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Threading the Needle: Achieving Innovation in a Transformed World

In today's business climate, it's nothing short of critical for an organization to be ready and capable of adapting to changing times to ensure survival. Companies cannot settle for incremental improvement - they must find ways to innovate to achieve competitive advantage, while also transforming their business to create efficiencies. Both paths need to take advantage of new technologies. All this to get out in front, and stay on top of, their industries.

The burning question is just how does a company go about creating an environment that fosters needed transformation to meet the market standard while simultaneously enabling innovation so a competitive edge can be achieved?

Face the facts

We are in an ever-changing market and businesses must react accordingly to survive and thrive. Small changes in external environments require continuous improvement, while medium changes (in outside factors like technology, suppliers, and competitors) necessitate real transformation. At the far end of the change spectrum, however, when large fluctuations in the market or economy occur, transformation is not enough – true innovation is required.

Making matters more complex, businesses typically face challenges of varying degrees at the same time, necessitating multiple continuous improvement, transformation and innovation initiatives in parallel!

Let's look at a 2018 study by Innosight, where the projection speaks for itself: The 33-year average tenure of companies on the S&P 500 in 1964 narrowed to 24 years by 2016 and is forecast to shrink to just 12 years by 2027, resulting in the fact that 50% of the current Fortune 500 organizations will not be still be a member in 10 years. These companies have the money, the power, the resources, and the competitive advantage to keep their position - but they won't. They aren't properly set up to adapt to change, therefore are either incapable of adapting to change or unable to change fast enough. We need look no further than General Electric – once the darling of transformation and just dropped from the Dow Industrials – to see how the pace of change is affecting everyone.

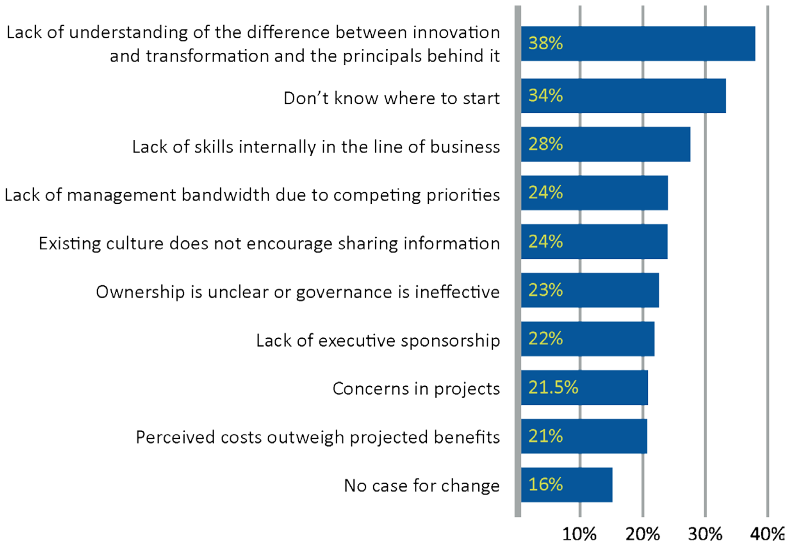
A 2012 IBM Global CEO study concluded that 85% of executives say innovation is extremely or very important to their companies' growth strategy; however only 19% feel they succeed with any of the necessary components. Why is this case? Why do so many organizations have difficulties applying innovation principles?

A 2015 McKinsey study on transformation identified that 74% of transformation programs fail to deliver on their actual targets, resulting in obvious economic and productivity losses.

These studies all point to an unpleasant prognosis. It's a hard truth that many companies simply do not succeed with their innovation and transformation initiatives, and therefore are less equipped to adapt and survive.

So what exactly is the problem?

LEADing Practice© recently performed a study to uncover the obstacles to achieving innovation and transformation. 1,765 CEO's and 2,936 business leaders representing all major countries and industries were surveyed. Respondents were asked to select different obstacles to innovation and transformation initiatives LEADing Practice© performed a comprehensive study to uncover the obstacles to achieving innovation and transformation. It was a few years ago, but based on our engagements, the responses are timeless. 1,765 CEO's and 2,936 business leaders representing all major countries and industries were surveyed. Respondents were asked to select different obstacles to innovation and transformation initiatives within their organization.

