



Business Innovation A Balanced Approach

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Creating New Value with Ease and Grace

The aim of this column is to motivate business and technology leaders to develop knowledge about business innovation and take action to guide innovation processes in their organizations. We plan to achieve this aim by 1) exploring concepts and approaches for business innovation, 2) generating dialogues in the business process management community, and 3) connecting people with experience.

Business innovation often can be classified as “one of those cool, but mysterious” concepts that people recognize when it occurs, but have trouble defining, classifying, or proactively managing. Ask a room of people at a conference to define innovation and you will get a variety of responses. Innovation is “a new product,” “installing an IT system we did not have before,” “entering a new market,” or “doing something that did not exist before.” Actually, opening with “What is innovation and what does it mean to your company?” stimulates more questions such as, “Is innovation simply improvement?”...“Can innovation be planned? Or even managed?”...“Is innovation only recognized after-the-fact?”...“Is innovation only customer-facing?” and “If something fails in the marketplace, can it still be called innovation?”

It is not surprising to see numerous perspectives and questions on innovation. A quick Google search on “business innovation” nets about 145 million sites, and Amazon.com returned 1,160 business books on innovation. Everywhere you turn you will find books, conferences, seminars, webinars, and white papers on systematic methods to manage innovation and deliver new, successful products and services. There is definitely strong leadership in this space, and it is beneficial to study various perspectives to build knowledge about how innovation takes place, what it means for you, and what you can do to make it real for your company.

There are three intertwined concepts imperative to understanding and guiding business innovation that will be explored through the course of this column:

1. Creating new value in untapped opportunities
2. Improving jobs and outcomes that customers are trying to accomplish
3. Achieving business agility through discipline in the innovation process

Creating New Value...

The idea of creating value is paramount to understanding innovation. Traditionally defined, innovation is 1) the introduction of something new, or 2) a new idea, method, or device¹. Adding a business dimension to this definition, Peter Drucker stated “Innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth...there is no such thing as a resource until man finds a use for something in nature and endows it with economic value”². Thus, innovation utilizes resources to create new *perceived* value for stakeholders. Although they used the term value innovation, Kim and Mauborgne captured this concept eloquently in *Blue Ocean Strategy*, “We call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.”³ It is about creating new value for customers by focusing resources and

capitalizing on untapped opportunities for new products, services, business models, or experiences. This customer value must also be delivered in a cost model that creates value for the company.

Marketing views innovation from the perspective of value creation. As its core purpose, marketing is the engine responsible for achieving profitable growth in the company. Ultimately, it is marketing's job to capitalize on innovation opportunities in the market that expand customer expectations and deliver incremental perceived value. This is evidenced in the constant striving of marketing organizations to introduce new products or services, design new customer engagement models, or tap new markets.

Successful, innovative companies tap unmet opportunities and markets. Scanning the landscape, you can look at successful companies and quickly understand how "Apple's iTunes and iPod revolutionized the way people obtain and listen to music," "eBay transformed the way we engage to buy and sell merchandise," and "MySpace completely changed the way connect with others." Each of these companies discovered underserved needs in the market, identified a defined set of potential customers, created new offerings, and generated significant success in the marketplace. But success was not about a new product or business; it was about fundamentally changing the way people work and play today. They did not simply create a new product, but significantly improved the way people get jobs done.

How do you determine what adds perceived value for customers? New technology, improved product attributes or capabilities, or even a "cutting-edge" business models do not necessarily translate into new perceived value for customers. Too often, we get caught up in the "coolness" of a new technology and end up "inflicting" it on customers (especially customers of internal IT systems), instead of utilizing new technology to enable customers to do their jobs better, faster, or cheaper. Does anyone remember the "dot-coms" a few years ago? Why would one more blade on a razor be important for men who shave? Why is hybrid technology important to drivers? Why does a company need a Business Process Management System? To determine what adds perceived value, we must clearly understand 1) the job people are trying to accomplish, 2) how they measure the outcome of that job, and 3) any constraints that limit their ability to perform the job. Whether they are a consumer for your product or an employee using your IT system, people will perceive value in things that enable them to do a job better, faster, or cheaper at a price they are willing to pay for the additional utility provided.

Improving processes and outcomes...

While value creation is critical to define innovation, process improvement is the engine that drives it. Specifically, innovation introduces new products, services, business models, or experiences that help solve problems people encounter when performing a given job. Clearly understanding the jobs people are performing, how they measure the outcome of those jobs, and the constraints that limit success are matters crucial to finding the opportunities that lead to innovative offerings in the market or in the operations of a business. Much as the practitioners of Lean and Six Sigma utilize outcome metrics to determine success of waste elimination and defect reduction, customers utilize outcome metrics to determine the success of the job they are executing. Applying a similar outcome-driven discipline, companies can clearly identify opportunities to create new perceived value for customers.

Many in the process improvement world will want to initiate a Lean or Six Sigma project to deliver innovation; however, caution should be taken to truly assess the purpose of the work. Typically, Lean or Six Sigma projects focus on optimizing the existing business with respect to waste elimination and defect or variation reduction. In these projects, an analyst may utilize tools such as Voice of the Customer (VOC), Quality Function Deployment (QFD), or Critical-to-Quality (CTQ) to better understand customer needs. This information is integrated into the project and used to improve products, services, or processes. However, the very purpose of these tools is also their limiting factor for innovation. These tools are deployed to gather customer requirements then identify gaps, issues, or problems that need to be resolved to improve

customer satisfaction. For innovation, these tools are inherently constrained by their focus on improving satisfaction and not on expanding customer expectations.

