



Five Mistakes Companies Make When Measuring Innovation

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THE DISCUSSION ABOUT WHETHER OR NOT TO DO INNOVATION IS OVER. THERE HAVE BEEN NUMEROUS STUDIES¹ THAT DEMONSTRATE THAT INNOVATION IS CENTRAL TO HIGHER MARGINS, HIGHER CUSTOMER LOYALTY AND LONG TERM VIABILITY. WHAT LEADERS NOW STRUGGLE WITH IS HOW DO I DO IT AND HOW DO I MEASURE IT?

From our work, here are five common mistakes good companies make:

1 They measure too much. As companies get larger, they integrate processes for quality, consistency and efficiency. Processes love measurement and leaders often use measures as a way to evaluate performance. What typically starts as several key measures to reinforce strategic goals and plans lead to an overload of measurements. This “overload” can lead to a task oriented organization scrambling to complete the “list” rather than what can move the organization ahead.

2 They don't measure the right things. Typically, when organizations measure innovation, they measure outcomes. Market share, bottom line profit, number of new products introduced, number of patents, are common measurements. It's understandable. Wall Street requires it, and these kinds of measures are critical to assess the organization's health. However, what is also critical and what often gets missed are the elements of the process, what

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we call the innovation path that delivers innovation. For example, the number of game changing ideas we develop, the quality of our relationships with inventors, partners, or suppliers, the impact of our innovation efforts on our customers, are just a few measures that help an organization understand the process that supports innovation.

3 They measure the fruit, and ignore the tree. Like a fruit tree that bears the sweetest fruit, what must be cultivated and cared for is what feeds the roots, what needs to be watched is the environment that supports the tree. For a company, the roots are its leaders, its people, their work groups and teams, and the processes that guide their actions. The environment is the culture, the energy, the written and unwritten rules that guide the organization. Focusing on the fruit without caring for the tree is perilous if you want long term and ongoing innovation.

4 What they measure delivers only part of the story. Organizations typically field surveys that garner overall impressions. For example, feedback from a survey may suggest all departments view each other as generally effective in supporting innovation projects. The leaders might then move on to another issue, feeling that each of the departments is doing well .

What is missing is what happens at a more granular level. Effectiveness at the topline level might be good, but unless you go to the deeper level of analysis, you won't see that there are deep silos between departments that negatively impact the speed and effectiveness of implementation. Similarly, an overall rating of the environment of 3 on a Likert scale of 1-5 may look like people may not care one way

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or another, but at a deeper level of analysis you may see two groups with extremely polar views. The key is to get to a level of information that can allow you to understand the real issues behind the topline and be able to solve the right problem.

5 They aren't willing to do zero based measuring.

Measures are fun to create and impossible to destroy. At some companies we've seen measures that are useful and measures that have outlived their usefulness long ago; measures that would be great to know and measures that are requested by one department and already exist somewhere else. Just like spring cleaning there should be a regular time during the year to review the current measures and see if they are still relevant. If they're not, eliminate them.

Our advice is the following:

1 **What you measure is what you get.** Consider carefully what you want to measure because you will direct the organization's energy to these areas. Focus not only on the outcome but the key elements along the innovation path that lead to the outcome.

2 **When measuring innovation health,** make sure that you're thinking about the whole tree and not just the fruit. Nurture the roots and cultivate the environment for success and

3 **When planning, get a true read on what is supporting and constraining innovation.** By going beyond the topline, it will enable the organization to focus on the right problem and develop solutions that make a difference.

¹Sources for findings:

Dick Foster and Sarah Kaplan; *Creative Destruction; Why companies that are built to last outperform the market*

Arthur D. Little, Innovation Study 2005

IBM, 2006 Global CEO Innovation Survey