

## Innovation and Process Excellence

Twenty years ago, conventional wisdom said that you couldn't pursue both innovation and process excellence at the same time: you had to choose one or the other, and you shaped your culture accordingly. Today the reality is different: you can't afford *not* to pursue both. But keeping the two in balance and giving full rein to each is notoriously difficult. The trains need to keep running, and keeping them running on time is all-consuming ... there's precious little time to think innovatively. In today's environment, however, if we don't embrace innovation, process excellence itself will suffer.

So how do we reconcile this tension? Through the right set of values—values that nurture both innovation and process excellence.

Let's first define innovation. Innovation means finding a new and often radically different approach to doing something. It's doing something that hasn't been done before or finding a new application for something that currently exists.

Innovation can be disruptive, and when it is, it's a game changer. In terms of market impact, the more disruptive the innovation the greater the potential competitive advantage. When it does disrupt the market, it often generates a new set of followers and creates a new normal. Internally, innovation can be disruptive because it changes the way the organization works and operates, and even if it doesn't have a significant market impact, it can certainly change the company's standing in the market.

Disruption, however, is an outcome, not a goal. Innovation is the goal. More accurately, creating an innovative culture is the goal, and an innovative culture will produce some innovations that are disruptive and some that aren't.

### The Three Applications of Innovation

Either way, an innovative culture is a function of leadership, and leaders foster innovation in three ways:

1. Innovation in the **product or service**
2. Innovation in the **business model or market approach**
3. Innovation in the **process or delivery**.

#### 1. Innovation in the Product or Service

- Delivering something customers want but aren't getting
- Delivering something customers don't think is available or possible
- Delivering something customers don't know they need or want—but they recognize its value when they see it (e.g. Apple iPhone)

This can be radical and disruptive.

#### 2. Innovation in Business Model or Approach to Market

- Rethinking the way the customer experiences the product or service
  - Uber: an old service delivered in a radically new way
- Rethinking the applications of the product or service
  - Candles: not just light, but mood
- Rethinking the channels through which the product or service is delivered
  - Amazon: consumer purchasing

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This too can be radical and disruptive. It can be driven by a new product or service or by a new application of an old product. This is often closely associated with innovation in product or service.

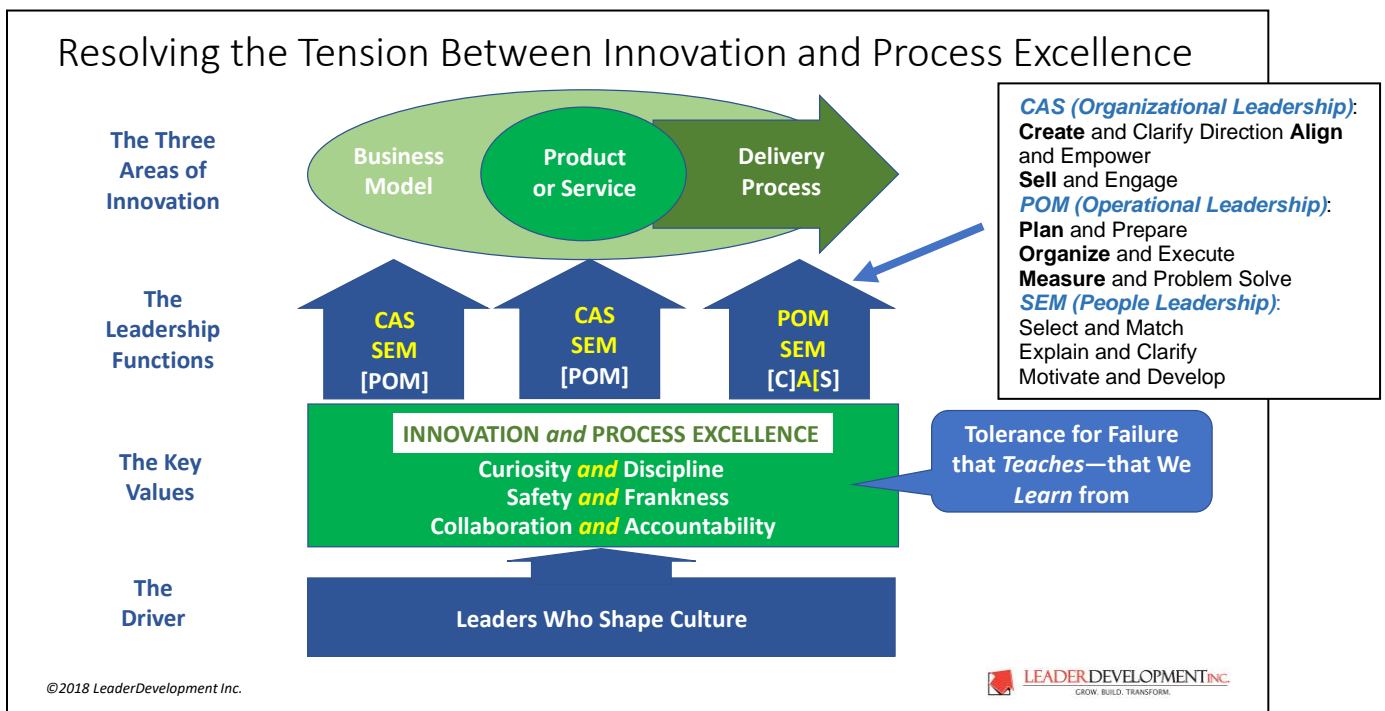
### 3. Innovation in Process or Delivery

