Build Innovation into Your Strategy

"Genius is 1% inspiration and 99% perspiration." – Thomas Edison

Abstract

Innovation can include both paradigm-busting breakthroughs and incremental improvements in existing products or services. In either case, an organization can articulate, align, and communicate how innovation fits into its overall strategy through the use of an integrated strategic planning and performance management system featuring a strategy map and balanced scorecard. This ensures that innovation efforts are given the right focus and support, and that innovation truly becomes integrated with the rest of the organization's activities.

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Why Innovate?

Every organization, whether a business, non-profit, or government agency, must innovate. The need to innovate is a well-documented factor in private industries, such as technology, consumer goods and services. But in fact, we see the same dynamic across our entire client base. Non-profits must address growing client needs, while dealing with cutbacks in funding and competition for philanthropic dollars. And many government organizations, whether civilian or military, from the federal to the local level, are facing what one of our clients referred to as the imperative to "Transform or Die." Every organization we work with is increasingly in a mode of "white-water" change.

What is Innovation?

Innovation has become one of those words that mean very different things to different people. The experts define two main categories of innovation:

Breakthrough Innovation – truly new products, services or business models that fundamentally disrupt customer buying patterns and competition in the industry or operating environment. Personal computers, the internet, and nanotechnology are good examples of breakthrough innovation. The mythology of breakthrough innovations usually includes images of the lone inventor working away in a garage, or "skunk works" separated from the politics of a parent corporation. But, in fact, many everyday products we use today – such as the Internet - were originally breakthrough innovations generated through public-private collaborations in federal agencies such as NASA and the Department of Defense.

Sustaining Innovation – incremental improvements in products or services that extend the life of or build upon what was once a breakthrough. The introduction of a new version of Windows would be an example of sustaining

innovation, and, before that, the annual introduction of new models in the auto industry. In the government sector, examples would include 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.

Sustaining innovation is a much more "manageable" process, and many large corporations like Microsoft and Procter & Gamble excel at it. Breakthrough 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 "sustaining innovation" shouldn't even be termed 'innovation' at all. In any case, there's a distinction to be made between the "Eureka" moments that produce the big, breakthrough ideas, and the more tedious process of implementing them. Call it "inspiration" versus "perspiration".

But does the distinction between inspiration and perspiration mean the two definitions of innovation have to be in conflict? We believe that a *strategy-based balanced scorecard* offers a way to value and encourage both.

Why Balanced Scorecard?

A strategy-based balanced scorecard system involves the collaborative development of a firm'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 – 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.

- 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 impacted 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.

Figure 1: The Four Balanced Scorecard Perspectives

Bringing Strategy Down to Earth

In a balanced scorecard-based approach to planning and performance management, we always start with strategy. We are not innovating for the sake of innovating, but building a core capability that allows us 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 operations on the ground.

Figure 2: Strategic Planning and Thinking Using the Balanced Scorecard

Innovation as a 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 the strategy 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, 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 other 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 and culture, skills, and organizational structures that allow new ideas to be generated.

An Example Innovation Theme Map

A strategic theme 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 is a typical strategy map for an "Innovation" theme.
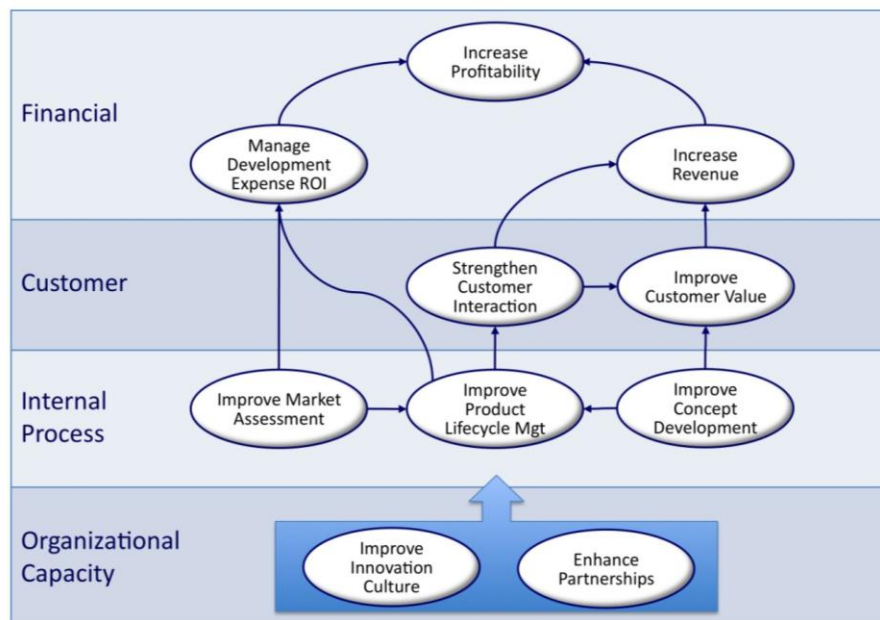

