



CGMA REPORT MANAGING INNOVATION

Harnessing the power of finance



Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant® (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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FOREWORD

Ever since the invention of the wheel, the spirit of invention and human ingenuity has revolutionised our lives. With each passing year the speed of change seems to accelerate as companies compete for customers in an increasingly crowded marketplace.

Competitors are no longer defined by geography, thanks to fundamental technology changes and the integration of emerging markets into the global economy. Established businesses face competitive threats from both new entrants and traditional rivals.

It's a world in which there is much less room for error. These trends have created spectacular growth opportunities for some companies. For others they have threatened decline, or even demise, especially when combined with sluggish global growth. If companies are not only to survive but thrive, it is imperative that they embrace change in all aspects of their business: that, in short, they innovate.

Against this backdrop of global economic uncertainty, we wanted to explore how successful organisations promote innovation, while also maintaining a balanced approach to risk. We also wanted to show how management accountants can help promote a culture of creativity and renewal and so create conditions for sustainable success; providing robust and reliable data analysis, and strategic insight that supports effective decision making.

In a spirit of discovery we have initiated a programme of activity to address these issues. To get the process underway we convened senior executives from across

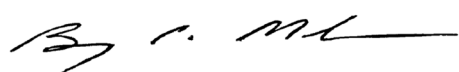
the world to share their experiences at roundtable and conference events in Asia, Europe and the Americas. We are currently analysing the outcomes of these events with a view to undertaking further research to address some of the key issues arising.

In the meantime this report combines some of the insights from the events with our own research. It offers an overview of the ways in which different businesses create a culture of innovation and engage their finance functions with their innovation strategies, while managing associated risks.

As part of this, it explores the vital role management accountants play in turning creative ideas into commercially successful innovations. From helping to support and foster an innovative mindset within the business, to implementing new ideas effectively and managing risk across a portfolio of projects, there are numerous ways in which finance professionals support the innovation process.

We hope this report will be the starting point for a new dialogue about promoting innovation in your organisations and the role of the management accountant in supporting critical decisions where opportunities are balanced with robust risk analysis.

Barry Melancon CPA, CGMA
President and Chief Executive Officer, AICPA



Charles Tilley FCMA, CGMA
Chief Executive, CIMA



EXECUTIVE SUMMARY

Innovation is the key to sustainable business success in today's fast-paced, volatile and uncertain world. Companies that can nurture the creativity necessary for innovation, and then finance and implement their ideas efficiently, are more likely to succeed in the long term.

There are few innovations, or innovation-led organisations, that are truly successful without the input and influence of management accountants and the finance team. Whether shepherding new ideas from concept to commercialisation, or considering the risks associated with differing choices, finance can play a vital enabling role. This role parallels the evolution of the finance function towards a more strategic focus – and as such represents an opportunity for finance professionals to reposition themselves within the business.

Management accountants work across many different sectors and organisational contexts, with varying degrees of input, but this report evaluates five key areas where they can help support a more innovative business.

1. Create an innovation mindset

Finance needs to transform itself into a business partner that can help innovation teams succeed. Change starts at the top: a CEO must set the vision, but a CFO has a vital role in setting the framework in which innovation can thrive. For a business to learn, sometimes senior managers need to accept that individual projects may fail if the overall strategy is to succeed – something which can be anathema to finance professionals steeped in the art of risk mitigation. Promoting an innovative culture throughout the organisation, where thinking goes beyond the status quo, can deliver tangible results and enhance competitive advantage.

2. Nurture creativity

There can be a clash of cultures between those responsible for coming up with ideas and the finance professionals who are the guardians of financial integrity and rigour. Distrust is exacerbated when early-stage ideas are prematurely tested against traditional financial metrics, before an idea or project can evolve. More sympathetic approaches can help, such as the creation of ring-fenced budgets with more relaxed criteria for early-stage innovations. Above all, finance must work in an environment where uncertainty is part and parcel of the process.

3. Prepare the path to profit

Innovation is not an end in itself. Finding the path to profits when an innovation moves towards implementation is a core requisite capability of management accountants. Building cash flow models, advising on financing approaches, understanding costs and allocating resources are just some of the many ways in which management accountants can bring rigour to the process of commercialising ideas. Finance can also be a valuable partner of innovation teams – for example by helping build a more robust business case to gain further backing.

