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The Challenge of Change

Every year, a growing number of corporate stalwarts—household names anchored by esteemed brands—lose their footing and stumble from what was previously considered an unassailable market position. The past few years have been particularly unkind. The list of failures added formerly admired brands such as Circuit City, Woolworth's, Lehman Brothers, Borders Bookstores, Readers Digest, Sharper Image, Washington Mutual, Bearing Point, Silicon Graphics, Continental Airlines, and Wachovia, to name a few. Apart from this list, a good number of companies remain open for business only because either the U.S. taxpayer bailed them out or because another company acquired them and retained the name.

At the helm of each of these failed companies was a leadership team whose primary purpose was to deliver a financial return for the company's stakeholders and to do so year after year. Then one day these companies lost their edge and got beat. The market shifted away from them, their customers sought something different, a new competitor stole a chunk of their market share, or they simply failed to keep abreast of the market. In a nutshell, they failed to innovate. Outside of short term luck, innovation is the key to prosperity

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in competitive markets. Every significant business venture traces its roots to an original spark of innovation. In most instances, the founder invented an experience or product with unique attributes that was superior to the available options. On occasion, the innovation was so ground breaking that it launched a brand-new market or fostered a new way of thinking. This is true of government institutions (think of our Founding Fathers), major companies (think of Bill Gates and Paul Allen of Microsoft), and other organizations as well (think of Nancy G. Bricker, who founded Susan G. Komen for the Cure). The founders of these enterprises were on a mission—to deliver products/services uniquely calibrated to their customers' needs. As a result of the ability of these organizations to create valued outcomes, their customers responded enthusiastically, and their names became recognizable to the masses. But there is a problem with reaching the top—once you arrive, it is increasingly hard to stay there.

Consider the widely quoted Dow Jones Industrial Average (DJIA), which tracks 30 of the largest and most widely owned public companies in the United States. Since its inception in 1896, the members of this honored group were chosen to mirror the ebb and flow of the greater business environment. Over the ensuing decades, many of these benchmark companies fell on hard times, were removed from the list, and replaced with a more suitable firm. Of the original 12 companies, General Electric is the sole survivor. While this alone is telling, consider that only five of the current members predate World War II, and a third of them were added since the late 1990s. Such turnover in the DJIA speaks to the challenge of continually performing in an ever-changing world.

Change manifests in many forms and continually evolves with the passage of time. To a corporate leader, change may be a promising market opportunity created by a newly passed legislative decree, or it may be an industry-wide upheaval precipitated by a scientific advancement. Its outcome may be minor tremors in

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a market, dissipating quickly and soon forgotten, or the change may be a monolithic disturbance that rewrites industry norms and sends even the most strategically impervious companies scrambling for cover. For example, consider the ebb and flow of several industries precipitated by major change events:

- *Banking industry*. As the financial markets plummeted during the Great Depression, the federal government's response launched the first of many upheavals in the financial industry. In 1933, the U.S. Congress passed a bill that became known as the Glass-Steagall Act. In order to limit the impacts of bank failures, this law limited the affiliations between commercial banks and securities firms. As decades passed and international banks expanded their operations, U.S. banks screamed that the act limited their global competitiveness by restricting the products and services they could offer their clients. Furthermore, financial institutions were finding clever ways to circumvent the intent of the law. In 1999, Congress, bowing to political pressure, passed the Gramm-Leach-Bliley Act, effectively repealing the Glass-Steagall restrictions. This legislation ushered in a flood of mergers and acquisitions at a pace that only slowed with the financial collapse of 2008.
- *Transportation industry.* In 1978, the U.S. Congress passed legislation to deregulate the airlines and allow fares to float based on market forces. Although arguably beneficial to passengers, the act initiated a series of price wars that resulted in a realignment of passenger routes. The unfortunate result was a series of bankruptcies across the major air carriers as they struggled to adapt. Southwest, a minor player back in 1978, prospered in the ensuing chaos by using well-chronicled innovations such as the elimination

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of assigned seats and rapid gate turnarounds to limit the downtown of its planes. Since 2011, Southwest has flown more domestic passengers than any other airline on an annual basis.

- *Retail, entertainment, and publishing industries.* In the late 1990s, the Internet grew from a promising concept to a stable platform for publishing and conducting e-commerce. Retailers, newspapers, book publishers, music producers, and other industries struggled to adjust their business models to this new way of interacting with customers. Years later, they still continue to lose ground to former upstarts such as Amazon, eBay, Yahoo, Google, and Apple.

