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A Scorecard to Assess Enterprise Innovation Capabilities

The capacity for continuous innovation requires the integration of management processes. Our scorecard helps assess and optimize how well an enterprise understands, nurtures and extracts value from its innovations.

In "Reaping Value From Knowledge and Innovation" (SPA-12-8169), Gartner described how continuous and leveragable innovation depends on the integration of strategic, human capital, knowledge, innovation and intellectual capital life cycle management processes within and across enterprises. We refer to this integrated system as the innovation value chain. The good news is that, for most enterprises, these processes — the components of the innovation value chain — already exist. The bad news is that 1) these processes may be immature and 2) they have almost always evolved in isolation, leaving value chain participants blind to the others' needs, interdependencies, capabilities and opportunities. These conditions undermine the enterprise's ability to innovate.

The key to growing innovation is to optimize the overall performance of the value chain by improving the components themselves and the links between them. This requires an understanding of the theory of constraints, which is based on the implicit assumption that all systems are comprised of individual steps that perform a value-added function, which ultimately results in some kind of outcome. Traditionally, each step would be optimized separately; therefore, some would work faster or with greater reliability than others. This results in one of three conditions:

- Bottlenecks, where work from faster preceding steps piles up before a slower one.

- Shortfalls, where steps beyond a bottleneck are idled, waiting for bogged-down work in progress.

- End runs, where preceding steps are circumvented to speed up the process, which results in inconsistency and unreliability.

Gartner

Given these conditions, *outcomes are only as reliable and as fast as the value chain's weakest step or component.* To optimize a system such as the innovation value chain, leaders should focus on the identification and incremental resolution of the poorest performing component and its adjacent links, proceed to the next when the worst is resolved, and so on. Doing anything else is a waste of time and resources because it will not improve outcomes.

Gartner's innovation scorecard (see Figure 1) is a simple tool for facilitating the identification of an enterprise's weakest component and links in the innovation value chain. Once the primary weakness is identified, remedial action can be taken to resolve it.

Figure 1
Gartner's Innovation Scorecard

Innovation Value Chain Process Component	Scorecard		
	● Yes ~ Points = 5	● Usually ~ Points = 3	● No/Don't Know ~ Points = 0
Strategic Management • Vision, values, mission • Strengths and competencies • Business drivers and strategies • Leadership	☐ Are failed experiments regarded as a source of learning? ☐ Are business processes such as R&D explicitly focused on core competencies or stated business objectives? ☐ Does the enterprise systemically encourage, explore and reward creative thinking? ☐ Are strategic partners evaluated in the context of innovation capabilities and processes? ☐ Are business unit leaders and partners held accountable to strategic innovation objectives?		
Human Capital Management • Strategic sourcing • Recruitment/retention • Performance mgmt. • Continuous learning and development	☐ Does the enterprise consciously hire for creative, adaptive capabilities in addition to skills? ☐ Are workers expected to continuously develop and stretch their capabilities and systemically provided the opportunity to do so? ☐ Is work performed in interdisciplinary, cross-organizational or cross-functional teams? ☐ Do mechanisms exist to retain and exploit human capital and intellectual assets during periods of economic turmoil, in the event of mergers and acquisitions, and when developing strategic relationships? ☐ Are human resources required and encouraged to share, rather than hoard, knowledge and information?		
Knowledge Management • Information capture, synthesis, sharing • Creative communities • Continuous learning • Relationship mgmt.	☐ Do skills systems exist for identifying, growing and allocating experts? ☐ Do collaborative systems for information analysis, knowledge capture and sharing exist, and are they actively utilized? ☐ Do workers consistently indicate the information and tools available to them actively assist, rather than hinder, their performance? ☐ Are sources of knowledge and innovation (organizational and individual) and their outputs known, nurtured and systemically monitored? ☐ Where strategic partners are integral to business process execution, do workers have ready access to cross-organizational data, knowledge, information systems and personnel?		
Innovation Management • Competitive intelligence • R&D • Collaborative systems • Learning	☐ Are downstream, non-R&D organizational units regularly consulted as potential sources of leveragable innovation? ☐ Does the enterprise regularly monitor patenting activities of competitors, partners and key customers and use that information to help shape innovation and business strategy? ☐ Is there an explicit process for discovering, evaluating and funding potentially leveragable innovations throughout their development life cycles? ☐ Do tools and processes exist for mining data, information and knowledge repositories for potential innovation opportunities? ☐ Are the capabilities of existing or potential partners considered in determining which innovations to pursue?		
IC Life Cycle Management • IC asset and portfolio mgmt. • IC valuation • Global value extraction policy • IC protection	☐ Does the enterprise attempt to describe and quantify the value of its intellectual assets and are the results made public? ☐ Is a strategic organization tasked with maximizing the financial return of the IP portfolio on a continuous basis? ☐ Are non-native industries, countries and markets continually assessed in evaluating an IP asset's potential? ☐ Does the enterprise proactively consider adopting business strategies in the context of its asset portfolio, even if exploiting certain assets would take them outside their core competencies or business-value proposition? ☐ Does the enterprise include process and business practice innovations in its IP management practices?		

Source: Gartner Research

This scorecard is designed to assess the process components themselves, as well as their integration with preceding or following steps. It also considers the increasing role of strategic relationships. For any given process component, a subtotal score of 18 to 25 indicates strong positioning; a score of 11 to 17 indicates reasonable positioning, with the need for some further refinement; a score of 0 to 10 indicates an exceptionally weak link in the value chain. Component scores should be compared, and those with the weakest ratings should receive the most-immediate attention to optimize innovation outcomes. If most or

all of the component scores are in the moderate (11 to 17) range, then one of two conditions exist:

- The enterprise's performance in relation to the scorecard's questions is actually unknown, and responses were made based on surmise or on anecdotal evidence.

- Any positive positioning in terms of adding value to innovation is purely accidental.

In both cases, deeper investigation into the performance of the value chain components should be conducted and the scorecard assessment reconsidered in advance of any attempts to re-engineer or more-deeply integrate component processes. If two components appear equally dysfunctional, management can design specific measurements to obtain a more-granular understanding of relative weaknesses or make an informed judgement with regard to the relative cost and effect of improving one component instead of the other.

Bottom Line: Innovation is a system comprised of component processes that must be holistically optimized. These components define the system's speed, reliability, capacity and sustainability. The innovation scorecard is a simple mechanism for identifying and remedying weak links in the enterprise's innovation system to improve overall performance.