Innovation Governance and Portfolio Planning

This article describes a unique approach to managing innovation processes and the people involved, called innovation governance. **Innovation governance is a system of cross-functional decision-making processes that define, align, and manage innovation activities across the entire product lifecycle**. Effective innovation governance ensures the achievement of strategic growth goals. It encompasses business decisions that impact every phase of the product lifecycle and affect many parts of the organization.

Product Innovation is Crucial for Sustainable Growth

Product innovation – the development of new and improved goods and services, is considered by most executives to be crucial to the survival and prosperity of the modern corporation. In a recent McKinsey survey, 70 percent of CEOs included innovation among their top three priorities for driving growth. The majority of those surveyed stated that innovation is central to a company's strategy and performance.[1]

The view that innovation in products and markets enables sustainable margins over time is manifest in the strong correlation between successful innovation and overall business success. A recent global survey of innovation practices conducted by Boston Consulting Group in partnership with Business Week, showed how "innovative companies typically generate superior returns for shareholders: a premium of 12.4 percent compared with industry peers over a three year period".[2] Overall, research indicates that innovation has become a core component of corporate strategy, anchored in long-running development cycles and contracts with customers and suppliers.

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Spending Smarter to Improve Business Impact

While affirming the importance of innovation for building sustainable competitive advantage, CEOs also state that in light of current market conditions their companies are working hard to spend smarter. Studies by AMR Research[3] show that senior executives are seeking to maximise returns from R&D investments. Some examples of smarter spending include:

- Shifting resources away from basic research to prioritise product launches;
- Making innovation processes more efficient;
- Killing weak projects earlier;
- Tightening up on risk-related criteria when making green light decisions;
- Developing affordable new products and simplifying programs;
- Measuring R&D productivity

We can summarise by saying that CEOs have become more cautious about their investments, while seeking to increase the impact of their company's business.

The Need to Govern Innovation

In order to achieve the strategic innovation and performance goals of their organisation, senior managers need to define, design and manage innovation activities. This process is the essence of innovation governance. Innovation governance seeks to improve the effectiveness and the efficiency of business processes such as:

- Strategic planning and roadmapping,
- Ideation and intellectual property development,
- Concept development and product development,
- Risk assessment and gated process execution,
- Product portfolio management, and
- Resource planning.

The distance however, between leader aspirations and the execution of innovation efforts cannot be bridged by process improvement alone. Bridging the gap also requires cultural and behavioural changes. A recent analysis by J. Barsh et al.[4] points out that, in order to improve innovation performance, top management needs to:

1. **Embrace innovation**, integrating it into their strategic agenda and setting themselves up as role models;
2. **Create and encourage networks** of innovators, to be facilitated by selected innovation leaders;
3. **Foster a readiness to experiment**, to allow for failure which the organisation can learn

from in order to give as many employees as possible a positive experience in pursuing innovation.

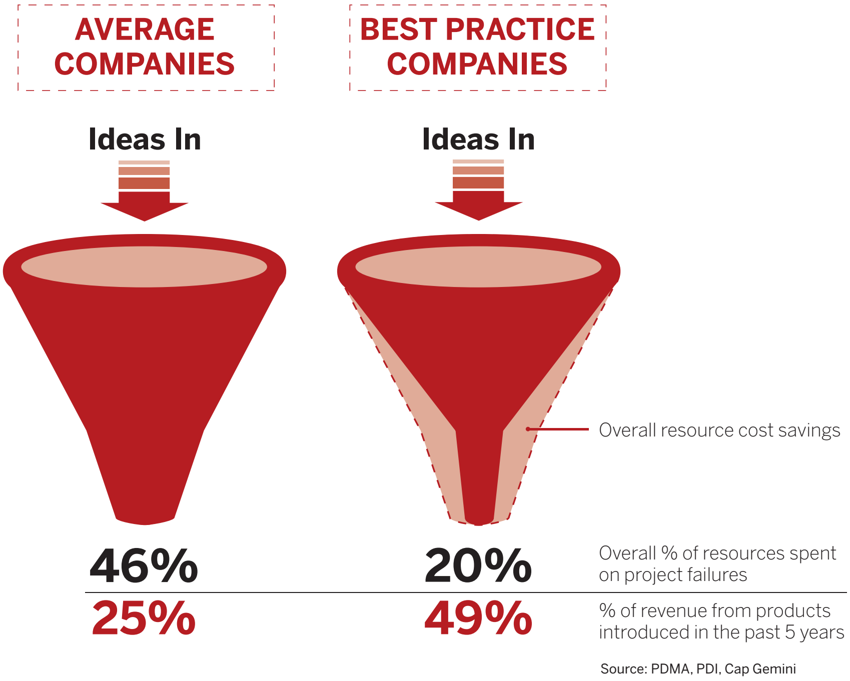
Management scholar Gary Hamel points out that the talented, creative thinkers that innovation depends on are increasingly self-directed and that they are influenced as much by their peers as by supervisors. Hamel thinks, moreover, that systems will take on much of the repetitive, bureaucratic work of management, providing space for creative thinking and other types of innovation-focused behaviour