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Innovation is not
an end in itself

4. Match metrics to the stage of development

Companies must beware of the dangers of trying to apply the firm metrics used in business operations to early stage innovation. A phased, or staged, process gives an innovative idea room to breathe, and limits downside financial risk, while also providing organisations with a structured approach to evaluating innovations. Finance can add immense value by creating the “stage gates” for innovation, through which each idea can be challenged and refined to prepare it for the next stage of investment¹.

5. Take a balanced view on risk across the innovation portfolio

Companies increasingly employ a portfolio of strategies to drive innovation, reflecting the discipline’s multifaceted nature. Management accountants should seek to create an opportunity framework that promotes clarity, transparency and discipline across the total portfolio of innovation projects. Companies that excel in this realm of portfolio management are often the most successful businesses in the world – even if in reality a lot of the ideas they bring to market are bought in from outside.

As these points show, supporting innovation requires finance professionals to develop strategic skills alongside their functional competencies. It entails proactively supporting the innovation strategy and managing the associated risks. These are areas for which management accountants’ training equips them – but learning how to adapt those skills to different stages in the innovation cycle can be a considerable challenge, even for the most experienced finance professionals.

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Supporting innovation requires
strategic skills alongside functional
finance competencies

INTRODUCTION: THE INNOVATION IMPERATIVE

The way organisations innovate is increasingly crucial to their survival and renewal. Today's companies are driven by the threat of obsolescence as much as by the carrot of potential new revenues.

As the economist Martin Wolf puts it: “Within a market economy the hope of gain and the fear of loss drive inventors and innovators to apply new ways of doing things or to produce new products”, creating a state of what he terms “permanent revolution”.²

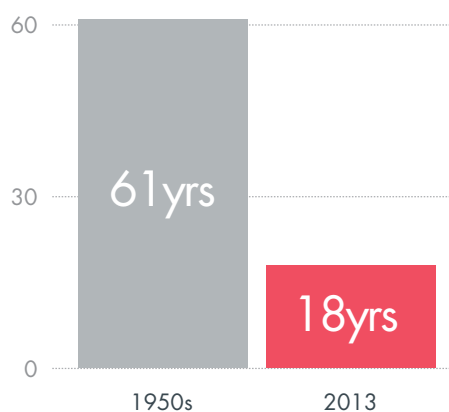
The cycle of renewal rewards the innovative and punishes the complacent, with increasing speed. In the late 1950s the average tenure of a firm in the S&P 500® was 61 years; today it is just 18 years³. In the last decade alone, about half the corporations

in the index have been replaced by newcomers, such as Google and Facebook. These companies have radically altered our lives. They have also disrupted whole industries.

The pace of innovation is accelerating, but the nature and focus of innovative activity is also evolving. The traditional model of innovation, dominated by white-coated technicians in R&D labs, is opening up. As corporations realise they do not have a monopoly of ideas they are supplementing organic innovation with ideas from outside the company. For example, scanning teams scour the world for early-stage innovations; companies partner with research institutions and fund promising new technologies; they map customer needs; they offer prizes for solutions to complex problems.

At the same time, the scope of innovation has widened from products and services to incorporate process and business model innovation. Although less tangible, these are increasingly a source of competitive advantage. Today a leading manufacturer such as Rolls-Royce is admired as much for its cutting-edge process design as it is for its hi-tech engines. And some say the success of Apple's iPod lies more in the way its innovative iTunes business model made downloading digital music quick and easy, than in the desirability of its iPod⁵.

FIGURE 1: Average tenure of a company in the S&P 500®⁴



Understanding the innovation spectrum

The definition of innovation is broadening. Once deemed the exclusive province of R&D departments, it is now widely accepted as a fundamental part of every aspect of a business. It is not only about the disruptive technologies that fundamentally change our lives: innovation can be evolutionary as well as revolutionary, incremental as well as radical. Nor is innovation

