

Final Report

Project Code: P.PIP.0728

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Date published: October, 2015

PUBLISHED BY
Meat and Livestock Australia Limited
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NORTH SYDNEY NSW 2059

Developing systems to support company innovation capability

Meat & Livestock Australia acknowledges the matching funds provided by the Australian Government and contributions from the Australian Meat Processor Corporation to support the research and development detailed in this publication.

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1 Introduction

Greenleaf were commissioned to work with a lamb processor to develop a company capability development plan as part of the Collaborative Innovation Strategy Program (CISP) with Meat and Livestock Australia. This report is for public dissemination so all commercially sensitive information has been removed.

This document outlines the learnings from this project relevant to the industry.

2 Background

Development of both people and process capability are required to give a company capability for new value and greater competitive advantage. However development of human capability, although recognised as critical to business success, can often be overlooked in preference for more tangible operational investments.

This project conducted operational assessment of people capability at a processing plant, this included assessment of:

- Absorptive capacity for innovation; and
- Development of people capability towards organisational goals.

Without doing anything a company will innovate at a natural rate or industry baseline (Figure 1). Only those companies that focus on building innovation capability (strategic and repeatable innovation for creation of new value) will rise above the industry baseline. The challenge as more and more companies focus on increasing their rate of innovation is two-fold; the gap between highly innovative company's increases, and the baseline of innovation across the industry is rising, increasing competition.

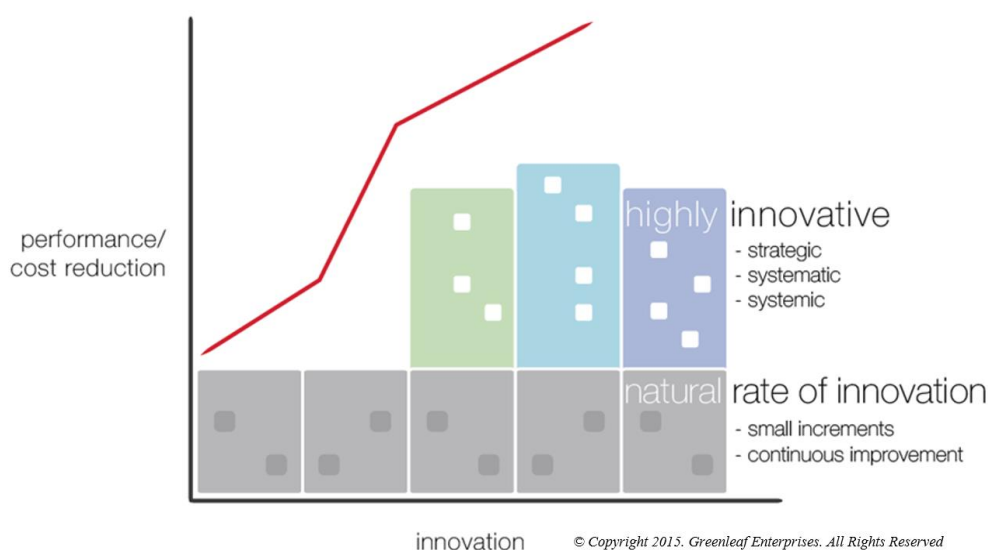


Figure 1: Achieving above baseline innovation

To remain competitive, companies have to find ways of increasing their rate of innovation. This requires investment in people capability and processes that together will support repeatable cycles of innovation above the natural baseline.

Figure 2 summarises the large number of company processes and support capabilities required to take an idea from initial concept to creation of new value. How staff exploit knowledge external to the company to generate ideas and then convert them to inventions is only half the process and is irrelevant unless those inventions can be converted into realised value. Most companies don't have repeatable processes to do this.

