Getting started with Innovation Metrics

It seems an oxymoron to some that, a process as spontaneous and creative as innovation can and should be measured. Here at Strategos, we firmly believe that innovation can be taught, learned and systematically implemented by establishing the right processes, systems, structures, skills and metrics. Metrics are essential to track and guide the development of your innovation system.

Strategos

If you don't know what's broken, how do you fix it? And as Peter Drucker once said: "You can't manage what you don't measure." Metrics are important in sending a signal you are serious about innovation and in establishing the desired innovation behaviours. Metrics help managers make informed decisions based on objective data, which is especially valuable given the long-term nature and risk associated with some innovation projects. Maintaining and posting an "innovation dashboard" keeps innovation progress front and centre for employees and executives.

Many companies struggle with creating and implementing innovation metrics because the whole idea of measuring innovation seems complex, cumbersome and generally daunting. In an attempt to make the topic a little less intimidating, it seems to be the right time to review some of the key guidelines to help you get started in designing and implementing innovation metrics.

Input – Process – Output

The most commonly used innovation metrics have traditionally been output metrics: the number of patents, the percentage of products less than three years old, the percentage of revenue from new products, etc. In our view, output metrics alone cannot tell the whole story and are certainly of little help in steering and improving an evolving innovation capability. We define:

Input metrics

Measure those variables which set the preconditions for successful innovation. We measure these in terms of money, talent, and time devoted to innovation. Examples: Fraction of the workforce trained in innovation, amount of leadership time spent on innovation vs day to day operations, the fraction of the capital budget that the company invests in innovation projects, number of ideas coming from customers or partners, number of innovation tools and methodologies available to employees

Process metrics

Address those variables that affect the movement of ideas through the pipeline process. Examples: Average time from idea generation to first revenue, number of (actionable) ideas submitted by employees/month, the fraction of opportunities moving on to the next stage, number of innovation processes that have been codified and widely embedded

Ouput metrics

Measure the results of innovation. Examples: Number of new products or services launched, revenue and profit contribution from new products or services, ROI on innovation spending, number of new customers or new markets entered, social impact or public awards.

Getting started with Innovation metrics

Here are a few guidelines that we have found to be useful in helping clients to develop innovation metrics.

01 You can't measure what hasn't happened – Focus on input

For companies starting on the innovation journey, you need to build the system and processes, before you can measure the output. Focus on metrics that encourage training and innovation skill development and on recruiting individuals with the right attitude and mindset for innovation.

02 One size doet not fit all

The most critical variable is the level of "innovation maturity." We should track metrics that encourage the development of your innovation system – no matter what the starting point.

Also, metrics will vary across industries because some of the competencies and skills required for innovation will be different.

03 Keep it simple

Avoid the tendency to collect every possible piece of data. Create metrics that are simple, meaningful, and intuitive. Metrics will have the most impact if they can become commonly used and understood throughout the company.

04 Leverage existing metrics and methodologies

There may be innovation metrics in place somewhere in your company – seek them out and assess them for broader use. Also, if your company currently uses a method such as Balanced Scorecard or Value-Based Management, reconcile your metrics with that methodology. If your company uses a management dashboard, make sure to include the innovation metrics. In our experience, "modified" metrics are more readily accepted than additional brand new metrics.

05 Don't be afraid to modify or adapt the metrics

Consider metrics a living thing. As your company evolves towards greater innovation maturity, your metrics should reflect that maturity. If a particular metric isn't providing the insight or guidance that you had hoped, adjust it or replace it.

06 Align your metrics with the goals of your innovation program

Are you seeking game-changing, radical innovation or incremental innovation or both? Is the goal to innovate in the core business as well as building future businesses? Are you attempting to develop a company-wide innovation that invites everyone to participate or will innovation be the job of a select group of innovators? Will you rely only on internal ideas or seek innovations from customers, partners and other outside sources? Are there specific targets or markets for your innovation program? Specific problems you want to solve? First, be very clear about the goals of your innovation program and select metrics that measure your progress towards these goals.

07 Include at least one or two customer-driven metrics

Measure customer-driven metrics such as sales from new products to complement the internally focused metrics, because if your innovation doesn't matter to customers, it probably needs to be re-focused.

### 08 Communicate your innovation progress

A simple dashboard of your 2 or 3 most important innovation metrics goes a long way in building an innovative culture. Review your innovation dashboard in leadership meetings to keep executive attention focused on your innovation progress. Let everyone know you are on the right track, and when innovations come to fruition, make sure you communicate the impact.