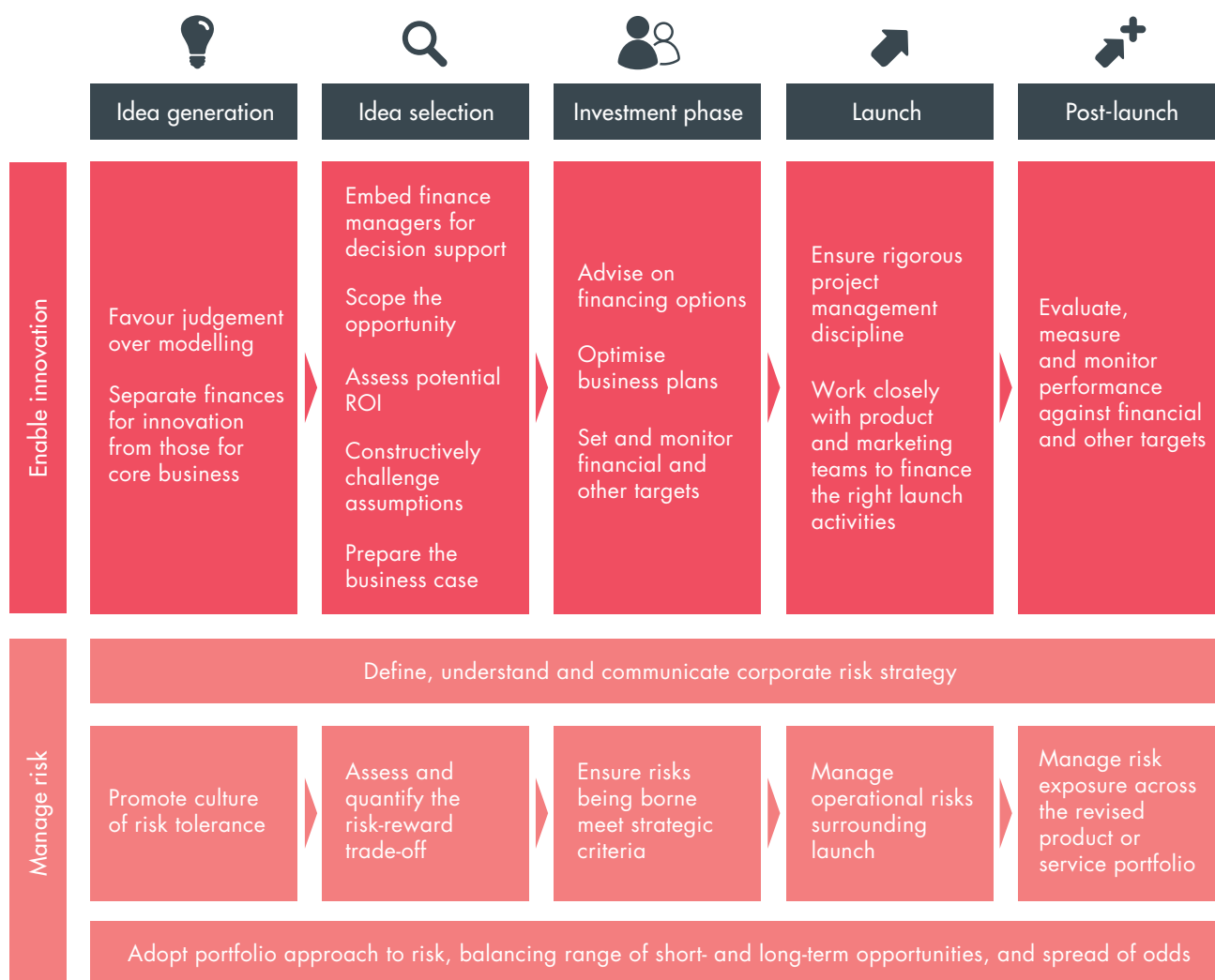
just about new products and services. New processes, organisational models and methods all form part of the innovation spectrum. The OECD, whose *Oslo Manual* offers guidance on how to collect and interpret innovation data, defines innovation as “the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations.”⁶

Innovation is vital, but it isn't easy. It can be disruptive to an existing business and uncertain in its outcomes, and requires a strong appetite for risk. Some companies are good at coming up with ideas, while others thrive on knowing how to commercialise innovation at scale. There is no single approach here – part of the challenge is working out where your organisation can contribute most.

This makes innovation a challenging concept for companies – but the biggest risks of all arise from a failure to innovate. As Jonathan Blackmore, a risk leader at Ernst & Young, puts it: “The volatile and risky market we are in necessitates greater and greater innovation, and is going to push companies to be innovative.”

Another challenge lies in running today's business efficiently and profitably, while promoting the culture of renewal that will help create a sustainable business for tomorrow. Organisations need to become deft at balancing the tensions and culture clashes within their own business – between the desire for creativity and flexibility on the one hand, and the need for the discipline and controls that help turn great ideas into profitable business on the other. Pulling off this balancing act is a challenge for all organisations – and in particular for today's chartered global management accountants.