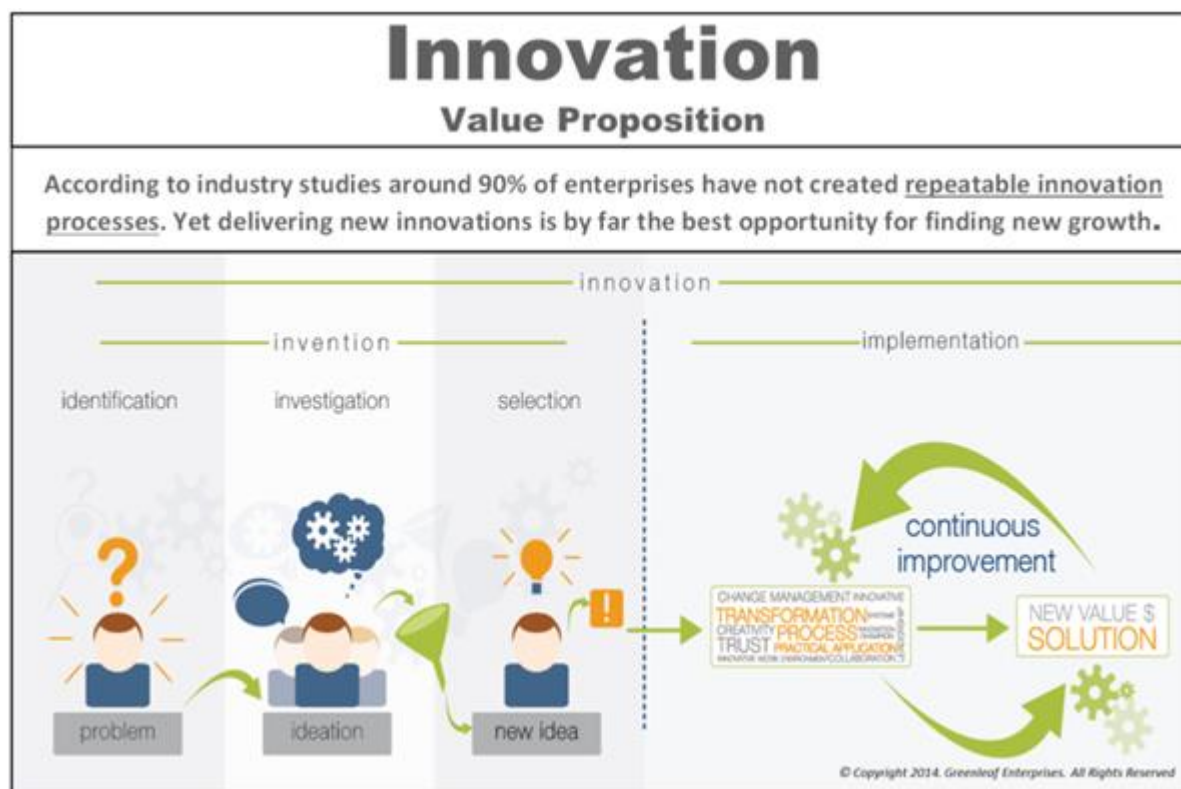


Figure 2: Repeatable innovation processes

Companies with well-developed people capabilities and processes realise above-baseline value increases. The innovation development courses by Greenleaf Enterprises references the impact of clear leadership on both the team climate (culture), and on the company, for innovation and growth. Research found that diffusion of innovation accounted for 50% of the improvements in business performance and that leadership for innovation capability was more significant than team environment although both had a strong positive influence.

When considering the people capabilities that should be developed, it is recommended skills for innovation and creative thinking are included in the mix. Research across a range of companies found that capability for development of innovation processes was 30% more effective in improving company performance than building management capability. Strong leadership for innovation with intentional activities to mould a single culture are important.

3 Objective

The objectives of this project were to:

1. Align the company's capability development process to the strategic plan.
2. Help leadership develop a clear company vision that gives context for capability development.
3. Transfer knowledge and insights around capabilities in innovative companies to senior managers in a workshop context to facilitate an integrated approach to capability building, idea generation and culture change.
4. Engage and support management in identifying capability development areas and appropriate programs that could help establish these capabilities.
5. Develop an integrated development approach that considers the company's focus areas.

4 Methodology

This project was undertaken as a research project utilising applied knowledge and learnings and collaboration with the client and MLA. The methodology for the project was as follows:

1. Initial site visits and discussion with directors.
2. Meeting with stakeholders to understand the wider strategic direction for the company and staff development objectives.
3. Develop operational understanding.
4. Data collection and analysis supported by literature review.
5. Development of process to integrate capability with company vision.
6. Provision of information to support employee development strategies and key performance indicators.

