4

Innovation via a Process-Based Approach

In prior chapters we examined the historical challenge of keeping pace in an ever-changing world and learned that innovation is the key to the success and indeed the continuance of any enterprise. We studied the four facets of an innovative enterprise—customer focus, strategic planning, operational improvement, and initiative management—and how they are integral to overcoming market and customer shifts. We examined how making fundamental strategic or operational adjustments requires analyzing and reinventing work activities at the process level. In other words, intentionally adjusting a product or service requires altering the routine steps performed by workers. And so that the adjustments are not blind shots in the dark and account for possible repercussions, making a process adjustment requires a thorough understanding of the causal relationship between the end product and both the process inputs and the process used to manufacture the outputs. By leveraging these relationships, it is possible to forge a link between the intended outcome and the production mechanism of an enterprise. Unfortunately, in larger enterprises, the causal relationships are increasingly more complicated to predict because of the growth in the number of processes and their interconnectivity. At this point, we have a good grasp on what needs to occur to improve an enterprise. The question now is how to build an innovation machine—one that refreshes itself as conditions unfold and drives an enterprise in the intended direction.

When viewed in isolation, processes are artificial constructs. Visually depicted as a collection of lines, boxes, and words in training manuals, guidebooks, and other materials, they are by themselves lifeless and valueless. People—employees, associates, partners, volunteers, and others—are the fuel that makes things go. People design, build, implement, and perform the processes. Although we talk about process as the foundation of work, it is the employees who perform the processes and make things happen.

At an elementary level, innovation involves devising new ways to organize and direct workers to deliver outputs with unique attributes. Although it comes as no surprise to anyone in corporate America, the prevailing hierarchical organizational structure does a poor job of aligning people with value-added work. It is a structure to control and supervise workers, but it has limited connectivity to the actual work. In addition, it fails to identify oversight for the large numbers of cross-functional and end-to-end processes operating in most enterprises and thereby contributes to the silos and knowledge-gap deficiencies we identified previously.

In a process-based approach, work activity is defined in terms of processes. Additionally, change is defined in terms of adjustments to a process or set of processes. It follows, then, that the most logical way to organize employees is based on their relationship to a process. *Process management* is the practice of organizing a workforce around the processes in an enterprise.

The Concept of Process Management

At the epicenter of process management is the role of the *process owner*. In contrast to managers presiding over a functional area today, process owners are responsible for all facets of an end-to-end process. This includes the daily execution of the process, oversight and direction of its performers, implementation of strategies that affect the process, and maintenance of the ongoing efficiency of the process. Because a good number of the most important end-to-end processes span departments and other organizational boundaries, a process-management structure uniquely assigns individuals to the work activities most critical to an enterprise. To further clarify this important role, the following is a list of responsibilities typically associated with process owners:

- Manage the execution of an end-to-end process on a daily basis.
- Adjust processes to support strategic and operational improvement initiatives in collaboration with other process owners.
- Continually seek methods to make processes more efficient without harming—or in concert with—business partners.
- Act as representatives of the process and be able to speak to all facets of the process—resources, costs, ongoing and future improvements, metrics, and so on.
- Train and mentor process performers.
- Understand and speak to the resource requirements of the owned processes.

Process ownership vastly expands the ownership of innovation from a select few individuals (i.e., a management committee) to a wide swath of individuals spanning every part of an enterprise. In this model, the process owners oversee the adjustments to their process—and this brings implications to the ownership and execution of improvement initiatives. I will cover the ownership of initiatives at a later point. Regardless of ownership, initiatives managed in this environment are created and managed using a process-based approach.

The Process-Based Approach

Today's enterprises struggle to make fundamental changes to the way they do business. When the market is stable, the path forward is easy—with only minor obstacles to skip over. But when big change arrives (i.e., think of the disruption to book sellers when Amazon started selling books online), these same enterprises flounder and bleed market share. In many cases they will be lucky to survive. They struggle to right the ship, even when they know exactly where they need to go. Most companies today rely on some variant of a strategic planning process to identify and schedule improvements. Typically, the senior leadership team hatches a number of well-intentioned directives with poorly defined scopes, wild guesses as to their predicted benefit, and nebulous responsibility for their execution. From the inception, problems arise. For a moment, let us ignore the fact that some initiatives are strategically misguided—just plain aimed at the wrong target. Assume that we are looking at an initiative that is perfectly dialed in strategically. Taking it from that point, the initiative receives the leadership's blessing and is pushed to the dock for launch. And the problems start. Because many initiatives are birthed behind closed doors under a veil of corporate secrecy, the first challenge for any initiative owner is to get a firm grasp of the true intent of the initiative. What did the leaders/strategists really intend to accomplish? Common sense would suggest that the process owner should circle back to the initiative creators for additional detail. In today's corporate environment, though, requesting clarity is equivalent to admitting you are lost—and not the right person for the job. And quite frankly, even when clarification is requested, many senior leaders are at a loss to give guidance because initiatives are frequently hatched in a vague high-level form. As a result, initiative owners are left to push forward with meager direction. Only the superelite change agent has even a ghost of a chance of making such an initiative successful. It is hard to reach a destination when you do not know what it is. This brings us to a key concept and a huge benefit of a process-based approach—*clarity of intent*.