FIGURE 2: The role of finance throughout the innovation lifecycle



HEAD IN THE CLOUDS, FEET ON THE GROUND: THE ROLE OF FINANCE IN COMMERCIALISING INNOVATIONS

When people talk about the great innovations that have improved our lives over the centuries, they tend to think of the lone scientist or inventor whose inspired genius led to a groundbreaking idea. There's always scope for genius. In the real world, however, it takes a blend of talents to bring a new idea successfully to market.

At any given time, today's organisations will be managing a large portfolio of innovation projects, all with a view to ensuring the right ideas are funded and properly executed. When viewed from this perspective it is clear that finance professionals have a huge role to play.

While CFOs are rarely expected to be the originators of a breakthrough product or technology, they are certainly expected to contribute to an environment that ensures great ideas are spotted, encouraged, financed and delivered efficiently to the market. Along the way, finance has an important role to play in ensuring that ideas are challenged and refined to ensure a stronger business case. It also needs to ensure that the trade-offs and risks associated with betting finite resources on unproven ideas are properly considered.

In some organisations finance has not always been regarded as a source of help and advice on innovation. Striking the balance between an enabling culture and laying down a process to realise the potential of new ideas is a huge challenge. To get this right, we have identified five broad areas where finance leaders can have a critical impact on the way companies commercialise innovative ideas.

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Finance professionals have an important role to play in ensuring the right ideas are funded and properly executed

Create an innovation-centric mindset

Successful companies put innovation at the heart of their business, fostering a culture in which ideas are allowed to flourish. That culture needs to start with leadership from the very top of the organisation. A recent McKinsey survey showed that over half of respondents cited C-suite support as a driver of innovation success⁷.

James Duckworth FCMA, CGMA, Director of Control Risks Group, a risk consultancy, believes that it is imperative that the executive leadership team drives innovation: “If it does not, it does not provide the right culture. It is the board's collective responsibility to see that the strategy it has set out for innovation is being followed. The finance function can be critical in ensuring that the right decisions are made at the right points.”

The innovation culture must then permeate throughout the company. The most successful companies provide a range of incentives to encourage innovation from all employees, not just those in R&D. At the appliance maker Whirlpool, for example, the company has put every employee through a business innovation course, while also developing a cadre of so-called ‘I-mentors’ who are specially trained to facilitate innovative projects and help people with ideas. By 2008, these new inputs were responsible for more than one-fifth of total revenues, with nearly 1,100 such I-mentors in place.

Others take alternative approaches: both 3M and Google encourage employees to devote a proportion of their working time to projects and research outside their core responsibilities. They credit some of their most successful products to this approach. Royal Dutch Shell has a “game-changer budget”: a fund to which employees can apply for support for promising research projects that fall outside their daily work. The UK’s BT runs an employee ideas scheme where innovations are evaluated through a peer review process.

These examples suggest that finance can and should be deeply involved in creating the right environment for innovation. This may entail applying a different mindset to early-stage projects, where the premature application of too many KPIs and metrics can kill off a good idea. Instead, in these early stages, finance needs to apply a different type of thinking, accepting that ideas need to be allowed to fully form before a formal evaluation process is applied.

Respect and nurture the creative process

Innovative companies understand that they need a distinct financial approach to judging and measuring innovation. One that is more flexible and tolerant of failure than that used in their operational businesses.

Edward Hess, Professor of Business Administration at the University of Virginia Darden Graduate School of Business, identifies the “underlying corporate drive for predictability, reliability, standardisation and limited variance” as an obstacle to innovation in large companies. Why? Because “innovation does not produce predictable standardised results. The goal of operational excellence is to drive businesses toward certainty, while the goal of promoting innovation requires a high tolerance of uncertainty, ambiguity and constant change.”⁸ Successfully managing this conflict is at the heart of building an innovative culture.



INNOVATION INSIGHT

A less mechanistic mindset

Simon Henry FCMA, CGMA, CFO, Royal Dutch Shell plc

Shell has a huge innovation programme that entails allocating around US\$1.5bn to R&D annually, while also investing an estimated US\$4bn on deploying innovation efforts within its business. The role of finance in all of this is multifaceted, explains CFO Simon Henry: “A finance function needs to be able to understand the business well enough to know what is a worthwhile activity, but also, in this part of the business, to have a bit more of an open mind. It is less mechanistic, and has the ability to live with ambiguity, to identify risk and to manage it. The business is all about proper evaluation of risk, whether it’s technological, market or otherwise.”

