MBA 8220: Innovating Business Processes

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Agenda

- Innovation
- Process innovation
- Case discussion
- Project
The Information Systems Strategy Triangle

- Business Strategy
- Organizational Design
- Information Strategy

With the Manager in the coordinating role
Topic one

Innovation
What is innovation?

Dictionary-style ...
- The act or process of inventing or introducing something new
- Something newly invented or a new way of doing things
- The process of adopting a new thing, idea, or behavior pattern into a culture
- The act of starting something for the first time; introducing something new

Authors on innovation ...
- Leifer, et.al. (Radical Innovation, HBP, 2000)
  - Producing an outcome with:
    - An entirely new set of performance features
    - Improvements in known performance of 5x or greater
    - A significant (30 reduction) in cycle-time and/or cost
- James March
  - Exploration vs. Exploitation

Yours? ...
What types of innovation?

Christensen and Overdorf, “Meeting the Challenge of Disruptive Change”

I. Sustaining innovation (exploitation):
Successful companies are good at responding to **evolutionary** changes in their markets
- Makes a product or service perform better in ways that mainstream customers already value
- Typically developed and introduced by industry leaders

II. Disruptive innovation (exploration):
Where they run into trouble is in handling **revolutionary** changes in their markets
- Creates entirely new market by introducing a new product or service that mainstream customers initially see as worse
- No company has a routine for handling them
- More difficult for large, mature companies, easier for smaller, immature companies

Creating change capability
- Creating new capabilities *internally*
- Creating capabilities via a *spinout* organization
- Creating capabilities by *acquisition*

Adapted from Christensen & Overdorf (2000)
Types of Sustaining Innovation

- Application Innovation
  - Take existing products / services to new markets
    - E.g., On-star to autos; tandem fault-tolerant computers to banking as ATMs

- Product Innovation
  - Established products to the next level; price reduction; usability improvements

- Process Innovation
  - E.g., streamline supply chain; move to on-line trading

- Experiential Innovation
  - Improve the customer’s experience
    - “Delighters” - “You’ve got mail!”
    - “Satisfiers”- rapid lime management through airport security
    - “Reassurers” - FedEx package tracking

- Marketing Innovation
  - Improve customer touch, on line notification, c.f., e-bay, Amazon…

- Business Model Innovation
  - Reframing an established value proposition
    - Razor blades to shaving systems; from computing (Apple) to consumer lifestyle products
Capitalization on Disruptive Innovation

Structural Innovation

- To restructure industry relationships
  - Bank deregulation allowed Fidelity and CitiCorp to offer consolidated services (brokerage, consumer banking, insurance, etc.) under one umbrella
Who is innovating?

“Midlevel managers play a crucial role in every company’s innovation process, as they shepherd partially formed ideas into fully fledged business plans in an effort to win funding from senior management.

It is the midlevel managers that decide which ideas … they support and carry to senior management.”

From C. Christensen: The Innovator’s Solution, HBP, 2004
Which capability to change?

### Resources
- Tangible and intangible
- High quality resources facilitates change

### Processes
- Formal and informal
- Processes are not meant to change
- Disabilities to change in less visible processes

### Values
- Basis for judgment at all levels
- Clear/consistent values facilitate change
- Two key values influence change capability ... How:
  1. Acceptable gross margins judged
  2. Interesting opportunities judged

Which forms of change are your organization capable of handling?
Capabilities evolve over time

The factors defining an organization’s change capabilities evolve over time:

- Begin with resources (primarily people)
  - Departure/addition of just a few people can have dramatic effects
  - Some fail to ever develop processes
    - Consistency, quality, and productivity suffers
- Move to visible, articulated processes and values
  - Founders impact initial processes and values
  - Success becomes independent of individuals
  - Repeatability
- Migrate to shared and invisible culture
  - Enables people to act autonomously and consistently
  - Can both enable or inhibit change

Change easier

Change more difficult
### Fitting tactics to needs

<table>
<thead>
<tr>
<th>Poor</th>
<th>Good (sustaining)</th>
<th>Poor (disruptive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use <strong>heavyweight team</strong>: within existing organization</td>
<td>Use lightweight or functional team: within existing organization</td>
<td>Use heavyweight team for in-house development; but commercialization requires a spinout</td>
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**Innovation fit with processes**

**What’s a “heavyweight” team?**

**Innovation fit with values**

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When & how to innovate? (1)

The Market Development Life Cycle

Riding the Life Cycle

• Early Market
  • Early adopters, visionaries, the Press

• The Chasm
  • Lost novelty, not yet caught on, pragmatists wait; current customers have to help it catch on

• The Bowling alley
  • Gains acceptance amongst pragmatists in niche markets, building loyalty

• Tornado
  • Passed the test of usefulness; growing at double and triple-digit rates; competition fierce; imitators try to join in

• Main Street
  • (Early) hyper growth subsided; 1st wave consolidation; market-share pecking order established; incremental improvements
  • (Mature) growth has flattened, commoditization increased; 2nd wave consolidation thins out the bottom; growth through merger and acquisition; no new observable technologies on the horizon
  • (Declining) product ossification; market dominators unresponsive to customer needs; customers look for relief and alternatives; market rife for disruption

