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24/7 Innovation: Moving beyond cost cutting and best practices to sustained advantage

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Innovation is a hallmark of leading companies as they change the game in order to stay ahead of the competition. Many think of innovation in terms of breakthrough discoveries and fortunate accidents rather than as the result of a focused effort to introduce new ideas and ways of doing business. Successful innovation is not an event; rather it occurs 24/7 enabling companies to keep pace. Executives recognize that their company loses ground when the pace of change outside the company is greater than the pace of change within the company.

Innovation is not random. In fact, it emerges when there is a structure to inspire it. Jazz provides a good analogy for how this type of structure fosters innovation. While jazz may sound spontaneous, the musicians are actually following a basic musical structure. This allows them to display individual creativity and personal strengths, yet enables the collaboration required for blending rhythm, chord progression and tempo into something customers will pay to hear night after night.

Innovating effectively requires concentrating on gaining the right structure, focusing on interdependencies, targeting the right capabilities and making it happen. Companies that follow this course make innovation a sustained and perpetual part of their management and operational disciplines.

Capability: Getting the right structure

Business and motivational speakers often talk about innovation in terms of "letting go" and "getting connected with your creative side." Such advice quickly dissolves into platitudes when it comes up against an entrenched organization and management structure.

Getting the right structure involves looking at the business as a portfolio of capabilities rather than as organizational silos or process-oriented "pipes" of work. A capability such as product development, customer relationship management or supply chain and fulfillment, describes how a company comes together in terms of its processes, organizational units, technology and knowledge. A company generates revenue and creates earnings through the sum of its capabilities. Viewing the company this way helps untangle the organization and focus on how work is done rather than on how the company is structured.

An overall capability view is critical for innovation, as it enables executives to think of the components of the business in terms that they can manage both individually and as a portfolio. Capabilities extend beyond corporate legal structures and often involve the abilities of customers, suppliers and other third parties. Technology has dramatically reduced the cost of collaboration, making capability sourcing particularly important to innovation and advantage.

Focus on the lines, not the boxes

Capability forms the basic construct for viewing a company. Executives must take a dynamic view of a company's capabilities in order to understand their performance and interconnections. This involves focusing more on the lines—meaning the connections in the organization—than the organizational or process boxes. Opportunities for innovation come to light when you understand these lines.

The jazz analogy illustrates this point. Jazz is much more than improvisation. It is the result of collaboration among a group; each artist knows the impact of his or her actions on the others. Successful innovation demands collaboration in order to avoid optimizing one capability at the expense of others or of overall performance. Focusing on the lines or the interactions, rather than on isolated activities or organization boxes, provides the flexibility needed for innovation.

Targeting innovation efforts

A business consists of its capabilities, however not all capabilities are equal. Targeting innovation efforts involves understanding the relative contribution of each capability. There are three types of capabilities:

- **Differentiating capabilities** are a company's primary assets defining its special nature and what distinguishes it from others in the marketplace.
- **Core capabilities** are critical to the business, but they do not necessarily differentiate the company. Poor performance of core capabilities often compromises a company's cost structure and customer service performance.

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- **Support capabilities** are necessary for operation, however they are generally not a source of advantage. These capabilities need to be "good enough" and there is little advantage in making extensive investments in these capabilities.

Extending capabilities through innovation

Innovation can create new value by moving the differentiating, core and support capabilities into new customer products and services or by increasing efficiency through changing capability sourcing. Specifically, capability innovation can be achieved by:

- **Extending the core by turning a high-performing capability into a source of competitive differentiation.** A natural gas utility extended its customer service, billing and marketing capabilities into new markets, including telephone services, home security and consumer credit cards.
- **"Up-skilling" the capability by adding knowledge to enhance customer value.** A leading healthcare provider reduced costs and raised service levels when it staffed its patient call center with registered nurses rather than service representatives. Savings came in the form of reduced physician visits for non-medical service, while patients benefited from better service.
- **Converting a support capability into a new source of revenue.** A well-known bank created a new source of value by converting its back-office procurement process and buying power into a revenue-producing service for its small business customers.
- **"Down-skilling" a traditional knowledge-based activity by embedding business rules into software.** E-commerce technologies can enable 100-fold performance improvements through leveraging technology to apply the company's business rules directly, rather than through a knowledge worker. This can enable a company to move customer interactions from customer service channels, where the average transaction costs $39.50, to electronic channels, where the average transaction costs 25 cents, according to an Accenture study of service transactions costs.
- **Reducing the need to perform low-value capabilities.** Consider a large service company that was able to reduce invoice processing costs by consolidating low-dollar invoices into corporate credit-card and expense management programs.
- **Outsourcing non-core capabilities.** Focusing management attention, capital and cash flow into areas of competitive advantage is a long-standing axiom. Business process and application outsourcing represent an attractive option for executives taking a capability point of view.

Making innovation happen

Every organization must think about how to improve its operations and better serve its customers. Taking action to make innovation happen involves more than brainstorming sessions. It requires

- **Innovating through simulating.** Use business simulation to "test" innovative ideas and replace executive indecision with knowledge and confidence.
- **Managing with measures.** Measures and innovation are not contradictory. Performance measures provide the information necessary to manage the benefits of innovation rather than relying on luck.
- **Making innovation part of the core.** Innovative thinking must become part of the skill set of executives, managers and line personnel.

Innovation is too important to leave to chance. Companies must continually extend their capabilities to maintain hard-won customers and generate profitable growth, even during difficult times. That requires making successful innovation a continuous part of management in the 21st century, 24 hours a day, 7 days a week.

This *Outlook* Point of View is based in part on *24/7 Innovation: A Blueprint for Surviving and Thriving in an Age of Change*, by Stephen M. Shapiro © 2002 McGraw-Hill. For more information, visit www.24-7Innovation.com.

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