In lieu of guesswork, in a process-based approach, initiatives of all types—strategic and operational improvement—are translated into the language of process. In other words, every initiative specifies the processes involved and the projected adjustment to each individual process. To illustrate this way of defining improvements, consider a sales initiative to expand the distribution of a product through the use of a network of independent distributors. To start, we break down the initiative into its process components. Such an initiative would definitely include the creation of new sales processes aimed at distributors. It also probably would require the inclusion of the new distributors' delivery spots in transportation and distribution processes (i.e., route management, inventory management, and so on). Additionally, sales management, pricing, customer service, and other processes would need to be involved in the execution of the initiative. By breaking down an initiative into process adjustments, the ambiguity and confusion around the intent and composition of the initiative are immediately dispelled.

But this approach comes with a formidable change to corporate cultures. Identifying the processes to be adjusted and the expected results requires initiative planners to get dirty—to get elbow deep in the specifics. And it's about time! From my perspective, this level of detail is a necessity for innovation planning. Strategists and senior leaders cannot continue to sequester themselves away from the details of how their enterprises operate yet still keep their hands on the knobs and levers that propel change. The responsibility to lead an enterprise necessitates leaders driving the innovation process. They simply cannot be effective operating at 25,000 feet when real change takes place in the trenches on the front lines where the goods and services are produced and sold to customers. This approach yields several immediate benefits.

Translating Change Efforts into Process Terms Provides Several Benefits

- The scope of an initiative is clearly identified leaving no room for confusion and eliminating the need for initiative owners to beat the bushes for clarity.
- The very processes (and therefore process owners) that must be included in the design and execution of the initiative are spelled out in the initiative itself.
- Using processes as the basis of communicating change initiatives creates a foundation for initiative management. This is a topic deserving of a significant amount of attention and will be covered in detail in Chapter 7.

The Process-Focused Enterprise

A *process-focused enterprise* is an organization that has adopted the process-management philosophy to manage its resources and also defines improvement initiatives in the language of process adjustments. Operating as a process-focused enterprise requires the implementation of three key elements—a process structure, a governance structure, and an innovation plan.

Returning to the story of the Digital Equipment Corporation (DEC) in the Preface—where senior leaders lacked a basic understanding of their company's operations—this case exemplifies a widespread problem. Any effort to improve the operations of an enterprise requires the change agents to fully understand the area to be adjusted—the process used, the performers, the cultural influences, the metrics employed, and so on. In the absence of such detail, the improvement effort is a blind shot with its success largely dependent on luck. And although the "Ready, Fire, Aim" approach is alive and well in corporate America, improvement efforts based solely on blind shots tend to miss the mark. In all likelihood, the effort will be directed at the wrong target or its aims will be impractical based on the current capabilities of the enterprise. Expecting leaders to possess this ground-level awareness on their own invites the risks of personal interpretations and variations in the completeness of their knowledge. If planning is to be productive and grounded in reality, an accurate map of the enterprise's operations from a ground-level everyday view is essential. To provide this perspective, I recommend the creation of a process-based view of the enterprise—what I call an *enterprise process blueprint*.

An enterprise process blueprint depicts all the major processes that together give an enterprise the ability to operate on a continual basis. It is analogous to a traditional organization chart in its use as a bird's-eye view of an organization, but there are significant differentiators. The first glaring difference is inclusion of the customer. The customer is the reason for any enterprise's existence and the arbiter of its success. Why would the customer ever be excluded from any presentation of an enterprise's operations? And an enterprise process blueprint includes all the major processes of the enterprise. It is a picture of the work that occurs in an enterprise, not the command and control lines used to organize people. In this way, it more accurately represents how work products are created. Depending on the intended use, subprocesses (i.e., minor processes supporting a major process) may be noted beside the major processes to yield a more comprehensive operational view. Arrows are used to identify the flow of work throughout the organization, as well as the customer connection points. Supporting processes can be included, although they may be placed in an area separate from the core value chain to reflect their supportive nature. When external partners and suppliers are critical to the creation of value, they also need to be included on the blueprint. An enterprise process blueprint is the highest-level view of the *process structure*—the full complement of processes that collectively allow an enterprise to operate on a continual basis. As such, the enterprise process blueprint is the starting point to identify any process adjustments required to implement a strategy or operational improvement.

Building an enterprise process blueprint is by itself an illuminating experience for leaders—especially creating one for the first time. It simplifies operational components into an easy-to-understand picture and offers a clarity of purpose previously lacking in most enterprises. (Chapter 5 covers enterprise process blueprints and their creation in detail.) Once complete, enterprise process blueprints become an indispensible organizational view—framing debate and discussion for operational and strategic planning. But the blueprint is only a piece of the puzzle—there is more to becoming a process-focused enterprise than simply knowing how things operate today.

Mapping the process structure to the traditional supervisory structure (i.e., how people are organized in the enterprise) creates a conflict. The two structures align very poorly. Remedying this disconnect is just common sense. Use a single structure to identify the flow of work, and use this same structure to organize workers. This is the second piece of a process-focused enterprise. Switching from a boss/employee-based organizational structure to a process-based organizational structure involves a paradigm shift from the prevailing command and control structures to value-creation structures.