Figure 3: Generic Innovation Theme Map

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."

We typically recommend that you develop 3-4 theme maps, and then combine 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. To learn more about how strategic themes are used in developing an overall strategic balanced scorecard: Strategic Themes: How Are They Used and WHY?

Measuring 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.   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. Figure 4, below, shows how performance measures and initiatives are developed in service of these objectives.

Theme: Innovation

Result: We have an innovative culture in which good ideas are generated and the best ones are turned into new products and services that our customers value.

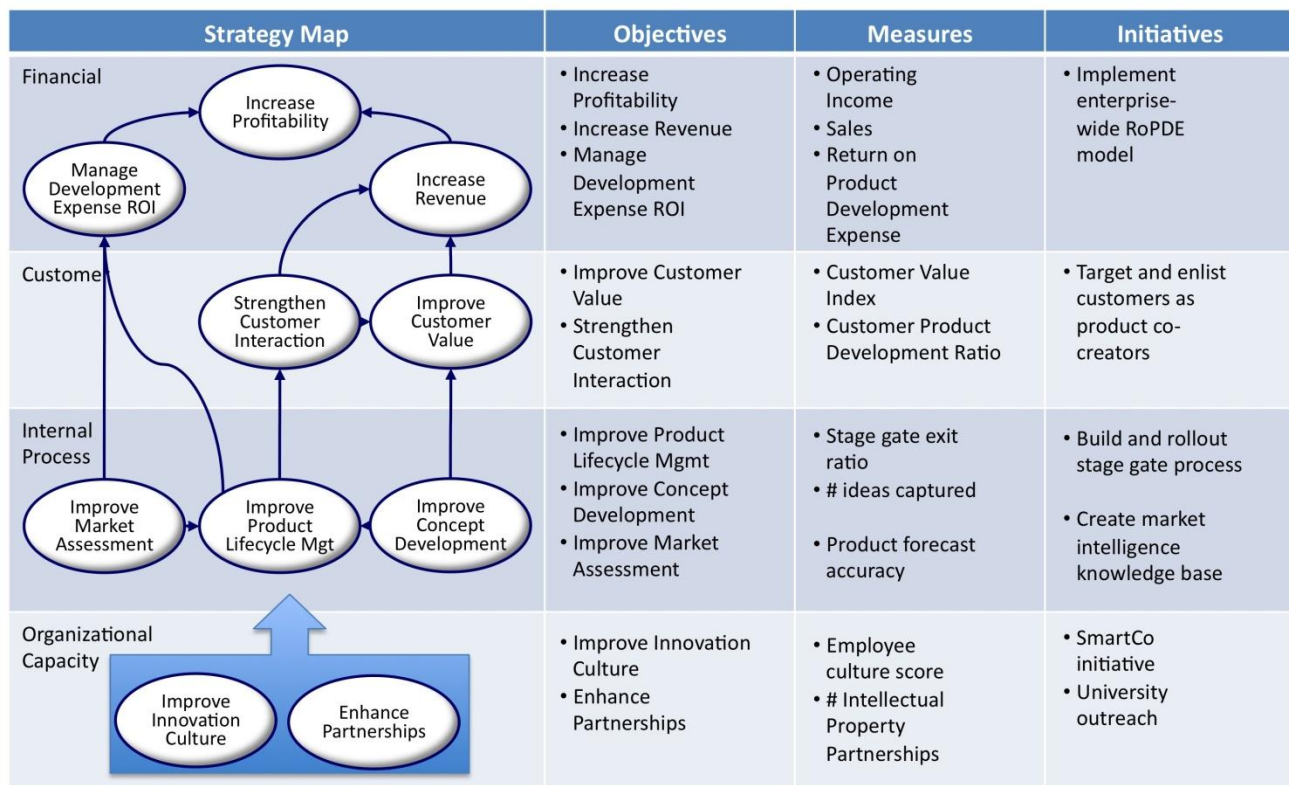| Strategy Map	Objectives	Measures	Initiatives
Financial — Increase Profitability, Manage Development Expense ROI, Increase Revenue	• Increase Profitability • Increase Revenue • Manage Development Expense ROI	• Operating Income • Sales • Return on Product Development Expense	• Implement enterprise-wide RoPDE model
Customer — Strengthen Customer Interaction, Improve Customer Value	• Improve Customer Value • Strengthen Customer Interaction	• Customer Value Index • Customer Product Development Ratio	• Target and enlist customers as product co-creators
Internal Process — Improve Market Assessment, Improve Product Lifecycle Mgt, Improve Concept Development	• Improve Product Lifecycle Mgmt • Improve Concept Development • Improve Market Assessment	• Stage gate exit ratio • # ideas captured • Product forecast accuracy	• Build and rollout stage gate process • Create market intelligence knowledge base
Organizational Capacity — Improve Innovation Culture, Enhance Partnerships	• Improve Innovation Culture • Enhance Partnerships	• Employee culture score • # Intellectual Property Partnerships	• SmartCo initiative • University outreach