4.1 Aligning strategic goals to operational activities

It is important for organisations to align their high-level strategic goals to operational activities, cascading down to departments, teams and individuals. A key issue identified in agribusinesses with supply chains is the tendency to have disconnect between the supply chain members whom operate as individual profit centres or autonomous units with individual goals measured solely by financial measures. Corporate disconnect occurs when employees do not see the connection of their efforts to the vision of senior management and stakeholders. It has the potential to undermine growth, profitability and effectiveness as an organisation. Therefore the alignment of goals across departments is important to maximise company effectiveness and achieve cross-functional co-operation towards the single output/s.

The alignment of goals to individual efforts provides multiple benefits for a company. Firstly it guides employee efforts in line with the strategic goals. An example is the efforts of the innovation manager at a plant, their efforts could be widespread, only operationally orientated or solely environmentally focused. Without understanding the organisational goals

their efforts could be misdirected which impedes the company from meeting their goals. Additionally, if they work across multiple departments (such as a CISP innovation manager) understanding the organisational goals would ensure that they correctly prioritise their innovation program. An additional benefit to an organisation is that corporate effectiveness is improved when individuals have a purpose and understand the contribution their efforts will have towards the company's success. Lastly, when strategic goals are cascaded to operational activities and individuals it provides employees with a purpose (and an accountability), improving engagement, retention and productivity.

Reporting of activities back up to a strategic and board level also becomes well defined and makes it easier to connect the accountability for operational activities back to corporate goals without overwhelming detail. Information transfers down to the individual level and feeds back up to board level for evaluation.

5 Learnings

The learnings were focused in two areas; processes and capability. There was disconnect between the high-level organisational goals and employees, this impacted the achievement of organisational goals including prioritisation and allocation of resources to those activities contributing most to total company profitability. There was also a lack of absorptive capacity which has been identified as lacking in the red meat industry. These are discussed in more detail below.

5.1 Capability for innovation

During this work it was identified that there was a lack of absorptive capacity.

“Absorptive capacity is a company's ability to utilise externally held knowledge through three sequential processes: (1) recognising and understanding potentially valuable new knowledge outside the company's through exploratory learning (see Figures 3), (2) assimilating valuable new knowledge through transformative learning, and (3) using the assimilated knowledge to create new knowledge and commercial outputs through exploitative learning” (Lane et al, 2006).

This lack of absorptive capacity is consistent with previous work undertaken by Greenleaf Enterprises and Well Grounded Consultancy for the Australian Meat Processing Corporation which identified absorptive capacity as lacking within the red meat industry.

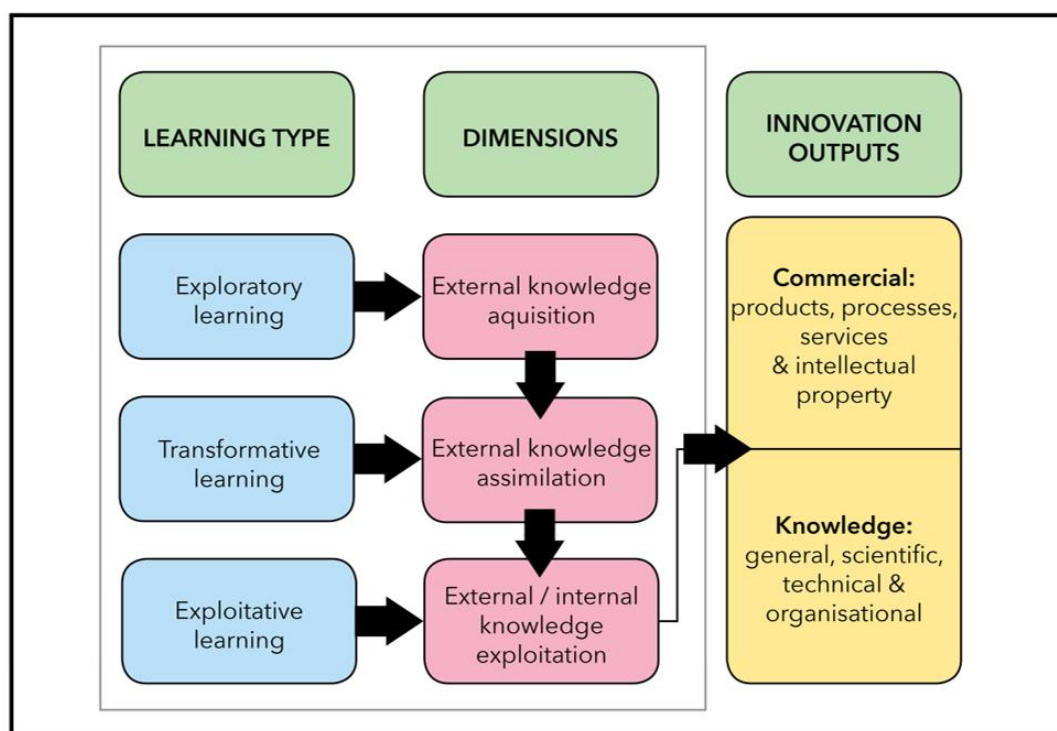


Figure 3: Absorptive Capacity Conceptual Framework ©Greenleaf Enterprises Pty Ltd 2015

