Using the Five Levers to Assess Your Innovation Practices

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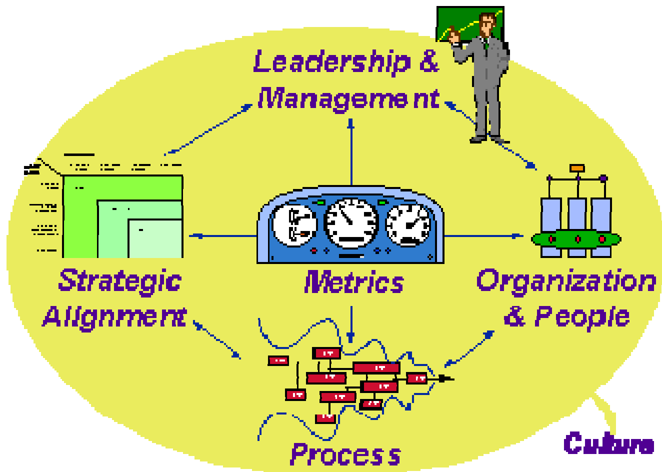

Leadership & Management

The simplest, result-focused question one can ask is what are the business unit's growth and innovation goals? This is usually expressed as a percentage of revenue and/or profits that are expected to come from released innovations. Curiously, many companies espouse growth as an objective but fail to set measurable goals. Others have goals, but compare their progress against internal history vs. competitors or best-in-class standards. You can steal a page from Jack Welch's book of being first or second in the industries in which you compete: are you growing at the rate of the top competitors? Since most so-called disruptive technologies come out of small companies, it's increasingly important to also compare your growth and innovation rates to them. In that case, ask have they created new markets/business in which you need to find a way to participate.

Relative to best practices, growth companies create leadership forums that are devoted to keeping growth and innovation in the foreground; not unlike a corporate innovation task force or the new HP Garage Rules. Such forums actively manage the portfolio of internal and external growth initiatives, initiate "scouting" expeditions for technology, acquisitions, etc. Actively manage implies that these groups meet regularly such that their work is acknowledged as a valued executive activity with supporting staff work, budget, etc. These forums also play a role in changing norms regarding growth and innovation. As good as they are, keep in mind however that such groups can mask problems for real growth doesn't happen until someone's got P&L responsibility for delivering it. I'd be inclined to also measure the growth goals of all BU's.

Last, assess how senior managers innovate in their personal domain. Gerstner took IBM back to 1-slide presentations. Welch attached a "web-head" to every senior executive. Employees assess management's credibility by separating calls for innovative behavior from do they do it themselves? What innovative actions have your leaders taken that would demonstrate their seriousness to middle management and below? Use a 360 process here – the last people I'd ask to make this assessment are executives. An alternative is to the leaders to identify those strategies/tools that have made them successful in the past, which they now have discarded or destroyed? If they can point to significant action in this regard, you're on target.

Strategic Alignment

Strategic alignment is the constant adjusting that leaders initiate to insure people, structures (formal and informal) and systems are aligned to the firm's strategic intent. It is the area where most senior managers work hands-on and therefore, is worth a bit more attention. Creating strategic alignment requires leaders to drive change. This by itself is measurable: what actions have leaders taken to redefine what's on point and what's now out-of-bounds?

The most traceable factor in strategic alignment relative to innovation and growth is the new product/services development portfolio, followed by the acquisition strategy. Mature companies too frequently find that far too many new product projects are incremental to the existing business. Faster growing companies have a broader mix that includes forays into new markets and/or technologies. These are higher risk, thus, you'll find more changes reflecting adjustments for stopping, turning and adjusting risky programs. Test your business unit's portfolios against how much stretch they dial-in to their portfolios while also making sure that near term revenue is fueled through derivatives. An easy way to do this is a scatter plot of anticipate revenue per product.

Relative to aligning a firm for innovation, it's important to look at the forces that drive or impede innovation and test if they are being addressed. For example, in the Internet Age, an innovation strategy would not be complete if there was not a component that integrated the drive, requirements and potential of eCommerce.

Relative to impediments, the most common culprit is the firm's performance measurement system. If the measurement system cannot track innovation, the likelihood of reinforcing it (particularly internally) is greatly diminished. This is Emerson Electric's problem: they have not established growth as a meaningful gauge on their corporate performance dashboard

In today's world, creating strategic alignment is an increasingly dynamic process. How fast your leaders detect, correct and learn from success and failures is another measure of strategic alignment. Schwab detected and adjusted it's business model to the realities of Internet brokerage long before other established firms.