This shift aligns workers with value-creation activities and sets up a new leadership model—what I call a *process-governance structure*. In this model, managers are mapped to processes and are called *process owners*. Where individuals were previously ordered into functional departments, they are now assigned to processes. Mapping individuals to processes requires jettisoning some of the outdated human-resources practices founded on the functional department and instituting new approaches to training and managing employees. The overall process-governance structure, including new roles and practices, will be covered in detail in Chapter 6.

The third and final piece of the process-focused enterprise is what I call the *innovation plan*. The process structure is the blueprint of how an enterprise operates. The process-governance structure organizes people to this structure. The last piece, the innovation plan, is the mechanism to manage and coordinate improvements to the operations of the enterprise. It is how enterprises get updated and repositioned to succeed in a changing environment. At any given time, employees are heads down with the day-to-day activity of manufacturing products and performing services. Raw materials are purchased, transformed into consumer-desired products, and sold to customers. In other parts of the enterprise, the information technology (IT) department codes software to automate processes and capture information for leaders, human resources hires new employees and files reports to comply with government regulations, finance creates a budget and obtains investment funds, and the list goes on. This everyday work is central to an enterprise. It cannot be delayed or ignored. However, as the world changes, the enterprise must as well. Here is where the innovation plan fits in. As the enterprise leaders plot a future course for the enterprise, they actualize these plans in initiatives to either build new products/services or adjust existing products/services. Initiative management includes all the activities to manage improvement initiatives throughout their life cycle—from initial identification to eventual execution. As defined previously, an innovation portfolio is the full set of all initiatives (both strategic and operational improvement) in an enterprise.

By actively managing the portfolio of initiatives, leaders can rank and execute the initiatives in a manner that increases the total benefit delivered by the collective set of initiatives. This is accomplished by expediting higher-value initiatives and culling initiatives that are no longer predicted to deliver value. Prioritizing the initiative portfolio in this manner focuses attention and resources on the activities that are most beneficial to the enterprise. Once the prioritization is complete, the end result is an innovation plan.

Because only a miniscule number of enterprises have taken the step of formalizing a methodology to continually prioritize and execute all initiatives, the enterprises embracing this concept reap a major advantage over their competitors. The end goal of this book is to use the process-based approach in alignment with the four facets to build a continuously innovating enterprise.

Integrating the Four Facets into a Process-Based Approach

As identified previously, the four facets of an innovative enterprise are elements that are integral to a growing and evolving enterprise. Depending on market conditions, one or more of the facets may take a position of dominance. But, for enterprises to prosper continuously, each facet must be in existence.

Before broaching the topic of systematizing innovation, let's briefly review the four facets of innovation (Figure 4.1). The first facet is *customer focus*. Understanding customers and their needs, desires, and behavioral patterns is critical to building products and services with market demand. By gathering information from

FIGURE 4.1 The focus and outputs of the four facets of innovation.

myriad sources (both internal and external to the enterprise) and by overlaying this information with general macro and micro trends, customer profiles can be built for a product/service family. Through this exercise, an enterprise can identify the desired attributes of a specific product/service.

The second facet, *strategic planning*, builds on the customer-focus facet. By knowing the customer-desired attributes of a product/service, a planning team can identify promising market opportunities. By evaluating these opportunities in light of anticipated competitor responses, the planners predict the consequences of their strategic actions and commit to those generating the greatest return. The activity to capture these strategic opportunities is bundled into strategic initiatives.

The third facet is *operational improvement*. Whereas strategic planning addresses market opportunities to capture sales, operational improvement is focused on the enterprise's inner workings. It includes activity around developing future capabilities; making the core value chain more scalable, adaptable, and flexible; reducing costs; improving quality; and reducing cycle time. After the opportunities are identified, they are documented as operational-improvement initiatives.

The final facet is *initiative management*. The initiatives born of the strategic planning and operational efficiency facets are consolidated into a list called the *innovation portfolio*. The initiative-management team evaluates and prioritizes each initiative using a methodical approach and with consideration of dependencies and collaboration opportunities. Each initiative is then evaluated and ranked in an order to maximize the collective return of the portfolio. Based on the order, the enterprise allocates resources and attention to the most promising initiatives in the portfolio.

The four facets of an innovative enterprise are the critical elements of an enterprise's innovation cycle. We know that processes are the single best way to align planning with daily execution. It follows, then, that merging the four facets with a process-based approach creates an optimal innovation approach. To understand exactly what this means, it helps to walk through the four facets as they contribute in a process-based approach environment.

Customer Focus

The customer-focus facet includes collecting information on existing and potential customers with the intent of generating insights to build customer loyalty and further grow sales. However before the ship leaves port, the immediate question demanding an answer is, "What customer?" Today's organizational structures range in size from sole proprietorships to multinational conglomerates selling radically different products to a host of customer groups. Particularly for larger, complex enterprises, painting a picture of the customers for a specific product/service offering requires a bit of an investigation.

There already exist droves of books, webinars, articles, and thought pieces on customer segmentation that do a very good job of identifying and segmenting customers based on their purchases and their use of products. For this reason, I will address customer segmentation only in a very cursory manner.