“We want to encourage innovation and not stifle it, but not in a totally uncontrolled way. We have a well defined 10-stage gate process. At each stage gate you can say, this is going to be funded by Shell through to the next four stage gates, at which point we’ll take another decision. Or we put it into a joint venture and we keep an equity stake. So there are different routes to commercialisation.

Finance is also the creative financing partner in commercialisation. For example, we set up a private equity fund, folding 28 companies into the fund, sold 45% to a major private equity player and brought in sovereign wealth fund backing behind it.”

In fact, at W.L Gore, a global chemicals company, when a project is killed, the company celebrates its passing with drinks to explicitly highlight to staff that it is okay to attempt novel solutions in the pursuit of innovation. It also backs this up with rigorous post-mortems to determine what it can learn from any such failures.

Companies need to adapt their financial processes and metrics to align with the various stages of the innovation lifecycle. Typically, early-stage R&D projects should be governed by a more relaxed approach to financials. For example, by ring-fencing budgets and shielding idea generation from the accounting pressures or scrutiny of day-to-day operations. Only when ideas start to crystallise and approach implementation should tighter controls be introduced.

Corporates obviously also need to balance the competing priorities of the short-term reporting cycle – with quarterly or half-yearly investor and media scrutiny – against the long-term requirements to build a sustainable future business.

Help your business partners plan the path to profits

Companies do not generally innovate for innovation's sake. They do so in expectation of long-term rewards. Here, finance can keep innovation projects grounded by “pushing for at least a sense that there is a conceivable path to profits,” explains Scott Anthony, author of *The Little Black Book of Innovation*. By putting discipline around the process of moving from idea to implementation, finance can help bolster the process of commercialising a new product.

In addition, finance plays a key role in the allocation of resources and in sourcing financing. As well as focusing on the costs and efficiency that are the bread and butter of financial management, finance leaders increasingly need to understand which value drivers the organisation needs to protect today in order to win tomorrow.



HOW THE BEST COMPANIES INNOVATE

Many companies today are striving to be more innovative. Company executives across the world study the examples of the likes of Google alongside longer-established companies, such as Procter & Gamble, in a bid to discover the secrets of success.

Recent research of 759 companies based in 17 major markets has established that corporate culture is a more important driver of radical innovation than labour, capital, government or national culture. Building on this insight, Jay Rao and Joseph Weintraub of Babson College, Massachusetts, have

developed a model for building an innovative culture based on six building blocks: resources, processes, measuring success, values, behaviours and climate (the tenor of workplace life). Organisations often pay more attention to the first three – which are more easily quantified – rather than to the harder-to-measure people-oriented determinants of innovative culture. By assessing their scores in relation to the building blocks, organisations can develop their “Innovation Quotient”. Once strengths and weaknesses have been identified organisations can take action, but the advice is “start small and scale slowly”.⁹

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Finance can assist in creating the evaluation framework that helps organisations to sift the wheat from the chaff in their innovation portfolios

The key question is how to establish good financial management that manages business risk, without also stifling innovation. To achieve this finance and risk management needs to move from being seen as a constraint on innovation to becoming a valued contributor: from saying “no” to helping assess “how”.

At Coca-Cola, Doug Bonthron ACMA, CGMA, Director for Global Services Strategy, sees finance’s role in innovation as “scoping the opportunity”, “challenging a few of the thoughts” and “putting

some science behind the opportunity”.¹⁰ At Diageo, finance professionals are embedded in the innovation process, says Group Controller, Stephen Bolton FCMA, CGMA: “Their role is decision support in the innovation process, from idea right through to launch.” For BT’s John Beswick, it is less about controls, but more about “making sure we have strong execution of our plans with great project management discipline”.

Finally, the best companies know when to call time on an innovation project that isn’t right for the business. Limited financial and human resources inevitably mean that choices must be made. In the words of Apple founder, the late Steve Jobs: “We’re always thinking about new markets we could enter, but it’s only by saying no that you can concentrate on the things that are really important.”¹¹ Finance can assist in creating the evaluation framework that helps organisations to sift the wheat from the chaff in their innovation portfolios.



