Organizational Models for Innovation

Organizational Designs that Support Strategic Innovation & Growth

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For most organizations, the ability to deliver innovative solutions on a sustainable basis requires a strategic organizational architecture optimized for business growth.

Leadership's role in creating growth today is all about "design" – design of the organizational structures that lead to agile, flexible cultures that support lateral collaboration and rapid cycle time innovation. The challenge involves knowing what kinds of organizational designs will best support your business models and strategies, and how to instill these as sustainable capabilities.

This paper provides (1) an overview of organizational models and structures that can support and drive strategic innovation, and (2) a series of "deeper dives" into the individual models.

Ambidextrous Organizations

With "starved resources" a reality at many large organizations, functional managers are often reluctant to allocate funding and staff to projects they perceive as risky, or that don't help them achieve their short-term performance metrics. Ambidextrous organization designs create distinct units that have their own unique processes, structures and cultures that are specifically intended to support early-stage innovation. These units, often comprised of one or more innovation teams, reside *within* the larger parent organization but have been set up to support the unique approaches, activities and behaviors required when launching a new business.

Venture Boards

Organizations such as Procter & Gamble, Johnson & Johnson, Nokia, and Kimberly-Clark have established formal venture/advisory boards focused on bringing external perspectives inside, which ultimately drive innovation and guide strategic investments. Unlike a traditional advisory panel that provides industry and market-related advice, Venture Boards pull together the best thinking from both inside and outside the firm, all within a flexible structure that focuses on a single goal – to discover, evaluate and drive enterprise growth opportunities.

Innovation Councils

An Innovation Council is a small, cross-functional governance body of senior managers that enables cross-business / function / geography decision-making and coordination. Innovation Councils ensure that innovation-related activities in various parts of the organization are strategically aligned and coordinated, and are supported by appropriate processes and resources. From a leadership standpoint, council members' roles involve removing internal roadblocks so that enterprise innovation can be effectively managed.

Cross Group Solutions Teams

Cross Group Solutions Teams are self-directed teams of individuals chosen from selected business units, who work together for a period of time and have a specific charter, often looking to identify new opportunities that combine the competencies of discrete businesses. These individuals, (technologists, consumer insights experts, marketers, manufacturing specialists, etc.) are assembled to help identify or pursue white space opportunities for which no single business group has formal accountability. In some cases the individuals relocate and reside within a single physical location for the duration of the project.

Thought Leader Resource Networks

A Thought Leader Resource Network is an external network of expert practitioners and thinkers that can tapped at any time. Thought Leaders within the network come from companies, universities, consulting firms, research institutions, contract manufacturers, think tanks, and other organizations. Often under a non-disclosure agreement or as-needed consulting contract, at a moment's notice they provide specific knowledge, foresight or recommendations to specific issues, challenges and opportunities. Because they are all connected to their own knowledge networks, they can also become the doorway to additional strategic resources and relationships.

Open Innovation Networks

Proctor & Gamble has leveraged an Open Innovation strategy with great success in the past few years. While many companies have historically looked to their own R&D efforts to drive innovation and growth, Open Innovation proponents argue that today's business logic has changed and that companies today must embrace new strategies for systematically tapping into ideas, resources and technology from the outside. Relationships with external partners such as universities, academic research institutions, government or private labs and individual entrepreneurs can bring emerging technologies onto the radar screen or spur fresh insights that can be combined with internal competencies to create novel technology combinations that drive new products.

Innovation Communities of Practice

To create value for the organization's internal and external stakeholders, companies must rely on their collective intelligence and shared knowledge to generate best practices. Communities of Practice (CoP) are groups of key stakeholders (both inside and outside the organization) who share a passion for an area of knowledge or practice and interact regularly to learn from one another and advance personal and organizational goals. CoPs provide a collaborative framework for this to take place and are a way of leveraging a company's best practices by developing, integrating and applying knowledge from diverse sources. CoPs ultimately shape organizational culture, foster innovation, and help attract and retain innovation-focused talent.

Shared Services Organizations

Some enterprises establish corporate-level functional groups to provide specialized services (e.g., "Corporate Marketing", "Corporate Market Research", "Central R&D") that act as a resource to their counterpart functions in the business units. These groups often offer specialized skill sets not available at the BU level. They may conduct ongoing research (e.g., scanning for emerging technologies, large-scale trend analysis) or short-term projects, or seek out and contract with specialized third party resources.

These shared services groups are tightly aligned with the needs of the business units, so that they can deliver explicit value. At the same time, part of their charter is to "push the envelope" of BU-level thinking, by engaging in activities and explorations that are not on the business unit's radar screen.

Organizational Design for Innovation

These structures are not mutually exclusive – multiple models may coexist within an enterprise at the same time. All help the organization drive growth by taking a strategic approach to innovation. While some structures can arise and evolve organically (e.g., Communities of Practice), others need to be intentionally created and managed.

As seen below, increasing levels of complexity are accompanied by increasing commitments in terms of time, cost and support. At the same time, the organization can benefit from the "social capital" that drives sustainable innovation, namely personal networks, cross-functional trust and shared values. There is no typical "migration path" that an enterprise can follow. When exploring potential organizational structures, the first steps are to understand what models currently exist within the enterprise, and then assess the extent to which these various structures are aligned with and support the organization's strategic goals.

Ambidextrous Organizations

A model for driving sustainable innovation within a mature business

How do you foster innovation within the context of a large, mature business? "Main street" businesses that serve established markets face a daunting challenge: managing and growing the core business while concurrently nurturing and supporting new business opportunities.

