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# The Innovation Plan: A Methodical Approach Is Needed to Build a Skyscraper

The methodology and structures comprising a process-focused enterprise are unique in their ability to serve as a framework for innovation. Creating widespread awareness of the operational functioning of an enterprise and underpinning resource utilization onto this structure are momentous steps forward for most enterprises. The enhanced content and availability of critical information to formulate plans constitute a distinct break from the period when business plans were predicated on guesses as to how things worked and what could be changed. Armed with rich information and a thorough understanding of the enterprise's capabilities, the only remaining piece to build an innovation engine is a coordinated plan to take advantage of the available opportunities—a plan to marshal

resources and make the right change happen. But today there are substantial impediments to executing this type of plan.

The prevailing corporate structure functions as a realm of fiefdoms where a local boss is the arbiter of where and when his or her workers will engage. Without their approval, these resources are locked away until the chieftain is convinced that it is in their best interests to participate (and their voice is heard), or they are commanded to get on board by more senior leaders. More often than not, it is left to the initiative owner to convince the chieftains to participate by wooing them—an activity that is immensely time-consuming and wasteful, forestalls the initiative's delivery, diminishes any existing momentum, and may well erode any market advantage to be gained.

Although the process structure and governance organization diminish the silos in an enterprise and erode the power of the chieftains, improvement initiatives will not occur in a coordinated or timely fashion if leaders and workers are not executing from the same marching orders—in effect, a road map plotting the work to improve the position of the enterprise. This road map puts to work the theory of the four facets—capturing consumer insights, developing strategic and operational improvement initiatives from these insights, and then coordinating the efficient execution of these initiatives. The resulting plan I call an *innovation plan—a road map to transform an enterprise's processes to achieve strategic and operational goals while simultaneously maximizing the total value of its portfolio of improvements*. Extrapolating from this definition, effective innovation plans are born from a systematic approach that drives collaboration and stages adjustments to the overall process system in the most effective manner. And as mentioned previously, using process outcomes to communicate adjustments to the enterprise's operations fosters a universal understanding of the intended changes—uniting all enterprise resources behind a single improvement agenda. In short, it gets the congregation singing from the same hymnal.

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## WHAT IS AN INNOVATION PLAN?

In contrast to most companies—which communicate strategy based on leadership directives, documented metrics, or corporately approved goals—a process-based approach translates strategic intent into process adjustments. In other words, every improvement initiative can be linked to one or more processes, existing or new, and the initiative is defined by its impact on those underlying processes. To review the role processes play in innovation, *processes*, as defined previously, are simply activities that use inputs to produce outputs. The outputs possess attributes that either appeal to or repel a potential consumer. Every attribute of an output depends on the process's inputs and the process employed to transform them. Therefore, the easiest and most straightforward manner to produce desired attributes in an output is (1) to adjust the inputs or (2) to change the process employed to create the output. Both tactics require a deep and accurate understanding of the underlying process.

It is in this relationship between intent and process that the awesome power of process management lies. In popular business theory today, strategic execution and process improvement are often fallaciously viewed as disconnected concepts. In reality, process is the actualization of strategy. It is impossible to deliver a consistent customer experience (a strategy) without the execution of repeatable and specific processes. Viewing this relationship from a strategic standpoint allows for the discovery of an important truism: anticipated consumer needs and desires can be translated into specific output attributes and mapped to an enterprise's processes. The output attributes are the future requirements for processes—a direct connection between the customer's desires and the enterprise's intended future state. This link between the future and the current state of operations takes the

guesswork out of strategy and innovation. You simply build what the customer is telling you to build. There is no easier way to strategically calibrate—and best yet, it does not require shelling out millions of dollars to get the latest and greatest advice from strategy firms.

The straightforward and relatively simple language of process adjustment belies the potential challenges of actually adjusting processes to customer wants and desires. First of all, processes rarely, if ever, are performed in isolation to deliver outputs. They are almost always a piece of a larger network of interconnected processes that collectively produce the outputs—in other words, a process system. Adjusting a process system to achieve a desired outcome requires an approach that weds collaboration across processes and their owners in a methodical and specific manner. When improvements are not designed and implemented at a system level, the solution may well fail to fully consider all the interconnected processes and thereby create a ripple effect of unforeseen consequences—possibly detrimental to other areas of the system. Although completed with the best intentions, the change resulting from such localized improvements may fail to deliver the intended outcome at the system level—the level visible to the consumer. The key to effective innovation is to create a comprehensive plan that considers opportunities to collaborate, cooperate, and share knowledge and resources with the goal of optimally allocating resources to objectives at the right time to maximize the value generated by the total portfolio of improvement initiatives. This is the aim of the *innovation plan*.

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## CONSTRUCTING AN INNOVATION PLAN

Although the leadership council is technically accountable, an individual or small group is commonly appointed to facilitate creation and management of the innovation plan. Regardless of the creator(s), the involvement of process sponsors and process owners

is imperative to make the plan as complete and accurate as possible. The approach to building an innovation plan consists of five steps:

1. Select initiative-prioritization criteria.
2. Identify the process requirements for all known initiatives.
3. Build a strawman solution for each initiative, and compile the benefits, costs, and other information to allow for a fair comparison among initiatives.
4. Prioritize the initiatives to maximize the collective benefit for the enterprise.
5. Schedule and allocate resources according to the prioritization of the initiatives.

These five steps are intended to be executed sequentially, but in an ongoing iterative manner. For example, when scheduling and allocating resources, new resource requirements may be uncovered, forcing a project team to backtrack and recalculate the business case. Or, as limited resources are allocated, other initiatives may be delayed because of an overlapping need for the same resource. Still other initiatives may be less encumbered and therefore leapfrog these stalled initiatives. Additionally, an option when resources are scarce is to buy or borrow the needed resources, eliminating the restriction and the need for any adjustment to the prioritization order. When borrowing resources, an analysis of the benefit gained versus the cost of the borrowed resources is essential.

### ***Step 1: Selecting Initiative-Prioritization Criteria***

*Prioritization criteria* are any factors used to evaluate and rank initiatives, including the benefit delivered, the time to payback, the investment required, risk, and others. Selection of the criteria and the method to prioritize initiatives always should occur upfront and ideally even before the initiatives are known. Delaying this activity until the initiatives are bundled and ready for prioritization invites

political haggling. Optimization of the portfolio heavily depends on the integrity of the initiative evaluations.

Today there is nothing close to a standard approach to ranking initiatives. Strategists argue that initiatives with a customer impact should take precedence because they are critical to future sales. To some extent, this is correct; the enterprise that loses focus on its customer faces a rocky future. Many leaders will argue that initiatives with a quick payback should take precedence because they build momentum. Other theorists argue a similar line and suggest focusing on initiatives that are easy to complete. My experience is that absolute rules such as these work some of the time, but just as often they fail to arrive at the correct answer.

Experience has taught me that there is no single approach that is applicable in all circumstances. The criteria to rank initiatives vary based on the financial, strategic, and operational state of the enterprise at a given point at time. For example, a cash-starved company with a large loan payment on the horizon may elevate initiatives requiring minimal investment but with very positive short-term outcomes (e.g., a cost-reduction initiative). Similarly, a company in an intensely competitive marketplace may focus on initiatives to build strategic advantages while forgoing short-term quick-fix initiatives.

In the absence of special circumstances, the main criterion for initiative prioritization should default to the expected net benefit of an initiative. This is best calculated as the *net present value* of an initiative. After all, the reason why enterprises exist is to generate value for their stakeholders. It follows that the most efficient portfolio is the one that maximizes the value delivered by the full portfolio of initiatives—both strategic and efficiency based. This approach ensures that valuable infrastructure investments are not ignored. Many companies, particularly retail and CPG (consumer packaged goods) companies, shoot for the shiny object versus the continued care and feeding of the existing infrastructure. Eventually,

things begin to fall apart to the detriment of customer experience, which has a negative impact on customer loyalty and sales.