- Applying innovative thinking to the mechanisms of creating, producing and distributing the product or service
- This can be confused with the pursuit of process excellence. Upgrading equipment is not innovative—unless it significantly alters the way the product or service is delivered.

## The Values that Drive Both Innovation and Process Excellence

For innovation and process excellence to coexist and flourish together, they need to be nurtured by the right set of values.

- Values shape behavior. It's important to identify the right values to drive innovation. We typically think of values like curiosity, collaboration and the freedom to make mistakes, but equally important are the tougher ones: discipline, frankness and accountability.
- But it just so happens that process excellence also requires those same values, so applied appropriately there is no conflict between innovation and process excellence.
- Here's how it works:



## The Leadership Implications

The ultimate test of an innovative culture is this: will it pass the wineskin test? When you pour new wine into an old wineskin, will it burst? When you put these values into the existing system, will it break and spill? There's the challenge of leadership: creating the right kind of culture that can absorb and embrace these values – and mature with them into a fine wine.

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Leaders shape culture. If the leaders don't intentionally inculcate these values, innovation won't happen and process excellence will eventually weaken. And how do leaders shape culture? By applying the right kind of leadership – and that's where the Leadership Framework can help us. That means that:

## How Leaders Shape Culture of Innovation & Process Excellence

- **Leaders need to apply all three:** Organizational Leadership functions, Operational Leadership functions, and People Leadership functions appropriately in order to establish these values deep within the organization.
- **Organizational Leadership owns innovation** and supports process excellence.
- **Operational Leadership owns process excellence** and supports innovation.
  - It supports the pursuit of experimentation, even if not directly involved in it.
  - It contributes to innovation by measuring and problem solving.
- **People Leadership selects and develops people who embrace both.**

Supporting innovation is like supporting customer service: not everyone is directly involved in it, but everyone needs to support it and give input when opportunity offers insight.

Great leaders lead by values. If you operate in an environment where you have to keep the trains running on time and you want to find better ways of doing it—if you want innovation without compromising process excellence—pick the right values. Leaders need to make sure that both are held in balance. The freedom to make mistakes, for example—without repercussion—is critical, but at the same time leaders need to make sure that mistakes generate learning. As Harvard's Gary Pisano puts it, "We should celebrate learning, not failure."

Shape your culture around these values. When you do, you'll eliminate the tension between process excellence and innovation: not only will you become an innovative company but also one that raises the excellence of its processes.

Antony Bell

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