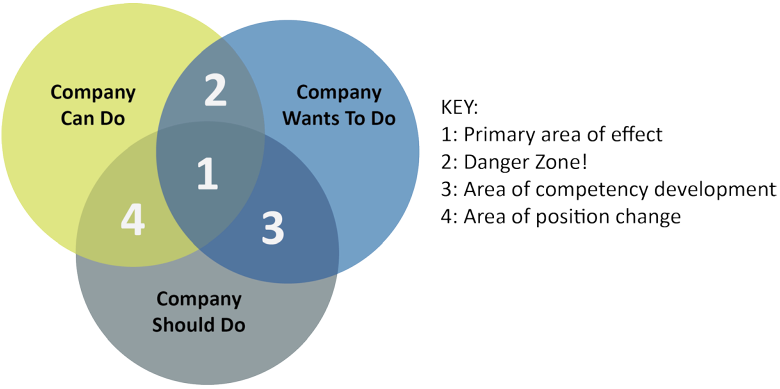


LEADing Practice Innovation & Transformation Research, 2011/2012
Scope: 1765 CEO's and 2936 business leaders representing all major countries and industries

We see that first response is zeroed in on confusion around innovation and transformation. While innovation refers to the notion of doing something different or something new, rather than doing the same thing, transformation is the notion of making a change to something that already exists – to optimize or improve it. But beyond clarification of terminology, more fundamental questions loom:

- Is one better than the other?
- Can both be tackled at the same time?
- What purpose does each serve, and which brings more value given the various market changes and business challenges?
- Can I make something better, while doing other things completely differently?

The study above is a reflection of the true paradox companies find themselves in. They face great challenges in determining what to focus on to ensure continued success, and very often they myopically zero in on what they know they can achieve. These targets become the shiny objects and thus the projects that leadership want to invest in. Unfortunately, this "inside out" focus is dangerous and limiting, because it ignores outside factors that could be pointing to WHAT THEY SHOULD REALLY DO.



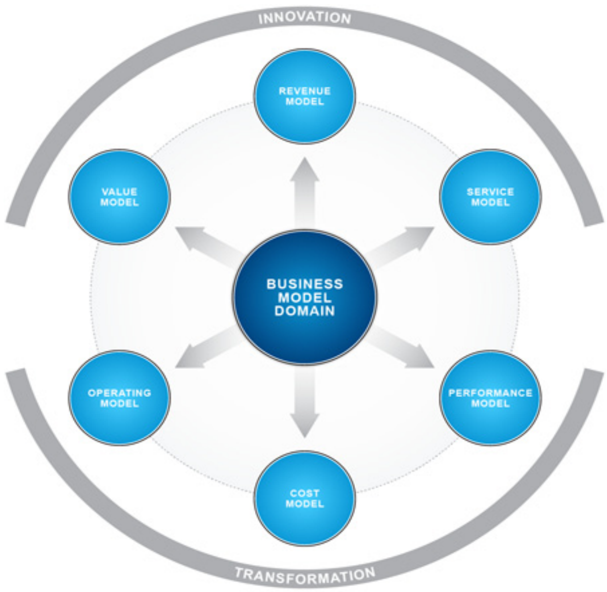
Failing to look at these outside factors results in a company that falls behind, because from the beginning, the wrong way of thinking sets this unfortunate stage. The perfect zone is found when what you want to do and what you should do overlap – that is where you can start to develop your capabilities, competencies and resources to achieve the appropriate goals – this is where you should concentrate your efforts for change.

So how do the winners win?

Let's look at some historical disruptions and what that meant for the winners.   There was a time when concepts like transformation and innovation didn't exist. The company that made the best horse-drawn wagon in the west was perfectly positioned to adapt to the transportation evolution and offer motorized vehicles to a hungry marketplace - they had the money and the leadership to succeed, but they died out because they didn't know how to adapt their business and service to the needs and desires of the market. Companies would simply disappear when their products were no longer needed or relevant.

But as time went on, business practices and methodologies sprang up to help companies adapt and survive. Nothing sparks creativity like impending doom. With each economic crisis came new ways of thinking about business:

- Just as recently as the Oil Shock of the 1970's, most businesses would react to economic difficulty by simply slashing costs across the organization. Focusing on a Cost Model was an easy way for companies to feel like they were adapting, without taking significant risk.
- In the 1980's a global recession had companies like IBM examining their Revenue Model and exploring ideas like channel partner networks to bolster revenue, while still maintaining lower capital costs.
- Yet another recession in the early 90's saw principles like Hammer's re-engineering, TQM and Kaizen being widely used by companies to manage their Performance Model.
- More proactive companies would take a look at their Service Model and invest in new ways to service their customers in a tighter buying environment, sometimes ending up completely reinventing themselves in the process. For example, Best Buy introduced the Geek Squad to provide in-house servicing of computers and electronics, as online competition increased, and streaming services ate into their business of selling movies.



©LEADing Practice of the Business Model Reference Framework   Source: www.LEADingPractice.com

- While not a recession, the dot-com era induced a new kind of threat: competition for investment dollars and competition for market share. We began to see more companies asking themselves questions about their Value Model. How would they create value for their shareholders and value for their customers so they could stand out among the rest?
- Alas, the dot-com era is long behind us now, and new cycles of economic challenge have encouraged companies to examine their Operating Model along with all the other business model domains to ensure that operations are running as efficiently as possible.

This stroll down memory lane helps us see how the six major business model domains have emerged: operating, performance, cost, service, value and revenue, primarily sparked by the necessity to adapt to change in the economic environment.

