

INNOVATION

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New and improved

It is hard to measure innovation within a company, but it starts with a workplace culture that encourages experiments and forgives mistakes. By Simon Lloyd

Innovation has become so important to growth that companies are making it a part of the key performance indicators for their staff. But this presents many challenges, because innovation is one of the hardest corporate functions or disciplines to define, let alone measure.

Clearly, the easiest measurement of innovation relates to new products. A product launch is invariably monitored for sales figures, giving managers an almost immediate indication of the return on the investment that was required to take the new product from concept to launch.

The problem with making innovation part of a key performance indicator arises when companies try to assess the effect on their business of internal, or process, innovation. Even harder is gauging the relationship between a company's culture — whether it actively nurtures innovation among all its employees — and the bottom line.

One school of thought says that if the company is growing and customer awareness and satisfaction with the product or service are high, then it is not necessary to measure internal innovation capabilities and performance as a key performance indicator. Counter to that is the notion that of all performance indicators, innovation needs to be a forward-looking measurement.

At an innovation forum organised by the consultancy Managed Innovation and Roche Pharmaceuticals in Sydney late last year, the adjunct professor-elect in scenario planning at the University of Technology Sydney, Oliver Freeman, told delegates that although business puts a lot of energy into analysing the past, it is equally important to devote time and energy to considering the future.

"Understand the key dynamics of change, its opportunities and its threats," Freeman said. "What could these mean to you and your organisation?"

The director of Managed Innovation, Allan Ryan, says: "Any company can easily measure product innovation as a past output, but when you are looking at organisational innovation, you have to use other measures that look forward."

Innovation, as far as company culture is concerned, is very much about individuals working within the organisation. Measuring their input, satisfaction and the results of their ideas is crucial to having employees who are enthusiastic about the company's goals.

Ryan says: "If an individual believes he or she is allowed to take risks and be innovative, then they are much more likely to do so than if they are part of an organisation that is risk-averse."

QUESTIONS TO ASK

What is the number of in-company entrepreneurs (people who have started a business in the company or before joining the company)?

What percentage of employees have been trained in innovation?

How many new competencies are being deliberately developed?

How many incentive schemes are in place to support innovation?

How many innovation mentors are there in the organisation?

What percentage of employees recognise a strategic focus on innovation?

What percentage of employees can name the innovation targets?

Is senior leadership directly accountable for the company's innovation processes?

SOURCE: STRATEGOS / WOODSIDE INSTITUTE

A tool that some companies in recent years have come to see as simplistic and even old-fashioned is returning to vogue among clever organisations that realise that without the right culture, innovation among employees is almost impossible. That tool is the employee survey.

The director of sales and marketing at Roche Pharmaceuticals, Kirsten O'Doherty, says her company is a strong believer in the role of the employee survey. In early 2004, Roche embarked on a cultural change programme that was designed to help employees engage more effectively in the innovation process throughout the organisation.

O'Doherty says: "Measuring the success of our innovation is really about measuring change in the organisation rather than the number of ideas that exit an ideas bank. As an affiliate of a large multinational we cannot do product innovation, so we are innovating in our business practices. We are trying to get an environment where people believe they can make a difference and that they can take a risk to contribute to the organisation, and that is very hard in a scientific industry."

O'Doherty says the employee survey is central to this process. Roche now conducts such a study each year, which encompasses attitudes to leadership and direction and staff engagement. "We call it a climate survey and it includes a lot of questions about decision-making processes and how people feel about their role within Roche."

Allowed to make mistakes

Measuring staff attitudes is only the first step in determining a company's current innovation capabilities and its potential. Knowing how to modify those attitudes, where necessary, is a second, important and often tricky step. This is especially the case if employees believe they have to come up with the biggest and best ideas to be acknowledged, let alone rewarded, by senior management.

Companies are wrong to promote this type of thinking, say experts in cultural innovation. Enlightened senior management promotes a culture in which employees are allowed to make mistakes in their pursuit of innovation. This attitude must be communicated most strongly from the chief executive.

The operational development manager



JOHN SNOOKS: A recognition among employees that the managing director is the biggest champion of Ericsson's innovation culture

at the communications provider Ericsson Australia, John Snooks, says his company has enthusiastically embraced this concept. "One should never be too critical or dogmatic. We set expectations with our key performance indicators but you certainly should not stifle ambition by rejecting some of the smaller [ideas], because sometimes that is the only way many of your people can contribute. How to get the message across, how to invite the input, how to get the ideas and the talent bubbling up are crucial."

Ericsson has been using innovation as a key performance indicator since 2003 but last year it shifted the emphasis away from the creation and implementation of specific

projects, to the internal culture. Cross-unit teams were created and each was presented with an idea for a new project. Each team had to research the idea and present its findings to senior management, including the managing director, Barry Borzillo. Snooks says that central to the programme's success was the recognition among employees that the managing director is the biggest champion of the company's innovation culture. "We had a strategy under the programme that included \$50,000 set aside as a reward, but really I don't think it was the big driver."

Each team's findings were assessed and given a score under various criteria, and Snooks says several will be followed up this

year. "The key was that the teams definitely enjoyed the opportunity to present their findings to the MD, and it showed there was a very good connect between the expectations of staff and senior management."

Ryan says more organisations are realising that innovation is not a separate part of their business, but is intrinsic to it. "The metrics are about the engagement of your people in innovation activities every day. The major metric is asking your staff about their perceptions of innovation in your organisation and what they believe they are allowed to do. And in that, the question 'what are you going to do?' is a much more important one than 'what have you done?' " ●

PAUL JONES