

Executive Summary

Research Question: *What are some of the best ways to assess and measure operational team performance in a lean innovation environment?*

Introduction

Lean innovation is a concept that has been gaining attention in the recent years. It began as a concept for start-ups; entrepreneurs with creative ideas wanting to provide the most value to their stakeholders using the least resources, but has quickly grown popular in large companies as well. As companies strive to differentiate their offerings in the rapidly globalizing world amid tough competition and depleting resources, lean innovation could provide a logical solution to many related problems.

With principles like *value for customer*¹, *experimentation with ‘pivoting’*², *speed, teamwork, and efficiency*³, lean innovation is being applied in many companies. The question that arises, then, is how to successfully evaluate the teams performing in a lean innovation environment, given the different dynamics like higher failure rate and higher costs involved with the innovation process, that did not exist in traditional organizational setups.

Since lean innovation is a relatively new concept, there is little research available with respect to teams in a lean environment specifically. However, there are ways to evaluate teams, taking into consideration the principles highlighted above. The following sections shall focus on highlighting some of the best practices of assessing teams that are applicable to an environment which has one or more of the aforementioned dynamics.

How to Successfully Evaluate Team Performance

The best evaluation approaches are those that incorporate a number of techniques and elements and don't rely on just one or a couple of evaluation methods. Some of the most successful team evaluation techniques are highlighted below, supported by relevant research.

Using Multiple Metrics for Assessment⁴

Customer Metrics – Satisfaction Ratings: Evaluation ratings from both internal and external customers about the team's products/solutions can be an effective way of assessing team performance as a whole⁵, in line with the lean principle of creating customer *value*. Since lean innovation is all about creating value for the customer, it is only logical to make customer satisfaction ratings part of the evaluation process to gauge team success. These ratings can be collected through simple online customer surveys.

Process Metrics – Gradual Improvement: Setting rigid goals for teams, like achieving a set number of patents, for teams can stifle innovation by incentivizing them to choose a known strategy to reach the minimum goal. Instead, companies should evaluate whether teams are using knowledge gained throughout the innovation process to improve their results⁶. This can be done by comparing a team's outcomes to its previous outcomes, and looking at the trends so teams are not punished for pursuing one failed idea. Goals should be designed to encourage desired action. For example, goals that challenge teams to try new approaches or set learning goals can be useful to encourage innovation⁷.

Financial Metrics – Cost of Reaching a Viable Solution: Since working efficiently with limited resources is a key characteristic of a lean environment, the funds used to derive a solution should also be considered when evaluating team performance. The lean innovation environment allows for pivoting, but that does not mean that teams should be permitted to use resources without oversight. Hence, there should be a financial metric against which to measure team performance, even if the weight of this metric is lower than the others.

Using an Innovation Report Card⁸

This can be an effective tool for measuring team performance in an environment that has a higher than usual failure rate. An Innovation Report Card records and tracks a team's progress as it goes through a project. It contains information about all the strategies adopted, actions taken, member contributions, time taken to reach solutions, how many times the team 'pivoted', and the team's final solution. The Report Card can be physical or a document on the company intranet; the latter way making it more accessible to all stakeholders, allowing for constant feedback and review. While this can be time

consuming and at times even a nuisance to fill out by the team members, it is one of the most effective ways of gauging team performance and failure rates by giving a snapshot of every single project.

Team Review Interviews⁵

Conducting review ‘interviews’ (discussions) after every successful project allows team members and managers to effectively assess progress and to openly discuss mistakes made and lessons learnt. They also enable objective evaluations, taking into consideration individual teams’ dynamics/issues while working on respective projects. They can, however, be time consuming and expensive.

Case Studies

Apple versus Microsoft - When developing, debugging, and deploying iOS 10, it took Apple 600 engineers and less than 2 years. At Microsoft, it took 10,000 engineers more than 5 years to develop, debug, and retract Vista. One difference between the two was in the way the engineering teams were evaluated. Apple evaluated teams as a unit; unless the entire team received high performance appraisals, no one person could get a high rating. Conversely, at Microsoft rankings were used, which permitted 20% of the team members to receive high ratings despite their team’s performance⁹. The difference in results highlights the importance of assessing the performance of the collective team instead of the individual members.

IBM’s Check-Point System – IBM introduced an app-based system of regular feedback, called the Check-Point system¹⁰, whereby employees/teams receive constant feedback at predetermined ‘check-points’ throughout their project durations. This helps the company track employee and team performance throughout the year, and make suggestions as needed.

Limitations/Lookouts

One potential risk in moving from individual to team assessments is that it could increase the chances of having ‘freeriders’ - members who do nothing to help the team but are given the same evaluations as the other team members. However, the experiences of companies like Toyota and Southwest Airlines suggest that this is not always a big problem. A competitive environment of team building and continuous improvement is said to expose freeriders very quickly¹¹. Furthermore, studies show that when an organizational culture promotes and encourages teamwork, employees themselves feel pressured not to freeride, and are more willing to cooperate¹¹.

Conclusions and Recommendations

- Companies should clearly define the metrics that it values and that it thinks define team ‘success’. In doing so, the company should make sure to include various kinds of metrics, including customer, financial, and process metrics, in order to get a more holistic evaluation.
- The lean innovation concept is all about creating value efficiently, and if teams are to do that, they need performance reviews on a continuous basis and not at the yearend, similar to IBM’s checkpoint system mentioned above. The team assessment process should be a continuous one. By ensuring constant feedback from team/project managers throughout the duration of the project and conducting project reviews after every project, an organization can ensure that it makes the most use of the lean innovation concept. This way, the teams would learn about their mistakes as they make them, would be able to pivot in time and more effectively, and provide innovative solutions more frequently.
- While there is now an increasing trend of not directly linking compensation to individual performance appraisals, research has shown that linking rewards to team performance can be beneficial in terms of promoting teamwork and innovation, leading to a faster rate of solution generation with fewer failures¹². Hence, making clear a direct link between team evaluations and some element of total compensation to get the maximum benefit from its innovation teams should be considered.

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