With value generation as the preeminent criterion for ranking initiatives, every initiative needs a business case. However, when value generation is the sole criterion, any possible launch order for initiatives needs to address the resource requirements and dependencies of the initiatives. If resources are not available or needed events have not transpired, an initiative cannot move forward. Simply waiting for these requirements to be available is wasteful. A better option is to shift resources and focus to initiatives that are ready to be executed and eliminate any time delay. To rank initiatives, the initial step of a prioritization process is to understand and capture for each initiative three vital pieces of information:

- *Value creation* (also called *net benefit* of the initiative) is the primary factor in nearly every prioritization exercise. As an enterprise generates greater value, it enjoys a corresponding financial gain, which allows it to meet financial obligations and invest in new capabilities. When value creation takes a back seat to other factors, an enterprise's future prospects are lessened. Only in extreme instances should other prioritization factors be ranked above value creation.
- *Resource requirements* are the people, money, and other resources necessary to execute an initiative. If the required resources are not available, the initiative cannot be completed. On occasion, shortages can be mitigated through the use of external resources, such as using consultants to fill knowledge gaps.
- *Dependencies* are prerequisites to the execution of an initiative. They come in a variety of forms including the occurrence of an event, an output from another initiative, a signed contract with a business partner, or anything needed to start an initiative.

After these three items are known, there are a nearly infinite number of potential prioritization criteria that the team can use to rank initiatives. In general, it is wise to limit the number of criteria. In most cases, the business case with consideration of resources requirements and dependencies is sufficient, but special circumstances may warrant the inclusion of other factors. The following criteria are occasionally considered for inclusion:

- *Significant known issues* are flaws that affect the consumer or hinder internal efficiency. If they create a negative experience for the consumer, the situation could develop into a competitive disadvantage and drive customers to explore substitute products/services. These issues usually can be accommodated in a detailed cost-benefit analysis. When the issue is not resolved, it creates an opportunity cost. Significant known issues are often addressed promptly because of their potentially large detrimental outcomes (e.g., the environmental and financial impact of an oil leak or the release of harmful gases into the air).
- *Strategic initiatives* that are vital to the organization's future market relevance can affect the cost-benefit in much the same manner as significant known issues. They generally drive revenue, and there is commonly an opportunity cost (especially with regard to lost market share) if they are not launched. This happens because a competitor may seize the advantage and make a move that thwarts the enterprise.
- *Customer/business-partner impact* initiatives are handled in the same manner as strategic initiatives. Similarly, they may have a benefit and an opportunity cost. Like significant known issues, they frequently have a meaningful opportunity cost if they are not addressed. On occasion, customer impacts may limit the work an enterprise can do.



For example, a partner might not have the capability to engage in a joint improvement initiative because of a noncompete agreement.

- *Risk mitigation* affects the business case of an initiative and rarely needs to be considered separately. To account for risks, a net benefit can be multiplied by a risk factor to arrive at a risk-adjusted benefit. Risk might be reflected as an opportunity cost. In other words, the enterprise may suffer consequences if an initiative is not completed. A good example of risk mitigation is compliance with regulatory requirements. If the company complies, it avoids a fine. The fine and the likelihood of the company being caught are the risks the company willingly accepts and, in such a case, represent the potential financial benefit of noncompliance. The cost is the financial impact of complying. It sometimes surprises leaders to discover the relatively low-risk weighted impact of noncompliance.
- *Ease of execution* of the initiative is a factor that is commonly used to prioritize initiatives. An argument is often made that gaining momentum through a successful launch of an initiative will position the enterprise for future innovation efforts. When used as a prioritization factor, ease of execution boils down to whether an initiative is an incremental or transformational change (i.e., a cultural change is required because of a radical change in mind-sets and behaviors needed for it to succeed).
- *Size and scope* overlap slightly with ease of execution but are focused more on the number of business units, vendors, and partners; the time period; and resource requirements of an initiative. The size and scope of an initiative can be accounted for through resource requirements. These requirements not only drive cost but also consume the lion's

share of an enterprise's available resources. An initiative with a large scope or size may delay the launch of other initiatives by draining the resource pool. Additionally, size and scope often go hand in hand with complexity. In general, any enterprise is limited in the number of complex initiatives it can effectively execute at any one time. Initiatives with overlapping scopes create even greater challenges.

- *Timing* as to the duration before the benefits are realized is addressed in the business case. It is standard to use a multiyear assessment and apply a discount factor to adjust the cash flows to present value in order to fairly compare different initiatives. On occasion, an enterprise requires a quick return on investment. This may be accomplished by prioritizing initiatives with short payback periods.
- *Cash impact* is unique in that it may become the most important prioritization consideration when an enterprise is faced with cash-management problems or when it is hoarding cash for a significant outlay.

To identify the right prioritization criteria, always start with the basics: net benefit generated, resource requirements, and initiative dependencies. The overwhelming majority of enterprises would stand to benefit by using only these three factors. But we know the world constantly changes, and the enterprise will go through periods when other criteria are important. On a somewhat regular basis, the prioritization factors and their reason for inclusion should be reevaluated to determine their relevancy. Make it simple. Using a straightforward and simple approach makes iterative reassessments that much easier.

After the initial three criteria, be selective in considering additional criteria. A long list introduces unnecessary complications, including the likelihood a criterion will be misapplied or incorrectly calculated, which leads to prioritization errors. In general, choose

only factors that are applicable to the current environment and not reflected in the net benefit calculation. Simply adding factors because of convenience or their availability is a poor practice. For example, if a company is experiencing a significant volume of customer issues, it is logical that an initiative to resolve those issues would be a priority. There may even be a prioritization criterion called *customer impact* to reflect the leadership's concern with the magnitude of the issue. In reality, though, the inclusion of a customer impact factor is unnecessary. The business case should reflect the risk of a loss in sales and customer loyalty if the situation is not remedied. These costs (and other identifiable opportunity costs) should adequately incorporate the magnitude of the issue. If the customer impact is significant, the initiative will leap to the top of the execution order—that is, assuming that there are not other initiatives forecasting even greater value.

This example illustrates a situation that is common with many of the criteria listed earlier, including risk, strategic initiatives, and customer impact. If the correct benefits and opportunity costs are included in the business case, their impact goes directly to the bottom line. In most instances, further prioritization criteria outside of net benefit are unnecessary.

There are a handful of exceptions to this rule. As mentioned previously, cash requirements (i.e., investment required) occasionally take precedence. For similar reasons, the timing of an initiative's benefits may take precedence because of commitments made to debt holders or investors—especially Wall Street. One final exception is combating market intrusions. To preserve market share or a competitive position, companies may make investments with a minimal financial upside but with the intent to block a competitor from gaining a strategic advantage—in other words, the initiative would make the advantage less appealing to the competitor. An example is when a company buys the assets of an ailing competitor to prevent another enterprise from entering the market.

Once the prioritization criteria are selected, the leadership team needs to rank the criteria so that the initiatives can be analyzed and ordered for execution. As I have stated repeatedly, the primary consideration in almost all prioritizations should be the value generated by each initiative. However, in instances where additional criteria are included, another step is necessary: the prioritization factors need to be ranked in order of their importance to the enterprise at that moment in time. This becomes a governing assumption of the prioritization process; if the ranking of the criteria changes, the portfolio's initiative order will need to be reassessed. In most cases, when there is an additional prioritization factor, it will take precedence in the short term or until the conditions for which it was introduced are mitigated. For example, a company may have a large cash outlay as a result of a lawsuit. Cash requirements then would become the primary prioritization consideration. Initiatives may be launched as long as they have minimal cash requirements. Once the payment is made, the company's cash position improves, and cash requirements can be eliminated as a prioritization factor. This, in turn, launches a reevaluation of the portfolio. Net benefit is again the primary factor, and the initiative launch order is adjusted to reflect the new emphasis.

After selecting the prioritization criteria, leadership teams may wish to consider more than one factor. In this case, an algorithm can be created to weight every prioritization factor according to its importance at that point in time. As circumstances change, the relative weighting of the factors is adjusted to reflect business priorities. With the prioritization criteria selected and ranked, the next step in the prioritization process is to identify the slate of initiatives and their process requirements.

### ***Step 2: Identification of Process Requirements for All Known Initiatives***

Compiling a list of the intended process requirements for initiatives is not always a straightforward or simple exercise. Only in rare

instances does a company maintain a full list of active and queued-up initiatives, and almost never is an end state available for every initiative. Even though it is very common for companies to operate some form of program management office (PMO) to monitor progress on major initiatives, these groups generally focus on strategic initiatives to the detriment of operational-improvement initiatives. And only frequently are initiatives logged with a consistent format and sufficient definition to prioritize their execution. Thus a good amount of digging and translating is required to pull a list together.