The point is that companies, industries, and even economies can be fundamentally altered in the blink of an eye. As Peter F. Drucker once said, "Managers may believe that industry structures are ordained by the Good Lord, but they can—and often do—change overnight."[1] No market, no product or service, and no company or enterprise is immune to the sudden barrage of disruptive forces that may well obliterate prevailing business structures and practices.

And to make things more interesting, the pace of change is accelerating. In an unprecedented manner, the Internet brings a deluge of information and product options directly into the customer's home. Having trouble making a purchasing decision? A host of experts and social acquaintances are available to offer their perspective on just about any purchase. And the selections available to consumers grow by the minute—especially given the increased presence of international firms. With comparatively cheap labor costs, significant untapped resources, ample capital, and the benefit of an expanding middle class in their own backyards, international companies are becoming fierce competitors not only in their home countries but also around the globe. Add to this the political, societal, technological, environmental,

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and other forces buffeting corporate America from every angle, and businesses are finding themselves engaged in an unending battle just to remain in the customer's consideration set. Businesses—in fact, enterprises of all forms—must adapt to the emerging realities if they wish to survive, let alone prosper. Change cannot be ignored. It continuously births obstacles to overcome and opportunities to exploit.

To Survive and Prosper Requires Innovation

Enterprises that consistently succeed—those that seem to always react quickly to previously unforeseen opportunities and take the hill while the competition stands flatfooted—do so because they innovate. But what does *innovate* really mean? These days, *innovation* is a buzzword—strongly entrenched in the business vernacular but horribly overused and misused. It is increasingly difficult to put a finger on its meaning or even more so its applicability in the business world. In corporate America, most attempts to spur innovation center on conducting intense brainstorming sessions to elicit that hallowed epiphany—a moment of pure genius when a game-changing breakthrough is unearthed. Indeed, such an event is technically innovation—but expecting magical lucid moments to conveniently arrive is a fatalistic approach at best, the equivalent of betting an enterprise's future on the roll of dice.

From my experience, innovations are the result of a rigorous creation process in which an idea is tested and rebuilt over successive iterations until what remains is more right than the available alternatives. Howard Schultz built the concept that became Starbucks through repeated trial and error. His initial idea was to mimic the Italian coffee house experience he discovered while traveling abroad. Although the concept's initial performance was satisfactory, Schultz knew that there was room for improvement. So he refined the model

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to make it more appealing to American consumers. This included tinkering with the store's decor, redesigning the guests' passage through the store, and updating the assortment of products available. The result of his ongoing evolution of the Starbucks experience is a brand that has achieved worldwide prominence. Today Starbucks operates close to 19,500 stores in 62 countries and employs close to 200,000 people. Although Starbucks is frequently cited as an innovator, the overall concept was not born of a momentary blast of genius but rather developed through continual adjustments to a working model.

To the frustration of many, innovation is not easy. It is challenging on multiple levels. It requires two ingredients that are relatively scarce in established companies today. First, any innovation must be predicated on detailed and accurate information about the intended end state as well as what the enterprise is capable of producing. Which leads us to the second ingredient: innovation endeavors require a champion—an individual with the clout and awareness to shepherd meaningful change efforts. In most enterprises today, the sole position possessing the authority to get the full enterprise behind a major initiative is the chief executive officer (CEO). Unfortunately, these precursors for innovation spell its doom in most environments. Why is this case? Understanding the answer requires a brief review of the history of the modern organizational structure.

In *Reengineering the Corporation*, Michael Hammer and James Champy[2] trace the "work styles and organizational roots" of modern enterprises back to theories first presented by Adam Smith in *The Wealth of Nations*.[3] In particular, Hammer and Champy point to Smith's dissertation on the division of labor and how it perpetuated the use of specialists to manufacture products. During the industrial revolution, companies began segmenting workers based on their ability to complete a task. They learned that when individuals were assigned a single job, their efficiency increased as they became adept

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over continual iterations. By dividing the overall work effort into jobs performed by specialists, a product could be manufactured faster and cheaper. This finding led to the creation of divisions, departments, and other organizational delineations to manage these groups of specialized workers. As the manufacturing process gradually incorporated technology and scientific advancements to produce superior products. not only did the totality of the steps to manufacture a product become increasingly complex, but the work also was spread across departments. New supervisors were added to oversee these departments. And these new departments were further bundled and assigned a leader to supervise the departmental managers. This lead to the formation of a class of middle managers—a level sandwiched between senior leaders and departmental managers. From an organizational perspective, the result was a pyramid-shaped hierarchical leadership structure that was built primarily to supervise workers. Even today, this structure remains the predominant organizational structure in businesses and other organizational forms around the globe.

