

NURTURING *Innovation*

The CFO can be instrumental in creating a corporate culture where innovation is valued and failure isn't fatal.

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Does the following scenario sound familiar? After a couple of very challenging years, your business appears to have finally turned the corner, but it is facing constant pressure. Customer expectations continue to mount. Competition is fierce. You know that innovation is part of the answer, and it's clear you need to encourage innovation by a broad cross-section of the people in your organization, not just a few. You know you need to do more, but more of what? And how do you do it while engrossed with day-to-day issues?

The senior finance executive can either significantly enable or considerably impede innovation. This is particularly the case in the current business environment, where many organizations have been “tightening their belts” for the past few years with a primary focus on cost containment and even survival. Now, as the business environment improves, fostering innovation requires quite a different set of executive mental models and behaviors.

We maintain that the CFO can and should take the lead in assuring that his/her organization understands that innovation isn't just about generating new ideas—it's about nurturing the best ideas through to commercial application and measurable operating results.

For some of you, this may not be easy. While most CFOs have worked diligently to stamp out the “bean-counter” image, language and perception around the role of the CFO remain an issue in far too many cases. In a number of organizations, CFOs are still perceived pejoratively to be mostly concerned about revenue, cost of goods sold, SG&A expenses, and shareholder equity.

BECOME AN INNOVATION LEADER

So what can you do? If you believe that innovation is part of the answer to achieving superior, sustainable performance for your organization, you can take the lead to nurture innovation in several ways.

Establish a strategic environment that fosters innovation. This is the first area in which to take the lead. Begin by assuring a tight integration of innovation and business strategy. Keep in mind that it all begins with strategy. Yes, it has been said before, but this is so crucial that it bears repetition. In any and all circumstances, it's essential to explicitly link your thrust on innovation to business strategy. This means crafting a compelling message around the type of innovation your company wants to encourage—be it new product, new service, or new process innovations—for what results and why it is vital to achieving your strategic goals.

Then you need to communicate this message broadly and relentlessly. This is particularly important when coming out of a recessionary business environment. In practical terms this means setting aggressive, ambitious goals that demand that company performance well exceeds the industry average. Although stretch targets by themselves don't assure discovery and implementation of innovative strategies, the absence of aggressive goals typically leads to bland, mediocre strategies.

Moreover, the words need to be supported by visible actions. One such action is to create several small, strategic pools of funds that can be rapidly and easily accessed to develop budding ideas consistent with strategic direction. This creates the financial infrastructure to promote low-risk experimentation, a critical component in establishing the right kind of internal business environment to support innovation.

Establish an enabling business environment. Next, take the lead by becoming an advocate of a customer-focused business process view. Most people understand customer focused, but when it comes to the term “business process view,” some clarification is useful. By this, we mean having an outside-in, horizontal view of the business such that the company's activities are organized to encourage cross-functional coordination and collaboration.

While any one person in any department can create the kernel of an innovative idea, the full benefits of innovation rarely take place within just one department or function. It doesn't much matter whether your thrust is product, service, or process innovation—in each and every case a cross-functional business process perspective is needed to capture the full commercial benefits of creative thinking. After all, work is performed through business processes, and innovation is often all about doing work faster, better, cheaper, and differently. Does your leadership team have a shared understanding of the core business processes that deliver value? Have you worked collectively and collaboratively to identify the thrust of innovation in a business process context, or do you have more of a traditional departmental view? It's important to break down the barriers among the traditional departments and encourage constant assessment and reassessment of how work is done. One effective way of doing this is outlined in a book by Stephen Shapiro titled *24/7 Innovation*. It involves adopting a seven-step framework called the “Seven Rs”: rethink, reconfigure, resequence, relocate, reduce, reassign, and retool.

Another powerful way of reinforcing a business process view is through the key performance indicators (KPIs) employed in monthly operating reviews. If these KPIs are dominated by financial metrics, it sends a clear message about what is really important for the organization. But if the CFO is a vocal advocate of a set of KPIs that includes metrics of quality and timeliness in providing products and services to customers, as well as the traditional financial measures, that will send a different and healthier message to the organization around the importance of

innovation in creating value for customers and shareholders. Similarly, it's worthwhile doing a quick check of your current accounting and internal control procedures. Are they designed to encourage or impede innovative thinking? You can achieve compliance while simultaneously allowing for innovative thinking. By the way, when was the last time you looked at this—if ever?

Establish a social environment that supports innovation.

