STRATEGIC INNOVATION

BLENDING INNOVATION AND STRATEGY FOR BETTER BUSINESS OUTCOMES

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WHITE PAPER

CORPORATER

Strategic Innovation Today

Every organization—private business, non-profit, government agency-must innovate. In a global interconnected world, economic sustainability and market growth depend on innovation. Where should organizations innovate and how? What tools and systems are available to help innovating organizations compete and grow in their markets? Innovation means more than simply adopting the latest technology. Innovation gets at the core of how an organization has to manage change and adapt to changing circumstances.

What is Strategic Innovation?

Innovation has become one of those words that mean very different things to different people. Think of some of the best-known innovators. Thomas Edison is known for inventing the light bulb, when in reality, he merely bought a patent, hired someone to design a better filament, and popularized the usage of light bulbs. In other words, he connected some things that already existed and figured out how to monetize the idea. This is one definition of innovation.

Henry Ford is known for creating the moving assembly line. Ford had a strategic goal to drive down costs by standardizing his assembly process. He took many ideas from the gun manufacturing industry, but when he visited a meat processing plant and saw pigs being moved down a 'disassembly' line, he realized he could do the same thing in reverse to further streamline the assembly of automobiles. One idea built upon other ideas.

So, what does it really mean to "innovate"? And what does "strategic innovation" mean? The experts define two main categories of innovation:

Incremental Innovation

Edison and Ford, referenced above, are examples of incremental innovation, which simply means to take something that exists and make it better. We see it every day via incremental improvements in products or services. The introduction of a new version of software to align to every-changing user needs would be an example of incremental innovation (sometimes this type of innovation is also called "sustaining innovation"). In the government sector, an example of incremental innovation is automating services such as driver's license renewals or Social Security applications using the Web – to use new technology to deliver mandated services more efficiently and effectively.

Disruptive Innovation

So what does the term disruptive innovation mean? Many people associate this with the mysteries of a skunkworks operation. The truth is, all innovations are incremental: one idea combined with another idea to create something better. The term disruptive innovation applies when the idea ends up disrupting the way things are done in an industry or changes consumer behavior. And actually, Edison and Ford are remembered because their incremental innovations became disruptive.

A modern example of disruptive innovation is Uber. Uber used incremental innovation to solve a problem. Taxis are not always available when one needs a ride – especially in smaller or dispersed metro areas. People and organizations in those areas do have cars for hire (the first Uber drivers were actually taxi drivers), so that left one strategic problem to solve: how to connect the rider with the driver — how to “hail a ride” remotely. Smart phones, it turned out, were the key. Uber was born by creating an app that connects drivers with people who need rides.

Why is this considered disruptive? Because Uber has disrupted the taxi industry by changing consumer behavior. Taxi revenues are falling fast and many taxi companies have chosen to fight by appealing to city hall and to the courts. But New York City’s Yellow Cab has figured out how to innovate. They have created their own app that allows one to hail a driver and enjoy the same seamless consumer experience as Uber. Yellow Cab has the strategic advantage of already having a huge network of trained and trusted drivers. They one-upped Uber by innovating their own processes to deliver the same customer value proposition as Uber, plus a safe experience with a known brand. This is incremental innovation in response to disruptive innovation.

Incremental (or sustaining) innovation is a much more “manageable” process, and many large corporations such as Microsoft and Procter & Gamble excel at it. Disruptive innovation, on the other hand, is often messy, unpredictable, and may even create conflicts within an organization as the breakthrough disrupts entrenched interests and ways of doing things.

Many argue that “incremental innovation” shouldn’t even be termed ‘innovation” at all. In any case, there’s a further distinction to be made between the “Eureka” moments that produce the next new idea (whether incremental or disruptive), and the more tedious process of testing and implementing new ideas. Call it “inspiration” versus “perspiration”.

But even though there is a distinction between inspiration (creativity) and perspiration (disciplined execution of an innovation process), they must work in tandem for strategic innovation to be effective. We’ve observed that a strategy-based balanced scorecard offers a way to value, encourage and manage all aspects of innovation.

Why Balanced Scorecard?

A strategy-based balanced scorecard system involves the collaborative development of an organization’s “Story of the Strategy” and identifies the connection between creative capacity, efficient product development processes, improved customer and stakeholder value, and financial outcomes.

The balanced scorecard uses four strategic perspectives, shown in Figure 1, below. These perspectives are complementary but distinct lenses for looking at organizational strategy and performance. The use of perspectives allows the organization to build a model of how the “intangible” factors – creativity, talent, new ideas, collaborative interaction with customers – interact with the more “tangible” factors – well defined processes, dollars invested, sales results - to create an innovative, sustainable organization that can adapt resiliently to change.

Figure 1: The Four Balanced Scorecard Perspectives
Source: The Institute Way: Simplify Strategic Planning & Management with the Balanced Scorecard (www.balancedscorecard.org)

- **FINANCE**: In a *business*, owners, investors and analysts view the organization as a financial system that provides return on investment. In a *non-profit*, donors see the benefit to others from their support of the organization's mission. In *government*, taxpayers and their representatives see value for money spent on the public good.