Product Portfolio Challenges

The problems confronting organisations in product innovation have been studied by researchers for years and are well understood. Robert Cooper's seminal research has shown that 46% of product development resources are spent on products that fail commercially or never make it to market. Furthermore, of those products that are launched, 41% fail.[5]

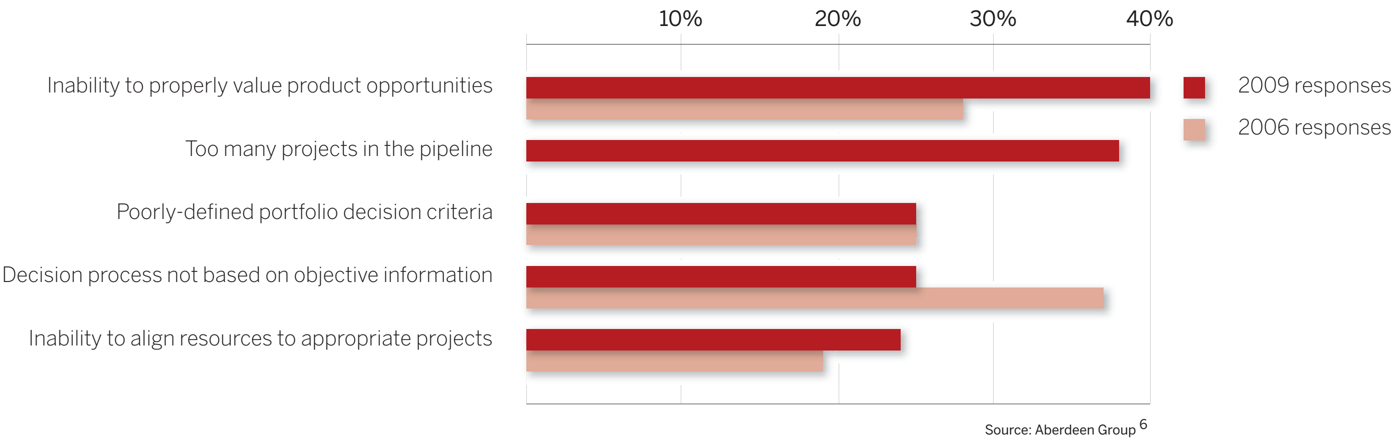
One of the most significant differences between best-practice companies and average companies is the level of effort invested in assessing ideas before they are advanced to development. By investing in products that are destined for failure, not only does the company waste resources, it is distracted from "doing the right projects". It is estimated that best-practice companies spend 75 percent more time than average companies on up-front assessment of the viability of product ideas. Examples of such assessment activities include:

- Ensuring ideas are aligned with strategy;
- Initial screening and evaluation of ideas;
- Evaluating ideas in focus groups and expert forums;
- Carrying out preliminary market and technical assessments (validation of actual market needs);
- Preliminary business and financial assessments; and
- Creating clear product definitions.



Product Portfolio Management

The product portfolio is situated at the heart of innovation governance, between strategy and execution. On the one hand, it must represent the strategy (ie. how much investment do we intend to make in the various strategic areas?). On the other hand, the portfolio must represent the product development projects currently being executed. Because of this duality, one of the principal preoccupations of product portfolio management is to ascertain whether execution is aligned to strategy.



The Aberdeen Group has twice investigated product portfolio management practices, once in 2006 and more recently in 2009. The results were surprisingly constant. The research showed that companies that are successful at product portfolio management achieve significantly higher margins.

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Best-Practice Portfolio Reports

Innovation governance solutions should offer an appropriate set of reports that reflect best-practice information requirements:

- Pipeline reports should show the status of all projects;
- Portfolio analysis should show whether projects that are aligned with strategy deliver sufficient value and are a balance of short-term and long-term, large and small, incremental and breakout innovation; and
- Process performance charts should show whether there is sufficient volume of ideas, whether the concepts and projects in each stage provide a satisfactory funnel and whether enough ideas are being “killed” to allow concentration of those that are most promising.

Technologies for Portfolio Management

Most companies have invested heavily in business processes and tools to support the design, supply, manufacture and sale of new products. However, when it comes to innovation strategy, ideation, portfolio management and cross-functional execution, many organisations have little or no process support, apart from a collection of spreadsheets or home made solutions. Yet some of the most critical decisions are made in these areas decisions that determine both the cost and the value of products, decisions that cannot be easily changed after they are made.

Sopheon provides innovation governance solutions that help to improve and support these neglected process areas, and enable users to align innovation activities across the entire product lifecycle.

Article adapted from Sopheon White Paper - Innovation Governance: Aligning Strategy, Ideation and Execution for Better Business Results (Used with permission)

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