This move is equally critical. There is increasing awareness of the importance of having a culture that supports innovation, and the CFO has the potential to be instrumental in creating a corporate culture where innovation is valued and failure isn't fatal. One of the prerequisites is to create an open environment for new ideas. How important is it for you to do this? That depends on your answers to the following series of questions: Are people in your organization afraid of making mistakes? Do they freely speak what's on their mind? Are people not only open to, but look forward to, new ways of working? Are people praised as often as or more often than they are criticized? You be the judge. Even if you already have a robust culture that supports innovation, constant reinforcement is needed.

As the senior financial executive, you can do a great deal to impact the degree of risk taking and creative experimentation that your organization supports. Do you encourage creative experimentation in what you say and how you behave? Do you listen carefully for long-term potential, or do you ask for a detailed financial analysis from people with creative ideas before they are really equipped to do so? Bureaucratic rules, methods, procedures, and management behavior can be yet another daunting barrier to innovation.

Are you persistently on the lookout for ways to minimize bureaucracy without compromising compliance? Do you deal with variances to budget punitively or collaboratively? The answers to questions such as these will determine the extent to which an organization's culture supports innovation—where success is recognized and failure is perceived as a learning experience and not a career-threatening event. Equally important is creating an environment where new voices can be heard, involving views from young managers, people outside the corporate office, or relative newcomers to the business. These constituents can often see opportunities more clearly than others. Is there a mechanism for their opinions to be heard?

Arguably the most visible way to encourage innovation is through the company's reward and recognition system.

If your leadership team has communicated the vision of a new culture of innovation, then you need a series of success stories to keep the vision alive. Do you have the means to identify and recognize those individuals and teams who demonstrate the type of behavior and get the type of results you're seeking?

Promote creative discipline in managing the new product or service development process.

Here's a further area of leadership opportunity where CFOs can nurture innovation. Does your organization have a structured innovation process that is used consistently to shepherd new ideas through to successful implementation? Have you implemented a disciplined yet flexible "stage-gate" process where the leadership team evaluates project progress at key points and makes critical decisions on funding and support? Even if you answered "yes," your role as the senior financial executive at key stage-gates in this process has significant impact.

Traditionally, the CFO has been concerned with monitoring the financial aspects of project progress—whether the project is on budget and on schedule. But this can sometimes lead to a shortsighted view of quarterly results and an undue focus on making the numbers and making the schedule. More contemporary-thinking financial executives will recognize the importance of understanding the strategic value of the project and will find ways to encourage long-term return-on-investment thinking without compromising the need to monitor the basic financial parameters.

Finally, you as the CFO can also play a leadership role in seeking out alliances and encouraging investigation of business practices in different industries. There is increas-

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ing evidence that, in many instances, innovation doesn't necessarily mean breaking free of the past. Instead, it is mainly about harnessing past experience and applying it in novel ways. Viewing innovation as a "capability" composed of five key elements—process, people, strategy and customers, technology, and measures—can be instrumental in creating openness to crossing industry boundaries and providing the means to take advantage of insights.

ARE YOU DEDICATED TO INNOVATION?

The key message from all this is that leadership's attitude, openness to change, and conscious effort to stimulate innovation may be just as important as the creative process itself in producing desired results. If you are work-

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ing in an organization that's making a transition from survival to growth, then you may want to ask and answer the following set of questions to assess the extent to which your company is dedicated to fostering innovation:

1. Have you explicitly linked your thrust on innovation to business strategy?
2. Have you set stretch targets that demand that company performance well exceeds the industry average?
3. Have you created the financial infrastructure to promote low-risk experimentation by setting up several small, strategic pools of funds?
4. Have you taken steps to establish an enabling business environment by advocating a customer-focused business process view?
5. Do your organization's key performance indicators include metrics of quality and timeliness in providing products and services to customers?
6. Are your current accounting and internal control procedures designed to encourage or impede innovative thinking?
7. Do you have a corporate culture where innovation is valued and failure isn't fatal?
8. Do you have a corporate environment where new voices can be heard?
9. Is your company's reward and recognition system designed to recognize and reward innovation and innovative activity?
10. Is there a conscious effort to seek out alliances and encourage investigation of business practices in other industries?

By definition, there's no cookie-cutter solution to creating the milieu to nurture innovation. Yet the above questions and, more importantly, your answers to them, may provide some guidance. Take the lead in generating innovation in your organization. ■

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