Many enterprises categorize their customers based on a legacy segmentation approach or even mimic how popular surveys and journals segment the industry—for example, car classes such as economy, luxury, and sports. When meaningful categorizations do not exist, the first step is to define groups (what are commonly called *product/service families*). Product/service families are based on any number of factors, including whether the products/services they purchase are complementary, whether they are substitutes for each other, or whether the different products/services are sold to similar customers. Any number of factors might determine a product/service family. Regardless of the basis for delineation, the true purpose of this exercise is to laser in on the set of customers for a product/service family. In today's rapidly changing product markets, customer segments may be fluid. Be flexible in the mapping. As additional information surfaces, it may make sense to combine product/service families, but it never hurts to start with a more detailed and segmented view.

Once the product/service families are determined for an enterprise's offerings, the real work begins. For each product/service family, a detailed view of the customer is created, including the product/service attributes valued by the customer, how the customer shops for the product, how the customer uses the product, and how the customer's preferences are changing. Kano analysis, as presented in Chapter 2, is a good model to analyze customer preferences. Another tool is to use the process performance factors identified in Chapter 3 to identify differentiations. The goal is to build a complete picture of the customer that encompasses all his or her significant preferences, behaviors, motivations, and attitudes. When creating this picture, extend the identification of customer attributes to include any latent or expected future needs. Otherwise, the customer information is pegged to the past. Innovation is calibrating the enterprise toward the future customer—building products, services, and experiences that are enticing to future buyers. As with any analytic endeavor, the biggest stumbling block in this exercise is gathering high-quality information. Again, no single source suffices. The best customer perspectives are pulled from multiple unique sources and consolidated together into a singular customer perspective for each product/service family.

Earlier I mentioned a number of sources that are useful to gather customer information, including cash register analytics, external research providers, internal surveys or focus groups, and internal feedback loops. In a process-based approach, the information sources are largely the same, but the contribution from insights generated through internal processes plays a much larger role. For example, the customer is placed at the apex of the enterprise process blueprint. Not only does such a prominent position loudly communicate the value of the customer, but a thorough blueprint also identifies the connection points where the customer and the enterprise interact. Each of these customer contact points is a potential gold mine of customer insights—if only they are harvested. If there is presently no formal feedback loop from these points to a single customer information team, rectifying this oversight is priority one for a customer-focused enterprise. Pulling customer information from the front lines is always the best way to gather current and insightful data on a customer's actions, motivations, and future intentions.

Despite their importance, a major shortfall for many enterprises is the utter lack of understanding and management of the processes connected to the customer. Companies that devote time and resources to delivering more value for their customers end up being the strategic superstars of their industry—the disruptors of the status quo.

They delight customers and nab market share while the competition's attention wanders.

This brings us to one of the most overlooked but most promising opportunities in the strategic realm—managing the customer's processes. Customer processes include all the ways customers interact with an enterprise and its products. To give a short list, customer processes include how they shop, purchase, use, resupply, repair, and dispose of a product. We know that positive experiences throughout the product life cycle build loyalty and translate into future sales. Remember how most enterprises attempt to innovate—via a strategic planning process. Strategic planning processes are generally internally focused—a list of directives that focus on adjusting market position and operations and building future capabilities. However, this approach to strategic planning ignores the most powerful weapon in the strategy arsenal—the ability to reengineer the customer's processes and thereby create a wholly new (and hopefully superior) customer experience.

The iPod is a great (although overused) example of a product whose company (Apple) understood the customer's processes and reengineered them. Apple knew that customers wanted conveniently available music and that they were more than willing to cut out a store visit if they could buy it online. With this insight, Apple launched iTunes, an online store for music. Now customers are able to search for, sample, and buy music from the comfort of their home or wherever they happen to be. Customers valued this convenience as well as the elimination of the hard product (compact discs). By providing a superior value statement, the music distribution industry was transformed forever.

Apple was able to make such a leap in delivering value because it viewed the customer not as simply a collection of current perspectives and slices of information but rather as a living entity with evolving wants and needs—some very visible, others more abstract.

Putting structure to this undertaking requires a process viewpoint—a detailed awareness of the intricacies of the customer's actions. Only with this level of understanding of the customer can game-changing innovations be designed and brought to life.

To attain this level of insight, someone in the enterprise must not only map and intimately examine the customer processes, but he or she also must be a master communicator and make this knowledge widely available to strategists, planners, and process designers. Innovation is vastly more successful when it is a team effort—not an activity left to a select few isolated in conference rooms about the corporate headquarters.

To hasten the development of customer processes, I find it helpful to segment customer processes into two categories—*shopping processes* and *product/service usage*. Shopping processes include all the steps a customer goes through prior to making a purchase. These steps vary greatly depending on the type of product or service purchased. For example, buying a hose from a local hardware store is significantly different from the process involved in remodeling a kitchen. Although a hose purchase might just be a stop on the way home, a kitchen remodel requires a much larger investment of time and resources. It entails planning the kitchen, choosing materials, soliciting bids from contractors, and a host of other activities. The following is a short list of customer shopping processes:

- Defining or clarifying the want or need
- Gathering information about the product/service and purchasing process
- Understanding the product/service processes and how they can be used, serviced, and so on
- Obtaining pricing for the product/service
- Designing or configuring the product/service for the customer-specific situation
- Receiving the product

Once the purchase is made, the product/service might require further processing before it is ready for use. And with continued usage, additional servicing, repairs to damaged components, or refills are often necessary. All these activities related to the setup, use, and disposal of the product are also customer processes. Several examples of usage processes are as follows:

- Setting up or installing the product
- Getting assistance from the company, written directions, or other sources
- Resupplying, reordering, reloading, refurbishing, and repairing the product
- Disposing of the product

By combining knowledge of the customer's processes with insights gleaned from other sources, a sizable amount of customer detail is available to guide product/service design. Simply injecting rich customer insights into the planning process is a major step forward in comparison with the strategies generated from half-baked guesses that are abundant in strategic plans today.