The first step is to identify the major initiatives. As defined previously, an *initiative* is a project or a group of projects that, when viewed together, achieve a goal. The list of proposed initiatives generated from the strategic planning process and operational improvements is an unorganized but quick view of an enterprise's business plan. It is broader than a strategic plan because it incorporates operational-improvement initiatives—hence it is correct to label it as a *business plan*. Although a high-level view of each initiative exists, at this point the initiatives remain rather vague and subject to interpretation. Like a strategy, initiatives are most effective when they are specific and of manageable size but still deliver a benefit. Logical delineations for dividing work efforts into individual initiatives are factors such as geography, different product/service lines, unique customers, and timing.

When forming the list, the intent is not solely to identify the specific initiatives but to gather all known information. Not uncommonly, there are gaps because poorly defined initiatives are the norm. Many initiatives (especially newer ones) exist as empty vessels with insufficient detail to even discern their true intent. On the flip side, reams of information are frequently available for major initiatives—truckloads more data than is necessary, but is it the right information? To put a stake in the ground, thorough communication of an initiative requires an initiative name, owner, objective, scope, timeline, benefits/business case, assumptions, risks, resource

requirements, high-level work plans, and any related costs incurred previously or anticipated in the short-term future. If the information is not immediately available, that is fine. In all but the most rare instances, initiatives require further analysis and design to prepare them for inclusion in an innovation plan. Initiatives fall into one of two buckets—strategic initiatives or operational-improvement initiatives. Both are integral to an innovative enterprise. The difference lies in the manner in which they are identified and managed.

When capturing a list of initiatives for the first time, the optimal time to start is immediately after the conclusion of a strategic planning cycle. The strategic plan includes many of an enterprise's major initiatives, making it a convenient source when compiling a list of initiatives. But strategic plans very seldom include the full set of strategic initiatives. Companies continuously launch initiatives to counter competitive threats, to course correct in the wake of dismal financial results, or to respond to a new customer trend. Although seemingly logical to do so, few enterprises manage an ongoing improvement portfolio in the periods between strategic planning cycles. When this is the case, the quickest route to uncovering midyear strategic initiatives launched outside a strategic planning cycle is to survey functional leaders to whom these initiatives were pushed for execution.

After compiling the list of strategic initiatives, the next activity is to capture the operational-improvement initiatives. Operational-improvement initiatives result mainly from growth and adjustments to the enterprise's market focus. Many of the initiatives in this bucket trace their routes to a prior year's strategic plan. Either while designing the initiative or after its launch, it is discovered that the strategy requires capabilities not currently in existence. As a result, investments are made to expand the infrastructure and develop the needed capabilities. Such investments appear in the form of technology upgrades, new facilities or machinery, personnel growth, or the introduction of procedures/functions to comply

with government regulations. To identify operational-improvement initiatives, examine the current and prior strategic plans. Look for investments made as a result of strategic endeavors. Often these investments are made to supporting functions to increase their scalability. An equally good method is to follow the money. Look for major expenditures in the budget and general ledger, especially capital expenditures.

Other operational-improvement initiatives are often void of any monetary investment. Indeed, they may require little to no investment because the individuals staffed to complete the initiative are lent from other business teams. And unlike strategic initiatives, it is rare to find a company that tracks operational-improvement initiatives at an enterprise level. However, there are telltale indicators to dig them out. Operational-improvement initiatives often require specialized expertise (e.g., Six Sigma or Lean) to run them. For this reason, tracking the spending on consulting services and training is a good way to uncover operational-improvement initiatives. A related strategy is to locate the individuals with expertise in improvement methodologies such as Lean or Six Sigma and identify where they are spending their time. Endeavors using improvement methodologies or skilled resources are either strategic or operational-improvement initiatives. The type of initiative is inconsequential—identification of initiatives is our goal.

As an aside, portfolio-management organizations often disregard the tracking and management of operational-improvement initiatives because of the lack of a significant investment. This is a mistake. Resources, especially skilled and knowledgeable employees, are limited in most environments. An efficient portfolio accounts for and manages all types of limited resources—not just the dollars.

At this point, a laundry list of initiatives is assembled—albeit a list lacking any evaluation of the legitimacy of any single initiative. The list is often overly large and contains initiatives of vastly different scopes and anticipated benefits. In many cases, the list includes

initiatives that are contradictory in their stated objectives. And the list will have some real dogs. Dogs are initiatives slated to deliver either no benefit or negatively affect the enterprise. They continue to limp along, in many cases, because their utility is never reevaluated once the initiative is in progress.

The intent of an innovation plan is to take this full lineup of initiatives, analyze them in a methodical manner, and then prioritize their execution to maximize the total benefit generated. To kick-start the process, conduct an initial culling to verify that every initiative meets a basic set of criteria—e.g., scope, value generated, or resource usage—to be included on the list. However, conduct even this first round of eliminations with care. The available information is based on prior evaluation methods. Different people used different approaches to design the initiatives—potentially resulting in biases or inaccuracies that might lead to the elimination of a valuable initiative. Use care, but recognize that at least some of the initiatives are unworthy of further exploration.

Innovation planning is the approach used to evaluate, execute, and deliver improvements with a cross-functional scope that require a significant investment of resources or are critical to future success. The criteria for the cutoff line vary based on the goals of the enterprise and current financial circumstances:

- Value delivered by the initiative is usually a primary consideration. Including an initiative that fails to generate value runs counter to the goal of an innovation plan.
- Size, measured by investment, scope, and cross-functional reach, is another potential differentiator. Large-scale initiatives with significant investments need to remain in the portfolio. On the flip side, an initiative may be small and seemingly insignificant, but it is integral to the achievement of larger strategic goals. They need to be in the portfolio.



However smaller, independently executed initiatives with minimal investment of resources are candidates for exclusion because they can be completed without the coordination of cross-enterprise resources. In other words, they are delegated to a process owner for execution—not abandoned.

- Impact is another differentiator. Even if the initiative is small in scale, it may provide great benefit to the enterprise and be worthwhile to track at an enterprise level.
- Dependencies with other initiatives are a prime consideration because work efforts need to be coordinated.

In general, keep the larger, complex, interconnected, cross-functional initiatives in the innovation-planning process and push the remainder to the appropriate process owners for execution or elimination. To prevent the formation of a shadow improvement portfolio, clear guidelines should be established to segment initiatives to the appropriate place. Limited-scope improvements managed at the process-owner level are intended to improve the base-level process but not impact or diminish larger enterprise innovation efforts or even affect areas outside the immediate process. For those improvement efforts outside the innovation plan, the intent is to provide some measure of attention for every significant process and further, that when process teams have excess capacity, they focus on smaller improvement efforts.

A final consideration of this initial evaluation of the initiatives is to weed out initiatives that overlap or do not make sense when both are implemented. This often occurs with strategic and operational-improvement initiatives aimed at the same area of the enterprise. The strategic initiative fundamentally alters the output of the process. The efficiency initiative delivers the old output at a lesser cost. As a general rule, always complete the strategic work before any efficiency work. This prevents the wasteful improvement of a process that is slated for retirement. Thus, whereas there are no hard rules, an initial

culling of the portfolio weeds out initiatives that are insignificant, duplicative, small in investment and scope, or without benefit.

### **Beyond an Initiative: To a Solution**

One of the greatest challenges in launching initiatives is to overcome the lack of definition or clarity around their intent. It is rare to find sufficiently detailed initiatives that can move forward without a good amount of interpretation. With vagueness being the standard, attack the ambiguity by sketching out the initiative's end result. This sketch does not have to be overly detailed. In fact, little more than a strawman is needed to build a sufficiently clear picture. Of course, after resources are allocated and the initiative is launched, the design may be adjusted or expanded by the initiative team.