INNOVATION INSIGHT

Execution or invention?

John Beswick ACA, Group Capex Controller, BT Group plc

Innovation does not just comprise new product ideas; some companies gain their competitive edge from the capacity to commercialise innovations really well. “Companies don’t have to invent everything,” says John Beswick. “It is not always about being first, but sometimes about delivering and executing on a plan in a really excellent way for customers. Look at our fibre rollout in the UK. It’s one of the fastest on the planet passing up to 200,000 homes a week. Fibre is not new but our customers love it because we are offering a great product. It’s the execution

of these projects once you’ve chosen them that really separates the winners from the losers.”

What is critical, however, is “that culture of innovation. It’s very important that there is a supportive and enquiring culture for innovation, but then having the right checks and controls to validate innovations. We need to encourage idea generation from all parts of our workforce, and then to have the robust peer review process so that you choose the vital few to pursue.”

Apply the right metrics at the right stage of development

Innovation KPIs and other metrics all have a valuable role to play when managing a portfolio of innovation projects. But companies must beware of the dangers of trying to put firm metrics around initiatives that are nascent or experimental. A staged approach, which applies different criteria to the creation phase than to later commercialisation phases, is likely to be more successful.

A study of Australian biotech companies found that firms that were prepared to stage investments in innovation projects, increasing or discontinuing funding as the project progressed, were the most successful innovators, as measured by patents¹². By contrast, those firms using traditional financial criteria, such as estimates of market size and cash flows, were less successful innovators than firms that had no set financial criteria for innovation projects.

So the early introduction of inappropriate financial metrics to the innovation process can be a major barrier

to success. Balancing the needs of the operational business and the innovation pipeline requires a finance chief and department willing to “create and manage dual financial systems (operational excellence as well as innovation) simultaneously,” explains Professor Hess. Some go further, recommending separate budgets for different types of innovation.

The stage gate process used by many companies also allows the financial metrics to be tailored to the stage the innovation has reached. At the outset the innovation has to meet only modest criteria for its development to continue, and the funding it receives is also modest, limiting downside risk if the project is later abandoned. Early-stage criteria for project selection may include, for example, answers and accompanying analysis to basic questions about whether competing products have been identified and what advantage the new product or technology offers over alternatives. But as it passes each “gate” in the process, the hurdles it must meet to release the next level of funding rise.



INNOVATION INSIGHT

Applying rigour to the art of innovation

Doug Bonthron ACMA, CGMA, Director: Global Services Strategy, The Coca-Cola Company Limited

Innovation needs to become a way of life and a way of doing business, according to Coca-Cola’s Doug Bonthron, and “you have to be willing to have the failures and manage them in a thoughtful risk management process, to get the successes and the rewards of innovation”.

“There’s an art to innovation but there needs to be some science that goes with that: understanding the forward-looking side of strategy, being able to scope the opportunity. In all these areas the management accountant is really critical. Whether it’s a new product, process or business model, the management

accountant can help assess the results, evaluate how things have gone and learn lessons.”

“We have a stage gate process, so if someone comes with an innovative idea and it’s prioritised and it’s going to be funded, they don’t get all the funds at once. We want to see the whole project and we want to budget for it, but those funds are not given at one go up front. Each stage has budgets allocated to it, and targets and metrics. If you get to the first gate and if you’re on track, you pass through that gate and get the funding for the next phase. And if you get through to launch, we can spend many, many millions of dollars.”

Each gate is an opportunity to review the project and decide whether it will be developed or suspended. If the expected results are not achieved at any stage, it is important to determine the reasons why. Conversely, if outcomes are better than expected, it may be necessary to make rapid adjustments to accelerate a promising programme, including investing more resources.

At a 2012 CFO Network conference, CFOs overwhelmingly felt they should have a large role in driving innovation through creating incentives and ensuring sufficient funding was available.¹³ Shell's Simon Henry agrees: "Identifying, quantifying, considering risk management strategies, and then measuring and monitoring performance over a period of time is, for Shell, a key management accounting competence."

Take a balanced view on innovation risk

At times, risk management can be a compliance exercise, rather than a strategic tool, or risk can be viewed as a negative that needs to be managed out of a business. While minimising risks has obvious merits in running day-to-day operations, it has equally obvious shortcomings when applied to innovation, where risk is an inherent part of the process. As Ernst & Young's Jonathan Blackmore says: "Risk and innovation are two sides of the same coin."

