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Innovation Health Check: Assessing Your Organization's Capacity for Breakthrough Thinking

BY ALAN P. BRACHE

Innovation is the business topic *du jour*. The pursuits of Total Quality in the 1980s, Reengineering in the 1990s, and Six Sigma in the 2000s have, in many cases, yielded impressive cost reductions, cycle-time reductions, and quality improvements. However, enlightened executives realize that they can't streamline their way to growth any more than an individual can "save himself rich." They understand that continuous gains in "how" an organization does business must be dovetailed with expanding the horizon of "what" business they are in.

Critical to growth in most sectors is some combination of:

- launching winning new products/services
- entering lucrative new markets
- creating new competitive advantages
- deploying new business models

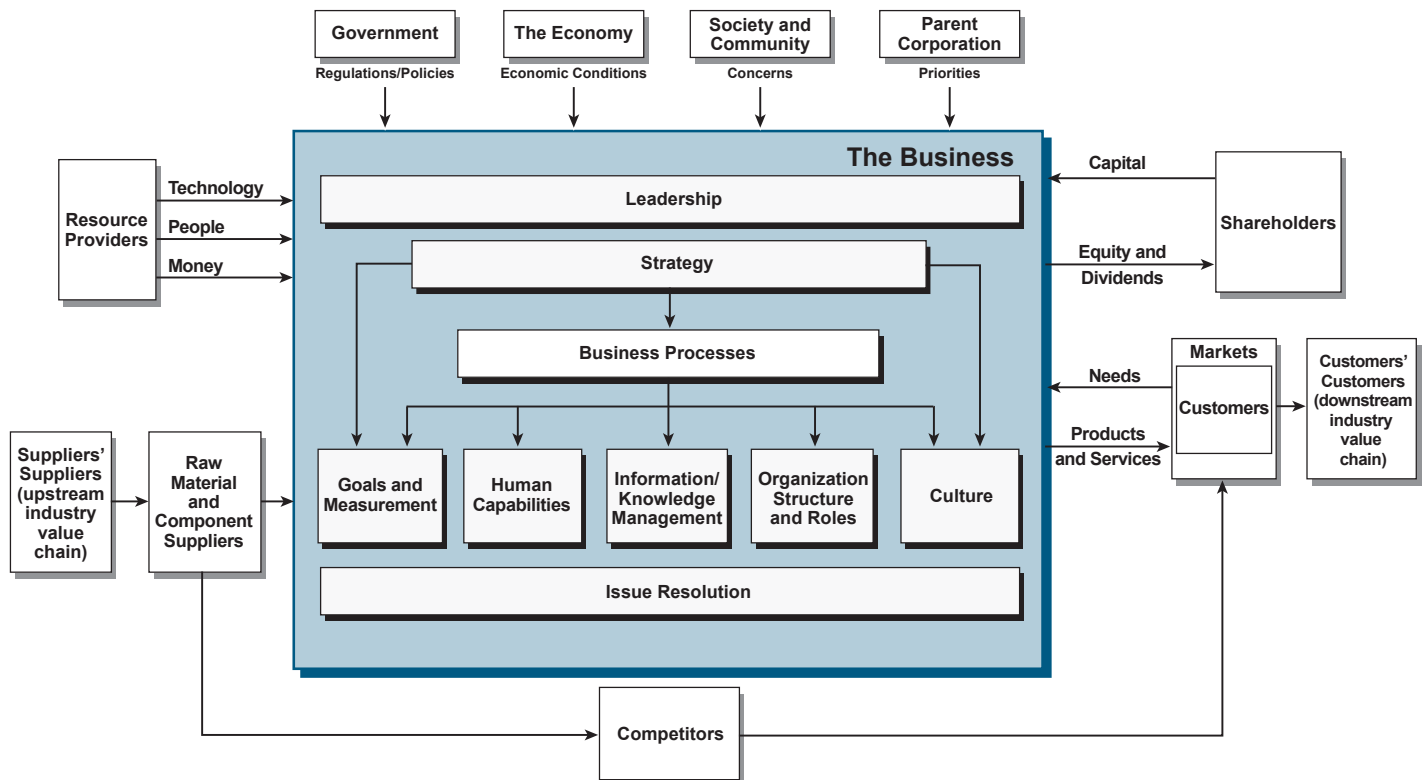
All of these quests require more than operational excellence. They demand innovation.

The process within an innovator's head has not been definitively decoded. However, the columns that support—or fail to support—an organization's pursuit of innovation are not a mystery. The purpose of this article is to help you diagnose your "innovation environment" and plan the steps you will take to root out elements in that environment that inhibit robust, profitable, breakthrough thinking.