But a multitude of deficiencies has driven many business pundits to question the utility of the traditional organizational structure and begin exploring alternatives. The most prevalent issue is the flow of work. As work products are built, they move from specialist to specialist, crossing organizational boundaries until they arrive at the end consumer. The work is disconnected, performed in different locations by functional teams, and overseen by different managers. Quite frequently there are communication gaps or bottlenecks that occur where work products are transferred from one team to another. The priorities across the groups often differ, leading to competing and sometimes contradictory directives that further complicate the interactions between teams. The negative ramifications when disparate teams fail to work collaboratively led to the coining of the term *organizational silos*. From an innovation

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standpoint, organizational silos hamper efforts to collaborate across teams—effectively building walls between parts of the organization. A result of such conditions is that implementing any improvement is prohibitively difficult. Designing and implementing an end-to-end process requires the involvement and approval of any number of organizational leaders—who may well be motivated to different ends. Collaboration and unified planning are spotty at best and non-existent in many cases.

A slightly lesser known cousin of the organizational silo is what I label a *knowledge chasm*. Knowledge chasms represent the break in information flows between leaders and their direct reports. In essence, it is the professional workplace's version of the telephone game taught to us in our childhood. A message is whispered from child to child on down a line until it reaches the last one, who shares the version he or she received. On most occasions, the end message bears only a slight resemblance to the original. In the business world, variations of the telephone game impede the flow of information and prevent important details from arriving where they are needed. This occurs for any number of reasons. A frequently heard statement today in the corridors of corporate headquarters is that leaders don't need to get into the weeds. In other words, the details should be left to those who are closer to the subject matter. As a result, leaders are rarely exposed to the full picture of what is happening at ground level. Equally damaging, when information should flow to leaders from the field, overly ambitious managers censure what their supervisors hear—acting as gatekeepers to ensure that the presentation of the information is to their benefit. Lacking a smooth flow of accurate information, leaders debate opportunities and make decisions without a thorough understanding of the reality of the situation.

Silos and knowledge chasms are formidable roadblocks to innovation. If we return to the two ingredients of innovation—the need for a champion with the awareness and authority to fully engage the

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enterprise and accurate information on what the customer wants and what the enterprise can produce—it is immediately evident that there are major shortcomings in the structures and practices born of Adam Smith's theories. Who is the champion when responsibility is diffused across business groups? Who understands both the big picture and the details of how things get done on the front lines? How is change coordinated across the individually managed sections of a process? In entrepreneurial ventures, these innovation deficiencies are mitigated by the proximity of leaders to the front lines. They see firsthand what occurs at ground level. The organizational boundaries are blurred between sales, manufacturing, distribution, and customer service in smaller entities. This fosters a vibrant connectivity between leaders and employees that simplifies the flow of information and the execution of strategies. This leads many business pundits to suggest that large enterprises need to act more entrepreneurial. With growth, however, everything changes. New locations are added, software is implemented to manage information, employees are hired to fulfill sales orders, and product lines are expanded to further grow the market. The size and complexity of the enterprise increases with this growth. Organizational silos are birthed. Knowledge chasms begin appearing. The enterprise becomes less efficient and less responsive to market shifts. Unless the innovation roadblocks are removed, market share and financial performance are likely to erode.

Can Innovation Be Systematized and Made Repeatable?

My first job after my college graduation was with the Fifth Third Bank in Cincinnati, Ohio. The economy was in a down cycle, and although I was lucky to have a job, I was not overly enthused about

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starting my career in the banking industry—especially at a regional bank in the Midwest that was not what many viewed as a real player in the financial industry. My enthusiasm took a further hit when I arrived at the corporate headquarters. Fifth Third prided itself on its spendthrift culture. Employees worked long hours in poorly ventilated offices with dilapidated furniture and threadbare carpets. Every penny spent by the company was meticulously scrutinized. However during the two years that I spent at Fifth Third, I learned more about strategy and innovation than any classroom ever taught me.

Shortly after my arrival, I was asked to participate in a sales blitz. Participation was mandatory for all levels of employees: cashiers, branch managers, loan officers, operations associates, technologists, and individuals from every department, including C-level executives. The goals of a blitz were to drive awareness and sales by canvassing a specific, predetermined neighborhood. As we walked a route, our directions were to connect with existing customers and introduce the bank to prospective customers. At the conclusion of the day, the blitz team reassembled to discuss our findings and share what we had heard during the day. A list was formed that identified promising prospects for follow-up. Even more importantly was a second list, a list that documented customer feedback. This second list was pure magic. We learned what the customer liked about our products and services—and we learned what frustrated them. By just talking with our customers, we identified real opportunities to give greater service to our customers. The sales blitz furnished leaders, managers, clerks, and other employees with a view of the bank from the perspective of customers—it gave us a window into their world and allowed us to empathize with them. And because senior leaders from across the bank were involved, the opportunities did not get tossed onto desks with the flood of other reports. They were investigated, and when they were seen to be valid, many ultimately were acted on.

