

Innovation

Counting The Chicken

The term 'innovation' is always shrouded in mystery. Unlike financial success, which you can see in black and white on the balance sheet, innovation is not that easily measured. Yet, stakeholders as well as innovators wish for some means to figure out 'how innovative' something is, and whether their investments in innovation initiatives are paying off. With no universal definition for innovation, there's obviously no single parameter to judge it.

So, we approached a dozen companies and asked them how they defined innovation; what results they expect from it; and if and how they measured it. The result of our survey is featured across this issue, and we hope it will inspire a means to measure innovation in your firm.

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The fortune cookie

'Innovation' is subjective but not immeasurable. Clearly define the results of innovation when you frame policies in your firm, and the metrics for its measurement will automatically fall in place.

Globally-Workable Logic On Innovation GlobalLogic

Definition of innovation

"Innovation is the **successful exploitation of new ideas**. This implies that it is not just the invention of a new idea that we are interested in, but that this idea is actually 'brought to the market', used, put into practice, exploited in some way, maybe leading to new products, processes, systems, attitudes or services that improve something or add value."

Of the different kinds of innovation, the company focuses on:

- (a) Incremental innovation—where something is adapted or modified. This may mean that an old idea is transferred to a new setting or that existing ideas are embedded in a new setting.
- (b) Radical innovation - which involves completely new ideas.

Results of innovation

At GlobalLogic, innovation results in:

- Launch of new products and services
- Increase in success rate of new products
- Increase in the rate of customer adoption
- Better product quality
- Growth in revenues and market share
- Cannibalisation of existing services or products
- Increase in employee satisfaction
- Increase in brand equity

Measuring these results

Tangible measures:

- Customer satisfaction
- Revenue generation from the new service
- Time to market
- R&D effectiveness and efficiency
- Lifecycle performance

Intangible measures (no direct correlation)

- Profitability
- Employee motivation

Various organisations use different matrices depending upon their need to measure the success of the innovation program. There are tools available that can be customised to measure the results.

Also, depending upon the need of the organisation, the measuring matrices change. Large organisations may want to cover a lot of variables covering input, processes and outputs, marketability, etc, to keep a tight control on returns from investment in innovation. On the other hand, small organisations may cover direct or apparent variables

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like revenue growth or increase in efficiencies.

Effect on profits

Garg feels that innovation does have visible effects on the cash curves, especially in industries like IT. This is because of the enormous investment that these companies make in R&D, the long odds of scoring a major hit and the huge potential payback when they do.

For example, in an IT services company, the visible effect can be attributed to:

- The new service or process innovation aiding in reducing the time to market or making the process more efficient and thereby affecting the profitability.
- An innovation resulting in a better quality product, which will translate into better customer satisfaction thereby creating opportunities for more business.
- A better brand perception about the company or service can enable an organisation to charge a premium for its services.

Formula to calculate return on investment in innovation

Investment:

- Financial resources
- Human/People resources
- Operating expenditure
- Capital expenditure

Returns:

- Actual versus incremental revenue
- Payback period

Biggest cost and biggest pay-off of innovation

Establishing **incubation labs** can be considered as the biggest cost factor. High **adoption/acceptability** of the service or product can be the biggest payoff.

Gyaan for all

"I think institutionalising the **matrices to measure innovation** is not a difficult task, as in the end it helps an IT organisation to leverage the information it churns. It **helps in channelling resources** to more profitable and innovative projects than to keep on investing in the not-so-profitable initiatives," says Garg, adding that he strongly believes that organisations which have 'innovation' in their DNA will never cease to explore the uncharted path and will continue to invest in futuristic technologies that will not only create value for the organisation but also contribute to the industry at large. **IT**

As told to:

Janani Gopalakrishnan Vikram



Rajul Garg, senior vice president - Corporate and People Development, GlobalLogic.