Each of these models represents an overall focus of an organization, a primary driver of how to achieve success in the market. In truth, all companies apply these business principles in one way or another, both in growth and recession times. But what we realize today is: **the most successful companies focus innovation efforts on value, revenue and service models, while transformation efforts are centered on cost, operation and performance.**

When best isn't good enough

There is something important to understand before we go any further: the difference between **best practices** and l**eading practices**.

A **best practice** is a tried and true method that can and should always be applied, whereas a **leading practice** is an adaption of a best practice in situations that require a difference. This adaptation then becomes an organization's key differentiator that enables it to become an outperformer.

What exactly is an outperformer, you ask?

In general, most companies fall into one of four categories – underperformer, follower, performer and outperformer. Underperformers for various reasons are misguided and ineffective, with a short life span. Followers and performers start out by implementing best practices to give them a head start, but then use them as a crutch over time. Unfortunately, by using best practices, they are doing, by definition, what most everyone else does. By doing what everyone else does, there is no opportunity to differentiate themselves from their peers and gain a competitive advantage.

Outperformers are the ones that leverage differentiation to get ahead of the curve. Outperformers tackle issues in a different way – they start with best practices, but build on them by designing leading practices. These leading practices differentiate outperformers and enable them to achieve a competitive advantage.

It's no coincidence that when talking about successful companies and their ability to adapt to change, that they are achieving both innovation and transformation by applying both best and leading practices in appropriate domains of the business. **Best practices are transformative and should only be applied to non-core competencies that don't affect differentiation** - they are purely about meeting the market standard.

These lend themselves especially to cost and operating models, which are not made up of differentiating competencies. **Leading practices are about doing things efficiently, but differently – innovating. They are how they create value, deliver service and generate revenue and growth.**

With this in mind, outperforming companies approach the six business model domains differently: While all groups will spend some amount of effort and time addressing all six domains, the outperformers put more focus on value, service and revenue models, while underperformers only focus on the cost, performance and operating models.

Underperformers may be able to follow a cost model to save themselves out of a recession, but they can't save themselves from outside changes. Outperformers will of course optimize their cost models too, but it's not where they put their maximum focus, it's not where they invest the most

Today, we see disruption coming through the Service model, as companies like Amazon, Uber and AirBnB create customer experiences that are unmatched. Those companies invest in innovation in the right way and in the right areas, enabling them to differentiate themselves and capture revenue from competitors who aren't as easy to use or buy from. Their platforms have become a core, differentiating capability, and it's always their primary focus.

Where to start?

Probably the most significant reason that companies say they fail in their innovation and transformation initiatives is that they don't know where to start. If an organization is to examine the six business model domains, they must start by understanding how their business works. But how do you effectively model your business?

It's a known adage that a company is the sum of their processes. To see where innovation and transformation models should be applied, it is necessary to embrace a process way of thinking and a process way of working. It is only by seeing the company's process holistically that it can initiate change by applying transformation or innovation principles to appropriate areas of the business. And it is only by understanding how they compete and how they differentiate can a company decide if a competency is:

1. A core differentiating competency, and therefore needs innovation (through value, revenue or service model improvements), or
2. A core, non-differentiating competency, and therefore should be transformed (through operating, cost or performance model changes.)
3. A non-core competency, and perhaps should be handled by someone else who can do it better.

Along this journey of "process minded thinking," process modeling is the easiest point of entry to begin understanding the work that gets done and exposing opportunities for process improvement. Methodologies have been developed to help guide modeling efforts. Notations exist to support a common visual understanding. Initial projects will probably show ROI. For these reasons, process modeling is a popular go-to strategy.

But as many companies that have started out this way will tell you, process modeling is not enough. Without alignment to all the domains of the business model, process modeling cannot lead to true business transformation or innovation.

Process modeling needs to be the center of a much larger business model that integrates activities at the business layer, application layer and technology layer. The business layer integration must include alignment of processes to business goals and strategies in a concise way, while the application and technology layer drill down into the detail of how processes are implemented. Only when the business is modeled at this level can you understand how changing your processes will affect your business.

The outperforming companies are those that are asking (and finding answers to):

- What parts of my processes are creating value?
- Do I have the business competencies to deliver against my strategic business objectives?
- What are my differentiating competencies and therefore opportunities for innovation?
- What are my non-differentiating competencies and how can I achieve transformation through the identification of duplicated activities, tasks, services and even resources?

Integrated business modeling, with processes at its core, allows connecting the dots on a grand scale using conceptual and logical thinking. You can't do this by hand, and definitely not in your head. Outperformers fully understand the only way to innovate or transform is by changing how work is done and they realize the need for a methodology to create and understand relationships and impacts. With this approach in hand, they drive improvement initiatives, they standardize performance, they create value. They transform, innovate and lead.

Want to learn more?

If the concepts outlined in this article are of interest to you, please visit www.igrafx.com or call 1.503.404.6050 to find out more.