



## The World's Most Innovative Companies 2013

**The world's most innovative companies enjoy a premium on their share price. Holding onto it depends on the flexibility of top-level management to encourage new ideas across the organisation.**

When you run the world's leading customer-relationship software firm, you need to think ahead to stay ahead. Salesforce.com Inc.'s Founder and CEO Marc Benioff is proof of this philosophy: it's this thinking that's allowed his company to reign number one on our list of the World's Most Innovative Companies for three consecutive years, with no signs of slowing down.

Enlightened corporate leaders like Benioff know the importance of building a company's creative capabilities beyond themselves. They look far into the future by looking very deeply into the present. They think about real needs, real issues and the problems facing real people. And, as Benioff emphatically put it during a conversation with us, "we'll take innovation any way you can give it to us."

This "innovation capital" has been realised in the form of acquisitions, of both innovators and products. Since 2011, Benioff has spent close to \$4 billion buying smaller software firms and recently shelled out \$2.5 billion to acquire cloud marketing platform ExactTarget –Salesforce.com's biggest acquisition to date.

"I don't care if it's my idea, an employee's idea, a competitor's idea, a partner's idea or some other associate's idea," he says. "My job is to build a culture of innovation. That's something that we try to

enforce. We encourage it. We value it. We notice it. We compensate for it. We require it."

### Pushing share prices to a premium

Investors notice organisations willing to take an innovative leap, and they're ready to compensate them by pushing their share prices to a premium. Our list of the World's Most Innovative Companies measures investors' willingness to bet with their wallets that the most outstanding innovators will continue to innovate not just now, but well into the future.

Three years into this exercise, we see some interesting patterns emerging.

Some companies, like Amazon.com Inc. and Intuitive Surgical Inc., a California -based manufacturer of robotic surgical systems, are regular fixtures, varying in exact placement. Amazon ranked seventh on our list this year, after taking third place last year and second place in 2011. Intuitive Surgical came in eighth, after clocking in sixth in 2012 and third in 2011.

Others have emerged and stayed consistent over the past year. Number two on our list both this year and last year is Alexion Pharmaceuticals. The developer and distributor of a drug called Soliris,

Visit **INSEAD Knowledge**  
<http://knowledge.insead.edu>

Alexion Pharmaceuticals wasn't featured at all prior to 2012.

Contrast that with other contenders, who've emerged and then disappeared from the list. That was the case for North Carolina-based software firm Red Hat Inc., which was absent from the 2011 list, shot into fourth place in 2012, and was then absent again from this year's list.

Such movements may reflect price adjustments on the stock market, which can be caused by a range of internal and external factors. Our list illustrates investors' appreciation of these companies' potential as innovators for the long term.

## THE WORLD'S MOST INNOVATIVE COMPANIES

RANK	COMPANY	COUNTRY	INDUSTRY
1	SALESFORCE.COM	USA	APPLICATION SOFTWARE
2	ALEXION PHARMACEUTICALS	USA	BIOTECHNOLOGY
3	VMWARE	USA	SOFTWARE & PROGRAMMING
4	REGENERON PHARMACEUTICALS	USA	BIOTECHNOLOGY
5	ARM HOLDINGS	UK	SEMICONDUCTORS
6	BAIDU	CHINA	COMPUTER SERVICES
7	AMAZON.COM	USA	INTERNET RETAIL
8	INTUITIVE SURGICAL	USA	HEALTHCARE EQUIPMENT
9	RAKUTEN	JAPAN	INTERNET RETAIL
10	NATURA COSMETICOS	BRAZIL	HOUSEHOLD/PERSONAL CARE
11	HENAN SHUANGHUI INVESTMENT & DEVELOPMENT	CHINA	FOOD PROCESSING
12	COLOPLAST	DENMARK	HEALTHCARE EQUIPMENT
13	CERNER	USA	HEALTHCARE TECHNOLOGY
14	UNICHARM	JAPAN	HOUSEHOLD/PERSONAL CARE
15	ESTEE LAUDER COS	USA	HOUSEHOLD/PERSONAL CARE

Click [here](#) to see the full list.

## Calculating innovation

To compile the list, we use what we call the "Innovation Premium," which is calculated by:

- Projecting a company's income as expressed in cash flows from existing businesses;
- Determining anticipated growth from those businesses;
- Comparing the net present value (NPV) of those cash flows with the firm's current market capitalisation.

We require at least seven years of financial data – a feature that for the moment excludes companies such as Facebook Inc. – and only consider firms with a market value greater than \$10 billion. We also use a "research and development" screen, which requires qualified companies to make some investment in R&D.

This calculation assesses that companies whose market cap is higher than the NPV of their cash flows have an Innovation Premium built into the price of their shares. For Salesforce.com, this year's Innovation Premium was 72.8 percent, while Alexion Pharmaceuticals was 72.3 percent. At the lower end of our Top 100 list, MediaTek Inc. of Taiwan and Daikin Industries Ltd. of Japan tie for last place with

an innovation premium of 18.6 percent.

What lessons do such findings hold for corporate managers? For a start, our work with business leaders over the last 10 years has shown that, on average, innovative leaders make a clear difference when it comes to cultivating company-wide innovation.