"The perception that risk management is there to apply the brakes is a misconception by many. The risk function is there to encourage the business to understand that they need balanced strategies or actions in order to grow the company. Consequently it is now increasingly involved in making sound business decisions and is seen as a business advisor. Understanding of risk is a genuine value driver and companies who weigh their risk appetite appropriately are able to make informed decisions that support innovation. Naturally if we don't innovate, potentially the company may not be sustainable 10 years down the road," explains Anita Menon, Chief Risk Officer, Prudential BSN Takaful, a joint venture between Prudential PLC and Bank Simpanan Nasional.

Recalibrating attitudes to risk is therefore one of the key areas where finance professionals can help to create an environment where innovation can flourish.

FIGURE 3: How risk is articulated in strategic planning¹⁴



First, by ensuring that an organisation's risk appetite is well defined and understood, and set out within its strategy. This is still surprisingly rare, according to a recent survey. It found that almost two-thirds of companies have not articulated their risk appetite in the context of their strategic plans¹⁵. So perhaps it is not surprising that analysis has shown that misjudgement of strategic risks is the greatest cause of destruction of shareholder value¹⁶. Or that companies with more mature risk management practices outperform their peers financially¹⁷. The use of key risk indicators, which are forward-looking, can help organisations proactively monitor their strategic risks.

Second, by using risk management as a strategic tool for managing risk-reward trade-offs, across the portfolio of innovation projects and on a case by case basis. This ensures that minor or incremental innovation, which accounts for up to 90 percent of innovation¹⁸ and is generally low-risk, balances the major innovations that are risky, but have the potential to transform business growth. One way to do this, suggests Professor George Day of the University of Pennsylvania's Wharton School, is to establish a risk matrix to show the distribution of major and minor innovations in the pipeline and the resulting distribution of innovation risk and potential rewards across the business.

Third, companies need to build both tangible (“hard”) and intangible (“soft”) risks into their strategies. This requires a step change in attitude, because the soft risk of not innovating, for example, is hard to quantify. As Steven Marshall FCMA, CGMA, Chairman of construction firm Balfour Beatty, says: “One is a hard risk where you are taking an exposure, and risk the downside of failure. The other is a soft risk because of the loss of market share.” Weighing the risk of the unknown requires judgement as well as analytics.

Perhaps the most difficult risk to understand and manage is that associated with disruptive innovation that may cannibalise an existing business, especially for large organisations. As Steven Marshall points out: “It is a lot easier if you are small and have nothing to lose. If you are a market leader you will think very hard before you disrupt your own marketplace. But the real issue is value maximisation and there will be occasions where a disruptive approach is sensible. I would link it very much to your corporate strategic direction, your sense of risk, and the sort of risk that your investors are prepared to run.”

Kodak provides a salutary case study for those companies unprepared to countenance disruptive innovation. The company invented the digital camera in the 1970s, but failed to exploit the technology fearing that it would cannibalise its traditional film products, where it dominated the market. It was a decision that presaged several decades of decline as the company struggled both to catch up with competitors and to define a new business model. Eventually, in 2012, the company filed for Chapter 11 bankruptcy protection.

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Financial professionals can help
recalibrate attitudes towards risk
to help innovation flourish



INNOVATION INSIGHT

Can you audit the innovation process?

Roy D’Cunha ACMA, CGMA, Internal Audit Manager, HP

The HP audit team has a goal to be best in class in the industry, says Roy D’Cunha, and this has involved taking a more positive approach to identifying and understanding risk through the audit process.

“Audit was previously just to find fault,” he explains, “best practices were getting lost.” So while audit continues to play its traditional role, providing a balanced view of risk management in a given business, Mr D’Cunha’s team goes a step further and also highlights best practices they see in operation.

To the conventional “Red-Amber-Green” traffic light assessment, they have added a new blue category to capture best practices – for example, in process, leadership or financing – that can potentially be replicated in other parts of the company. “Best practices that were getting lost, are now captured and shared with senior business management,” says Mr D’Cunha, “and this helps align the processes with the strategy”.

CONCLUSIONS: INNOVATION CHALLENGES AND OPPORTUNITIES

It is clear that with the right attitude, finance can become an effective co-pilot on innovation, helping guide the rest of the business towards its goals. It can target and prioritise company resources, both financial and human, to make innovations a reality, while managing known and unknown risks.