Figure 4: A Complete Strategy Based Balanced Scorecard

Each strategic objective is supported by one or more measures. As you can see, the company is tracking a mix of tangible and intangible indicators that tell it if the culture is becoming more innovative, how many new ideas are moving through the development process, how customers feel about the new products, and how much return there is on the investment in new products.   And, initiatives have been identified to improve performance on these objectives.

Integrating Innovation into the Rest of your Strategy

In this paper, we have shown how innovation can be addressed as a strategic theme, part of a balanced scorecard that includes the other themes that matter to the organization as well. For organizations in which innovation (either the inspiration or the perspiration variety) is critical to fulfilling the mission and achieving the vision, this is a powerful approach. When the theme maps are merged, the organization is assured that innovation is fully embedded into an overall business strategy.

For more reading on the topics of strategic themes and innovation:

Strategic Themes: How are they used and WHY?

Themes of Confusion

How Do I Measure Innovation?!?

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Gail S. Perry is the Vice President of Strategic Solutions with the Balanced Scorecard Institute. Gail has over 20 years of strategic planning and performance management consulting experience working with clients such Lockheed-Martin, Vought Aircraft, GulfStream, British Aerospace, and Ericsson. She has provided consulting, facilitation, and training services for several Institute clients such as ADP, DFAS, BrightPoint, Pan-Pacific Hotels, the Government of Botswana, Susan G. Komen for the Cure, the Northwest Fire District of Arizona, the InterAmerican Development Bank, the United Nations Development Program, the U.S. Army Medical Command, and several major commands of the U.S. Air Force. As a lead trainer for several of the Institute's public workshops, including the certification programs, Gail has trained several hundred students world-wide. Gail has a degree in Industrial Engineering, an MBA, and is also an Association of Strategic Planning member. She may be contacted at gperry@balancedscorecard.org.

The Balanced Scorecard Institute is the number one site on the Internet for information regarding balanced scorecard and performance management issues, concepts, and techniques. The Institute provides training, consulting, software, and facilitation support to organizations all over the world. You can reach the Institute at: info@balancedscorecard.org, on the Internet at: www.balancedscorecard.org or by calling us at (919) 460-8180.