An individual or team usually leads the strawman design. For smaller initiatives, the owner (functional or process) of the area most affected by the initiative is best positioned to lead this work. For cross-functional initiatives of moderate size, the leaders may be one or more managers working in tandem—often the process owners of the areas most affected. For initiatives spanning multiple areas and with major complexity, leveraging the skills and knowledge of a team of subject-matter experts is the best approach. In this type of situation, process facilitators often lead the team because they bring objectivity and an enterprise-wide perspective.

Capturing the intent of an initiative requires a return to its roots. Begin by interviewing the initiative's originators to get a clear, first-hand perspective. However, the initiative may not have sufficient clarity even after these interviews. At the end of day, use the best-available information to sketch out a rough outline of the intended result. The exercise is not to build with precision in mind but rather to provide sufficient detail to estimate the costs and benefits of the initiative.

Make it easy. A solid solution design is a paragraph that identifies the work to be completed and the proposed end result. The solution

design communicates the scope of the effort, lists customer connection points and the anticipated end state, identifies key stakeholders and performers, and details the differences between the current state and the future state. *Proposed* is a key word for the design. Once the initiative is started, it may need modifications as new information surfaces. This is why initiative management is always an ongoing exercise. The world changes, and to achieve success, so must the initiatives.

For example, the following solution design was written for an initiative aimed at improving the distribution processes at a regional grocery chain:

The intent is to optimize the number of distribution centers (DCs) from a cost perspective while accommodating a two-day delivery to customers' receiving facilities. In the initial stage of the initiative, the focus is on analysis of the current structure and determination of the optimal transportation routes to meet the delivery goal. With the knowledge gained in this initial step, the team will plan the DC network and determine where new DCs should be located, which DCs should be maintained or adjusted, and which DCs will be shuttered. The following phase of the initiative will include the mobilization of a team to implement the new DC arrangement. Scoping and building this initiative require a collaborative effort including resources from store operations, real estate, and the supply-chain team. The internal operations of the DCs are not anticipated to change other than to accommodate the new distribution routes.

Once a solution design is complete, always circulate it to the affected process owners (or functional leaders) as well as the initiative's originators for their review and confirmation of the solution. This validation step confirms that the solution is viable and consistent with intentions.

## Process Requirements

Initiatives are executed under the premise that on completion, the enterprise will realize a benefit. In corporate America, many initiatives fail to meet this simple benchmark for a gazillion reasons, including a lack of commitment (exemplified by inadequate resource allocations), poor solution designs, incomplete execution of the initiative, and others. That said, a good number of initiatives are destined to fail before they leave the gate because their intent is fatally flawed. The initiative fails to target the right customer or prepare for competitor reactions. In short, the initiative is strategically defective.

Even if an initiative is incontrovertibly dialed into the winning strategic position, a major speed bump remains—the precise communication as to what is to be accomplished and how it is to be done. Aside from poor design, the most prevalent failure point is the widespread inability of strategists to transcribe their ideas in a format that is understandable and executable. Vagueness leads to misinterpretations, guesswork, and waste. To have a prayer at linking strategy to execution, initiatives need to provide not only the end state but also direction on how the initiative is to be completed. Leaders and managers everywhere struggle with this challenge—giving rise to continual theories and tools to bridge the gap. Until now, though, the answer has been elusive. Fortunately, there is a simple and straightforward way to define initiatives—a way to forge an iron link between execution and strategic intent. This is accomplished by translating initiatives into *process requirements*.

What are process requirements? Process requirements identify exactly what is needed from a specific process to deliver the desired outcome. It breaks down the desired outcomes into components contributed by different processes. Process requirements communicate with exactness not only the intent but also the “How?” of an initiative.

For example, consider the proverbial widget. Based on customer and market analysis, a company identifies an opportunity to sell a 4-foot widget with a floater value. This new product is predicted to be a game changer, and therefore, speed to market

is paramount to success. We start with the end result—a new 4-foot widget with a floater valve ready for market. What is it going to take to launch this product? Because it is not an existing product, research and development (R&D), engineering, manufacturing, and procurement will need to design the product, build the manufacturing capabilities, and procure the raw materials for its production. Then marketing and sales will need to build awareness and line up customers. Finally, the supply chain will need to transport the new product to the customers' locations. The process requirements for this initiative might be documented as follows:

### Four-Foot Widget with Floater Value

- *Customer analytics.* Gather information on the desired customer attributes; in other words, build customer specifications for the 4-foot widget.
- *Strategy.* Assess competitor reactions to the launch, and create a market strategy for the new product.
- *R&D.* Design and develop a 4-foot widget with a floater value based on customer specifications.
- *Engineering.* Create the machinery and other production processes to build the 4-foot widget.
- *Procurement.* Acquire the raw materials to manufacture the new product.
- *Manufacturing.* Train and prepare workers to produce the new product.
- *Marketing.* Develop the packaging, pricing, and promotional program to launch the 4-foot widget.
- *Supply chain/distribution.* Assess and prepare for distributing the new product to distributors and customers across the target market.
- *Sales.* Identify the customers and build a sales organization to support the product launch.

Other process requirements arguably could be added to the list. One omission in this example is the lack of supporting-process impacts—that is, information technology, human resources, and finance. Whenever possible, existing processes should be leveraged for new-product innovations in order to reduce the delivery time and overall costs. Of course, over time, growth may stress the enterprise's infrastructure, necessitating eventual upgrades to continue producing and selling a product.

Returning to the list of initiatives, capturing the process requirements is as simple as going initiative by initiative and identifying the processes impacts. To ensure completeness and accuracy, process requirements are best determined by the individuals with the greatest familiarity with existing processes and their adaptability to a new use. This is why it is imperative that process sponsors and process owners are engaged in this exercise. To facilitate the collection of process impacts, it is helpful to use a table similar to Table 7.1

In this table, the company is focusing its attention on two major initiatives. First, it plans to launch a nutritional rating scale for its products to aid health conscious customers. Second, the grocery chain intends to open six new stores. The process requirements for the megaprocesses were derived during a design meeting with functional leaders. Every process requirement can be thought of as a small project supporting accomplishment of the initiative. This table can be further expanded beyond megaprocesses to show the impacts on additional levels of the process structure (i.e., major processes, processes, and subprocesses). Usually the major processes are at a sufficient level for scoping, and further decomposition can be delayed until after the initiative team is onboard.

Building a table similar to Table 7.1 is a relatively straightforward process. To identify the impacts, the process sponsors (or suitable representatives) convene to review the portfolio of initiatives. The team discusses the details of each initiative, and as each initiative

TABLE 7.1 Process Requirements for Initiatives at a Regional Grocery Chain

<b>Megaprocesses/Functional Areas</b>					
<b>Initiative</b>		<b>Marketing</b>	<b>Merchandising Operations</b>	<b>Supply Chain</b>	<b>Retail Stores</b>
	Launch nutritional scale for products	Communicate to consumers Create signage/ product information	Develop process to assess product nutrition (accurate and complete)		Place labels and materials to support nutritional scale Train workers on program
	Build six new stores	Create awareness of company in new markets Host grand opening	Develop/manage vendor relationships to support new stores (minor)	Develop routes to support delivery to and from new stores Supply inventory to the new stores	Support opening of new stores by expanding infrastructure Hire and train new workers Set new store

is reviewed, the attendees explain the impact it will have on their areas—stating in process terms what needs to be adjusted, executed, or built. If an initiative does not affect a particular megaprocess, it is left blank in the table. Processes that are minimally affected by an initiative may list the impact but denote it as minor. The team reviews all the initiatives in this manner. A significant benefit of this exercise is that not only does it capture process requirements, but it also builds universal awareness of upcoming initiatives and facilitates the identification of collaboration opportunities.

During the discussion of each initiative, the team occasionally discovers that the enterprise is missing critical elements or capabilities to complete the initiative. A process may not exist that is capable of producing the desired output. A new process or perhaps even a new business model is needed. In most cases, the solution is simple: build a new process within the confines of the current process structure. Returning to the example in Table 7.1, merchandising operations is tasked with creating a new process to assess the nutritional value of different products. Although this is a new process, it logically fits under the umbrella of the merchandise operations organization. This is the simplest route to providing a missing capability. At the other end of the spectrum, when an initiative requires a unique business model, the team may have to build a new enterprise process blueprint (i.e., expanding into a new product line or into a new geography) and its supporting processes. Whenever possible, it is always more efficient to leverage existing processes.

