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Aligning Finance, Strategy and Innovation – Part 2

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In a continuation of last month's reflection on a panel session at the Back End of Innovation (BEI) conference, "Connecting Innovation with Finance to Drive Profitable Growth", we discuss what needs to happen within finance and strategy to allow innovation to flourish.

Anyone who has ever had a good idea knows how daunting it can be to get that idea implemented within a corporate environment. That's because even when an idea is brilliant, leadership has to assess its potential for generating revenue, estimating costs and producing profits. That's why innovators frequently face rejection from scrutiny by finance when promoting their latest great idea and questions as to where the innovation fits in regard to company strategy. Needless to say, this can create a rift among leadership, finance and innovation when each should be working in against a common goal of improving the company's competitiveness and profitable growth.

In any business, the role of innovation is to deliver new ideas for business to grow. Finance professionals are the stewards of the financial future of the company, with a large influence on where to place the company's investments. Take-Aways from the BEI session emphasized that companies need to have cross-functional discussions about the primary factors that drive value of an innovation, including the impact of uncertainties around these factors and the effect on successful development and commercialization. There was general agreement that better financial standards and metrics need to be developed to address innovation. And that discussions must be in a "common language" that everyone can understand, i.e., free from functional jargon.

Members of the group emphasized that while successful companies make decisions based on as much factual information as possible, they must also find ways to deal effectively with uncertainty rather than "simply drawing upon questionable assumptions".

Finance and innovation teams need to develop skills to understand each other's perspective when evaluating the feasibility of a new project. Finance must avoid applying rigid ROI standards too early. They must also broaden their skills and competencies

"Decision-makers today operate in conditions plagued by constant uncertainty. It takes courage to 'read the world' and make mission-critical decisions about the future. Evidence creates courage."

— Kobi Gershoni

as empowered contributors to innovation, rather than acting as gatekeepers and being viewed as the "enemies of innovation".

So, too, must strategy teams be open to innovation, recognizing that new ideas may fall outside of or even challenge current strategy. Both strategy and finance need to find comfort with the tools of agile development.

In response to the challenge: "How do we align finance, strategy and innovation?" It was agreed that a number of approaches can be useful:

- Create a "decision forum" that includes members of finance, strategy and innovation.
- Adopt a uniform evaluation process that deals with the natural ambiguity of developing and commercializing innovative projects. Be supportive of agile development.
- Recognize that because it is impossible to consistently pick winners—some will fail while other will succeed—it is vital to develop and manage a portfolio of innovative projects.
- Tolerate failure and treat unsuccessful projects as learning opportunities. Failure to do so will severely inhibit true innovation.
- Maintain open lines of communication among finance, strategists and innovators.

The views in this article reflect a sample of the views of the participants in a panel discussion at the Back End of Innovation (October 2014).

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