Developing a vision and road map to encourage innovation in any industry involves prioritizing the creation of knowledge-based capabilities and upgrading of absorptive capacity. For geographically dispersed companies operating within the Australian red meat industry, absorptive capacity for innovation is a significant challenge. Connecting exploratory investigation with exploitation of the ideas into commercial value is not natural. These two activities don't mix easily. However, companies that build systems to help streamline the connection of these skills will create greater value. Inclusion of innovation targets or absorptive capacity targets into the organizational goals and cascading measurable actions and individual KPIs will assist to operationalise innovation and speed up the conversion of new knowledge into new value.

5.2 Processes to guide

Previous studies indicate that corporate disconnect between high-level organisational goals and teams, departments and individuals is relatively common. It also identified that alignment of organisational goals is increasingly difficult in supply chain businesses where departmental goals can be conflicting or impacted by variable inputs such as weather and seasonal dependence. Historically, functional measurement criteria or financial measures promoted autonomous behaviour. These findings were evident during this work. Corporate disconnect occurred and had resulted in autonomous behaviours and a lack of employee engagement.

A method to operationalise the organisational goals to departmental goals, operational goals and individual goals is through the use of a key performance indicator (KPI) Tree (refer to **Error! Reference source not found.** below).

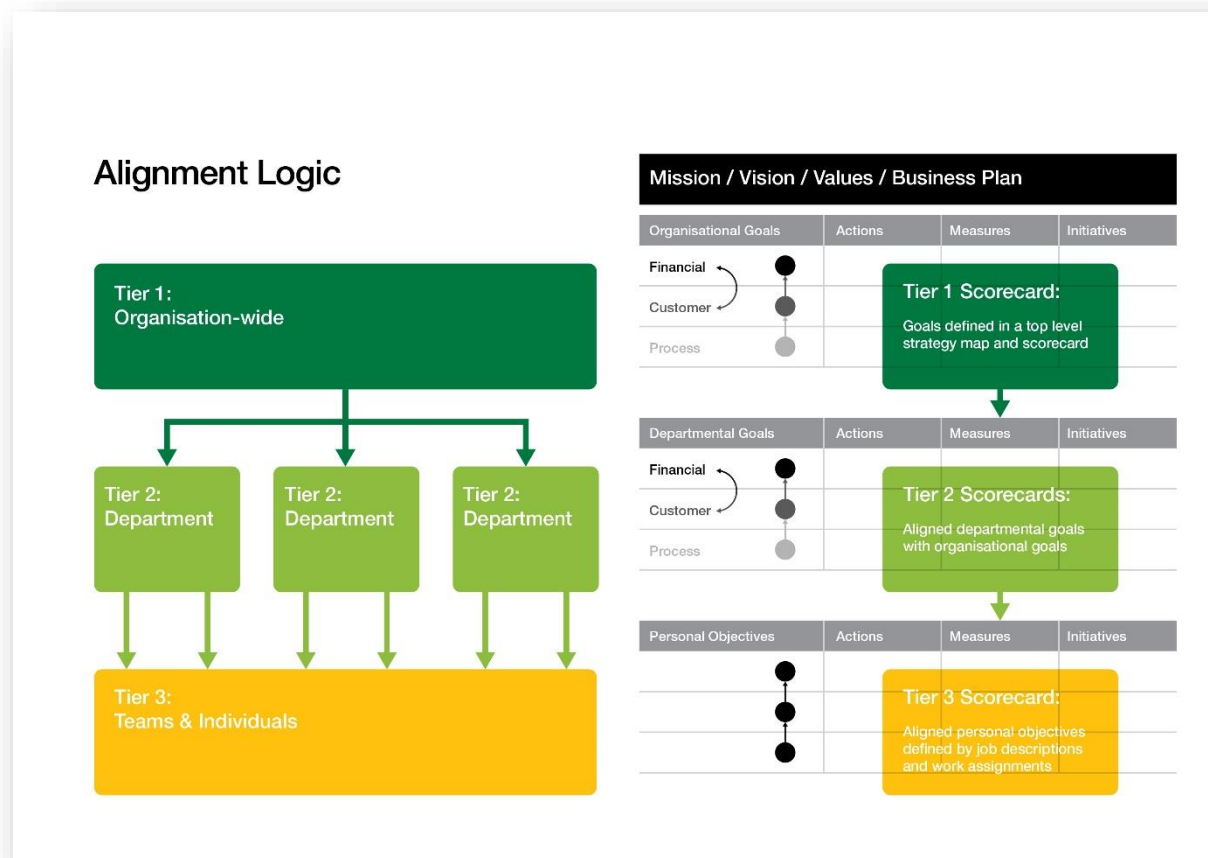
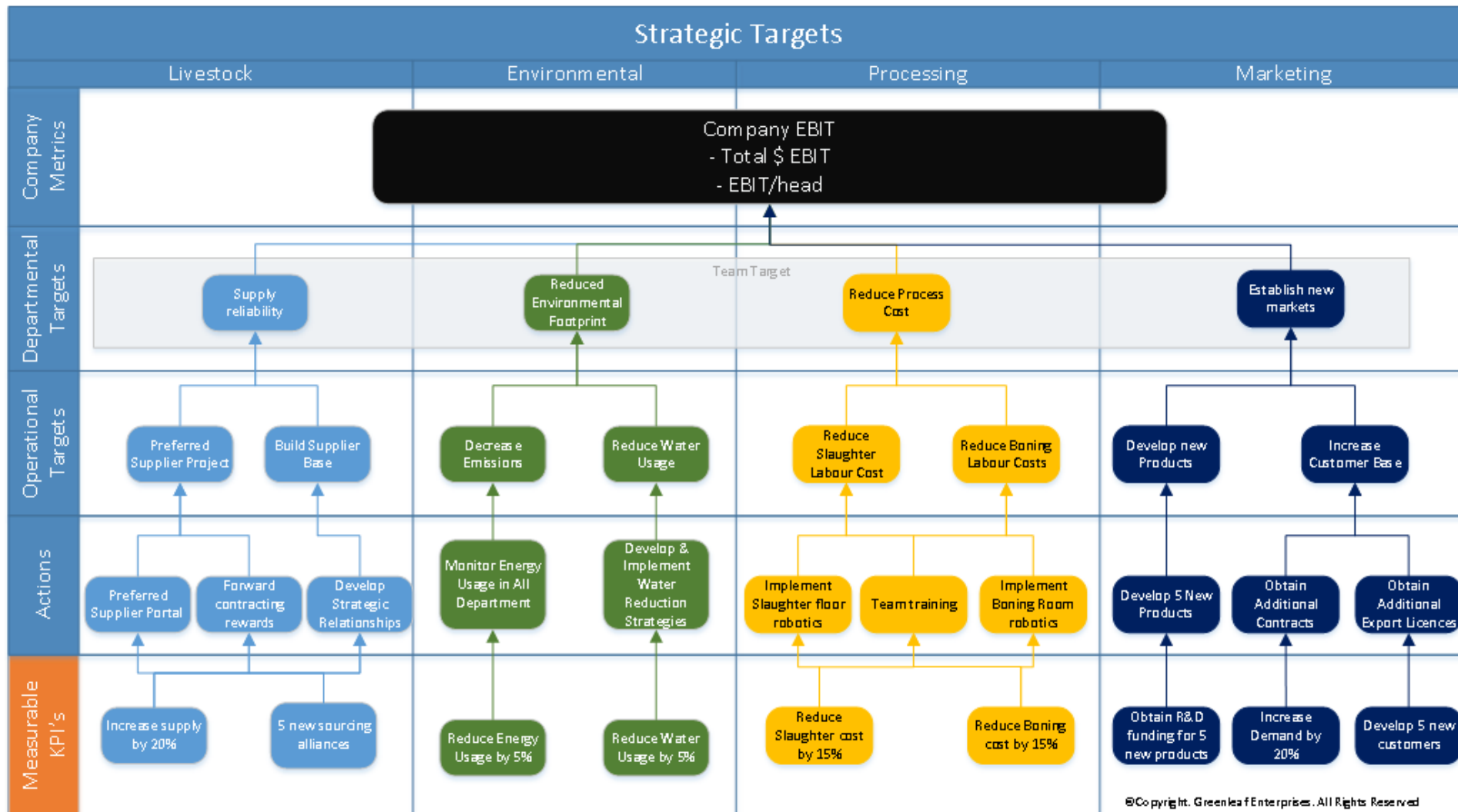