On occasion, all of an initiative's process requirements may not be known or even available during the initial pass. This is especially true for new product lines or when the enterprise expands into new businesses. For example, consider the strategic goal of crossing a geographic border and expanding into a new country. The initial phase of such an initiative might be to assess the business practices unique to the new country. Entering a foreign market entails compliance with additional regulatory institutions and potentially different accounting



rules—not to mention respecting local customs and abiding by local business practices. As is often the case when entering a foreign market, local experts might be hired to shepherd the market entry. Until an initial assessment is complete, the process requirements are unknown. In instances such as this, take the scoping and estimation exercise as far as possible. Include in the analysis what details are known, and create estimates for the unknown. As long as a consistent approach is used to estimate and rank the different initiatives, the innovation plan will be as efficient as the information allows.

Unlike other methods used to define initiatives, process requirements explicitly identify the processes affected and the expected outcomes. This approach to defining initiatives jump-starts their launch in a number of ways. Primarily, it provides immediate perspective as to an initiative's intent and scope—removing any guesswork. Second, it identifies the affected processes, their roles, and the expected outcomes for the initiative—setting the stage for collaboration between business partners. Finally, it sets a foundation for understanding the resource requirements and costs of moving forward with the initiative—acting as an input to a resource-allocation process. In an innovative enterprise, process requirements are a necessity for crisp communication.

As initiatives progress, the business case and other details begin coming to light. Before getting too deep into the execution of initiatives, it helps to build rules around their ongoing management—especially in regard to their prioritization for execution. The next step in building an efficient innovation plan is to use identified prioritization criteria and collect this information for each initiative.

### *Step 3: Collecting the Prioritization Criteria for Each Initiative*

The tabulation of prioritization criteria builds on work already completed. The business case for each initiative is undoubtedly the most important piece of the prioritization process. Initiatives

are undertaken because it is believed that they will generate value (except in rare instances). This is where the initiative launch process starts for many companies today.

### **Business Case (Cost-Benefit Analysis)**

- The business case is defined in terms of an initiative's net benefit, which is the sum of benefits and costs.
- Benefits are the anticipated financial gains after deployment of an initiative, and they are measured over a set period of time. Three- or five-year time horizons are recommended because the accuracy of predicting benefit streams deteriorates as they extend into the future.
- Costs are expenditures required to capture the benefit—both during the course of completing the initiative and on an ongoing basis as the benefits accrue.

If an initiative forecasts a respectable net benefit, more often than not resources are assigned and the project is launched. However somewhere over the years, the real advantage in calculating an initiative's business case got lost in business practice. The most important usage of the business case is to appropriately prioritize initiatives for action. The comparative value created by each initiative is the critical piece of information needed to build the optimal value-generating improvement portfolio. To make this analysis work, consistency is key. Accurate prioritization requires an apples-to-apples comparison. Any comparisons fall apart if different techniques are utilized to estimate the value of initiatives or if different numbers are used for financial constants such as discount factors or if the team incorporates varied levels of detail into the initiative estimates. Achieving a fair comparison requires consistency across all aspects of the analysis. This means using the same calculations, taking the analysis to the same level of detail, and using the same constants (i.e., discount rates, corporate benefit percentages, etc.).

When building business cases, consistency is slightly more important than overall accuracy. In the event that a single financial assumption is off, the number skews all the initiatives where it appears. Depending on the relative sensitivity of an initiative to a constant, the rankings may be slightly affected. However, as more accurate data become available, the financial calculations can be adjusted during ongoing assessments, and when circumstances dictate, updates can be made to an initiative's ranking. The intent is to make the best guess as to which initiative provides the greatest benefit at a particular point in time. And it is a *guess*—not an absolute number by any stretch.

Because consistency is the key, ownership and responsibility for the process to generate business cases should be assigned to a single financial planning group. This group owns the methodology for building business cases and ensures consistency in the handling of each initiative. Additionally, this group is responsible for creating estimation mechanisms and tools to make the process more accurate and efficient. In this way, the group's role is like that of any other process owner—manage and improve the processes in their domain. Over time, the repeated use of a common approach creates an institutional proficiency—the accuracy of estimates increases, and the turnaround time to produce the estimates should decline. Process-focused enterprises enjoy an advantage out of the gate in estimating business cases because the use of process requirements allows for easy identification of all the affected parts of the organization.

Painting a complete financial picture of an initiative entails the calculation of two pieces: the costs to develop the solution and the ongoing benefits and costs after the solution is fully implemented. The benefits normally come to fruition only after the project team is done with its work, and the end state is fully deployed.

Starting with delivery of the solution, the primary costs are the project team (human resources costs); investments in facilities, machinery, tools (information technology and others), and other

assets; any contracts or agreements with service providers; raw materials; and basic project team expenses, including computer usage, telephones, printers, and so on. These costs are not always easy to identify. The key is to put estimates down on paper via brainstorming or by using historical cases as a guide. After a cost is identified, conduct a quick estimate of its size and applicability. A team could spend weeks identifying and incorporating every possible cost into the calculation, but this is unnecessary. In general, the determination of whether a cost is material resides in two questions: (1) Is the cost significant enough to affect the prioritization order of the initiatives? And (2) will the cost affect other initiatives and therefore need to be included for consistency? When determining whether to include a cost, the financial planning team owns the final decision. With insight into all business cases, the financial planning team is in the perfect position to arbitrate whether any cost is appropriate for inclusion and to act as a source for historical information on initiative teams and their size, composition, and other factors.

Often the hardest cost to calculate is the cost of human resources because it is not immediately evident like investments or other expenses. One useful method to estimate the cost of completing an initiative is to make an educated guess as to the number, time commitment, and level of individual(s) needed to bring the initiative's solution to fruition. Chapter 6 provides guidelines as to the composition of a task force. Depending on the unique circumstances of the initiative, additional roles, including project managers, change managers, trainers, and others, are likely necessary.

The next step is to sketch out a rough timeline. By knowing what needs to be done and resource requirements, an educated guess can be made as to the duration of the initiative from start to finish. With their knowledge of the subject matter, process owners are ideally positioned to make these predictions. Always take advantage of institutional experience and knowledge from prior forecasting exercises to improve

the estimates. As a shortcut, use “High,” “Medium,” and “Low” labels in place of more exact estimates. For example, short-duration projects may last 6 or 12 weeks. Medium-duration projects may be chosen to be 24 or 36 weeks. Long projects may be 52 or 104 weeks. Of course, when actual timelines exist, they can be used in place of increments.

Knowing the resource requirements and the timeline leads us to a rather simple calculation for the human resources costs. Take the estimated project duration and multiple it by a standard rate for each team member (Table 7.2) to arrive at a total cost for each resource. In this example, an initiative requires two resources—one part time and one full time for six weeks. The full-time resource, or full-time equivalent (FTE), plays the role of a task force member. Assuming a 40-hour work week, the cost for the full-time resource is 6 weeks  $\times$  40 hours  $\times$  \$50 an hour from Table 7.2. The part-time resource is a Lean expert. The cost for the part-time resource is 6 weeks  $\times$  20 hours  $\times$  \$150. This equates to a total of \$12,000 for the full-time resource and \$18,000 for the part-time resource.

When estimating resource costs, resources with similar capabilities should use the same rate to allow for an accurate comparison. Avoid using actual rates. Because actual rates may differ between resources (i.e. some of them are expert negotiators) with similar knowledge and skill sets, the results may introduce a bias into the analysis. The exception to this rule is when a specific individual is required and no substitute is available. In this situation, use the actual rate.

TABLE 7.2 Schedule of Standard Resource Rates

Skill Set and Knowledge of Generic Resource	Rate
Expert (FTE)	\$150 an hour
Process owner (FTE)	\$75 an hour
Initiative team member (FTE)	\$50 an hour
Other resources (FTE admin.)	\$35 an hour

With resource costs identified, the remainder of the tangible costs for the initiative can be identified by process owners and other engaged parties. These costs include equipment, facilities, technology, and other hard costs. As the costs are tabulated, be sure to capture the method used to build the calculations as well as any specific constants used. This background information is invaluable when auditing the process for improvements, and it accelerates updating the business case as new information surfaces. In a similar manner, capture all assumptions behind the business case. In some instances, the financial projections are simply educated guesses based on available data. To account for variations in any cost item, use several estimates (e.g., good, better, best) when building the business case to calculate a range for the item. As data updates become available, the estimates can be refined, heightening their accuracy.

