Building an Innovative Organization
Lessons for Designing and Implementing
A Truly Innovative Business Model

In an economic environment where funding is in short supply, organizations need to consider major changes in how they operate if they wish to succeed. For many organizations, making incremental changes will not help them achieve the results demanded by their clients and other stakeholders. This paper highlights common challenges organizations face as they attempt to make significant improvements in performance and suggests approaches which have proven successful in overcoming those challenges.

Project management professionals frequently note that 70% of all projects fail to achieve the goals for which they were funded[1]. This is especially true when an organization is attempting to significantly improve business operations. Some common mistakes that lead to project failure include:

- Failure to properly define the desired end state (i.e., the future state of the organization);
- Failure to align senior management (and their subordinates);
- Failure to address and correct negative institutional inertia;
- Failure to integrate major projects and programs; and
- Insufficient attention to change management activities

Define the Desired Future State. An organization's senior management must come together to develop and articulate what they want their organization to look like in the future. In this "design" stage of an innovation initiative, a common pitfall occurs when senior managers don't challenge themselves and each other to do more than attempt incremental improvements. It's relatively easy for senior management to identify issues/challenges in the "current state" and then define the future state as one in which they have overcome those existing problems. In this situation, they merely define a state of incremental improvement. In other words, they fail to define an innovative end state. If the senior management team is committed to significantly improving operations, they cannot maintain a "business as usual" approach and attempt to run the organization in essentially the same way it has been run in the past. They must force themselves (and their subordinates) to take imaginative and innovative approaches that will lead their organization to optimally achieve its mission (a properly defined future state).

Another issue arises when the CEO/Commanding Officer is overly proscriptive and fails to include his/her organization's management team in the creation of the vision and desired future state. When the organization's leaders have not collaborated in these efforts, they may not only lack motivation to implement the vision, but they may not even fully understand what the desired future state *is*. Either situation makes it impossible for these key agents to help the organization achieve an innovative future state.

Holding professionally facilitated brainstorming sessions can help leaders collaborate and fully flesh their ideas out, while ensuring all voices are heard. One key to proper brainstorming sessions is to ensure that stronger personalities and personal agendas don't hijack the proceedings. Once the team has collaborated in clearly defining *what* they want to achieve, they've begun the process of building alignment among themselves and throughout the organization.

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[1] Lewis, Bob. (2003). "The 70-percent failure", InfoWorld.

Continue to Build Alignment. After collaborating to define the desired future state, senior management must design and prioritize the strategic initiatives that will lead the organization to achieve the newly defined future state. These strategic initiatives are derived from the two or three key strategic objectives that must be achieved to move the vision forward. This is the first step in defining *how* the organization will achieve its vision and future state. As with the definition of the future state, the development and prioritization of high-level strategic initiatives should also be carried out by a team of the organization's leaders. Once this has transpired, the future state, key objectives and strategic initiatives should be communicated throughout the organization, and frequently reinforced as the overall innovation initiative progresses. Change management practices, of which strategic communications are a part, will be discussed in a later section of this document.

Integrate the Strategic Initiatives. A recipe for the failure of a new strategic plan includes disbanding the leadership teams after the strategic planning session, and sending them back to their respective organizations without turning their outputs over to an entity which will continue their good work and assist them with implementation. The strategic initiatives developed by the senior management team are normally implemented by the organization's business units. However, one aspect that is frequently overlooked is the need to develop, track and evaluate the progress of the key initiatives in a manner befitting their strategic importance. A stand-alone, unbiased entity sitting outside of the business units, but within the overall organizational structure, can effectively serve this purpose. Called the Strategy Management Office (SMO), this team supports the design, prioritization and selection of strategic-level initiatives that cut across organizational boundaries and/or affect multiple business units. This office also tracks the initiatives and evaluates their performance. The SMO uses the results of the evaluations to inform future iterations of the strategic plan, and to enable adjustments to the plan as the business environment changes. In addition, the SMO performs the important tasks of determining the strategic initiatives' critical path(s), identifying and resolving resource conflicts, and achieving efficiencies by optimizing the use of resources among the strategic initiatives. As an integral part of these activities, the SMO performs a coordinating role between an organization's budgeting, operational planning, and performance management functions, *and ensures that the "budget" doesn't become the de facto strategy.*

Perhaps most importantly, the SMO also encourages the development and improvement of project and program management maturity throughout the organization by instituting and encouraging best/good practices. This is an important point as many organizations do a poor job of project and program management. Recall the earlier statistic: 70% of projects fail. The SMO can ensure initiatives are well-designed and properly funded, project plans and work breakdown structures are properly developed and followed, and resource conflicts between initiatives are resolved.