## Warning sign: What happens when leaders "hog" innovation

Through our research, we have noticed some warning signs when it comes to innovative leaders. Putting it bluntly, some CEOs and senior executives are so creative they squelch their employees' skills and ideas.

According to more than 1,000 "Innovator's DNA" 360 assessments, between 10 and 15 percent of the most innovative leaders in the world (based on others' evaluations of their skills) don't bother to encourage people around them to innovate as well. These kinds of leaders often believe their ideas are so much better than their colleagues' there is little value in building talent around them. Many also lack the patience required to give others the chance to develop and deliver their ideas, so they do the work alone.

This can be okay in the short run but disastrous over time. Employees stop coming up with ideas. Their creative muscles atrophy. This can pose a serious threat to a company's overall performance if and when a highly innovative leader leaves – especially if that person is famous.

Take Apple Inc., for example. Investors started fretting about Apple's ability to come up with big new ideas even before Steve Jobs passed away in October, 2011. Over the last two years, Apple's Innovation Premium has fallen from 50 to 22 percent, pushing the company's rankings down from fifth on our list in 2011 to number 79 this year. Apple may continue to change the game without Jobs, but investors have voted with their feet.

Something similar happened with Starbucks Corp. When Howard Schultz left in 2001, the company's Innovation Premium hovered around 50 percent. Several years later, it was down to 11 percent. Schultz's return in 2008 restored the coffee chain's creative lustre; today its premium stands strong at 41 percent, making it one of the top 20 World's Most Innovative Companies. Schultz's presence makes a difference to investors' expectations regarding Starbucks' ability to innovate and grow.

## Innovation is everyone's job

At Amazon, which has an innovation premium of 60.2

Visit [INSEAD Knowledge](http://knowledge.insead.edu)  
<http://knowledge.insead.edu>

percent this year, founder and CEO Jeff Bezos made innovation part of everyone's job. Amazon's managers set steep goals, scrimp on budgets and expect employees to put in long hours. But if you like uncertainty and the messy work of coming up with new ideas, there aren't many better places to work.

"I encourage our employees to go down blind alleys and experiment," Bezos told us. "We've tried to create tools to reduce the cost of doing experiments so that we can do more of them. If you can increase the number of experiments you try from a hundred to a thousand, you dramatically increase the number of innovations you produce."

Unlike a lot of other big companies, Amazon has purposefully chosen not to appoint a chief innovation officer. Bezos doesn't want his leaders delegating that task to anyone in particular. While he has done many things to build an innovative culture, he emphasises three he believes make the biggest difference.

First, he surrounds himself with people who have a creative track record. He asks all job candidates to tell him something they've invented: "Their invention can be on a smaller scale – say, a new product feature or a process that improves the customer experience – but I want to know that they will try new things."

He also looks for a combination of stubbornness and flexibility. "Even though these two attributes seem to be at odds with each other, I don't think they are," Bezos told us. "I want people who are stubborn about their vision of creating something new and valuable. I want them to be relentless in the pursuit of their vision but very, very flexible on the details of how to get there."

### **Encouraging discovery work**

Bezos has radically decentralised the work of coming up with new products or services so that the majority of employees feel it is expected of them. In fact, most employees are given an innovation challenge as part of Amazon's now famous "two-pizza teams" (a team small enough that it can be fed with two pizzas).

"Each team has its own software developers, its own business people, its own design people and so on," Bezos explained. "I think that kind of decentralisation is important for innovation because your hands are closer to the knobs of what you're trying to build."

Bezos teaches these teams how to experiment their way to innovations. "Experiments are key to innovation because they rarely turn out as you

Visit **INSEAD Knowledge**  
<http://knowledge.insead.edu>

expect, and you learn so much [in the process]," Bezos told us.

Meanwhile at Salesforce.com, Benioff spends most of his time these days with customers. He's encouraging his team to do the same, getting new ideas from the likes of GE, Bank of America, Toyota and Philips. He admits, though, that building this ability in others while he's still present is challenging. Whatever "innovation capital" he has built up over time cannot be handed over to someone else. Whoever ultimately takes his place will need to earn his or her creative merit.

Business leaders can never know whether their company's ability to bring new ideas to market will sustain after they're gone. But the hallmark of the world's best-run companies and greatest leaders, including those of Salesforce.com and Amazon, is their unrelenting commitment to honing employees' discovery skills – questioning, observing, experimenting, networking, and associating – to continually challenge the status quo. It's this culture that will not only ensure the success of an organisation, but the staying power of its Innovation Premium.

*For more detail about our work on innovative companies and leaders, read "[The Innovator's DNA](#)" (Harvard Business Press, 2011), written with Harvard Business School professor Clayton Christensen.*



*Hal Gregersen is Senior Affiliate Professor of Leadership and The Abu Dhabi Commercial Bank Chaired Professor at INSEAD.*

Follow us on twitter [@INSEADKnowledge](#) or Facebook  
<https://www.facebook.com/Knowledge.insead>.

Find article at  
<https://knowledge.insead.edu/innovation/entrepreneurship/the-worlds-most-innovative-companies-2013-2596>

**Download the Knowledge app for free**



**Visit INSEAD Knowledge**  
<http://knowledge.insead.edu>