After addressing the initiative costs, the focus shifts to the costs and benefits of the solution post implementation. The methodology employed is the same as that used to calculate the costs of deriving the solution. In lieu of a project team, the solution is transitioned to individuals who manage and perform the process on an ongoing basis. Postimplementation costs and benefits are frequently volume based. In other words, as a cost driver such as sales increases, the costs to produce those sales will increase as well. Forecasting sales levels is always a risky undertaking. As a rule of thumb, be conservative yet realistic in the estimates of sales and other variables. Document the assumptions and the calculations, and be prepared to update them as new information becomes available.

Capturing all the costs and benefits of a solution is tricky. The goal is to include only the meaningful costs and benefits and to maintain consistency in the evaluation process. Brainstorm the outcomes of the initiative. List the benefits that might result, and then do the

same for costs. Another tactic is to walk through the affected processes and consider the potential benefits. Is there a cost savings? Is additional revenue potentially generated? Poll the managers affected by the initiative. At each analysis point, collect the data to refine the cost and benefit calculations, document the assumptions, and validate the results with process owners and other stakeholders. Iteration begets accuracy. Rarely is all the information immediately available. When questions arise as to whether to include a benefit, the financial planning team is the arbiter of whether the benefit merits inclusion.

When building a business case, the question often arises as to whether to incorporate not only the hard costs and directly connected benefits but also the costs and benefits that are less tangible. This is a challenge for organizations that are driven by Wall Street's expectations and that routinely disregard soft benefits, including risk mitigation, knowledge gained, increased strategic flexibility, and others. However, if risk and opportunity costs are not included, the potential exists to overlook needed infrastructure investments—putting major revenue streams at risk when the infrastructure is fragile. As a general rule, when evaluating any single initiative, I recommend including the opportunity costs and benefits that are directly attributable to the initiative. In order to account for the likelihood that the conditions warrant the inclusion, assign them a risk weighting. This risk weighting is a percentage that reflects the likelihood that the benefit will be captured or that the cost will be incurred. For example, if there is a risk that the benefit will not be captured because of the potential entry of a competitor, the risk factor's magnitude will increase with the probability that the competitor will enter the market.

For example, let's say that the government implements a new regulation on working conditions for workers. Compliance with the regulation will cost the company \$100,000. The fine for noncompliance is \$5,000. On reviewing the regulation's enforcement mechanisms, a team estimates the risk of getting caught at 10 percent.

The expected loss is then  $\$5,000 \times 10$  percent = \$500. Because the cost for compliance is \$100,000, it is a poor financial decision to comply with the regulation. But these are only the hard costs. In the event the company does not comply, workers will likely take their case to the press. The loss of goodwill could greatly hurt the company's sales because the market has ample substitute products. A team estimates the loss may be as much as 20 percent of the company's sales (\$50 million) with a risk factor of 50 percent. This equates to an expected loss of \$5 million in sales. Assuming a 10 percent net margin, the company expects to lose \$500,000 in profit. In this example, when we account for possible customer attrition, the numbers point to a very different conclusion. Accounting for goodwill and any corresponding bump in sales is a good example of factoring soft benefits into a business case. With the passage of time, soft costs and benefits convert into real benefits and costs.

With all known costs and benefits baked into the business case, the net-benefit calculation comes down to math. Discounting the cost and benefit streams by the appropriate discount factor yields a net benefit for the initiative. Again, document all the assumptions and calculations made during the course of building the business case.

While compiling the business case, it is often convenient to capture other prioritization factors for the initiative. For example, if cash requirement is a prioritization factor, the team can estimate the project's cash needs when pulling together the business case. Again, all assumptions should be documented. With a solid draft of the business case, the next step is to focus on the interdependencies between the initiatives and their resource requirements.

### **Capturing Initiative Dependencies and Resource Requirements**

To identify the other restrictions on an initiative's launch, begin by evaluating each initiative and listing its dependencies and resource requirements. Many enterprises forget this crucial step and eventually



pay the price for their lack of foresight. It is common to find new strategic initiatives launched without considering precedents. By the time they are addressed and the initiative is ready for kick-off, the anticipated competitive advantage has been eroded or is completely gone.

Initiative dependencies and resource requirements are similar to each other. Both are precedents for an initiative, and both can derail an initiative's execution and render it worthless.

*Dependencies* are any activity or event on which the initiative depends and must be completed before the initiative can be executed. For example, a business partner might need to inaugurate a new leadership team before a contractual agreement can be formalized. Or the completion of the dependency might provide a resource needed for the initiative. For instance, the submission of incorporation documentation to a state agency must occur before a company can receive a tax ID number and set up a business banking account. Dependencies may be on other initiatives or on the completion of an external event.

*Resource requirements* are the specific inputs required to execute an initiative. The focus is primarily on resources that are needed but not readily available. They require time and frequently money to obtain. Limited resources include highly skilled individuals, machinery, facilities, the participation of specific process owners or business partners, and, of course, money. Operating in a process-focused environment greatly aids the collection of resource requirements because simply knowing the process requirements jump-starts their discovery.

In most instances, the simplest way to identify dependencies and resource requirements is to review each initiative and determine

- The logical starting point of the initiative.
- Any assumptions required for the initiative to begin at that point (i.e., the resources or inputs that must be available at the inception).

- Other inputs needed throughout the duration of the initiative's execution (i.e., inputs required once the initiative is in flight). These resources may be personnel, equipment, information, an agreement to be confirmed, or even a decision to be made.

Inputs are the meaningful element. When required inputs are unavailable, work cannot proceed. If the input is an output of another initiative, a dependency exists on that other initiative. If a resource is needed, there is a resource requirement to be fulfilled. The prioritization of initiatives must reflect the initiative's needs for it to be a realistic and actionable plan.

#### *Step 4: Prioritizing the Initiatives*

The end goal of the prioritization exercise is an unbiased and accurate comparison of initiatives. Before beginning, give the leadership team time to review the innovation portfolio one more time. This reexamination serves as a final checkpoint to eliminate initiatives that barely made it through prior reviews and no longer make sense to move forward. Additionally, this final review incorporates the most up-to-date knowledge of the current environment and the enterprise's strategic focus—guaranteeing that initiatives unaligned with the strategic focus of the enterprise are jettisoned.

After paring down the list of initiatives, the prioritization process begins. For each initiative, we know, at a minimum, its resource requirements, its dependencies (as well as its synergies with other initiatives), and its business case. If other prioritization criteria are to be used, these details should be available for each initiative as well. To start off, it helps to consolidate the information into a single, organized list. Table 7.3 is a great example of a form that fits this purpose. This table allows for a quick view of the initiatives

and highlights the details, including net benefit, dependencies, and resource requirements. Additional prioritization criteria, as well as risk factors, projected durations for each initiative, process impacts, and the current status of previously launched initiatives, are also included. When space allows, the assumptions made while developing the initiative can be listed.

A consolidated view provides convenient access to the pertinent information needed to rank initiatives. When it is in a database format, the first pass at prioritization is easy—just sorting the initiatives by the primary prioritization criterion and then completing successive sorts on any additional prioritization criteria.

On occasion, enterprises opt for a more numerical approach. Algorithms frequently include factors such as duration of the initiatives, risk factors, and other factors such as cost. If these factors are entered on a spreadsheet, an algorithm is easily created to derive the prioritization. With the initial prioritization complete, the result is the *ideal state* and represents the greatest potential value generation of the innovation portfolio. However, only in rare instances can the initiatives be executed in this order. As stated previously, many initiatives have predecessors that must be completed prior to their execution. And then the law of scarcity comes into play. People, knowledge, raw materials, expertise, and machinery—the unavailability of any of these factors potentially limits an enterprise's ability to start an initiative. Building a realistic execution order entails accounting for dependencies and the availability of limited resources.

### ***Step 5: Scheduling Initiatives and Allocating Resources***

Building the actual execution order is a two-step process. With the prioritization criteria incorporated into the initiative order, dependencies become the initial focus.