The Enterprise Model: A Framework for Diagnosing Innovation

The framework I use to audit innovation is the Enterprise Model that is displayed in the illustration that follows. The box labeled "The Business" can be an entire corporation/agency, a business unit, a site, a division, or a department. Arrayed around it are the external entities that serve as its context and present its threats and opportunities: customers, suppliers, competitors, society, government, owners, and the economy. Inside are the nine variables that influence the degree to which the environment supports innovation.

The Enterprise Model



Diagnosing Your Organization's Innovation Environment

Each of the following nine sections defines an innovation variable, provides an example of how that variable influences innovation, and ends with one or two questions that guide your assessment of the degree to which that variable enables or hinders innovation in your organization. In aggregate, you have the equivalent of a comprehensive physical exam that focuses on your innovation health.

STRATEGY

The innovation journey begins with Strategy, which defines the field in which innovation plays. Strategy defines the size and shape of "The Business" box in the Enterprise Model and answers questions that include:

- What existing and new products/services will we offer and how much will we invest in each?
- What existing and new markets/customer groups will we serve and how much will we invest in each?
- How will we win against our future competition?

Without answers to these and other strategic questions, innovation is unfocused. Precious resources are squandered innovating in areas that will not serve the future business. By pinpointing what the organization will not do, a solid strategy establishes innovation guardrails. More important, it provides a vision that inspires the types of innovation that will enable it to thrive.

For example, a defense contractor's strategy included the top team's decisions to exit its commercial and international businesses. Any innovations directed toward expanding those markets would have wasted time and money. The strategy proceeded to pinpoint the scope of the company's offerings to its current and potential U.S. Defense and Homeland Security customers and the competitive advantages that would fuel its future success.

During strategy deliberations, the top team of a business unit within a plumbing products company decided to fuel growth by expanding the product line from the one type of connector that had been offered for 40 years into connectors for a wide range of liquids and gasses. The team also decided to offer connectors to industries that the company had never served before. However, the strategy prohibits adding any commodity products to the portfolio. These strategic decisions now guide all product innovation.

Does your organization have a clear, comprehensive, specific, compelling, well-understood, and inspiring strategy that establishes boundaries and opens doors that focus and stimulate innovation?

BUSINESS PROCESSES

Business Processes are the workflows through which business is conducted. They may touch the customer (e.g., new product development, order fulfillment, customer service) or they may be invisible to the outsider but essential to running the business (hiring, planning, budgeting).

Business Processes are an innovation lever in three ways:

- Innovation—not just streamlining—needs to be built into every process redesign effort. You must continually ask not only "How can we do this better?" but also "Why do we do this at all?" and "How could we do this in a completely different way?" and "How would we do this if we had no constraints?"
- Innovation from all sources needs to be hard-wired into the front-end "ideation" steps in your product/service development process.

- Innovation may deserve its own process outside of product development. This process stimulates new ideas at all levels and in all departments, evaluates them, gives feedback to innovators, and ensures that the ideas worth pursuing are sanctioned.

For example, a small, closely-held industrial products company had a traditional “stage-gate” product development process. Its weak link was the ideation sub-process, which was an uncoordinated set of activities best described as “catch as catch can.” The redesigned process includes mechanisms for tapping into creative thinking from the outside (customers, suppliers, academia), stimulating internal innovation, screening novel ideas, and funding the ideas worth taking to the next step. *These process improvements opened the innovation floodgates, broadening the range of products in the development pipeline. And the company reaped a significant collateral benefit: strengthening customer and supplier partnerships.*

Is innovation built into your business process design/redesign efforts? Do you have a business process that is dedicated to the fostering and adoption of innovation?

GOALS/MEASUREMENT

An old saw says “What gets measured gets done.” You are failing to pull one of the most powerful innovation levers if you don’t:

- set clear, strategy-driven expectations for innovation
- establish measures for these expectations
- define goals for these measures
- evaluate actual performance vis-à-vis these goals
- provide feedback to those who innovate and those who do not

For example, a mid-sized leisure industry company exhorted its employees at all levels to innovate. Echoing thematically—but not grammatically—the Apple advertising tag line, they hung “Think differently” posters in employee break rooms and other non-public areas. The words “innovation,” “creativity,” and even “novelty” peppered newsletters, the website, and executive speeches. However, the campaign fell short of expectations in large measure due to the failure to build innovation into employee metrics. (The other causes were in the area of Culture, which is covered later in this article.) Innovation is now part of the Key Result Areas of employees at all levels, including the top team.

Is innovation formally built into your performance measures for departments and employees at all levels?

