Stop Giving Innovation Preferential Treatment (Part 2)

It’s time to tighten the reins on your company’s innovation function

by Amber Lyons and Sean Klein

In Stop Giving Innovation Preferential Treatment, Part 1 we highlighted discrepancies in performance expectations between innovation and other core business functions. We then stressed the importance of establishing formal accountability for your company’s innovation performance.

While establishing a leadership position accountable for innovation performance is a critical first step toward delivering results, accountabilities are window dressings without meaningful performance metrics to back them up. Other business functions are tracked against key performance metrics; why should innovation be any different?

One theory is that many innovation strategies consist of throwing around the term ‘innovation’ as much as possible in an effort to obfuscate the question of growth strategy. In 2012, a review of quarterly and annual reports submitted to the Securities and Exchange Commission cited the word ‘innovation’ over 33,500 times. Yet, when pairing this number to the previously mentioned Capgemini study, only 42 percent of companies claim to have an innovation strategy in place. Fortunately, for many shareholders, simply mentioning innovation in an annual report is not enough. Some critics go as far as to suggest that we “mandate that publicly traded companies regularly report on their innovation pipeline and the key drivers of their innovation performance.” One thing we are certain of - if you don’t have a clear definition of what innovation is, you cannot even begin to measure it.

Part of the problem lies in the amorphous and slapdash usage of the word ‘innovation’ in the workplace. Employees use ‘innovation’ to describe everything from new-to-world product concepts to ordinary packaging changes, process improvements to employee satisfaction surveys. However you choose to define innovation in your company, make sure the term is used consistently. You can quickly test consistency and effectiveness by polling random cross-functional employees at varying levels in your organization. If your company consistently defines innovation, you should be able to ask the CFO, a plant manager and a project team member for a definition and receive a similar, concise response from each. If responses are inconsistent, your innovation transformation journey begins there.

Set clear innovation performance metrics

Once your company has an established definition for innovation, you can begin to measure it. Undoubtedly, your key performance indicators for innovation will differ from those used by other business functions, however the framework for identifying and institutionalizing them remains the same.

Below is a list of sample metrics that some companies use to evaluate the performance of their innovation engine. Without a doubt, you will want to identify metrics that map to your own unique business strategy, industry, and competitive landscape, but this list may help spark some ideas on where to begin.

- FEI concept count and value
- R&D resource utilization
- Average development stage/phase duration
- Expected commercial value of the innovation pipeline
- Portfolio mix by innovation type
- Technology platform ROI
- Positive mentions by medium (FaceBook, Twitter, etc)
- Number of trials and repeats (expected vs. actual)
- Innovation over time: rolling three year net sales as % of total net sale

As you can see, while innovation metrics are often different from those used for measuring other business functions, they can be just as concrete. Innovation functions can, and should, be measured. It's unacceptable for corporations to enforce rigor and accountability in traditional business functions while neglecting to adopt similar standards for the expectation for innovation results. If your company’s annual report mentions the word ‘innovation, you should have a clearly defined innovation strategy, measurable and actionable innovation goals, and someone accountable for delivering them.
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