But as this report has argued, getting there may require new thinking from within the finance function. With the right tools and outlook, finance can support and nurture the innovation process without letting it run out of control. As innovations mature, finance has a key role in supporting business decisions and developing the business case. It has core competencies in performance management and evaluation during and after launch. And finally it has a critical role in managing strategic and operational risks.

Innovation is at the heart of an organisation's capacity for renewal; it is necessary for it to thrive. The goal for finance, therefore, must be to create a supportive culture that fosters creativity and ideas, and underpins them with checks and controls, so that the organisation can successfully turn ideas into commercial success.

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With the right tools and outlook finance can support the innovation process without letting it run out of control

INNOVATION CHECKLIST

Create an innovation-centric mindset

- ✓ Ensure your CFO is actively engaged with the business and helping to drive innovation.
- ✓ Consider how your company's financial management processes – including reporting cycles, remuneration and KPIs – can be structured to support innovation and not hinder it.
- ✓ Structure your incentives and performance measures to reward innovation and promote an appropriate risk appetite.
- ✓ Consider adopting a portfolio approach to innovation, combining organic innovation with openness to external ideas.

Respect and nurture the innovation process

- ✓ Understand where good ideas come from in your organisation, and how finance can help that process.
- ✓ Learn to balance good financial management and discipline with the uncertainties inherent in innovation.
- ✓ Encourage finance professionals to move around the business and gain exposure to the innovation process.
- ✓ Balance the freedom to experiment with the right checks and balances once the innovation has reached an appropriate stage.

Help your business plan the path to profits

- ✓ Check that you have the tools to model the impact of a product or idea in various markets and against a range of scenarios.

- ✓ Understand your wider organisational strategy and where your company gains its competitive advantage.

- ✓ Embed financial professionals in the innovation process to help build the business case for upcoming ideas.

- ✓ Proactively advise on different options for funding business proposals.

Apply the right metrics at the right stage of development

- ✓ Consider using an appropriate stage gate process to allocate budgets, targets and metrics on a phased basis.

- ✓ Help quantify and assess the results, successes and failures of innovation across the organisation.

- ✓ Incorporate a blend of quantitative and qualitative measures to help assess the progress of ideas through your innovation funnel.

Take a balanced view on innovation risk

- ✓ Ensure that your risk appetite is reinforced by the company's governance structure, risk and reward structure, and reporting cycles.

- ✓ Ensure your risk strategy helps identify innovation opportunities as well as threats.

- ✓ Consider the soft risks of not innovating, as well as the hard risks of innovation.

- ✓ Consider adopting a portfolio approach to risk, balancing more and less risky innovations over various timescales.

Footnotes

1. The Stage-Gate® innovation process, pioneered by Dr Robert Cooper, is trademarked; its influence on innovation has led to the term passing into everyday usage to describe a phased innovation process.
 2. *Why Globalisation Works*, Martin Wolf, Yale University Press, 2005
 3. *Creative Destruction Whips through Corporate America*, Innosight, Winter 2012
 4. S&P 500® Index
 5. *Reinventing your business model*, Harvard Business Review, December 2008
 6. *Oslo Manual: Guidelines for collecting and interpreting innovation data*, OECD
 7. *McKinsey Global Survey: Making innovation structures work*, McKinsey, 2012
 8. *Is the CFO an Enable or Inhibitor?* Financial Executive, November 2012
 9. *How innovative is your company's culture?*, MIT Sloan Management Review, Spring 2013
- For further insights in this area, see
How to build an innovative company: HR Magazine, January 2013
The world's most innovative companies 2013: Fast Company, 2013
10. This reflects Doug Bonthron's role at the time of this interview. He has since retired.
 11. *BusinessWeek*, May 1998
 12. *How Accountants Kill Innovation*, timkastelle.org
 13. *CFOs wish list, a role in driving innovation*, Wall Street Journal, 29 June 2012
 14. *Current state of enterprise risk oversight*, AICPA/NCSU, 2012
 15. *Current state of enterprise risk oversight*, AICPA/NCSU, 2012
 16. *The root causes of value destruction*, Booz & Co, 2012
 17. *Turning risk into results*, Ernst & Young, 2012
 18. *Is it real? Can we win? Is it worth doing?* Harvard Business Review, December 2007

Further resources

For more information and resources on risk and innovation visit cgma.org/innovation

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