> *"Always keep in mind the purpose of your innovation metrics: to track your progress towards a robust and productive innovation system and capability."*

Innovation engine

Always keep in mind the purpose of your innovation metrics: to track your progress towards a robust and productive innovation system and capability and to communicate that progress to employees. With these starting guidelines in mind, it should be less of a daunting task to measure your innovation progress. Ultimately, a company must go beyond a corporate slogan to produce results. Having business units and individual performance synced up with goals is the only way to generate a sustained change in behaviour.

Don't assume that a sophisticated or comprehensive measurement system replaces the need for management deliberation and decision making. Successful innovation pioneers develop their innovation system in tandem with business decision processes that take advantage of the rich information that metrics can produce. In the end, it's not just about better knowledge – it's about better decisions enabled by better understanding. Start small but keep your eye on the real goal: a productive, profitable and engaging innovation engine.
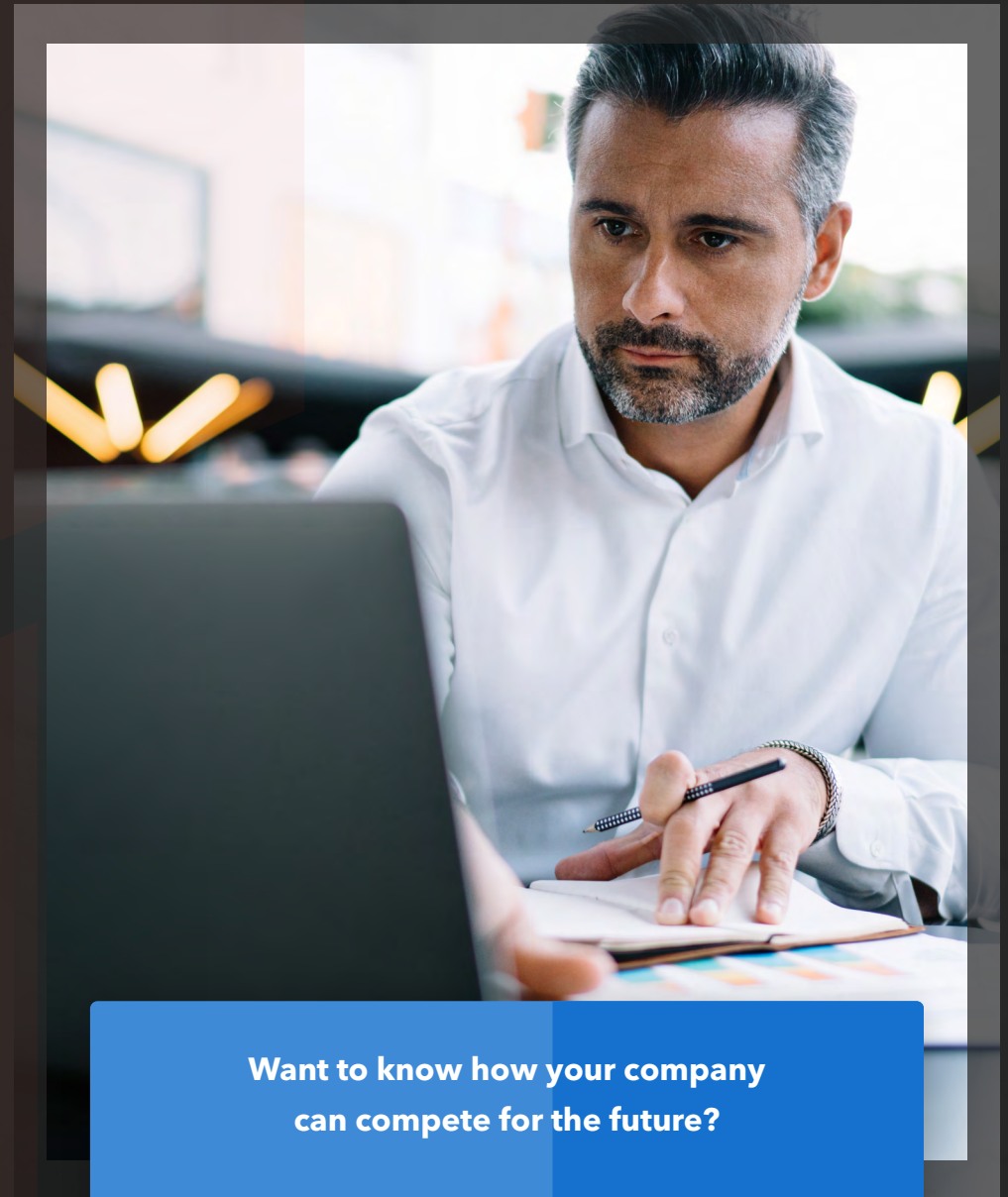
Want to know how your company can compete for the future?