TABLE 7.3 Innovation Table Prioritization

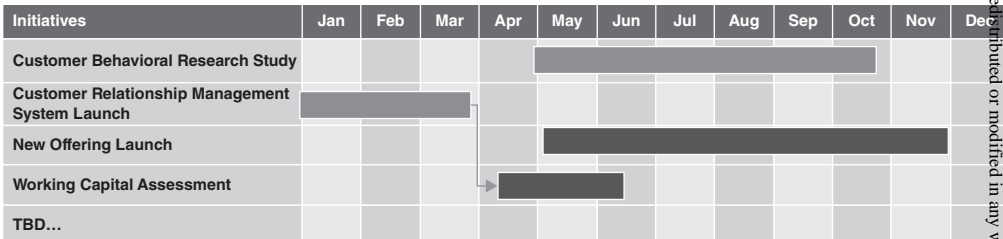
Initiative	Risk Adjusted Contribution (000's)	NPV(000's)	Risk Factor	Design or Execution	Resource Requirements		
					Initiative Budget \$ in 000's	Team	Special Skills
Customer Behavioral Research Study	\$1,400	\$2,000	30%	Execution	\$10	Process Owner	NA
Customer Relationship Management System Launch	\$119	\$125	5%	Design	\$75	Task Force	CRM Specialist
New Offering Launch	\$360	\$400	10%	Execution	\$60	Process Owner	NA
Working Capital Assessment	\$45	\$50	10%	Design	\$15	Process Owner	Financial Analysis

<b>Other Requirements</b>	<b>Dependencies</b>	<b>Collaboration</b>	<b>Duration (mos.)</b>	<b>Major Process(es) Impacted</b>	<b>Delivery Status</b>	<b>Projected End Date</b>
NA	None	None	1	Customer Acquisition New Product Development Marketing Customer Service	Green	10/25/2009
Lean	None	None	6	Customer Acquisition Customer Service	Green	3/25/2009
NA	None	None	6	Customer Acquisition Operations Marketing	TBD	TBD
NA	CRM System Launch	Financial Assesment	2	Accounts Payable Accounts Receivable Customer Acquisition	TBD	TBD

A pseudo-Gantt chart (initiative chart) like the one shown in Figure 7.1 is a convenient view for evaluating dependencies. The chart identifies the initiatives and their respective durations.

- Start with the initial initiative in the sorted list. Check whether it has any dependencies.
- If it is without dependencies, it retains the initial position in the order. Set the start date for the initiative in the current month (January in Figure 7.1).
- If there is a dependency for the initiative, examine the linkage between the initiative and the dependency.
  - ▲ If the dependency is an event that must precede execution of the initiative, place the initiative in the month the event is anticipated to conclude. The customer behavioral research study initiative in this figure is an initiative with a timing dependency completed by May.
  - ▲ If the dependency is another initiative later in the prioritization order, the next step is to determine where an initiative consisting of the current initiative and the dependency would fall in the prioritization order. To do this, the prioritization criteria need to be calculated or developed for a joint initiative (i.e., the initial initiative and the dependent initiative). If value creation is the

FIGURE 7.1 Initiative deployment chart.



primary prioritization criteria, the financial costs and benefits of the individual initiatives should be summed, and then the net present value of the joint initiative can be calculated.

- Once this is done, the new initiative can be prioritized appropriately. This is accomplished by resorting the remaining initiatives to determine where this joint initiative falls. When this sort is complete, continue the process with the new top initiative.

Repeat these steps until all the initiatives are ordered based on the prioritization criteria and accounting for dependencies. Frequently, the initiative launch order will appear very front loaded—as if most of the opportunities are to be launched in the current month. Obviously, this is impractical. Before the order resembles a feasible plan, it must account for the resource requirements for the initiatives.

The next step in ordering the initiatives is to match initiative resource requirements with available resources (i.e., resource allocation). This entails a bit of guesswork. The actual point in time when the resources are needed may not be known until the initiative is under way. In lieu of this timing, assume that the resources are needed when the initiative kicks off. As information becomes available, this assumption can be adjusted. Returning to the initiative chart, the initiatives were initially ordered based solely on prioritization criteria. Then we incorporated dependencies into the order. Now we are going to assign limited resources to the initiatives. As we progress through the resource-allocation process, as long the order is maintained, the initial prioritization carries through the remainder of the allocation process.

Limiting resources should have been identified during the scoping of the initiative. At this point, we need to determine the availability of the limiting resources. Do not limit this review to solely

tangible assets (i.e., money, machinery, facilities, materials, etc.) but also include human resources—especially needs for expertise or specific process owners. If a limited resource is not immediately available, identify the point in time when it will be available. A resource chart such as Table 7.4 is helpful to track resource utilization.

In general, the use of limited resources and cash requirements can be managed in weekly or monthly increments. Sometimes weekly is too detailed; other times it is not enough. Experience and iteration will aid in determining the appropriate timing periods for scheduling.

Once the limited resources and their availability are known, the scheduling process is fairly straightforward. Begin with the first initiative, and examine its resource requirements. If the resources are available, theoretically, the initiative is ready to go. Assign the resource to an initiative using a utilization table similar to Table 7.4. The first initiative retains its rank as the first initiative to be launched (assuming that it has not already started). Proceed to the second initiative. Review its resource requirements, and determine their availability.

TABLE 7.4 Limited-Resource Tracking Chart

Initiative	Resource Needs (Project Experts)					
	Jan		Feb		Mar	
	PM	Lean	PM	Lean	PM	Lean
Working Capital Initiative	1	0	1	0	1	0
Sales Force Redesign	1	0	1	0	0	0
New Product Launch	0	0	1	1	1	2
IT Efficiency Study	0	0	1	2	1	2
Needed Resources	2	0	4	3	3	4
Available	3	2	3	2	3	2
Variance	1	2	-1	-1	0	-2



Schedule this initiative to start when the appropriate resources are available. Once again, reserve the needed resources, and move on to the next initiative. Continue evaluating the full portfolio of initiatives in this manner. Make the starting point for each initiative as early as possible after the resources are available and dependencies are met. This may mean that because of the unavailability of some resources, a less beneficial initiative may be slated to start before initiatives with greater anticipated returns.

There is also an opportunity to buy specific resources that are not immediately available in order to remove resource constraints. One frequently purchased asset is outside expertise, such as management consultants or other specialized professionals. But when acquiring limiting resources to mitigate shortages, the additional cost needs to be factored into the business case for the specific initiative. This additional cost may push the initiative back in the prioritization order, or it may have minimal impact. The question is whether the tradeoff for time is worth the cost.

When building the schedule, there is some wiggle room in determining the exact order. The question always arises as to how to account for initiatives that are already in process—where resources were allocated, teams assembled, and work is underway. On the initiative chart, it helps to identify in-process initiatives because they deserve unique treatment. Stopping and restarting initiatives is inefficient. When work is halted, team members may transition into other roles—requiring new team members to be assigned and brought up to speed. Knowledge and experience gained may be lost. In short, a restart is not just picking up and moving forward—it is a refresh. In these situations, it is a judgment call. An in-process initiative generally should receive a healthy dose of favoritism and be given the green light over other initiatives that are forecasted to deliver a comparable benefit. The obvious exception is when an initiative is misaligned with the enterprise's strategic direction or is no

longer expected to deliver value. Such initiatives are candidates for elimination altogether.

One additional note when building the initiative order: most enterprises struggle to execute more than a handful of major initiatives at the same time. Enterprises just do not have the focus or the breadth of resources to tackle many large initiatives simultaneously. After reviewing the initiative order, the leadership council may reorder the largest initiatives to limit the amount of major change during any single period.

The final step in building the launch schedule for initiatives is a reexamination to identify collaboration opportunities. Often there is a benefit to executing two initiatives in tandem. The benefit may be in collectively designing the solution to ensure that it is appropriate for both initiatives, or there may be an efficiency to be gained by coordinating information gathering or managing the eventual release of solutions. Review the initiative chart to identify collaboration opportunities. When it makes sense, the schedule can be adjusted to take advantage of coordinated efforts. Other times, heightened communication between the two initiative owners may be sufficient.