This brings us to an immediate benefit of a process-based approach. If an enterprise wishes to build unwavering fans in its customer base, a major opportunity is to manage the connection points with customers in the same way internal handoffs between functions are managed. The aim is to connect internal processes with the customer's processes in such a way as to create a delightful customer experience and to do it consistently. This attribute of customer focus is frequently labeled as *easy to do business with* (*ETDBW*).

Today's companies tend to operate in terms of events—the busy season (e.g., around holidays for retailers), the budgeting season, and the strategic planning process. Each of these events/activities has predecessor activities such as the compilation of prior results, market studies, or other pertinent information. In the name of convenience, key planning processes are scheduled to accommodate the arrival of this information. But customers and competitors are continuously changing, so collecting information at a single moment in time ensures that you have a perspective that is meaningful only for that singular moment. There is momentum to change. Sometimes it is accelerating—other times it drifts. The short scoop is this: *collecting customer and competitor information should be an ongoing process*. It does not start or stop with planning cycles. It is ongoing and dynamic. As enterprises expand their capabilities to gather and analyze customer information, teams need to be assembled not only to build the *voice of the customer* but also to represent the customer throughout planning and innovation activities. In the absence of such a role, the cacophony of internal leaders clamoring for their individual needs drowns out the voice of the customer. And when customer knowledge is limited, any strategy is a glorified game of chance. Blind luck occasionally may trump diligent planning and preparation, but the enterprise that is zeroed in on the customer is at least aimed at the right target.

Strategic Planning

The predominant practice in corporate America is to execute a strategic planning cycle on an annual basis. As part of this exercise, customer data is studied, competitive tactics are discussed, and opportunities are investigated—at least theoretically. In many instances, this planning cycle overlaps with a budgeting cycle. As the curtain is pulled back on the prevailing practices, the real truth is that in a solid majority of companies both the budget and strategic plan are created using some variation of the *SALLY method* (*same as last year plus a little more*). This is how it often works. Templates are distributed to functional leaders so that they can identify their big opportunities. Some are strategic; many are not. The completed templates are aggregated together into one big plan and blessed by the powers that be.

Such an approach is riddled with flaws—and here lies a major reason why big corporate America is losing ground to smaller and more innovative players. Executing a strategic process on an annual cycle is equivalent to giving a gift to the competition. In effect, an annual cycle indicates that the attention of leadership is focused elsewhere (usually on financial results or investment analysts)—not on the customer or the competition and definitely not on an investigation of market opportunities to grow market share. This leaves an enterprise strategically vulnerable during a good portion of the year—abandoning the customer to more nimble competitors who opt to recalibrate their strategy on a more frequent basis.

An equally significant issue with most strategic planning processes is the diminution of the customer to a relative level of obscurity. Although it sounds insultingly basic, effective strategic planning starts with the customer. Customers should not be an afterthought, written into the picture after initiatives are determined. Customers are the reason for the initiatives. They should be where the improvement ideas are rooted.

A final issue with strategic planning today is the lack of foundational structures and processes for strategic planning. Many leaders today hire top-dollar consultants to develop their strategic plan. This is the path of least resistance—cut a check to receive a slew of ideas based on studies of market information. There is a safety valve for leaders with this approach. If an esteemed firm did the job, the recommendation has to be right, right? However, to date, I have never heard of a leadership team hiring consultants to develop their internal strategic planning process. And that is the hard part—developing a system that continuously reenergizes the enterprise.

Enterprises come in all shapes and sizes. This complicates strategic planning because strategies need to be created at the appropriate level. For holding companies, there may be strategies at the holding-company level, and there may be strategies for each of the distinct businesses that the holding company owns. A diversified company may require several strategic planning teams to develop unique strategies for each business. Likewise, a sole proprietorship may require only one strategy if it is a single-threaded business.

In a process-focused enterprise, the difference is that the strategic planning process receives the same attention as any other major process. It is assigned a process owner and is continuously evaluated for improvement. Instead of reinventing the process every year, leaders can focus on the customer, the competition, the market offerings, and the capabilities of the enterprise.

Assuming that the enterprise builds feedback loops from front-line performers and other internal/external sources, this information is passed to the strategic planning team, whose members then generate ideas on how to best position the enterprise's offerings in the market. When analyzing the process's success, the first question is whether the strategists have sufficient information to execute the strategic planning process. Is data on current and prospective customers rich and insightful? Has due diligence been completed on the competition and how they might react to various strategies? The extent to which information flows throughout an enterprise is directly correlated with its innovation capabilities. To ensure that crisp information is available for the strategic planning team, the customer-research function is frequently placed in the same organizational area as strategic planning.

