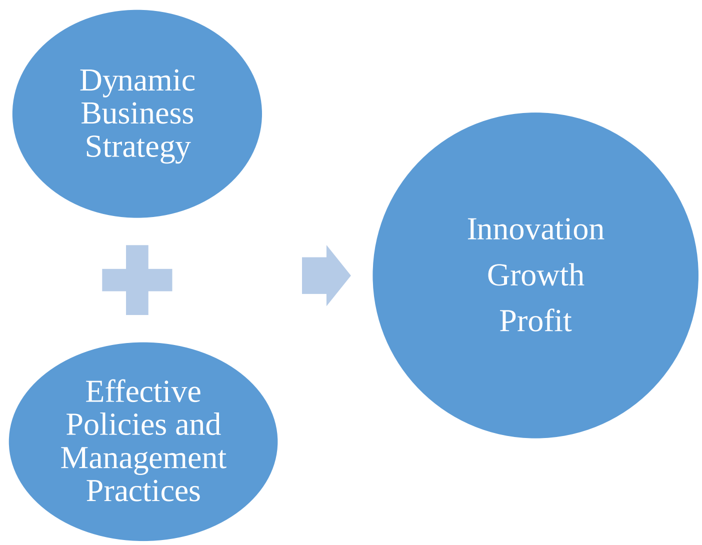
CIO – Innovation management best practices
Tools – Step Six – Measuring and Sustaining Innovation

It would have made no sense at the beginning of this 5-step process not to have considered how to measure progress. Without specific measures in place the organization, the Board, senior management, and staff would have no idea as to whether – which, after all drove the initiation of the 5 steps – is getting better, remaining flat or deteriorating. Measuring is the key to keeping innovation alive!

Palensky[1] of 3M makes the strong. "That's the thing about cultures – they're built up a brick at a time, a point at a time, over decades. You need consistency; you need persistence, and need gentle, behind-the-scenes encouragement in addition to top-down support. And you can lose it very quickly".



The authors of this very germane report go on to state; 'The tighter the connections between strategy, culture and innovation, the more leverage your company will bring to bear in converting spending into marketplace results and superior long-term financial performance. Make sure that the innovative strategy is clearly articulated and communicated throughout the organization from the top all the way down to the lab bench'.

Sustaining innovation is linked directly to strategy and the communication of that strategy throughout the organization. The link provides the basis for both sustaining and measuring innovation. The link is reinforced by the appropriate internal reporting of progress on both strategic and innovative fronts.

Financial reporting is not the full answer. Metrics need to be developed for each innovation initiative. One of the reasons which Board level reporting is almost solely based on financial information, including now compensation and environmental reporting, is the ease of preparing this information and the belief that it can be well understood at **Board level**.

Starbucks measures its innovation in a variety of ways;

- same store sales growth,
- new store openings globally,
- operating margin (implicitly referencing cost reductions per unit),
- new product offerings, specifically transitioning the packaged coffee business in-house to a direct distribution model (a new business model for supply chain control), and
- providing a light roast coffee (a product enhancement), Starbucks Card Apps (a new service).

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[1] Strategy+business magazine published by Booz & Company Inc. 2011. Why Culture is Key. The most crucial factors are strategic alignment and a culture that supports innovation

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Reporting on the innovative activities of Starbucks is much less complex than for multi-divisional companies such as 3M and GE, but none the less the same type of information should be available to senior management and Boards of larger companies. The notion that innovation is important is reinforced by the form of reporting which takes place in the organization. If the emphasis is on financial numbers only, the message is clear, and that message is that only financial performance is valued. If there is an additional emphasis on the progress of innovation initiatives, the message is dramatically different and positive support for innovative initiatives.

Phil McKinney provides a full expose of 3M's use of metrics around research and development spending and its relationship to gross margin.

- 'This is what I call the "3M Metric". 3M is famous for pushing their executives to embrace the new by putting in place a metric that reinforces the need to constantly re-invent itself. So what constitutes a new product? Rather that describe what it is, it's easier for me to describe what it isn't. It's not the next generation of an existing product (the next year's model of a car or laptop doesn't qualify) or a line extension (a new flavor of soft drink doesn't qualify)'.

It is hardly useful to repeat here what McKinney has already set out; except for one key metric; **"**% of revenue from products launched in the last XX years"; a very common measurement of innovativeness[2].

The means of measuring and reporting on innovation is set out for each of the four major quadrants of innovation; new products, extensions, continuous improvement, and new industries. The need is for each organization to raise its level of reporting on innovation initiatives. By raising awareness of the importance of innovation to corporate success the message makes evident the need for innovation throughout the organization.

In case you are not convinced about the need to revising reporting to include specifically eh subject of innovation, we offer a number of additional measures which could prove useful.

- Surveys that provide customers opinion of your company's innovativeness and its brand image – as compared to the competition. DSM makes use of this technique at regular intervals.

- Financial analyst rankings and feedback from investor relations broadcasts to the media.

- Stakeholders' (in this case suppliers, investors, etc.) opinions on the 'innovativeness' of your company compared with their opinion of the competition

- New sales to new customers - marks the rate of new customer acquisition reflecting the efforts to enhance the brand.

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[2] ibid

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- Measurements of incidence, or rate of increase, of attractive, internally generated investment opportunities (the size of the pipe line) which come under review by senior management and the Board.

- Increase in the value of intellectual property generated from internally-sourced ideas; augmented by acquisitions of IP from other organizations. The information could be broken out by IP for existing versus new product initiatives.

- Share price premium attributed to the company's reputation for innovativeness.

- Conducting an analysis focused on employee retention and ease of attraction.

- Collaborations and partnerships reflecting the company's reputation for its innovativeness

- The percentage-of- time key executives/Board members spend on innovation as a specific topic of a meeting, seminar or workshop.

All of the organizations which have been profiled note the importance of their culture which supported innovation over the long term. The recent Booz & Co. report is particularly relevant as it points out that 'culture is key' and that an alignment between strategy and culture is essential.