Although many individuals participate in the process, I strongly recommend that a final review of the portfolio be completed on a monthly or quarterly basis. This review delivers two benefits. First, it allows for buy-in as to the prioritization and respective commitments of the enterprise team. And more specifically, it confirms that the process sponsors and initiative owners accept the business cases and content of the specific initiatives that are assigned to them for execution. Second, a review allows a moment of introspection as to the enterprise's priorities. Although the ranking aligns the launch order to the prioritization factors, strategic planning is an intuitive act; the assumptions behind the strategic initiatives may change and require adjustments to the schedule before the innovation plan is launched. Strategic review is an ongoing activity sometimes requiring changes on the fly.

With approval of the launch order, the innovation plan is ready to be executed. Teams are formed for the top initiatives. Resources are allocated or procured. Communications are launched.

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## MAXIMIZING THE VALUE OF THE INNOVATION PORTFOLIO

Theoretically, every initiative delivers a contribution—the overage of benefits delivered versus costs accrued and discounted to reflect the relative value with the passage of time. Therefore, the theoretical net benefit of an enterprise’s portfolio of initiatives is the sum of the net present value of each initiative. Because the value of an initiative depends on the timing of the costs and benefits, the value of the overall portfolio of initiatives depends on the order in which the initiatives are executed. From a portfolio-management perspective, this means that the value of the portfolio of initiatives fluctuates based on the start, finish, and duration of any initiative.

If the initiatives generating the most value are pushed behind lower-value initiatives, the value of the portfolio falls (assuming a normal business environment). To maximize the value of the portfolio (assuming that value generation is the primary prioritization criterion), initiatives delivering the greatest value need to be moved to the front of the line. In fact, the portfolio that orders initiatives by their net benefit (all else being equal) maximizes the value delivered by the innovation portfolio.

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## ONGOING MANAGEMENT OF THE PORTFOLIO

The prevailing business practice today is that after an initiative is launched, the focus swings from a move-forward decision to completing the initiative as expeditiously and at as low a cost as possible.

Deviations from the original plan are identified and then rectified through the approval of change orders and budgetary adjustments. Only in the most rare instances are initiatives reexamined to confirm their validity.

Across corporate America, multitudes of initiatives move forward despite the arrival of circumstances that reduce or negate their anticipated benefits. Project teams spend time and money developing solutions that will never be implemented. Why? Sometimes information does not flow to the right people who make the decisions. Other times the assumptions on which an initiative is predicated are never documented or understood. And then a considerable number of times the initiative keeps getting funded because of politics. This last failure is perhaps the most alarming.

As individuals climb the corporate ladder, they adopt the belief that advancing their careers requires the avoidance of any blemish on their record. A major epidemic spreading across leadership teams is the fear of failure. Leaders know that any real or perceived failure may well become a topic in promotion discussions. Closing down a corporately blessed initiative, especially a major one, is perceived as a leadership failure on a colossal scale. “He or she couldn’t make that one work. Why would it be any different if he or she were in this role?” This is an often-stated justification for pigeonholing an individual. Not surprisingly, leaders avoid making the call to shutter initiatives. In the current leadership mindset, it is far better to let an ineffective initiative continue than to admit failure.

For example, a marketing executive at a Fortune 300 retailer hired a software vendor to deliver a workflow solution. The selection was a poor choice, based on a relationship instead of the tool’s capabilities. The project was budgeted for six months, but two years later it was far from complete. Off the record, the vendor apologetically stated that the work was beyond their capabilities. The project team identified alternative solutions and presented them to the senior marketing executive. To their amazement, the marketing executive

rebuffed their investigation and instituted a gag rule—eliminating any further consideration of alternatives and declaring that the organization would “land the plane with the group they took off with.” In hard costs, several million dollars were tossed down the drain. When questioned about his decision, the executive admitted that he did not want to be stigmatized with a failure.

In an enterprise with a robust portfolio-management function, the leadership council regularly reviews initiatives and their base assumptions. As the conditions on which the initiatives are based evolve, the business cases and resource requirements for the initiatives change as well. Initiatives originally estimated to provide major benefits now may produce minimal or no value. Depending on the magnitude of the change, the portfolio may require the creation of a new initiative, the abandonment of an existing initiative, or simply the assimilation of new resource requirements into the initiative. This fluidity of information allows resources and attention to be diverted to more promising endeavors. Because the innovation plan is collectively developed and managed by the leadership team, blame does not stick to any individual. This is a huge (yet inadequately recognized) benefit of the collective management of the innovation plan—the ability to minimize political footballs and sacred cows, focus on beneficial initiatives, and eliminate wasteful investments. This active review and management makes the innovation plan more dynamic than static. Thus, although an innovation portfolio works for enterprises tied to an annual strategic planning cycle, the companies that adopt dynamic strategic planning enjoy a major competitive advantage—the ability to react to market forces faster than the competition.

The ongoing management of the innovation portfolio is the responsibility of the leadership council and overall process-governance organization. Management of the innovation plan is akin to running an enterprise-wide program-management office (EPMO), but the responsibilities transcend that of a typical EPMO. Unlike an EPMO, which primarily tracks the status of work efforts, a portfolio-management

team monitors the rationale behind the initiatives and reprioritizes them as circumstances change. This brings us to the responsibilities of the leadership council in regard to managing the portfolio of initiatives. To recap, the primary responsibilities of the leadership council are as follows:

- Select prioritization criteria, and rank them according to enterprise priorities.
- Build teams to scope and develop business cases for initiatives.
- Confirm the innovation plan at regular intervals.
- Obtain and allocate resources to support the innovation plan.
- Continually assess the competitive positioning of the enterprise.
- Monitor the ongoing innovation plan.
- Collect new or adjusted process requirements from internal and external feedback loops.
- Reevaluate the assumptions used to build the initiatives.
- Adjust the resource allocation for the initiatives.
- Ensure that coordination and collaboration occurs between initiatives.
- Address any issues or risks brought to the leadership council.
- Identify and make adjustments when the situation warrants such action:
  - ▲ Evaluate new initiatives for inclusion in the innovation portfolio.
  - ▲ Abandon ongoing initiatives no longer relevant because of current developments.
  - ▲ Reprioritize the portfolio when the prioritization criteria change.

- ▲ Assimilate new requirements into existing initiatives if the current initiative trajectory is incorrect based on new information.
- ▲ Understand enterprise-level change impacts to business areas/customers, and adjust accordingly.

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## BENEFITS OF AN INNOVATION PLAN

Using an innovation plan as the means to methodically innovate elevates an enterprise's ability to implement improvements to operations and enhance its product offerings. Clarity around the actual improvements and widespread understanding of those changes are the immediate benefits. No longer do leaders and managers need to debate, question, or theorize as to the true intent of an initiative. Plans and priorities are embedded in the innovation plan and defined in the language of process. For enterprises embracing a process-based philosophy, the advantages are significant. The innovation plan

- Creates a customer-focused culture.
- Provides clarity of strategic intentions of executives/strategic planners.
- Focuses on the concrete and not the abstract. Bases adjustments on processes—the foundation for value creation in every enterprise.
- Ensures alignment of processes (primary and supporting) with strategic and operational initiatives.
- Uses a holistic view of the enterprise to ensure that change is introduced on a scale and in a coordinated manner that optimize the value gained by improvements.
- Avoids or minimizes the risk initiatives that improve localized areas at the expense of the overall system.

- Provides an efficient framework to disperse resources, money, and managerial focus in alignment with the prioritization. Allocates resources based on actual need—not just an addition to the prior year’s budget.
- Reduces the need for continual communication about the intent and scope of an initiative. Because of the relative top-down nature of initiative creation, coordination with other stakeholders is identified early in the process and built into the team structure.
- Minimizes managerial turf wars that plague operations and encumber the performance of improvements by getting all leaders, supervisors, and managers on the same page as to the focus of the enterprise.

With completion of the work to build the innovation plan, the leadership is pulled together for a final confirmation of the innovation plan. Their vote for the allocation of resources signals both an organizational commitment to the innovation plan and a mandate for action. Although it sounds easy enough, contemporary enterprises are tied to their existing structures and processes that have been inherited—over decades in some instances. To innovate is to break the chains of yesterday and rebuild structures, roles, and processes. Implementing a process-based approach is easier said than done—but the benefits are worth it.