contrast their relative characteristics and experiences. These companies were identified based on a balanced scorecard comprising their responses to the following six areas explored in our study:

- The proportion of annual revenue derived from major products for services launched in the previous year;
- The proportion of annual revenue spent on innovation;
- The proportion of products and services co-developed with external partners;
- Their projected revenue growth over the next five years.

For each of the six attributes every company was given a score between 1 and 5. The most innovative 20% of companies scored a total of 23 or more out of 30, whilst the least innovative 20% of companies scored a total of between 7 and 15 out of 30.
Want to find out more?

For help and advice with your innovation strategy and process, please contact one of our innovation specialists.

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