INNOVATE WITHOUT KILLING THE PERFORMANCE ENGINE

A series of perspectives on innovation from leading practitioners, advisors and analysts in the field.

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Imagine that you own a high-performance race car. Your mechanics and technicians have optimized every element of the car - design, tires, engine - so that the car is running at maximum efficiency. You're winning races and everybody's happy.

One day your Innovation team comes to you and tells you they believe that the cars of the future will have wings. Not only will wings make your car go even faster, but they will create a whole new category of racing and place you miles (literally) ahead of your competition.

Your mechanics go ballistic. They insist that installing wings will ruin the aerodynamics and cause you to lose the next race. The Innovation team is just as insistent that your closest competitors are getting faster every day, and without a radical overhaul you can expect to lose all future races.

Welcome to the fine line between innovation and operations - a balancing act performed in many corporate boardrooms today. In this age of disruption, everyone knows they must innovate. But nobody wants to disrupt the money flow. The burning question is: how do you innovate without killing the performance engine?

Irreconcilable Opposites?

It is widely recognized that there is a fundamental dichotomy between Operations and Innovation. The logic of operations is concerned with rules, routines, and rational decision-making. The focus is short-term, and measured by quarterly results.

Innovation, on the other hand, seeks to tear down structures and conduct experiments. The status quo is unacceptable. Innovation's focus is long-term, and driven by the belief that current operations will not fuel growth forever and that the company will either disrupt or be disrupted.

Sometimes these differences simmer beneath the surface, but occasionally they come to a head – especially in moments of strategic transition or industry upheaval. One respondent in Imaginatik's recent State of Global Innovation Report voiced a typical sentiment: "*My company is in a very transitional point where if we don't make changes to how we do things, we will die within 2-5 years.*"

It's hardly surprising that these two powerful forces often clash. Operations just wants to be left alone to run the business and generally views change as a bad thing. "*I see the call coming in from the crazy*

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folks in the building next door and usually just let it go to voicemail," an Operations executive confided in me. "*I know it's a conversation that I'm not going to like.*"

For their part, the Innovation group sees Operations as stubborn, short-sighted, and reflexively opposed to changing current practices. "*They just don't get it,*" a CINO for a Fortune 500 company remarked. "*And the worst part is that the CEO gives them a wink and lets them get away with it because business is good. It undermines everything we are trying to achieve.*"

So how can the innovation and operations group co-exist harmoniously and work together for the betterment of the company? Here are some strategies I have seen work.

Innovate the performance engine

Henry Ford didn't invent the automobile, interchangeable parts, or the assembly line. His genius was in combining these elements into a new and highly efficient system that enabled the production of a mass-market automobile at the lowest possible cost. The highly disruptive concept of an affordable automobile created an entirely new market, which Ford dominated without peer until the 1920s.

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Similarly, Progressive Insurance grew from $1.3B in sales in 1991 to $9.5B in 2002.[1] One would think that this kind of exponential growth would be a result of many new, successful products, a wide diversification of the business, or being part of an explosive industry. Yet none of these factors were present.

Instead, Progressive simply ran a better business than its competitors. The company steadily developed new ways of working that gave it a sustainable advantage and stole customers from the competition. The continuous diet of operational innovations became a decisive strategic advantage.

There is a prevalent misconception in corporate America that innovation equals big splashy new products that create an entirely new market and reward the innovators with massive profits. But Ford, Progressive, Tesla Motors, Wal-Mart and Dell achieved impressive results by fundamentally changing the way they did business. By offering brainpower and proven methods to Operations, Innovations becomes a partner in the evolution.

This strategy can be risky and faces formidable challenges. The wrong answer or a failure to execute can mean the dissolution of the business. On the other hand, is innovating the performance engine really more risky than hoping for divine inspiration from R&D?

Co-opt Operations into the process

One of the operational challenges of innovation is that it requires people to change the way they work. It's dangerous to underestimate people's resistance to change. Hostility, apathy, and institutional inertia are often the main culprits when innovations fail.

This is especially true when new ideas are dropped from the sky on an unsuspecting workforce. If you want a new idea to work, invite the people tasked with implementation into the process. By so doing, you'll transform them into stakeholders with a personal interest in the idea's success.

Case in point – Schneider National, a transportation firm in Green Bay that saw its growth become anemic in 2000.[2] Company executives committed to a path of superior customer service and focused specifically on revamping the customer RFP process.

After several attempts, Schneider hit gold. RFP response time fell dramatically from 30-45 days to 1-2 days. Win rates increased by 70%, which meant hundreds of millions of dollars in new revenue.

The secret to their success? Schneider invited 1,000 front-line employees into the creative process, listened to their ideas, and empowered them to help design the solution. They provided training and education on the new process, and offered financial incentives around results. Schneider succeeded because they transformed the very group that represented the greatest obstacle into stakeholders who were invested in the process and felt responsible for the results.

Walk then run

Unless the company is in dire straits, most businesses will not introduce sweeping changes in the way they do business. Massive changes suddenly sprung on an unsuspecting workforce cause confusion and resentment and will undermine the entire effort.

Rather than side-stepping the harsh glare of operational scrutiny, smart leaders jointly develop testing strategies to introduce truly novel concepts and products without rocking the corporate boat too much.

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A prototype-driven approach allows executive sponsors to both persuade and learn from operational stakeholders by bringing them into the process.

Many restaurants set up "test kitchens" specifically to introduce new dishes and solicit customer feedback – principles that can also be applied in a corporate setting. What does your test kitchen look like? Is it staffed with respected and open-minded individuals who can help you sell new concepts internally? Is your testing process transparent and built on a solid and proven foundation?

The beauty of a testing strategy is that it allows both innovations and operations to collect the data they need to assess impact and co-develop the best possible plan for implementation. By introducing new innovations to the operations group and the wider organization in measured steps, you will build the support you need to ensure adoption and a successful rollout.

A Seat, a Veto, and Accountability

For important decisions, both the innovation and operations executives need a voice. They also need veto power, assuming vetoes are used responsibly and in good faith. Just as Schneider saw benefits from the grassroots socialization of ideas, executives need to be involved at the right time so they can become stakeholders in the process and co-contributors to the strategic roadmap.

Accountability for results begins at the executive level and is reinforced down through every management tier. Executives who do not expect results and mumble that "*innovation is somebody else's job*" are obstacles, not enablers. Although it's not easy to change the leadership climate, doing so is absolutely critical for innovation to take root and succeed. Make the Operations executive a thoughtful partner who understands the bigger picture, and their support for Innovation will filter through the organization.

Footnotes:

1. *Harvard Business Review*, April 2004. "Deep Change: How Operational Innovation Can Transform Your Company" http://hbr.org/2004/04/deep-change-how-operational-innovation-can-transform-your-company/ar/1
2. *Harvard Business School Working Knowledge*, August 1, 2005. "Six Steps to Operational Innovation" http://hbswk.hbs.edu/archive/4927.html