Figure 4: Alignment logic

This is further demonstrated in the KPI Tree below, adapted to generic processing plants (refer figure 4). The KPI Tree demonstrates how the organisation goals (company metrics) cascade into departmental targets, operational targets, actions and measurable KPIs. It provides the opportunity for employees to understand how their actions/role contributes to organisational success and how their actions can lead to improved results. It also provides leaders with the ability to view results that span their organisations and entire company. The 'organisational goals' are made measurable through 'measurable actions' and the 'measurable actions' indicate achievement of the 'organisational goals'. The limitation to a KPI Tree being successful is selecting the right measurement criteria and its implementation and execution including ongoing monitoring and evaluation of the process and clarity of the criteria. As identified previously, solely relying on financial measures can contribute to isolated profit centres, lack of cross-sector innovation and reduce corporate value.

Figure 5: KPI Tree



Example 1 – Innovation manager

An innovation manager should be focused across all departments. They could contribute to all department targets including supply reliability, reduced environmental footprint, reduced process costs and establishment of new markets as summarised in the example in Figure 5. The innovation manager also has to be both exploratory (transformational) and exploitative (transactional). The KPI tool could be a method to assist them to pass between these two divergent capabilities and improve their effectiveness as well as providing a context to interact with and report progress to senior managers. As an example, their individual KPIs could include:

- Identify 40 potential process improvements and obtain funding to investigate eight (10 and two from each departmental target);
- Progress two processes from investigation through to selection and implementation to achieve agreed productivity increase KPI's;
- Prioritise actions by potential for success and company metrics (company EBIT).

Assuming development of new products with a certain increase in value has been identified in the strategic planning process as a key factor for organisational success, without specific KPIs their innovation manager's actions could be solely focused on process improvements and their potential contribution to the development of new products would have been overlooked. If they lack skills in this area, their leadership in outsourcing expertise to meet the target KPI would be expected.

Example 2 – Operations manager

A sales manager could be working towards increasing the customer base, however without reliable supply or mutual co-operation and information sharing with the livestock sourcing team their actions could be in vain and impede delivery to existing customers. Likewise, plant capacity for the increase would also need to be considered by that manager with regard for operational and strategic budget implications.

5.3 Processes to develop

The KPI Tree provides key members with a broad overview of the organisational goals. This is an interim step towards achieving unified goals, but further capabilities need to be developed to facilitate engagement of cross departmental team members and the ability to prioritise actions for the benefit of the organisation and not just the department. This also needs to be captured in reporting back to senior leaders so that the achievement in one department is shared with another department if necessary.