To expand customer expectations, companies should start with a customer process design approach then integrate the appropriate Lean, Six Sigma, or other business strategy and improvement tools into a disciplined process. Designing from the perspective of customer process is similar to business process design and modeling performed inside a company, but its primary focus is on the job the customer is performing, not the company's internal processes. In business literature, there are a variety of methods documented that describe how to understand the jobs the customer is performing. In practice, methods are typically customized to fit the culture and environment of a particular company. At the foundational level, there are three primary activities that are required to understand the job the customer is performing:

1. Map the processes, or steps, a customer engages to perform a job. Be sure to include directing, executing, and enabling processes. Also consider input, outputs, and tools utilized. Do not include company processes. The customer does not care about a particular company's processes, but customers do care about what they need to do to get a job done. The company that understands the work a customer must do to perform a job is much better positioned to deliver innovation in the market than a company that is primarily focused on improving its own processes.
2. Identify desired outcomes. These could be functional, emotional, or experiential outcomes and should be expressed in units of measure and direction (i.e., minimizes, decreases, maximizes). The outcomes may be linked to a particular step or may measure the entire job. Don't confuse desired outcomes with Critical-to-Quality. Desired outcomes measure the job a customer is trying to accomplish, as opposed to CTQ which is the performance expectations customers have for a product or service.
3. Identify constraints that prevent success. Many things can stand in the way of a customer achieving success while performing a particular job. Be sure to consider budget, relationship, and geographical, environmental, technological and physical limitations. Customers are very adept at dealing with constraints and inherently incorporating them into their process. Overcoming these constraints is a great way to identify innovation opportunities. Prior to eBay, people were basically limited to classified ads, garage sales, and flea markets to sell their personal items. eBay used technology to overcome physical and geographic limitations imposed on people trying to find buyers for their products.

Once the customer process is understood, companies can move forward to identify and prioritize opportunities where current products, services, business models or markets do not effectively serve customers in the execution of a particular job.

Agility through discipline...

Treating and managing innovation as a process delivers business agility. Much like innovation, business agility is a concept that can have different definitions for different people. Literature in the BPM world suggests business agility is the ability of companies to move from one state to another state, based on problems, needs, requirements, or opportunities. A quick scan of the internet identified the following definitions:

- "...the ability to move quickly from an unstable and unsafe position to a robust and safe state."⁴

- "...some variant of the ability to detect a need to change, analyze the possible responses to this change, decide on an appropriate change, communicate this change and then act to realize the change."⁵
- "...an organization's systemic ability to fluidly marshal and reconfigure resources in response to business requirements and opportunities."⁶

Merriam-Webster defines "agile" as *1) marked by ready ability to move with quick easy grace or 2) having a quick resourceful and adaptable character.*⁷ There is a certain beauty in the concept that businesses can take on "adaptable character" and move with "quick, easy grace" as their environment changes or they strive to capitalize on new, unknown, untapped markets. To achieve this capability companies cannot approach the innovation process haphazardly. Agility is achieved through disciplined execution that uses good methods and the right tools to make thoughtful decisions and take actions that add value.

To move with "quick, easy grace," the process of innovation is disciplined, but not over-engineered. Don't confuse a disciplined approach with a legalistic approach that requires "every box to be checked off" or "every step to be done." An innovation framework should be defined that reflects the culture and environment of the company and focuses the power of the innovation process to systemically identify untapped markets, improve the jobs people are trying to accomplish, and deliver new capabilities that create value, both in the marketplace and inside a company. Value is created and sustained by the companies that are disciplined in their process of innovation and incorporate that process into the soul of the business.

Next steps...

What does business innovation mean for you and how is it engaged in your company? There is a plethora of literature in the market that explores business innovation and provides frameworks. Some recommended titles include

Blue Ocean Strategy by W. Chan Kim and Renee Mauborgne

The Innovator's Solution by Clayton Christensen and Michael Raynor

Innovation and Entrepreneurship by Peter Drucker

What Customers Want by Anthony Ulwick

Search, learn, and incorporate business innovation practices into your company.

Stay tuned for additional installations of this column on www.bptrends.com. Again, the purpose of this column is to motivate you to learn more about innovation and take action to guide it in your companies. Your feedback and active participation in shaping the direction of this column is truly encouraged. Please feel free to send feedback or comments to Victor at victor.howard@yahoo.com or Clay at crichardson@ppc.com. Additionally, we welcome your comments on Victor's blog at www.victorhoward.typepad.com.

References

¹ www.m-w.com/dictionary/innovation. Accessed May 17, 2007.

² Drucker, Peter. *Innovation and Entrepreneurship*. Collins. 1993. p30.

³ Kim, W. Chan and Mauborgne, Renee. *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*. Harvard Business School Publishing Corporation. 2005, p12.

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⁵ www.soamag.com/l2/1106-2.asp. Accessed 5/21/2007.

⁶ www.microsoft.com/technet/prodtechnol/biztalk/biztalk2004/planning/bpm-solution-overview.aspx. Accessed 5/21/2007.

⁷ www.m-w.com/dictionary/agile. Accessed May 17, 2007.