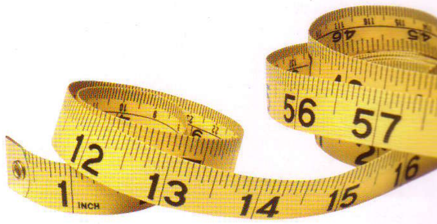
WE'VE GOT YOUR MEASURE



Ken Hudson looks at the missing element in a lot of organisations - performance metrics for innovation.

"What gets measured gets done" is one of management's best known mantras. Yet when you ask the same managers how they are measuring innovation there is usually an uncomfortable silence. On the one hand, they will tell you how important innovation is to the business, yet there appears to be an unwillingness to measure it with the same rigour as profitability-type measures, for example.

There exists an innovation performance measurement gap. To address this gap my recommendation is that an effective innovation measurement system should contain the following features.

1. It should measure what it is supposed to measure

By this I mean it is vital to define what it (innovation) actually means in your business. If the leaders have defined innovation as new product development only, then a measure of innovation should reflect this intention. For example, 3M's key measure that 40% of their sales should come from sales of new products less than 3 years old makes perfect sense. If, however, leaders have defined innovation in a broader way then this measure is too narrow. For example, the management team of a major retailer that I worked with recently defined the role of innovation as the three E's – it involves everyone, every activity, every time. If this is the case then a simple new product development measure would not be appropriate.

2. It should be simple

One of the great benefits of metrics such as ROI (return on investment) is that it is easily understood. This makes it a very powerful measure. This has been the case with a new performance measure developed by Fred Reichheld from Bain & Company. He calls this metric the ultimate question and it asks customers or clients "would you recommend us to a friend?" A simple score is generated by subtracting the percentage of detractors (score from zero to six) from the promoters (score of nine or ten). This metric intuitively makes sense and it is reported by Reichheld and his team that organisations that have a high net promoters score out-grow their competitors. As far as I know there is no equivalent innovation metric but as my colleague Richard Somerton (CEO, Group Event Travel) reports, there seems to be a close correlation between innovation results and the net promoter's score. "To achieve a high net promoters score means that business leaders have to design more innovative solutions for their clients", he observes.

3. It should be an "outside in" and an "inside out" measure

For an organisation to be considered innovative, it must be experienced by customers, suppliers and partners outside the organisation. It also must be experienced by the employees of the business. If your employees do not believe the business is innovative, then no one will. This is why Kate Tribe (from Tribe Research) and I have developed an online, innovation benchmark called The IB3® which measures the perception of innovation as determined by employees. To date it has proved an invaluable starting point for many managers as they embark on an innovation journey. It highlights many of the barriers and gaps in innovation performance as perceived by the staff and compares one's business results with other similar size organisations.

4. It should be both a lead and a lag indicator

Too many metrics have widespread currency among managers but are often lag indicators of a business health. Market share movements, for example, can indicate what has happened as a result of various marketing activities but cannot predict what might happen in the future. It is the same with innovation measures like the percentage of sales from products less than four years old. This is a useful measure but it is not predictive. Much better, for example, to also measure such things as the number of new ideas in the innovation pipeline or the time to market or the number of different people contributing an idea. These types of metrics also give a more comprehensive picture of the innovation performance of the business and can give a pointer to future success. That is why we have developed an Innovative Thinking Benchmark® which attempts to measure the capacity of individuals to think in an original and timely manner. We have found that this is a much better indicator of team innovation than other measures such as Myers Briggs which measure personality type which may or may not have any correlation with subsequent innovative performance.

5. It should be both objective and subjective

One of the ironies of measuring innovation is there is little creativity in the measurement itself. There are many objective measures which are worth considering such as the conversion rates of new ideas, number of ideas per person, number of patents etc. But these metrics should also be balanced with a range of more subjective measures such as "our ideas are more impactful than last year" or "are our ideas more engaging than the competition?". Innovation by its very nature is subjective and lends itself to more exploratory type measures. The ABC Four Corners program, for example, has a battery of measures including ratings (objective) and the degree to which it is influencing public debate (subjective).

6. It should be attention getting

The last feature is perhaps the most important. Whatever the metric or range of metrics used it should rivet the attention of the leadership team. Too many managers in my experience sprout about the importance of innovation as highlighted in their vision and/or value statements but have paid little focus on how to measure it. Even when they measure it, noone seems to own it or be responsible for it. This will change as more and more organisations are making innovation part of the key performance indicators of the leadership team. ■

Dr. Ken Hudson is founder of The Idea Centre. *(With thanks to Rick Somerton, CEO from GET—Group Event Travel for his insights on net promoters score and innovation.)*