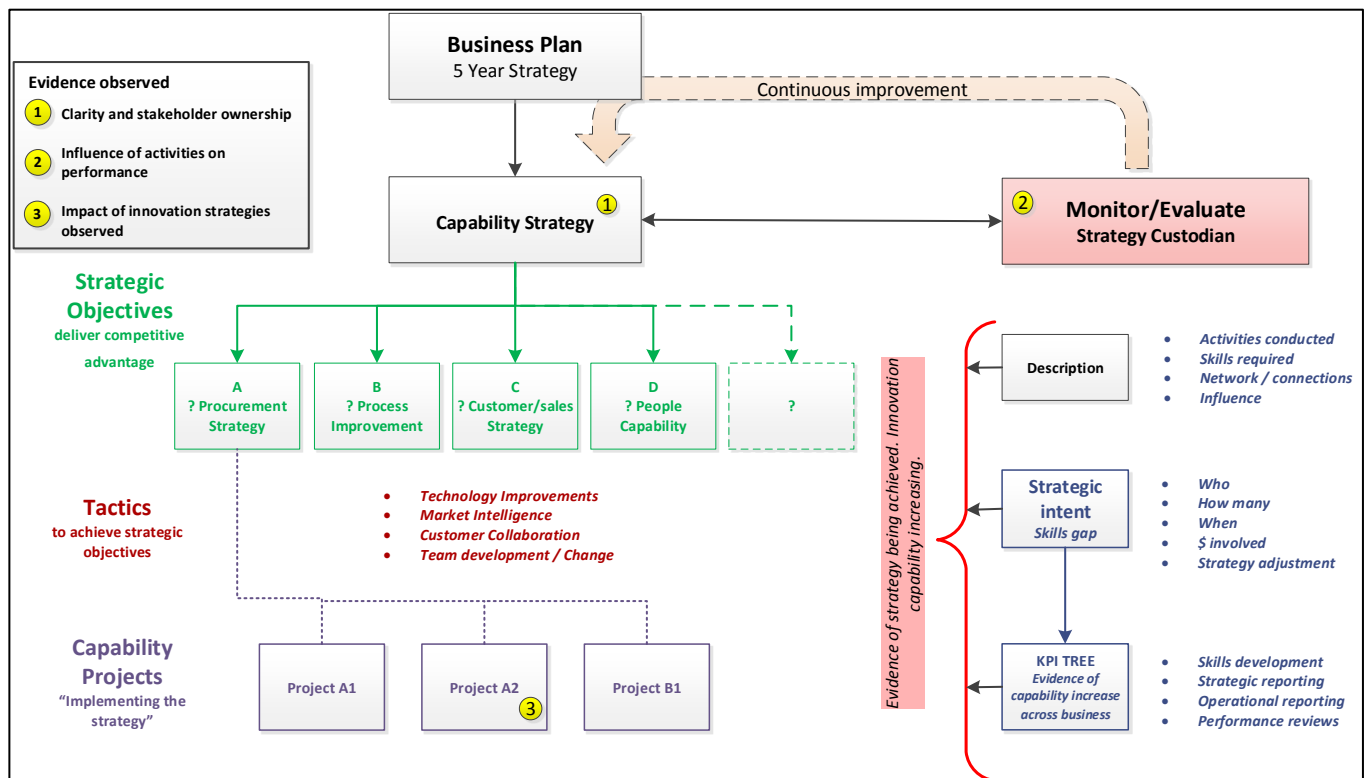
The KPIs need to be functional and include partnership evaluation parameters to ensure that the supply chain activities are integrated and co-ordinated towards organisational goals. Examples of partnership evaluation parameters include:

- Cross-department goal setting;
- Multi-disciplined problem solving;
- Develop culture of innovative thinking and problem solving towards challenging KPI targets.

- Buyer-vendor cost-saving initiatives;
- Mutual co-operation;
- Level of information sharing between departments and operation managers within departments;
- Service level including relationship and turn-around time;

The figure below (refer Figure 6) demonstrates how the KPI Tree fits into the overall company's business plan and is part of the adaptive management process. The KPI Tree is a monitoring and evaluation tool which will feedback into the business plan and subsequent capability strategy. The KPI Tree provides measures of whether the organisational goals are being achieved and is also useful to evaluate the reason why they are not being met. Senior management can then identify areas of the business where new capability is required to achieve the company's strategy.

Figure 6: Innovative Strategy: Develop - Implement – Refine



6 Recommendations

Organisational effectiveness is limited by a lack of alignment of organisational goals and lack of absorptive capacity. Whilst it was previously known that a lack of absorptive capacity is common within the red meat industry there was limited information about the lack of alignment of organisational goals. A KPI Tree is a tool that assists with operationalising a business plan and improving innovation above the natural rate of innovation by providing structure within which innovation and creativity can flourish.

The following industry wide investigations are made:

- Assessment and development of processes to build capability within the industry;
- Implementation of a KPI Tree including monitoring;
- Evaluation of effectiveness of KPI Tree to increase absorptive capacity and organisational alignment;
- If successful, consideration of training programs or training resources for the industry;

At minimum organisations should:

- Cascade high-level organisational goals to all ranks and functions of the business;
- Ensure measures are not solely financial and drive cross-functionality and partnership parameters;
- Align employee performance reviews with vision and business strategy (high-level organisational goals);
- Implementation of a process or tool to operationalise high-level company metrics to daily KPIs;
- Individual KPIs include operational targets or departmental targets so employees understand how their actions contribute to organisational success and have purpose;
- Include absorptive capacity in organisational goals and individual KPIs;
- Develop human capability to enhance specific company performance targets.