Harvard Business Review

Digital Article

Innovation

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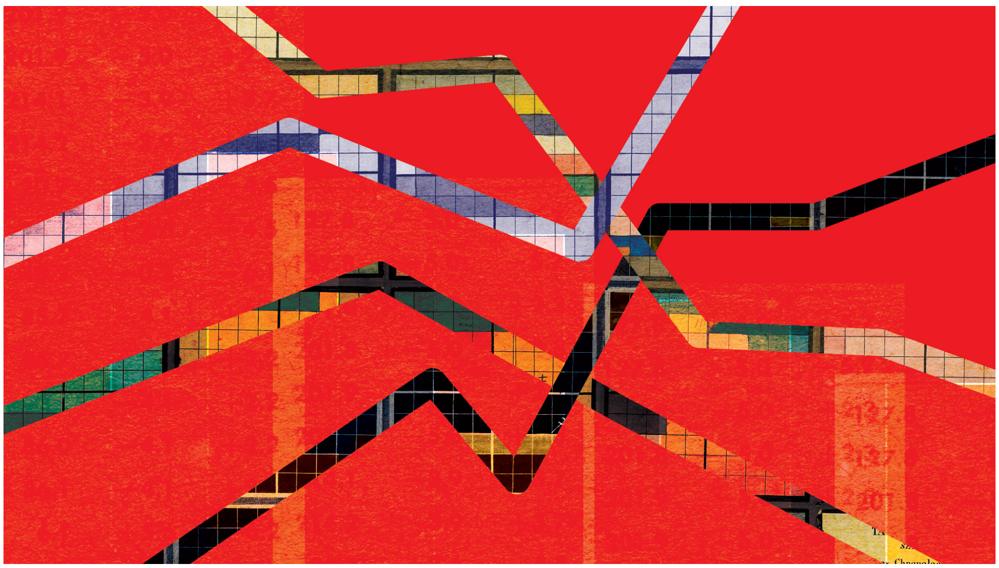
Published on HBR.org / March 31, 2021 / Reprint H069JF



HBR Staff/David Rumsey Map Collection

Innovators love ideas, and Chief Financial Officers love metrics. But if you try to shrink-wrap your most promising ideas in a nice, tight layer of metrics too early, you’ll suffocate them. And the desire to apply the same metrics to fledgling products and cash cows often keeps organizations stuck in the status quo.

One way to think about the attempt to measure innovation in an established organization is building an on-ramp to a highway. The highway represents the core business, where traffic is always expected to be moving at 65 miles per hour or more — and everyone is expected to stay in his or her lane. Off to the side of the highway is a garage where the R&D or technology development team is building concept cars.

In many instances, a senior executive may get jazzed up about the potential of one of the prototypes, and suggest you get a crane and lift it up onto the highway right away. They want to talk about it in an analyst call, or showcase it at a trade show. Disaster usually ensues; it’s not ready for that environment, and when you apply the same metrics — you should be going at least 65, buddy! — comparisons to existing offerings get pretty harsh for products that are just getting rolling. This is why so much corporate innovation winds up as a pile of wreckage on the side of the road, and the people involved stagger away from the company in a frustrated daze.

To build a durable engine of innovation inside your organization, you need a reliable transition phase between that garage and the highway. That means you need be able to change what you’re measuring along the way, going from early metrics that show progress to a more defensible set of metrics demonstrating the impact and value you’re creating. That transition is a mix of engineering and gut feel — not unlike building an on-ramp and then using it to merge into zippy traffic.

Still, a lot of organizations struggle with this transition. When my company, Innovation Leader, surveyed 196 professionals who work on R&D, new product development, and innovation in large organizations, the innovators were well aware of the kinds of metrics that senior leadership, including CFOs, cared most about. They responded that it was vital — ultimately — to be reporting on things like revenue generated, cost reduction, and the profit margins of new offerings. But we also found that fully two-thirds of respondents say that their overall approach to measuring innovation is either non-existent (12%) or still taking shape (54%). Those who had a clearer idea of their approach had crafted a set of what you might call the “minimum mix of relevant metrics” to demonstrate progress and the business value they are creating: too few metrics and you may be accused of performing “innovation theater,” too many metrics and you may spend all your time collecting data and assembling slide decks crammed with charts that sway no one.

