# CFOs must be hands-on regarding innovation - research

New research from the Chartered Institute of Management Accountants (CIMA) and the American Institute of CPAs (AICPA) finds that management accountants, led by the CFO, play a vital and growing role in driving advancements at some of the world's most innovative companies.

In these businesses, the CFO and finance team are deeply embedded in the process of innovation and have a clear framework to let new ideas take shape. They partner early with other departments to identify concepts with market potential, replace rigid financial metrics with staged measurements to avoid eliminating ideas too soon, and accept that failure is a tolerable outcome for projects along the path to commercialisation.

These conclusions are captured in a new Chartered Global Management Accountant (CGMA) report, "Managing Innovation: Harnessing the power of finance," and based on interviews with global finance leaders at companies including Coca-Cola, Royal Dutch Shell and BT Group.

The role of finance in all of this is multifaceted, Royal Dutch Shell's CFO, Simon Henry, explained in the report: "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."

## An art to innovation

Samantha Louis, regional director of CIMA Africa, said: "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.

"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 business. It is not only about disruptive technologies that can change our lives; innovation can also be evolutionary as well as revolutionary, incremental as well as radical. It is also not just about new products and services and can as easily be new processes, models and methods.

"Innovation is vital, but it isn't easy. It is disruptive to an existing business, uncertain in its outcomes, and requires a strong appetite for risk. While CFOs are not expected to be originators of breakthrough innovation, they do need to create an environment that ensures great ideas are spotted, encouraged, financed and delivered; balancing the risk, while commercialising an innovation, is the real challenge for CFOs today."

It is clear from the research that the most successful companies work to create an innovation-centric mindset, putting this at the heart of the business and fostering a culture where ideas can flourish. Louis continued: "In fact it appears the most successful companies provide a range of incentives to encourage innovation from all employees, not just those in R&D. These could be encouraging employees to devote a proportion of work time to projects or research outside of core responsibilities, or employee ideas schemes that involve peer review.

"This requires finance to have a different mindset for early-stage projects, because the premature application of too many KPIs and metrics can kill off a good idea quickly."

## Areas for action

The report recommends five areas in which finance professionals should take action:

- **Create an innovation-centric mindset:** Finance needs to transform itself into a business partner that can help innovation teams succeed. Promoting an innovative culture throughout the organisation, where thinking goes beyond the status quo, can deliver tangible results and enhance competitive advantage. Do this by developing a framework in which innovation can thrive and accept that sometimes projects will fail.
- **Nurture creativity:** There can be a clash of cultures between those responsible for coming up with ideas and the finance professionals, particularly when early-stage ideas are prematurely tested against traditional finance metrics. More sympathetic approaches can help, such as the creation of ring-fenced budgets with more relaxed criteria for early-stage innovations. Finance must learn to work in an environment in which uncertainty is part of the process.
- **Prepare the path to profits:** Being able to find the path to profits when an innovation moves forward to implementation is a key capability of management accountants. Building cash-flow models, advising on financing, understanding costs and allocating resources are ways in which management accountants can bring rigour to commercialisation of ideas.
- **Match metrics to the stage of development:** Companies must be aware of the danger of trying to apply operational metrics to early-stage innovations. A staged approach to measurement allows an innovative idea room to breathe. Finance can contribute to this by creating stage-gates for innovation where the idea can be challenged and refined to prepare it for the next stage of investment.
- **Take a balanced view on innovation risk:** Companies increasingly employ a portfolio of strategies to drive innovation. Management accountants should seek to create an opportunity framework that promotes clarity, transparency and discipline across the total innovation portfolio. Companies that excel in this portfolio management are often the most successful businesses in the world.

Innovation requires finance professionals to develop strategic skills alongside functional competencies and this means proactively supporting the innovation strategy while managing the associated risks.

Said Louis: "Management accounting training helps finance professionals to develop these strategic skills; however learning how to apply these skills to the different stages of the innovation cycle can still be a challenge, even for experienced finance professionals."