- **CUSTOMER/STAKEHOLDER**: In a *business*, customers see the business' products and services as a way to satisfy needs and desires at an appropriate price, and stakeholders may act as advocates for other issues, such as the environment and the community. *Non-profit* and *government* agencies work within a complex network of clients and stakeholders, any or all of whom may exercise influence on the organization's funding or license to operate.

- **INTERNAL PROCESS**: The activities at which the organization must excel in order to provide value for customers, stakeholders, and ultimately, those who foot the bill. Internal management and staff (including contractors, volunteers and others) work to improve business processes to efficiently turn resources into outputs (products and services) that will satisfy customer and client needs. In the case of innovation, effective processes include the procedures for evaluating new ideas, testing them, funding them for further development, or discarding them – the "*perspiration*".

- **ORGANIZATIONAL CAPACITY**: The foundation of the other perspectives – the physical infrastructure, culture, tools and technology, knowledge and skills, and information systems required to create, plan, design, and deliver products and services to customers and stakeholders. Organizational capacity is a mix of tangible (people, tools, systems, structures) and intangible assets (ideas, culture) that allow the "*inspiration*" to bloom.

Strategic Innovation

In a balanced scorecard-based approach to strategic innovation, you must always start with strategy. You are not innovating for the sake of innovating, but building a core capability that allows you to provide value for a defined customer value proposition. Figure 2, below, shows the logic of how a strategy-based balanced scorecard is developed, starting at the high-altitude of mission and vision and linking strategy, step-by-step, to tactical operations. Innovation usually first shows up at the altitude of Strategic Themes.

Figure 2: Strategic Planning and Thinking Using the Balanced Scorecard

Source: The Institute Way: Simplify Strategic Planning & Management with the Balanced Scorecard (www.balancedscorecard.org)

Innovation as a Strategic Theme

A strategic theme is a major “pillar” of the strategy that directly supports achievement of the vision and mission of the organization. A good theme contains a linked set of strategic objectives that touch on all four of the scorecard perspectives. These linked objectives tell the story of how innovation contributes to the Mission and Vision of the organization, and forms the basis for communicating this cause-effect story to everyone in a consistent manner. Innovation becomes strategic when it is fully integrated into the fabric of the organizational planning and management process.

Organizations typically have several strategic themes or focus areas, such as: Operational Excellence, Sustainability, Growth, or Strategic Partnering. Innovation can be a strategic theme, as well. As a theme, Innovation can be viewed through each of the four perspectives of the balanced scorecard, for example:

- From a financial standpoint, innovation means the organization is continuing to provide value – expressed in financial terms – for owners, donors, or taxpayers, depending on the type of organization.
- From a customer and stakeholder standpoint, innovation means developing and deploying new products, services, or business models that create increased value for customers or clients, and address the concerns of stakeholders.
- From a process standpoint, innovation means creating and managing a well-understood process for evaluating, fostering, and deploying promising ideas.
- From an organizational capacity standpoint, innovation requires a blend of leadership, culture, skills, and organizational structures that encourage new ideas to be generated.

An Example: Innovation Strategy Map

A strategy map visually depicts how objectives work together in an integrated, cause and effect sequence to build innovative culture, behavior, processes and results into the core of your organization. Figure 3 contains a typical strategy map for an "Innovation" strategic theme.