HUMAN CAPABILITIES

Human Capabilities are the skills and knowledge that reside in the “people component” of business processes. A clear strategy, well-wired workflows, and on-target measures will not compensate for an absence of innovation’s raw material: talent. This variable has two components:

- The hiring of people who have a track record of innovative contributions or who, based on pre-hire assessment, have an aptitude for innovation. This is the “nature” dimension of innovation.
- The development of innovation skills and knowledge. Creativity tools can be learned. This is the “nurture” dimension of innovation.

The Information Technology function within a Europe-based global mega-bank needed to turn up the gain on innovation. A key—but not the only—vehicle used to create an innovation environment is a development program for high-potential leaders. The program includes training in lateral thinking and other “color outside the lines” techniques for use by individuals and teams.

Is innovation one of the factors you use when screening potential hires? Do you have programs that develop innovation skills and knowledge?

INFORMATION/KNOWLEDGE MANAGEMENT

Knowledge Management includes the computer systems dimension of business processes. It also encompasses the person-to-person interactions required to share learning that needs a texture that databases are not able to provide.

A 500-store restaurant chain frequently launches promotion programs that feature limited-time menu items, based on either the season or the unique tastes of a region. These promotions had historically produced solid results, as measured by increased traffic and average check amount. However, the business generated by these promotions had become lackluster. And, the cost (not to mention the angst) of their launch was exorbitant, compromising the return on investment. The primary reason for deterioration in promotion performance was that every promotion started with a clean piece of paper. It was as if they had never done a promotion before.

The executive team recognized the need for innovation in both the thrust and cost of promotions. The company didn't benefit from past innovations because they had neither a database of lessons learned from prior promotions nor any forums for person-to-person sharing of experiences with past promotions. Having understood that history can serve as an invaluable platform and stimulus for breakthrough thinking, the team commissioned the design and installation of lessons-learned systems and interchanges for promotions. *The impact of promotions on traffic and check amount is now better than it has ever been. And promotion design has been transformed from a laborious task to one that is stimulating enough to attract the best minds in the company.*

Do you have information systems and face-to-face communication vehicles that enable people to learn from past innovation successes and failures?

ORGANIZATION STRUCTURE AND ROLES

While most companies restructure more than necessary, this variable reflects the fact that the boxes on the organization chart and the clarity of roles within that structure can either support or hinder the processes that deliver innovation.

The top team of a telecommunications hardware manufacturer decided to bet the company on its ability to rapidly introduce innovative products to its existing markets. Specifically, the goal was to reduce concept-to-launch cycle time from a middle-of-the-pack 18 months to a best-in-breed six months. The only way to achieve this ambitious target was by radically rethinking the product development process. The process redesign team found that two of the primary "disconnects" in this process—and therefore significant roadblocks to innovation—were:

- the Balkanized, "silo" structure of Marketing and Manufacturing that impeded handoffs between those two critical functions; and
- the unclear definition of the roles to be played by the Marketing and Sales functions.

The redesigned process had fundamentally the same steps, but they flowed through a different structure in which department missions and deliverables were clearly communicated.

Do your organization structure and the roles within that structure enable innovation to blossom or at least not impede the flow and pursuit of new ideas?

CULTURE

Culture is the prevailing norms, behaviors, rituals, and unwritten protocols that characterize the "personality" of an organization. Its wide waterfront includes everything from the level of trust to the willingness to share information to the tolerance of risk to how people communicate

to whether meetings begin on time. A critical component of culture is the formal and informal reward/punishment system.

Innovation may be guided by a clear strategy, deployed through rational processes, and supported by knowledge management systems. However, if innovation is not reinforced by the culture, it will be a rare commodity.

A national hotel chain with global aspirations was guided by a strategy built around a competitive advantage of first-class customer service. The top team was united in the belief that superior service trumps any deficiencies in property appearance, location, and price. As this strategy was cascaded, people from vice presidents to front desk clerks to housekeeping personnel were told that they were responsible for developing innovative service improvements. A cross-functional team developed and installed a process for evaluating suggestions. However, the system didn't bear fruit until the organization identified and expunged two central characteristics of the legacy culture:

- Individuals who strayed a bit over the policy line to provide exemplary service were upbraided and sometimes fired.
- Service improvement suggestions were rejected if the submitter couldn't demonstrate short-term financial payback.

Recognizing that deep-rooted cultures do not change overnight, executives sponsored a culture transformation initiative that eliminated these two enemies of innovation. *The quality and quantity of innovations have increased dramatically and the chain is now seen as a service leader.*

Does your organization's culture—including its reward system—encourage innovation?