At this point in the innovation cycle, product/service families are identified, customer segments are associated with those families, and customer-desired attributes for each product/service offering are captured. With a solid base of information, the next step is to begin identifying strategies. Every product or service has a strategy, regardless of whether it was created subconsciously on the whim or meticulously developed by a specialized team. In effect, standing pat is a strategy. Although there are multiple approaches to create strategies, strategy creation is an intuitive process—the formation of ideas based on knowledge of the customer and the prediction of competitor responses. As these strategic ideas surface, the first step is to complete a back-of-an-envelope analysis of the opportunity—a quick calculation of the potential value of the idea. Although simplistic, this estimate verifies that the strategy has potential and prevents the waste of time and effort on unproductive ideas. This is the first gate for strategic creation—is it significant enough to deliver value? With a rough number in hand, the next step is to consider the competitive ramifications. How will the competition react?

There is no sure-fire way to predict competitor responses. My recommended approach is to study the competitors' historic reactions and gather the available information on their leadership, financial state, ownership, and prior competitive strategies. At that point, an educated guess can be made of the potential reactions. The end goal of this exercise is to predict how competitors' responses might change the expected benefits of a strategy. But predicting the competitors' reaction is always challenging.

When assessing competitive options, one useful tactic is to map the competitor processes to understand their capabilities. How hard would it be for competitors to emulate your proposed strategy? Can the competition even respond? Are there other weaknesses in their strategy to exploit? For example, do prices need to be lower to win customers? Are there additional components to the solution not yet ready for market?

Assuming that the decision is to continue exploring the strategy, the intended outcomes need to be further scrutinized to confirm that they are viable given the enterprise's capabilities (i.e., Can we build it?) and to confirm that the consumer will embrace the output (i.e., Will they buy it?). As mentioned previously, value is created through a group of processes called the *core value processes*. These core processes transform raw inputs into products and services that are valued by prospective customers. Success occurs when customers choose to part with their hard-earned money and actually purchase these products/services instead of competitive offerings. For this reason, these value-creation processes are the embodiment of an enterprise's strategy. They represent the unique manner by which an enterprise repeatedly creates products and services for its customers in order to generate financial returns. The adjustment and innovation of the value-creation processes are strategy at its most elementary level.

To clearly define a strategy, it is helpful to identify not only the affected/adjusted processes but also the specific outputs delivered by each process. One straightforward way to depict the flow of outputs from the value chain to the customer is to build a pseudo–process map. To build this view, trace the desired outputs from the customers back to their source processes. In Chapter 9, detailed guidance will be provided on how to associate outputs (and the desired attributes of those outputs) with the processes that deliver them. The outcome of this mapping exercise is a crisp view of the process changes/additions to be completed to take advantage of the opportunity. It identifies adjustments to the core value chain processes, supporting processes, and customer touch points. This picture eliminates any confusion as to strategic intent and mitigates instances when managers and line-level associates are forced to decipher leadership dictates before they can proceed with the initiative. And beyond the simplicity and clarity gained, putting strategies into this framework builds a shared awareness of a strategy's implications across stakeholder groups. An understanding of the end game is critical to a successful strategic deployment.

Any experienced strategist knows that strategy creation is not an exercise in which ordered steps are executed to arrive at a specific destination. It is an iterative process based on available information and insights that may well lead to a different point than was previously thought. It is creative brainstorming in front of a white board—a free for all where ideas are tossed up and developed and then either discarded or studied further. To confirm their utility, the proposed ideas require verification from customers as well as internal resources and business partners. And then there is more spin, more analysis, and more redesign until the white-board proposal delivers a customer-valued output that can feasibly be produced by the enterprise to capture a market advantage. Defining opportunities in terms of process adjustments creates a specificity and clarity beyond anything available today. As many midlevel managers will attest, the time and energy expended on expeditions to understand executive intent are beyond madness today. Simply using processes as the language of change can transform an enterprise from a strategic laggard to a market-share stealing machine.

At this point in the strategic process, the key stakeholders including process owners, business partners, and select customers have vetted the opportunity and confirmed its validity. The end-state objective is crisply defined, and the requisite processes improvements (i.e., adjustments or new processes) are known. The strategic objective is nearly ready to be handed off to a project team for execution.

The first step is to break the overall work effort into initiatives—or executable divisions of work. Strategic opportunities come in all sizes—some span the process structure, whereas others have an impact on only a select few individuals. However, there is a limit to the size and scope of initiative that can be executed. When initiatives become overly large, they invariably stall and are either scaled back or abandoned altogether (usually after months or even years of wasted time and cost). For example, a major retailer undertook a massive reengineering effort. As time passed, more stakeholders joined the discussion and added their requirements to the overall program—vastly expanding the program's scope beyond the initial intentions. Several years after the inception of the program, the daily spend on program resources approached a million dollars. With all the additions made to the program, the original business case was defunct—lost among all the add-on work. Work efforts continued, but the end state was just an undefined glimmer off in the distance. Eventually, the program ground to a halt after a series of missed deadlines led to a more comprehensive review of the business case. Shortly thereafter, the company underwent a series of layoffs and drastically scaled back the program to something approximating its initial scope. The lesson here is that initiatives can be too big to implement. Enterprises and their workers are unable to handle change of such a grandiose size and scope. Big change requires small steps.