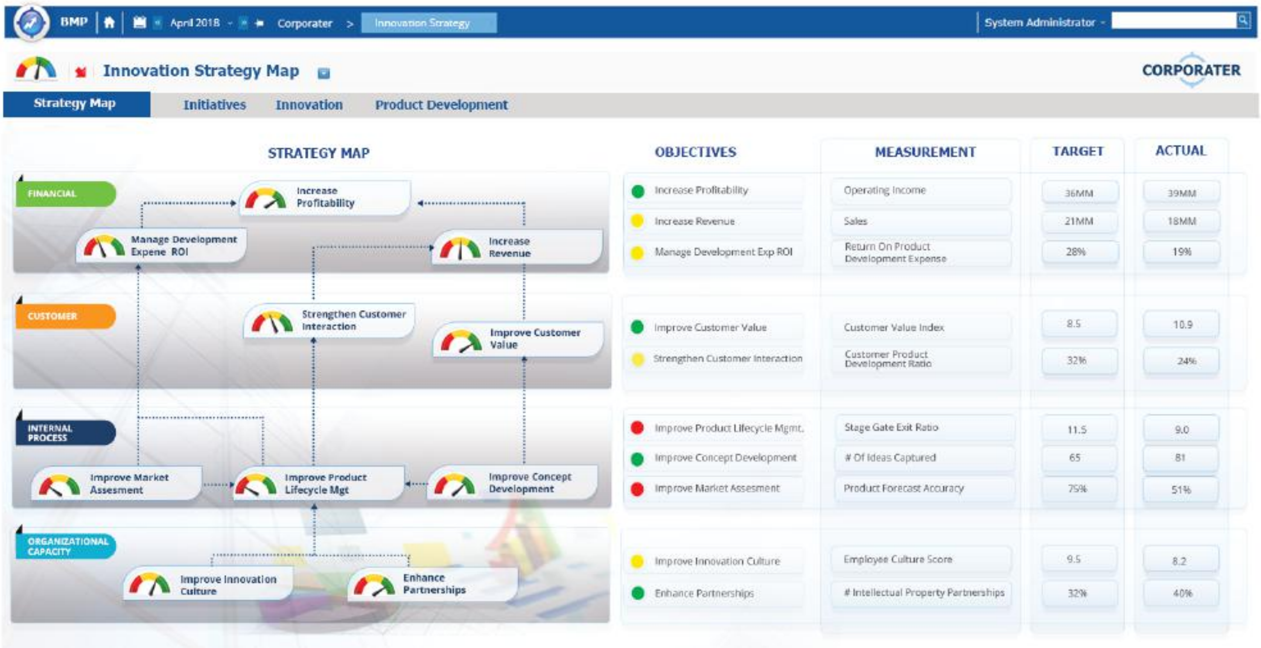

Figure 3: Example of Innovation Strategy Map

Here is the story the strategy map tells:

> "We will build an innovative culture in which new ideas and collaborative thinking are encouraged among our employees. In addition, we will work with outside partners, such as academic researchers, to evaluate how new technologies can be used to improve our products. We will develop a better way to evaluate, prioritize, and develop new concepts, and will integrate these new ideas into our product portfolio so that we always have new ideas in the pipeline ready to be turned into products/services. This will be supported by better intelligence about the markets we operate in. We will co-develop products/services with customers in order to ensure that we are meeting their needs and providing enhanced value for them. This will lead directly to increased sales. We will manage our product development budget in such a way that we are able to determine the return we receive on product/service development expenses. By managing this process and generating increased sales of new products/services, we will sustain the profitability of our organization."

Typically, an organization will develop 3-4 strategic theme maps, and then link them to create an overall strategy map for the organization. All of the themes, including Innovation, are merged into a powerful, mutually reinforcing business strategy.

Execution of Strategic Innovation

In a strategy-based balanced scorecard system, measures are a means, not an end. Meaningful, strategically important measures can only be developed once strategic objectives have been developed and linked together on the strategy map. Each strategic objective is supported by one or more measures. Typically, an organization tracks a mix of tangible, intangible, quantitative, and qualitative indicators to track strategic outcomes such as: is the culture is becoming more innovative, how many new ideas are moving through the development process, how do customers feel about the new products, and how much return is there on the investment in new products.

And, understanding what measures are truly strategic will help you to identify and prioritize organizational initiatives that will “move the needle” on your strategic performance. But execution of strategic innovation is not limited to the realm of strategic initiatives. Operations are key drivers of strategy execution. To truly enable execution of strategic innovation, the operational components of the organization are aligned to and linked to the strategic components. For example, the entire innovation process should be integrated into the strategic performance management system to ensure the less glamorous ‘perspiration’ aspects receive as much focus as the ‘inspiration’ aspects. Figure 4 below is an example of an innovation process integrated with an innovation strategy.

Figure 4: Example of innovation Process Integrated with Strategy

Summary

In this paper, we have shown how strategic innovation can be addressed within the balanced scorecard methodology and executed with an integrated strategic planning and performance management system. For organizations in which innovation is critical to fulfilling the mission and achieving the vision, this is a powerful approach to assure innovation is fully embedded into an overall business strategy.

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Gail Stout Perry

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Gail facilitates the Corporater global strategy and is also responsible for driving commercial growth in the Americas. Gail is a strategic planning and performance management professional with 25 years of corporate and consulting experience across multiple industries, disciplines and technologies. She has provided strategic consulting services for a wide variety of organizations from Fortune 500 to government agencies.

She co-authored a textbook on strategic planning and management using the balanced scorecard and has trained several hundred professionals in strategic management certification courses through George Washington University and Balanced Scorecard Institute. Gail holds a Bachelor's degree in engineering from the University of Texas at Arlington and an MBA from Abilene Christian University.

Dan Montgomery

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Dan is the founder and Managing Director of Agile Strategies. He has been training, coaching and consulting in the areas of strategic planning, leadership development and balanced scorecard for the past 20 years. Prior to that he had a 15-year career in IT project management and early career experience in mental health counseling and HR. Prior to founding Agile Strategies, Dan was Vice President of Professional Services for the Balanced Scorecard Institute and led the company's consulting practice.

He is co-author of The Institute Way: Simplify Strategic Planning and Management with the Balanced Scorecard (The Institute Press, Cary, NC, 2013). Dan has an MBA from the University of Colorado, as well as a Masters in Buddhist and Western Psychology from Naropa University, in Boulder, Colorado

Corporater is a global software company that empowers organizations to evaluate, manage, and continually improve business performance by providing a business management platform that adapts to a client's unique business model, out of the box.

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