In the early days of developing a new idea, the metrics that may be most germane are things like number of prototypes created and tested; number of customers interviewed; repeat users of a new software platform; number of parties that have been persuaded to participate in a new business ecosystem; or how efficiently you are shelving low-potential ideas in favor of those that resonate with customers or are feasible for your company to pursue (sometimes called “concept kill rate”). Those are activity metrics; they show you’ve been busy.

Planning to make the move onto the highway however requires a different approach. First, you need to decide how will you collect metrics about how the new product or service is doing as it enters the market. What software do you plan to use? Who will be responsible for collecting the data? Typically, you need help from people throughout the organization to track how new ideas impact their top and bottom lines, and the way they work. Second, you need to convene a series of conversations between the innovation group that created this new thing, the business unit leaders who will deploy it or take it to market, and the C-suite. How you will start to weigh different impact metrics — revenue, profit margin, and efficiencies created? How long should the on-ramp should be? How quickly can your new vehicle ascend the ramp and be ready to merge (safely) into traffic?

To find the optimal approach to innovation metrics, we conducted a set of qualitative interviews with eight leaders inside large public and private companies.

At Chick-fil-A, the Atlanta-based fast food chain, traveling that “on-ramp” can take up to three years, explains Woody Faulk, vice president of innovation and new ventures. Faulk says that metrics like return-on-invested-capital and return on sales just aren’t easily compared between newly-launched businesses and “veteran businesses that have had decades to fine-tune their financial performance,” he says. (Last year, Chick-fil-A began selling bottled versions of its popular sauces in grocery stores; it has also been testing make-at-home meal kits.)

“Return on invested capital is one example of a key metric we use,” Faulk explains. “The nuance is that the ratio is more forgiving for new ventures than it is for existing businesses. New ventures are given freedom and latitude to figure it out before they have to withstand the bright lights of hard financial scrutiny.” As the new venture begins to build momentum, Faulk says, “we [apply] more scrutiny as we continue on the path to profitability. In general, we give a truly promising new business about three years of serious testing to figure out whether it has the real potential to be a major future contributor.”

At CUNA Mutual Group, a Wisconsin-based insurance provider, Dan Kaiser says that his team establishes a “pro forma from the beginning, where we are estimating financial results in the future.” But as new offerings are rolled out to customers, there is a “gradual increase of emphasis.” Financial metrics are “always there and working in the background, but the degree that they are emphasized as primary measures of success gradually gets turned up over time,” Kaiser says.

And Mona Vernon of Fidelity Investments observes that it’s imperative to create a specific set of “go/no go” metrics in between the testing phase of a new idea and the scale-up. Should you be creating an on-ramp for this vehicle at all?

“CFOs can’t feel like innovation is a bottomless pit for money,” says Vernon, who runs the Fidelity Labs incubation unit inside the privately-held financial services firm. “My observation is that people often fail to define a measurable, well-defined failure point. Such as, ‘If we don’t deliver three paying clients at the end of this nine-month pilot test, then we don’t move it forward.’ I find the thing that is missing most often is the kill metric. You agree what good looks like, and what is not good enough. And if it looks good, I need a handshake from the rest of the organization that we will fund it and scale it up.”

As with many things in business, that handshake — and the relationships underlying it — points to the need for trust between innovators and CFOs. Vernon notes that often, an onerous set of financial metrics gets dumped onto new initiatives too early “because of a lack of trust in the output of the innovation group.” But when trust and strong relationships are in place, she says, you can “start applying the metrics when they matter — and not too soon.”

You may never get your CFO to become truly passionate about participating in a brainstorming session, or your innovation group to throw themselves whole-heartedly into fine-tuning a spreadsheet. But establishing trust, creating a metrics “on-ramp,” and applying increasingly more business-oriented metrics as a new concept matures, are the keys to keeping both groups happy — and supporting the organization’s ability to test new ideas and grow.

Scott Kirsner is the editor of Innovation Leader, an information service for corporate innovation executives, and a long-time business columnist for the Boston Globe.

