Innovation is now a priority in most firms around the world just as quality was two decades ago. The challenge then was how to transform a quality program and results into a quality image. Today the need is to gain image credit for developing an innovative organization and a flow of innovative products. Having a reputation for creativity not only interjects energy and respect, but adds new product credibility to support a firm’s culture and strategy.

Business Week recently ran a story on the 25 most innovative companies (e.g. Apple, Google, 3M, Toyota, Microsoft, G.E., Procter & Gamble, Nokia, Starbucks, IBM, and Samsung) as determined by a survey of over 1,000 executives. Among the ideas these firms used to foster innovation was freeing time to experiment, patent sharing, having an innovator-in-chief, and developing innovation metrics. While interesting, the story made the unfortunate implication that a reputation for innovativeness was due to the current strategies, processes, culture, and product flow of the firm and, further, that such a reputation would result in financial success.

The reality, in my view, is far different.

Perceived innovativeness is driven by many factors, some reaching far into the past. One factor is undoubtedly the heritage of imagination. For over 50 years, 3M has been known for its philosophy of empowering innovators. Apple, the No. 1 firm in the survey, is still drawing on Steve Jobs’ legacy of the first Apple nearly 30 years ago. IBM gets credit for establishing the computer industry some five decades ago. G.E.’s reputation may be influenced more by the legacy of the founder, Thomas Edison, than the Jeff Immelt revolution.

A related factor is that these firms have put resources and skills into brand building. Samsung, No. 12 on the list, has benefited from a design focus, speedy product cycles, and rigorous innovation metrics. However, the brand strength and innovation image would never have happened without the decision in the late 1990s to sponsor some prestigious sports events including the Olympics, and to alter the distribution channel. Without brand building, their success in flat screen TVs and mobile phones would not have resulted in the innovative image these companies now enjoy.

A third factor is the ability to brand innovations that allow the image of newness to have long legs. 3M hit a home run with Post-Its over 20 years ago, a pervasive symbol of ingenuity. Brands like the Mac, introduced in 1984, the PowerBook (1991), and the iMac (1998) all provided a lingering design crown for Apple years before iPod and iTunes. Microsoft has a host of strong brands including MSN and Office that capture its leading-edge thinking in those areas. P&G has opened new categories with Mr. Clean Autodry, Mr. Clean Magic Eraser, and Tide Coldwater. Toyota has gotten a big bump with the Prius, a brand that was introduced in the U.S. some six years ago, even though Honda was first to market with a hybrid. Without supporting brands, an innovation too often sinks into the clutter of the marketplace.

Having a reputation for creativity not only interjects energy and respect, but adds new product credibility to support a firm’s culture and strategy.

There is enormous inertia in brand equity; it is hard to create or even influence a creative reputation in a few years. Consider that Sony during the last decade has missed the major category innovations such as flat screen TVs, mobile phones, PDAs, and the iPod. While falling in the Business Week study to the 13th spot from 5th, the fact that their innovative image is still so high is simply remarkable.

The article further suggested that firms perceived to be innovative are more financially successful, a theory supported by charts comparing the growth and margins of innovative firms vs. others. However, the reverse causal flow might be more plausible. University of Washington professor Bob Jacobson and I showed that Fortune’s most admired companies reflect stock market success (rather than the reverse) and the same phenomenon is likely happening to perceived innovation.
Financial success leads to perceived innovativeness in two ways. First, it creates a brand halo effect that helps foster an innovative image. Second, it can signal category leadership. So Google, Toyota (with respect to hybrid cars), Microsoft, Nokia, and Starbucks, by becoming representative of categories that have changed the way people live, get a category bump on innovation.

Most firms aspire to have an innovative image. However, it is not enough to foster and enable innovation in the organization or even to launch novel products and services on a regular basis. Building an innovative reputation requires an understanding that an image is an accumulation of everything associated with a brand over a long time period. That image needs to be nurtured and guided by a brand vision—and marketing engine—supported by creative, effective brand-building activities. ☑

David Aaker (d_aaker@prophet.com) is Vice Chairman of Prophet, a strategic brand and marketing consultancy. This article originally appeared in BrandWeek on May 1, 2006.