Why are so few companies satisfied with their innovations' results?

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What would happen if a CEO publicly declared that he is against innovation and would never invest a dime on it again? He would probably be fired right away, while the company's stock plunged! Not to mention, his statement would be quoted in B-schools for decades as an example of business myopia or, in more mundane terms, idiocy. Why? Because being against innovation is akin to saying you are against having financial statements in your organisation.

But if innovation is unanimous, how do we explain that so few companies are satisfied with their results? It would be expected, one could argue, that innovation would concentrate so much attention that success should be all but inevitable.

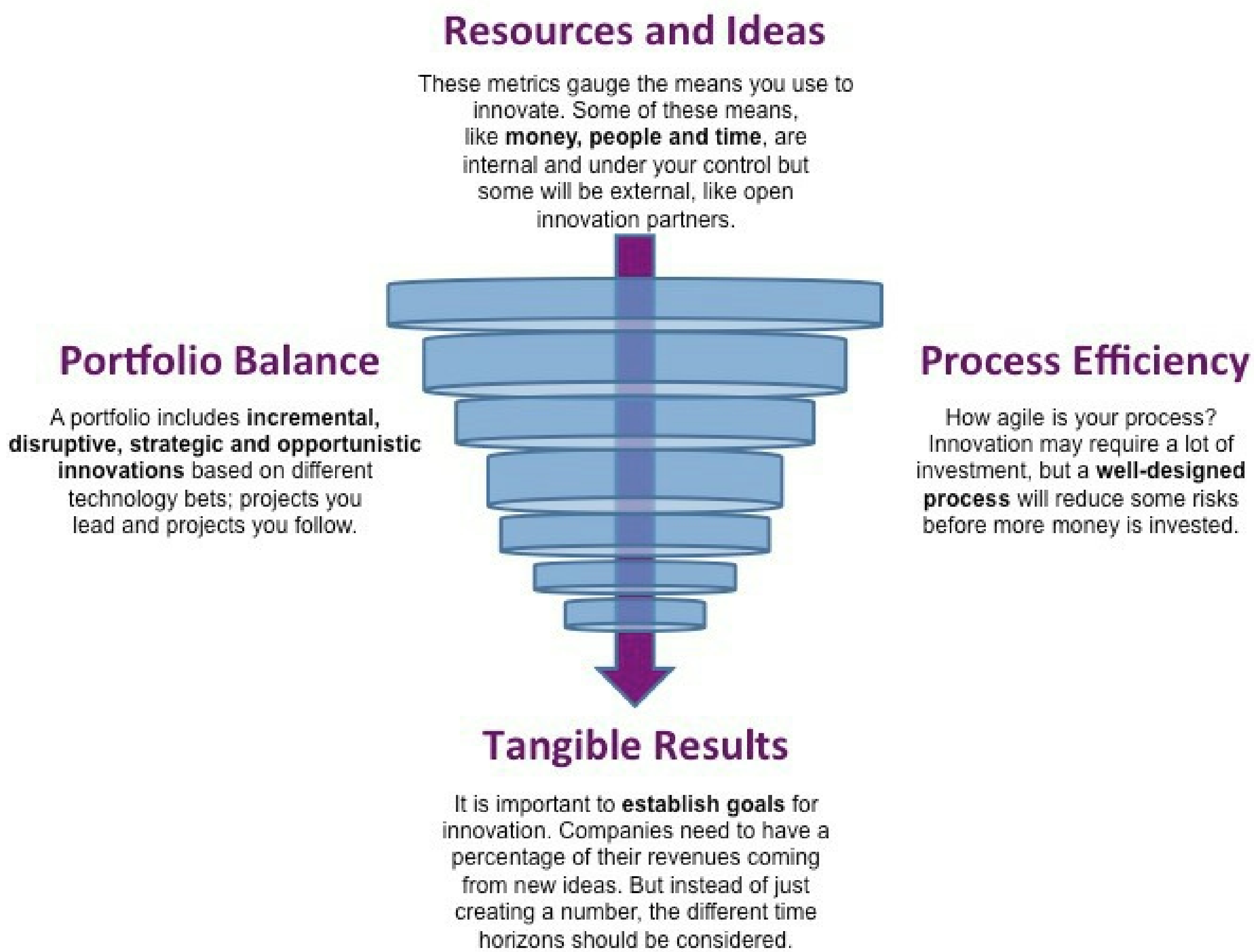
Many factors contribute to poor results: companies lack commitment and deprioritise innovation in tough times, cultural biases kill innovation and deport talent, organisations do not know how to innovate in the right areas — just to mention some. However, at the heart of the problem is a common issue: most companies do not have an adequate way of measuring innovation.

A common argument against metrics is an alleged incompatibility between creativity and discipline, the idea that rules and processes smother innovation. And indeed many companies have processes that kill all but low-risk, incremental, boring opportunities. These companies often fare even worse than their peers who do not have innovation processes. Their best talent is often promised the opportunity to pursue their ideas only to have their hopes crushed afterwards.

But it is possible to have a well-designed set of innovation metrics, one that leaves space for experimentation and uses this additional visibility on aggregate ideas and results to promote creativity, not kill it.

If done correctly, these metrics become like sensors in a production line that gauge the different aspects of the process and give insights regarding the necessary changes to get better results (see Figure 1)

Figure 1: Innovation Metrics



Source: StratSense and Amquant analysis

There are four groups of metrics:

1. **Resources and Ideas** – these metrics measure the means you use to innovate. Some of these means, like money, people and time, are internal and under your control, but others will be external, like open innovation partners. Means such as money will be easy to quantify but others, like quality of ideas, not so much. A full picture immediately helps companies identify opportunities to innovate more effectively.
2. **Portfolio Balance** – Innovation projects should be treated as an investment portfolio. A financial investor may have T-Bills, stocks, debentures and options. An innovation portfolio may have incremental and disruptive projects; projects at the core of its strategy and opportunistic investments; innovations based on a certain technology bet and innovations based on other bets; projects you lead and projects you follow. These questions define what a great innovation portfolio looks like for you.
3. **Process Efficiency** – How agile is your process? Innovation may require a lot of investment, but a well-designed process will reduce some risks before more money is invested. Marketing research, pilots and prototypes will be able to make the process efficient. The stage-gates or tests that are created should be able to adequately filter the concepts. Needless to say, time to market is critical to make innovation a competitive

advantage

4. **Tangible Results** – It is important to establish goals for innovation. Companies need to have a percentage of their revenues coming from new ideas. But instead of just creating a number, the different time horizons should be considered. Otherwise, you may kill great ideas because they are not quick wins or have an innovation strategy that is unable to get buy-in because it does not show results.

Setting innovation metrics also impacts the company's culture. For instance, in a project developed for a major consumer goods company, the discussions about new ideas became much more objective, the budget allocations gained in pragmatism and the sense of urgency to launch products increased. As a result, the revenues coming from new ideas increased over 20 per cent.

In the future, when you see a company that has innovation projects that never die ("zombies") or die and resuscitate ("phoenix"); portfolios that seemed disconnected with the company's strategy – too timid, too bold or too concentrated; agile innovation that does not deliver the expected results, you will be safe in betting that this is the moment for the company to re-evaluate how it measures innovation.

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Notes:

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