Enabling Business Innovation and Transformation

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 innovate and undergo performance transformations to get, and stay, on top.

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

Face the facts

We are in an ever changing market. Small changes in external environments require transitional adaptations, whereas medium changes (outside factors like technology, suppliers, and competitors) weigh in and require more than continuous improvement – there needs to be significant change – a transformation. When large fluctuations in the market or economy occur, depending on transformation is not enough. Fundamental shifts in outside forces require an examination and refocus of your current approach – this requires both transformation and innovation. Easier said than done.

Let's look at a recent study by Greg Clark of OECD - The Organization for Economic Cooperation and Development, where the projection speaks for itself. Due to the lack of adapting to change, 55% of the current Fortune 500 organizations will not be in the Fortune 500 elite by 2025. These companies have the money, the power and 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 incapable of adapting to change. *Companies die due to inability to adapt to change.*

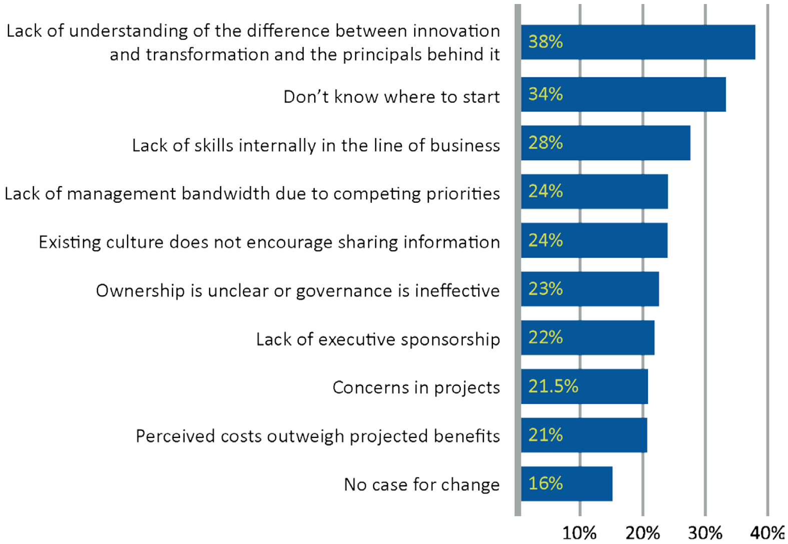
The 2012 IBM Global CEO study concluded that 86% of executives say innovation is extremely or very important to their companies' growth strategy; however only 19% feel they succeed with any of the necessary components. Why is this case? What makes so many organizations have difficulties applying innovation principals? *Innovation is critical, but is rarely achieved.*

The 2011 McKinsey study on transformation identified that 72% of transformation programs fail to deliver on their actual targets, resulting in a substantial economic and productivity loss of $3 Trillion, which corresponds to 4.7 % of global GDP. *Transformation projects fail.*

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 completely unequipped to adapt and survive.

So what exactly is the problem?

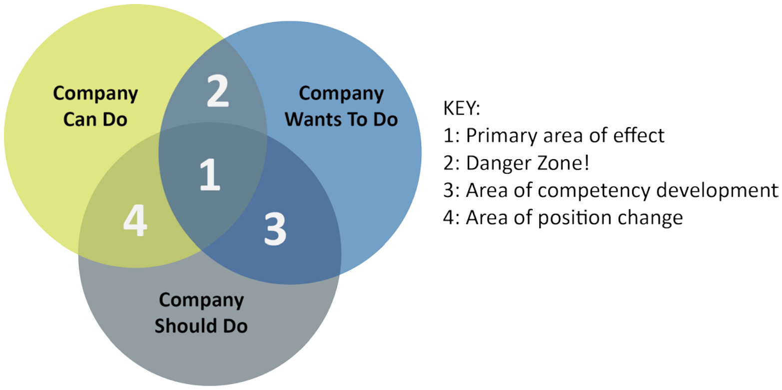
LEADing Practice© recently performed a study to uncover the obstacles to achieving innovation and transformation. 1,765 CEO's and 2,936 business leaders representing all major countries and industries were surveyed. Respondents were asked to select different obstacles to innovation and transformation initiatives 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, to improve. 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?



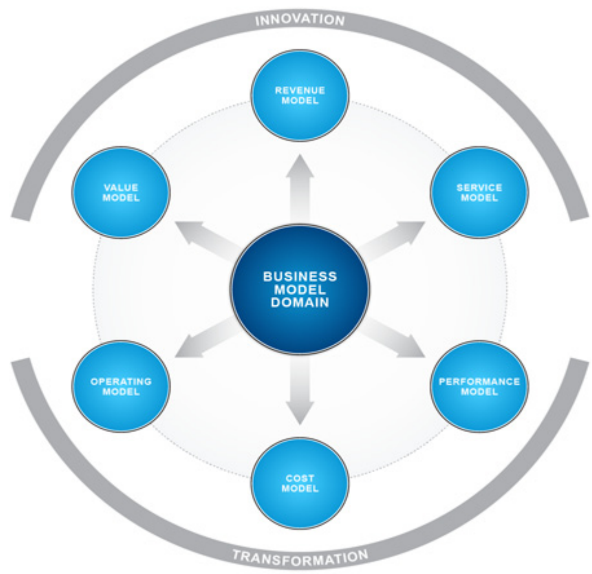
The study above is a reflection of the true paradox companies find themselves in. They face great challenges in determining what to focus on to ensure continued success, and out of that, what is it they can actually achieve. The danger zone is when they stop their investigation there. They fail to look at outside factors to help determine WHAT THEY SHOULD REALLY DO. Failing to look at these outside factors results in a company that is doomed to fail 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 must concentrate your efforts for change.

So how do the winners win?

Once upon a time, 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. More proactive companies would take a look at their Service Model and invest new ways to service their customers in a tighter buying environment, sometimes ending up completely reinventing themselves in the process. 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. 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 downtimes have companies examining 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. Today, all companies are applying these business principles in one way or another, both in growth and recession times. The most successful companies center aspects of innovation on value, revenue and service models, while transformation is centered on cost, operation and performance.



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When best isn't good enough

It's important to understand before we go any further, that while best practices are tried and true methods that can and should always be applied, leading practices are methods of adapting best practices to situations that require a difference – this is a key differentiator that enables you 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 yourself from your 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.

Outperforming companies will approach the six business model domains differently as well. 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.

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 effect differentiation - they are purely about meeting the market standard. These lend themselves especially to cost and operating models, which are not made up of core competencies. Leading practices are about doing things efficiently, but different – innovating. They are how they create value, deliver service and generate revenue and growth.

Underperformers will run to cost models 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.

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? A company is the sum of their processes. Therefore, they need to embrace a process way of thinking, and a process way of working to adapt to change by applying transformation or innovation principles to appropriate areas of the business.

To adopt a process approach, 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 core competencies and therefore opportunities for innovation?
- What are my non-core 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 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.