A key aspect of building support and integrating the strategic initiatives includes a method of rating business units, sub-units and individual employees on how well they support and help drive progress towards strategic goals. As a result, management teams at high-performing organizations frequently choose to design and implement a business model which helps achieve strategic alignment…the Balanced Scorecard (BSC). By definition, a BSC project is a strategic-level, cross-cutting initiative, and provides an effective approach for cascading the goals and strategic objectives of an organization from senior management, throughout the organization, to each individual employee. By implementing and using the BSC, leaders, business units, teams and employees can be held accountable and measured on their ability to support strategic initiatives and maximize stakeholder value. In addition to the responsibilities

mentioned earlier, the SMO would also manage and "cascade" the organization's Scorecard. Appendix A contains a notional organization structure that includes an SMO.

Plan and Perform Ongoing Change Management Activities. Institutional inertia can slowly kill innovative ideas and initiatives. A key aspect of building and implementing an innovative business model is ensuring extra effort is put into planning, creating and rolling-out the strategic activities, communications and training plans needed to support the overall innovation initiative. In a project or program management environment, these activities comprise the change management plan.

If employees do not understand what innovative initiatives are going on and why, are not kept abreast of the organization's progress, and do not have the training and skills necessary to perform the activities expected of them in the organization's future state, they won't feel as though they are a part of the changes the organization is undergoing. In turn, they will not support the innovation initiative--in fact, they may actively resist the changes that the plan requires. The goal of the change management plan is to overcome natural resistance and maximize buy-in among an organization's employees.
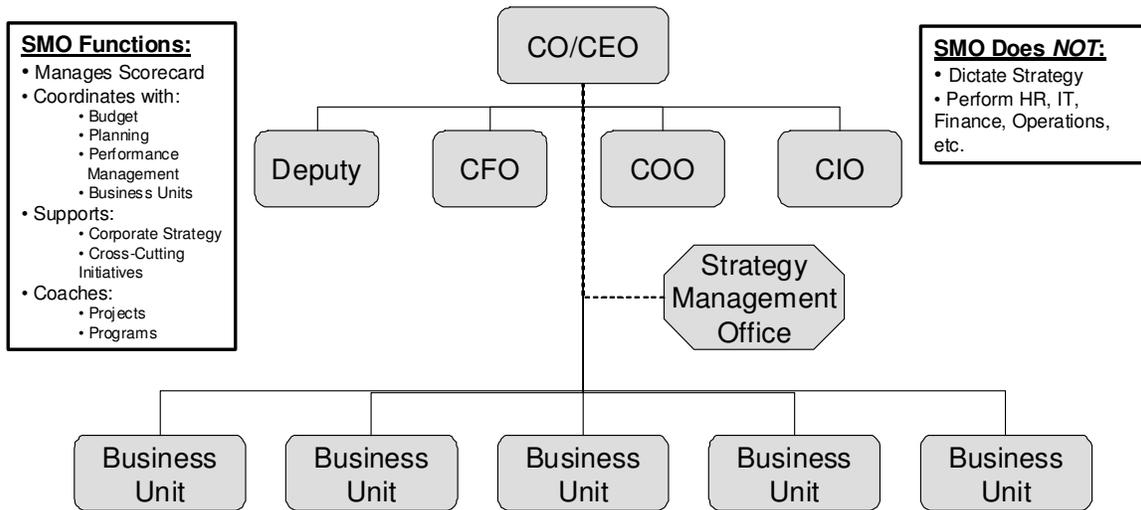
The key elements of change management include building awareness of the need for change in the organization, identifying who needs to participate in the change, empowering those who have the knowledge, skills and abilities to guide and implement the change, and reinforcing the changes within the organization both during and after the implementation of the innovation initiative.

Change management activities include the performance of audience analyses, the identification of gaps in employee knowledge, skills, or buy-in, the development of corrective actions, and the communication of cohesive, reinforcing messages. Change management occurs in three phases, in concert with the overall innovation initiative: 1.) Planning, 2.) Implementing, and 3.) Reinforcing. The aforementioned SMO should play a key role in integrating and rationalizing the change management plans of the various cross-cutting, strategic initiatives that comprise the overall innovation plan.

Bringing It All Together.   Organizations face a variety of challenges when attempting to significantly improve how they do business. Making only incremental improvements will not help organizations achieve the results demanded by their clients and other stakeholders. To create an innovative business model, management teams should keep several issues in mind, including the need to fully define the desired future state, the need to build and maintain alignment to the vision throughout the chain of command, the need to integrate, track and evaluate strategic projects and programs, and the necessity of designing and implementing robust change management activities in support of the innovation efforts. These approaches have helped innovative organizations take advantage of the opportunities presented them, and have enabled them to adapt and thrive in challenging business environments.

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Appendix A

SMO Functions:
• Manages Scorecard
• Coordinates with:
  • Budget
  • Planning
  • Performance Management
  • Business Units
• Supports:
  • Corporate Strategy
  • Cross-Cutting Initiatives
• Coaches:
  • Projects
  • Programs

SMO Does *NOT*:
• Dictate Strategy
• Perform HR, IT, Finance, Operations, etc.

CO/CEO

Deputy   CFO   COO   CIO

Strategy Management Office

Business Unit   Business Unit   Business Unit   Business Unit   Business Unit

Example Organizational Structure, with Strategy Management Office (SMO)