• Fault line and End of Life
  • Technology obsolescence strikes; apparent fault line between customer and products company sells; new product ‘tornado’ wreaks havoc; only alternative is how much customers will spend on legacy technology
When & how to innovate (2)

Aligning Innovation with the Life Cycle

- Main Street - new efficiencies
- Surface modifications to improve customer experience
- Improve customer-touching processes
- Reframe established value proposition
- Restructure industry relations

- Established offers in existing markets to next level
- Existing technology to new markets

- The Market Development Life Cycle

- Indefinitely Elastic Middle Period
- Main Street (Early)
- Main Street (Mature)
- Main Street (Declining)
- Fault Line
- End of Life

- Revenue Growth
- Time

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Topic two

Process Innovation
Process & innovation

Business Context

- Market
- Technology
- Business partners

How is innovation organized to facilitate enhanced process performance?

Process
- Why are processes created?
- How are processes managed?
- What are the defining elements?
- How are the elements related?

Innovation
- Why is innovation needed?
- How is innovation managed?
- What are the defining activities?
- How are the activities related?

How does business process configuration influence and shape innovation?
### Degrees of change

<table>
<thead>
<tr>
<th></th>
<th>Improvement</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level of change</strong></td>
<td>Incremental</td>
<td>Radical</td>
</tr>
<tr>
<td><strong>Starting point</strong></td>
<td>Process problems</td>
<td>Environmental change</td>
</tr>
<tr>
<td><strong>Frequency of change</strong></td>
<td>Continuous</td>
<td>Discrete</td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td>Bottom-up</td>
<td>Top-down</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td><strong>Primary enabler</strong></td>
<td>Statistical control</td>
<td>Information Technology</td>
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### Outcome and Process Focus

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<td><strong>INNOVATION</strong></td>
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<td>Use <em>heavyweight team</em>: within existing organization</td>
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#### Innovation fit with processes

- Poor: Use *lightweight* or functional team: within existing organization
- Good: Use *heavyweight* team: within existing organization

#### Innovation fit with values

- Good (sustaining)
- Poor (disruptive)

#### Radical versus Incremental

- Relates to both outcomes and process and can be combined

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Managing the BPI project portfolio

Prioritize, coordinate, and monitor portfolio of BPI projects

BPI management

Focused BPI projects

BPI project

BPI project

BPI project

BPI project
Building innovation capability

TYPES
1. Leadership-driven capacity:
   Individuals see opportunity and run with it
2. Structural-driven capacity:
   Mechanisms are put in place to enable change
3. Organic capacity:
   Employees see innovation as an integral part of their job

INGREDIENTS
1. The ability of people within the organization to innovate
2. The desire of people to act in an innovative manner
3. An environment that enables and empowers innovation

Innovation is like jazz -- not random; requires improvisation

Creativity is just having enough dots to connect

Adapted from Shapiro: Innovate your organization.
The 24/7 Innovation www.24-7innovation.com.
## Innovation and improvement

<table>
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<th>Improvement</th>
<th>Innovation</th>
</tr>
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<tbody>
<tr>
<td>Process defined</td>
<td>Success indicators defined</td>
</tr>
<tr>
<td>Process measures defined</td>
<td>Current strength-weakness analysis</td>
</tr>
<tr>
<td>Process diagnosis</td>
<td>Future opportunities-threat analysis</td>
</tr>
<tr>
<td>Improvements identified</td>
<td>Innovations identified</td>
</tr>
<tr>
<td>Improvements prioritized</td>
<td>Innovations prioritized</td>
</tr>
<tr>
<td>Process design and test</td>
<td>Process design and test</td>
</tr>
<tr>
<td>Implement improvements</td>
<td>Implement innovation</td>
</tr>
</tbody>
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Adapted from Beechner & Hamilton: “Infinity: A Model for Organizational Excellence” (www.paragonstar.com)
Critiquing the as-is process

<table>
<thead>
<tr>
<th>7R’s of process innovation</th>
<th>Question</th>
<th>Apply when…..</th>
</tr>
</thead>
</table>
| Rethink                     | How can activity frequency be reduced or increased? | - An activity is non-value added but necessary  
- There is low variation in the process or product  
- There is high variability and low setup costs and times |
| Reconfigure                 | How would more information enable greater effectiveness? | - Higher accuracy is needed  
- Greater segmentation would yield greater marketing effectiveness |
| Resequence                  | How would less information or fewer controls improve efficiency? | - A high proportion of costs goes to data collection and controls  
- The value received from information or controls is minimal  
- Absolute accuracy is not necessary |
| Relocate                    | How can critical resources be used more effectively? | - Utilization of key resources is low  
- Critical resources are performing non-value-added or waste work |
| Reduce                      |          |               |
| Reassign                    |          |               |
| Retool                      |          |               |

Adapted from Stephen Shapiro  
The 24/7 Innovation  
www.24-7innovation.com