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The results speak for themselves. Fifth Third today ranks in the top 20 largest banks in the United States and is consistently recognized as one of the top-performing and best-managed financial institutions in the nation. Whereas most of Fifth Third's contemporaries of comparable size were acquired in the 1990s, Fifth Third methodically grew its asset base from $8 billion in 1990 to well over $100 billion today. What allowed Fifth Third to achieve such growth? At the core of its success is a focus on the customer and its ability to use ideas unearthed during sales blitzes to direct the evolution of the bank's products and services. Although never explicitly stated as such during my tenure, Fifth Third effectively created an innovation system.

Over the last decade, my consulting work and experience as a business executive have driven me to craft an approach not only to systematize innovation but also to improve the overall manageability of an enterprise. My goals were straightforward—to facilitate customer awareness, enhance operational adaptability to market opportunities, continually reevaluate and improve the efficiency of the enterprise, and develop a governing model to ensure the optimal allocation of energy and resources. The real challenge was connecting all these unique aims into a model that was both intuitive and specific. As my innovation framework took form, it quickly became clear that *the language of innovation is process*.

The greater business community has long embraced process as a construct to improve product quality, push down costs, and address deficiencies in the performance of work. Total Quality Management, Six Sigma, Reengineering, and Lean are reputable process based approaches with adherents throughout the business world. More recently, Business Process Management (BPM) took precedence as a discipline to systematize programs to improve process performance. These days, just about every midsized to large company has used one or more of these tools to address performance issues.

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As a concept to describe work, processes are without peer. And they are significantly more powerful than most business theorists believe. Although there is a nearly unanimous acknowledgment of the potential of using processes to address efficiency opportunities, only rarely are processes recognized as the embodiment of an enterprise's strategy. But this is exactly what processes are—the unique way an enterprise consistently differentiates its offerings from those of its competition. Moving past their facade, one finds that every enterprise is a web of connected processes—a series of highways where work is performed until a final delivery is made to a willing customer.

This leads to a rather profound conclusion: process is a link between all types of innovation activities—a common language for communicating both strategic and efficiency adjustments. In contrast to its historical usage, process improvement is not simply a discipline to execute a one-time improvement. Processes are enterprise assets. We can assign ownership to them, guide their change, and use them as the basis for allocating resources where they contribute the greatest value. An enterprise using processes as the framework to manage performance and improvement efforts is a *process-focused enterprise*.

The Process-Focused Enterprise

The process-focused enterprise is the future of how enterprises of all types will be organized and managed. Gone are the organizational silos, gone is the command and control approach to managing people, and gone are all the guesswork and information inadequacies that plague the planning of an enterprise's future direction. Replacing such dysfunctional elements is an intuitive, simplified, fact-based, customer-connected, efficient approach to managing work activities. The core of this approach is the concept of process ownership.

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To put it succinctly, *process ownership* is the assignment of an individual (or a group) to own an end-to-end process. In this arrangement, a process owner is responsible for the active management of all facets of a process. In this role, his or her responsibilities include

- Managing the performance of an end-to-end process on a daily basis.
- Adjusting the process to support strategic and operational improvement goals in collaboration with other process owners.
- Continually seeking methods to make the process more efficient without harming—or in concert with—business partners.
- Acting as a representative of the process and being able to speak to all its component parts, including resources, costs, ongoing and future improvements, metrics, and so on.
- Training and mentoring process performers.
- Understanding and speaking to the resource requirements of the owned process.

In theory, process ownership connects leaders with both the authority and the knowledge to get things done at the ground level. However, whereas operational awareness and ownership are significant steps forward in eliminating silos and engaging the full power of a workforce, they do not fully eliminate the risk of individual process owners working at cross-purposes, nor do they prevent the ambitious manager from operating in his or her own best interests. Taking enterprise performance to the next level entails aligning the ranks of process owners to a common set of strategic and operational initiatives—deploying an improvement schedule written in the language of process to confront the challenges of the day and prepare for tomorrow.

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Such a system—such an approach—is the topic of this book. *Customer Focused Process Innovation* is an instruction manual to fundamentally empower leaders and guide them down the path to supercharge the ability of their enterprises to innovate. The goal is to bring new products to market faster, to operate daily with a customer-focused mentality, to rapidly adapt to new market conditions, to perpetually find ways to do more with less, and to capture market share by exceeding customer expectations.

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