When building initiatives, the guiding principles are twofold—create initiatives that provide meaningful value and that are achievable. Every initiative should be a discrete piece of work that moves the ball a step forward. Where work activities are interconnected, bundle them into a single initiative if size permits or link multiple initiatives together to build towards the desired end state. With the planned work segmented into manageable groupings, the final step before the initiatives are transitioned to a project team is documentation. To accurately define an initiative, a set of basic information is required:

- Initiative name
- Initiative intent/goal
- Initiative benefit
- Expected outcome in terms of the outputs
- Processes affected significantly
- Other processes affected

With just this information, teams can understand the initiative's scope and projected benefit. A deeper perspective on initiative development will be provided in Chapter 9.

One final note on using a process-based approach for strategic planning: strategic planning is a process. Like any other process, it deserves attention and active management—that is, a focus on its results and continual improvement. It requires conscious design, continual analysis to improve its effectiveness and efficiency, goals for improvement, training, knowledge sharing, and all the other "love" that core value chain processes enjoy. Unfortunately, the strategic planning process is rarely the focus of improvement efforts in corporate America. But here is a major opportunity for the innovative enterprise to get a jump on the field. In a very similar fashion, operational improvement provides a mechanism for enterprises to best the competition by paying attention to other areas neglected by many enterprises.

Operational Improvement

Operational improvement rarely receives the attention that strategic planning does. It simply fails to engender the same pizzazz as do efforts aimed at revenue growth or capturing market share. Today, when internal operations do receive attention, it is because a barrier was discovered that prevents leaders from taking a chosen path or tough times have descended and cost cuts (i.e. layoffs) are needed to meet financial goals.

In stark contrast to their reputation, operational initiatives are a powder keg of potential. First and foremost, efficiency is a driver of profitability. As sales are registered, well-managed processes deliver outputs at lesser cost. Although there is a correlation between sales and profitability, enterprise performance is not only about being in the right place (strategy) but also about getting there faster and at a lower cost than the competition (operational improvement). The impact of efficiency initiatives rolls directly to the bottom line. It therefore stands to reason that, all else being equal, a continual focus on operational improvement may well be what puts a market leader in that position.

Every enterprise has built structures to organize resources, investments, and focus in order to deliver the greatest value to its customers while simultaneously generating profits for its shareholders. Unfortunately, the alignment of resources rarely, if ever, mirrors the true need. People and resources may well be dispensed based on perceptions of opportunities or simply office politics. The end result is a misalignment of resources. This is called a *resource efficiency gap*. Waste exists when resources are not fully used or where available capacity exceeds demand. To a large extent, this is an issue born of incomplete and inaccurate information at the managerial level. Leaders simply do not know where to add and where to cut.

One way enterprises rid themselves of wasteful spending is through periodic enterprise-wide cost-reduction initiatives. These programs are designed to take a holistic view of an enterprise and identify low-hanging fruit—costs incurred without an equivalent value created. Under the mantle of these programs, resource efficiency gaps are attacked and eliminated. The aim of an innovative enterprise, however, is not to periodically eliminate waste but to continuously reevaluate resource requirements across the enterprise and realign resources to efficiently fill needs—not wants.

In a process-based approach, operational efficiency receives its due respect. The strategic planning process brings to light capabilities required to compete effectively in the future. These requirements spawn operational efficiency initiatives to enhance the enterprise's capabilities. Additionally, one of the core responsibilities of a process owner is to continuously evaluate the processes under his or her ownership and to identify improvements. These improvements may be the development of capabilities or the shedding of unnecessary ones. In this way, the scale slides both ways—for both the growth and the diminution of processes. For example, operational-improvement initiatives might focus on providing strategic flexibility, expanding systems and networks to accommodate growth, or improving the quality or safety of a process, and other times they may jettison unnecessary capabilities.

Over the course of executing multiple enterprise cost-reduction programs, I made an interesting discovery about the management of costs in most enterprises. A significant percentage of cost falls in the sales, general, and administrative (SG&A) bucket, but this line item is rarely the focus of an improvement undertaking. But SG&A expenses are not the only victims of neglect. There are almost always ignored and unloved areas in just about every enterprise. And they are ripe for improvement. Why the neglect? The answer is simple: these opportunities lie in a veritable no-man's land. No one is assigned responsibility for examining this area for opportunities.

Fortunately, in a process-focused enterprise, there are process owners. Whereas the innovation portfolio operates at an enterprise level, work efforts not large enough to be funneled into the innovation portfolio are delegated to process owners. To address these smaller opportunities, process owners are trained to identify and execute small improvement projects. For the most part, these projects need only a pinch of time to see them through to completion. Because flex time exists (and it exists in every enterprise), process owners set improvement goals for their processes—focusing on cost takeouts, quality improvements, expanding throughput, enhancing the skills and knowledge of performers, and expanding the capabilities of the process—and they use available resources to get the job done.

As operational-improvement opportunities come to light, the process owners and other leaders identify and scope initiatives in the same manner as strategic initiatives. As the initiatives are identified and built out, they move to the initiative-management function for execution.

