

# Aligning Innovation and Finance

Dialogue to Drive New Growth



If resources were unlimited, Innovation (R&D and New Product Development) and Finance would never be in conflict: every idea would be fully funded and staffed. In a resource-constrained world, Innovation and Finance often work at cross purposes. Innovation teams balk at Finance placing restrictions on resources and demanding precise, fixed estimates of project results. Finance sees Innovation teams as a source of unnecessary risk and expense without certainty of return. This tug-of-war distracts both Innovation and Finance from growing the business.

But both groups need to make innovation make money. Finance's growth goals must be on Innovation's agenda, and Finance must recognize Innovation's need to explore high-risk, high-reward areas. The two groups need a shared set of terms and tools to let them focus together on driving project upside and prioritizing projects for maximum portfolio value. Then they can agree on which projects to shelve, which to execute as planned, and which to pivot to better opportunities.

To get high returns, an organization must take risk: the question is how to manage risk wisely. Managing risk at the project level kills high-risk, high-return projects. Managing risk at the portfolio level recognizes the value of diversification and balances risk and return. To get enough big winners, the portfolio must include enough high-quality risky projects.

Instead of stifling conversations about budget authorizations and committed forecasts, have smart conversations about wealth creation, options and value. At first, these smart conversations may be unfamiliar and uncomfortable, but they are essential.

## How Can We Create Wealth?

The innovation process is about creating wealth through finding new revenue sources for the organization.

Wealth creation starts with **unlocking each project's upside**. Done right, evaluation is a continuous process that identifies how to increase each project's return. When Finance and Innovation are disconnected, they usually treat evaluation as a hurdle rather than a tool to drive each project toward better results.

Portfolio Navigator® gives innovators evaluation capabilities to direct projects better and focus on what's most critical to success and profitability. It helps Innovation and Finance account for uncertainty in the factors that help or hinder achieving each project's upside.



*Thanks to SmartOrg, my organization now focuses on the real business value of their projects. Their solution enables key stakeholders who speak “different languages”—finance, technology, manufacturing and sales—to translate what they know into a common language understood by all.*

Chief Technology Officer



This keeps the discussions focused on unlocking value rather than on fear.

At the corporate executive level, the issue is **making great portfolio choices**. Smart conversations about innovation portfolios seek to balance financial return and support of the organization’s strategy with aggregate risk and cost.



Portfolio Navigator puts projects of different sizes and difficulty on a level playing field and prevents managers from choosing only easy incremental projects while avoiding difficult but potentially very valuable

innovation projects. Shifting toward more valuable projects gives the portfolio more power to generate future revenues. Pursuing upside potential naturally drives conversations about comparative choices. Together, unlocking project upside and making great portfolio choices create a virtuous cycle of building great portfolio results.

### Smart Conversations, Great Portfolio Results

Achieving great portfolio results has three dimensions:

**Economics:** driving results the portfolio should achieve (the wealth it should create) and vetting uncertainties in the portfolio.

**Resources:** assigning resources to projects and setting parameters (budgets and timelines) for their use.

**Process:** governance tools to ensure that managers and executives remain informed of project status, upcoming achievements and potential problem areas.

Managers are generally most comfortable with Resources and Process. It’s straightforward to create budgets, mile-



stones, dates, and organization charts, even if these take a lot of effort.

But economics is the key to ensuring that resources and process create real value for the enterprise. The challenge is that top-down requirements for growth and constraints on spending typically don’t match to bottom-up reality. To close the gap, something has to change.

The crux of the issue is learning how to **say no to good projects to fund better ones**, to manage portfolio risk instead of simply avoiding risky projects. The naïve approach of “gathering the data” and making a decision usually falls short. Objective evaluation is fundamentally hard, because people typically make assumptions to support their case and use subjective evaluations in a political fight.

To make and accept decisions using objective evaluations, the standards for the process are high. Will those whose projects were cancelled come to the same conclusion themselves—or at least acknowledge that the decision was made fairly and objectively? Smart portfolio conversations combine **analytical comparison processes** with **conflict resolution processes** that help portfolio managers and project owners reach consensus about which projects will best drive the organization’s future.

### Shared Terms, Shared Tools, Shared Goals

Helping Innovation and Finance appreciate and understand each other’s roles and goals enables organizations to move beyond mistrust and miscommunication and start having smart portfolio conversations. These conversations let Innovation and Finance apply their respective skills and expertise to pursuing growth and creating greater wealth.

SmartOrg’s Portfolio Navigator application provides the necessary tools to make smart portfolio conversations possible. Its models, displays and reporting let Finance and Innovation share a vision of driving upside value from projects and achieving better portfolio results overall.

## SMARTORG®

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SmartOrg’s portfolio evaluation platform builds your capability to align innovation and finance to agree on where and how much to invest to drive breakthrough growth. Our web platform administers and conducts the evaluation of uncertain opportunities, aggregates and compares them, and optimizes the portfolio.

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