ISSUE RESOLUTION

Symbolized by its placement in the Enterprise Model, Issue Resolution underpins all of the other variables. In a fast-changing, reverse-engineering world, one of the few long-lasting competitive advantages can be an organization's ability to solve and avoid problems, efficiently make the right decisions, and successfully forge and implement plans.

The executives of a small, privately-held grocery chain realized that innovation was the only route to establishing a growing, profitable niche in an industry dominated by a small number of big players. However, when confronted with innovation issues—threats and opportunities, present and future, large and small—they were clumsy in defining them, identifying the individuals or teams to address them, collecting relevant information, and agreeing on solutions. They overcame this deficiency by installing a "common language" for issue resolution, a key element of which was providing problem-solving and decision-making tools to employees at all levels. *The use of these issue resolution techniques has stimulated new ideas, increased the rigor with which suggestions are assessed, and reduced the cycle time of the installation of innovations that are approved.*

Does your organization have a universal set of methods for effectively and efficiently addressing innovation issues?

LEADERSHIP

The ninth and final innovation variable is Leadership. Its position in the Enterprise Model shows that it is the umbrella over all of the other variables. An organization's leaders influence innovation by:

- establishing the Strategy that establishes the innovation playing field
- sponsoring Business Process improvements, which in turn influence Human Capabilities, Knowledge Management, and Structure
- creating a Culture that buttresses innovation
- ensuring that innovation is built into Measures
- installing an innovation Issue Resolution system

- role-modeling innovation in their own approaches to business challenges
- through their communication, serving as the champions and consciences of innovation

After assessing their innovation environment, the leadership team of a mining company recognized that innovation does not spontaneously combust. Actions needed to be taken. And, they recognized that delegating responsibility for creating a “high-innovation business” to subordinates or consultants is no more appropriate than delegating strategy formulation to subordinates or consultants. They came to recognize that each of them has to serve as the Chief Innovation Officer in his or her part of the business, and they collectively must play this role for the entire enterprise. While they were not surprised that this responsibility is theirs, they had never taken steps to proactively assume this role and hold themselves accountable for carrying it out. They have now done so, and the look, feel, and—more importantly—the performance of the company reflects it.

Do your leaders recognize that they exert the primary influence on your organization's innovation environment? Do they effectively play the seven roles listed above?

Your Path Forward

Having unilaterally conducted a high-level innovation evaluation by answering the questions in each section, you can proceed by taking these steps:

- Test your assessment with others, particularly those who know more about some parts of the business and/or have a different perspective.
- Set priority on those questions that you have collectively answered “No” or “Don’t know.” Which of the variables represent the most formidable roadblocks or speed bumps in your innovation journey?
- Develop an “innovation action plan” for turning your “No” and “Don’t know” answers into unqualified “Yeses.” Your priorities will drive the emphasis and timing of each initiative in this plan.
- Sponsor the initiatives in the action plan. The sponsor role includes championing, communicating, guiding, staffing, monitoring, removing obstacles, and making mid-course corrections.

As the Enterprise Model shows, the nine variables should not be treated discretely. They are part of an integrated system and need to be addressed holistically. For example, Leadership is the key element in both Strategy and Culture. Business Processes define the requirements of Human Capabilities, Structure, and Information Management. To return to our medical analogy, you must recognize that actions taken to cure an illness or strengthen one organ or muscle group influence other parts of the body.

To state it another way, pulling one of the nine innovation levers rarely addresses the need. Assuming that you’ve solved the innovation equation because you’ve hired some creative people (Human Capabilities), designated a Chief Innovation Officer (Structure), or strengthened the ideation component of new product development (Business Processes) ignores the multivariate nature of the innovation challenge. While all nine variables may not need equal attention, there is rarely a single silver bullet.

Call to Arms

Unlike a new piece of equipment or a new hire, innovation cannot be purchased and installed by the end of the month. However, it is not an unmanageable mystery. It can be defined. It can be measured. And, it can be influenced by pulling the nine levers outlined in this paper.

Whether your organization's primary need is for growth through product innovation, protecting market share through competitive advantage innovation, reducing cost through process innovation, or all three, I challenge you to identify a better use of your time than diagnosing and closing gaps in innovation.



Alan Brache is Business Solutions Executive Director at Kepner-Tregoe, Inc., a strategy formulation and implementation consulting firm headquartered in Princeton, NJ (www.kepner-tregoe.com). Additional applications of the Enterprise Model that anchors this article are presented in his book, *How Organizations Work*. He can be reached at abrache@kepner-tregoe.com.

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Kepner-Tregoe, Inc.
P.O. Box 704
Princeton, NJ 08542
609-921-2806 Fax 609-497-0130
www.kepner-tregoe.com e-mail: info@kepner-tregoe.com