One can't leave strategic alignment without assessing acquisitions. Increasingly, acquisitions are being used as a tool for innovation. Whereas in the past, accretive revenue was often the prime goal, today companies use them to bring new talent as well as new technology and customers to the firm. Cisco is quite clear that acquisition is part of the their innovation strategy. They dedicate people in various functional groups who do nothing but scout, assess, make deals and ultimately assimilate acquisitions. They also measure retention of acquired company personnel (particularly leaders) to insure that they are getting a return on that investment. Following the thinking of Clay Christensen (*Innovator's Dilemma,* Harvard Business Press*)*, if acquisition is key to breakthrough innovation, then investing and being deliberate about the process is key.

Process

The first questions I'd ask about any firm's innovation process is do they have a repeatable process? Would a project leader be effective if he or she moved from one business to unit to another? Or, would they have to learn a new approach?

Next, I'd assess the effectiveness and efficiency of that process. Does it delivery products that achieve high customer satisfaction ratings as well as revenue? Does it meet the FDA requirements without becoming FDA-like. (The FDA's focus is efficacy and safety, a process designed to deliver just that will not likely deliver innovation; nor will it do it quickly.). How fast is it relative to the competition? Is it designed to make effective use of external partnerships and capabilities or is it for internal use only? (With as much as 80% of value add coming from outside firms, it's increasingly critical that development processes work for suppliers and partners as well as for you.) Does it create global products effectively? Can it be easily tuned for the differences between platforms and derivative products?

How you assess an innovation process within a business depends on your objectives. Relative to the two pilots, it would be important to focus on the status of the innovation front end, and potential create a scale that rates them at Stage I, II, III or IV. It would be fairly easy to come up with four quadrants of capabilities and associated goals. For example, are they going beyond traditional customer satisfaction studies and focus groups to the IDEO style-anthropological approaches? Does the development process link back to the unit's strategic intent?

People and Organization

Experience, guts, a partially twisted mind and persistent vision supported by a few budget dollars are the key ingredients for innovation in a large corporation. Regrettably, most firms are long in experience but short in the rest. Ironically, experience becomes the club we use to keep these innovators under control. We punch them in the guts and crack their heads with comments like, "show me how that's different from what we did in 1992," or "sure, I used to think that way when I first got here." After frequent beatings their vision becomes blurred and it becomes clear that whatever budget dollars they can scavenge for innovation had better be kept secret from the P&L police; particularly when the Cost Control Posse is sent out near the end of the quarter. The net result is most creative and innovative people get the message, and get out of Dodge, leaving the corporate community, it's culture and earnings intact. (Okay so I got a *little* carried away but who hasn't "been there/done that"!)

So what should you measure? Start with a frank assessment of your leaders' relative to the above characteristics for they set the standards that others will follow.

Next, get real specific and measure the number of people you'd have strong confidence leading a heavyweight team or business. Teams are key to success. Strong teams start with strong people. Organizational strength develops over time (much like working out). Strong people achieve success such that gains the support of senior management while also remaining their own person. I have yet to work in a firm that had anywhere near enough of these people. Why? First, they're tough to find. Second, functionally focused career paths don't develop them. Strong people have balanced "T shaped" skills where the cross piece represents capability working across functions and the stem is functionally specific expertise.

Relative to organization, focus on boundaries. Are the boundaries permeable where the need to be? Is the organization flexible, or must new situations and opportunities be wedged into the existing structure? Is the level of decision making authority aligned correctly, or do you have multiple sign-offs required where they are not relevant? Remember that all organization structures make some things easier and some things harder: assess whether the balance is aligned with your strategy.

Metrics

Metrics provided feedback relative to a defined course. Some items lend themselves to precise measurement but many of the factors that drive innovation do not. Defining the measures for a good innovation is no easier than defining the measures for a good movie or restaurant. Use big buckets for overall measurement that allow some opinion. Use your leaders' opinions to set a tone by their judgments for how metrics are used is just as important as the measures themselves.

That said, here are some metrics that are typically along with a few that are different but helpful:

- Percent of incremental revenue from new products/services (watch out for replacement only)
- Patents/new technologies, patents in products,
- New revenue per development headcount (at Cisco this would be rev/engineer)
- Time-to-market
- Resource supply and mix vs. demand
- New markets entered (including acquisitions), time to approve/disapprove
- Turnover (loss of intellectual capital)

Summary

Many take a reductionist approach to innovation, hoping to find a small set of causes that drives overall results. The rationale for using the *Innovation System* model is that innovation results from the interaction between several elements. As illustrated, each can be usefully measured though not necessarily precisely. No matter....better to measure the right things imprecisely than measure the wrong things with the utmost precision!