Initiative Management

As initiatives of all stripes are created, management analyzes and prioritizes their launch in any number of ways. Based on my experience, the overwhelming number of organizations have forgotten (if they ever knew) the full intent of an initiative-management function. Initiative management provides not solely a platform for the development, prioritization, and launch of initiatives but also a methodical process for continually reassessing and adjusting the enterprise's efforts to deliver the greatest return on its initiatives. This aim of portfolio management is sadly missing in all but a token few enterprises today. But there are additional benefits when an initiative-management function uses process adjustments to communicate intended improvements.

The first benefit is the crystalline clarity and understanding of the actual improvement initiatives. As initiatives and their respective end state are developed from a straw man to detailed solutions, an initiative's impact on the overall process structure and the expected outcomes becomes unquestionably clearer. Although mentioned previously, it bears repeating that this alone is a tremendous leap forward for every enterprise. No longer is a project team forced to guess intent or translate from leadership directives what an initiative is really supposed to accomplish. With a clear target, the percentages swing in favor of success.

The second benefit is equally important. As initiatives are prioritized and slated for launch, understanding what processes are affected provides visibility to where improvement efforts may stress or overwhelm a particular area. Every team and function has a limited capacity to absorb change during any period of time. By scheduling the deployment of solutions, leaders can prevent the swamping of a particular area and the deployment of conflicting initiatives. For example, if both a strategic and an operational-improvement initiative exist for the same process, the strategic initiative should always take precedence over any attempt to improve the efficiency of the process.

Otherwise, the efficiency initiative may aim to improve a process that no longer exists after the strategic initiative is complete.

In my experience, I have found that one useful tool to visualize process impacts is a heat map of the process structure. Through the use of colors or other denotation, process impacts can be depicted for each process—initiative by initiative. In this way, process owners and other leaders can review the heat map for a process and determine whether there are overlaps in initiative scopes that require investigation and possibly mitigation.

In a process-focused enterprise organized around the four facets, the goal is to laser the resources, energy, and focus of the enterprise's capabilities on areas where improvements deliver the greatest value. Using process as the language of change allows for a very specific diagnosis of what needs to change—and an equally accurate picture of the implications. In this way, investments of money, time, and energy are directed to where they contribute the greatest value.

Benefits of Using a Process-Based Approach

For the past century, big business operated with a traditional hierarchical organizational structure and a collective subconscious expectation that having a seasoned leader at the helm was the way to drive performance. Failures were chalked up as shortfalls of a specific leader or changing market conditions that no one could foresee. But rarely are the structure and organization of the enterprise itself blamed. In the absence of a framework to manage innovation and the supporting structure to enable its execution, leaders and planners continuously reinvent the wheel. Every innovation begins as blank sheet. This adds complexity, delays, waste, cost overruns, and a host of other negatives, but most important, it usually results in an inferior end state. Imagine a different environment where processes hum with efficiency, timely and insightful reports enable leaders to craft game changing strategies, and the infrastructure is in place to execute these initiatives in a timely and methodical fashion. No longer are organizational structure, institutional knowledge, and operational clarity impediments to change; now the foundation is readily available and capable of acting as a springboard to take the enterprise anywhere it wants to go.

To date, the greater business community, academics, and all the armchair quarterbacks have failed to provide a system that continually and effectively innovates. As a result, the core structures and practices inside most enterprises have remained relatively unchanged for decades. A process-based approach provides an alternative to the status quo, releasing the full power of an enterprise to better serve the consumer and increase returns to shareholders. Such a model is vastly superior to conventional approaches in its simplicity, specificity, and ability to deliver immediately. Several of the major differences between the status quo and this new approach include the following:

- Customer insights are captured in multiples of what is provided by existing practices today. The use of feedback loops from frontline associates and the active management of customer-facing processes facilitate prompt reactions to consumer and market forces as they change.
- Strategic planning is less guesswork and based on gut feeling and more a systematic and precise procedure. Strategy translation problems are mitigated as a result of the specificity and clarity of the solution defined in process adjustments.
- Enterprise alignment occurs more naturally because the workforce is knowledgeable about the enterprise's innovation plan as communicated through strategic and operational initiatives.

- Continual improvement occurs throughout all levels and every corner of the enterprise. Process owners take responsibility for improving the efficiency of the processes in their domain. Cross-functional/process-improvement efforts are identified, designed, and funneled through an initiative-management function in a manner that maximizes the benefit to the enterprise.
- The overall enterprise becomes more effective and efficient. Waste, miscommunication, and unclear leadership directives are reduced. These improvements build momentum and excitement as employees on the periphery of innovation activity buy into the methodology. Morale and employee engagement improve, often creating a tidal wave of communal pride.

As with any system or approach that relies on human beings for its execution, initiatives will still occasionally fly off the tracks with a process-based approach. Political power plays, although minimized, still may flare up occasionally and impede forward progress. Strategies forged on faulty information or poor design still may be launched and crash. Tools and methodologies will be misapplied and waste time and money. Associates will still resist adjustments to their world, stalling improvement efforts. In spite of these risks, implementing a process-based approach creates a structure uniquely responsive to change. The question is: Is your enterprise ready to commit to the change? The first step on this path is to recognize who you really are and how you operate—through an exercise to uncover the process structure operating in your enterprise today.

This page intentionally left blank