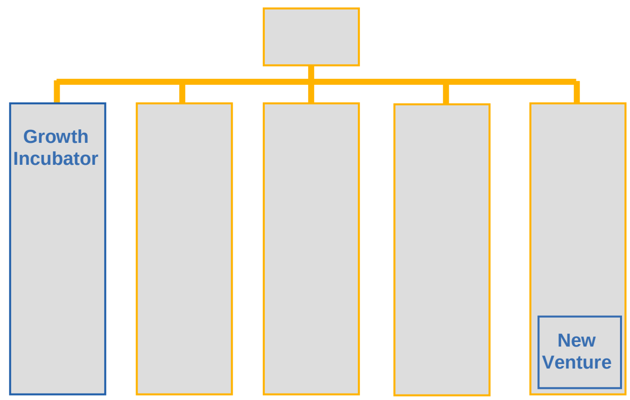
Organizations designed for large scale production and delivery are typically poor parents for internal new ventures. Starved resources, inflexible infrastructure and support structures, and inconsistent sponsorship that ebbs and flows based on the health of the larger organization are symptoms of a broader problem – the fact that established enterprises are inherently designed using metrics, processes, and reward systems suitable for mature businesses, not for fast-moving start-ups.

Ambidextrous organization designs create distinct units that have their own unique processes, structures and cultures that are specifically intended to support early-stage innovation. These units, often comprised of one or more innovation teams, reside *within* the larger parent organization but have been set up to support the unique approaches, activities and behaviors required when launching a new business.

Executive leadership can use the ambidextrous organizational model to create segregated business units for exploring and developing breakthrough innovations (products, services and processes) while at the same time keeping existing business units in tact. Project teams within the new venture are encouraged to form their own processes, structures and cultures but they are still connected to the rest of the organization through executive sponsors who ensure that no organizational conflicts or competition for resources threaten the viability of the venture.

The following figure illustrates two different ambidextrous models. The first is a "growth incubator" that stands alongside enterprise business units. New opportunities are identified, developed and brought to market by the incubator and either spun out as new business units or folded back into existing units. Alternatively, a business unit itself may create an ambidextrous organization by establishing and protecting a new venture within its own walls.

To develop an ambidextrous organization, leadership must possess the ability to attend to already existing products, services, business models and processes while simultaneously supporting the innovations that will drive the organization's future. Ambidextrous design and management ultimately means continuing to oversee the core business while concurrently protecting the emerging venture as it evolves and grows.



Case in point

To tap into online content revenue opportunities, USA Today adopted a "network strategy" between their online, television and newspaper organizations. While the units were physically separate in process, culture and staffing, they were integrated at the top under a distinct operating structure to promote cross-media content sharing. The result: a $60 million profit during the internet collapse while other traditional papers' revenues and profits plunged.

InnovationPoint

Venture Boards for Strategic Innovation

A model for enterprise strategic innovation management

For many organizations, structuring, managing and measuring innovation can be one of the firm's greatest challenges. Establishing governing processes for conventional functions is straightforward when compared to organizing for innovation and growth.

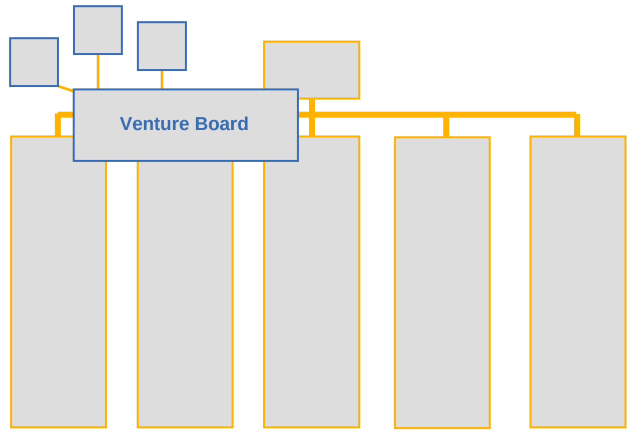
With the movement toward "open innovation", many senior leaders now recognize that in order to drive innovation and growth, entirely new strategies and approaches are required – not just market-driven strategies but organizational strategies. Even with such an appreciation for innovation however, a big question often remains: how do you formalize an organizational capability for identifying, evaluating, selecting and commercializing the most promising opportunities for the company?

Organizations such as Procter & Gamble, Johnson & Johnson, Nokia, and Kimberly-Clark have established formal advisory boards focused on bringing external perspectives inside, which ultimately drive innovation and guide strategic investments. Unlike a traditional advisory panel that provides industry and market-related advice, Venture Boards pull together the best thinking from both inside and outside the firm, all within a flexible structure that focuses on a single goal – to discover, evaluate and drive enterprise growth opportunities.

Venture board membership typically includes the CEO and executive leadership from the company's business units, as well as 3-4 external thought leaders. The internal members define selection criteria for choosing the external members, define the portfolio of opportunities to review, and make final go/no-go decisions on strategic investments.

External board members are selected based on their market or technical knowledge, and network of industry relationships that can support potential opportunities. Former CEO's, retired executives, leaders of non-competing companies, venture capitalists, and consultants can all make ideal members. External members infuse outside perspective into the board by suggesting additional opportunity areas to explore, providing opinions and advice about the portfolio and proposed investments, and by making introductions to outside contacts to advance specific opportunities.

The following figure illustrates a common venture board model.



To establish a venture board, executive leadership must define a charter and goals specific to the organization. External members are then recruited and oriented to the company, portfolio, and venture board process. Meetings are usually held quarterly, with defined activities that support specific projects or opportunities occurring between meetings. External board members commit to one-year terms, which allow for rotations of seats based on the evolving focus and needs of the business.

Case in point

Kimberly-Clark formed a venture board to drive portfolio investments to support the company's desired future direction. The venture board provides a vehicle for informed exploration of emerging opportunities areas and a format for collectively managing the risk associated with investments in new categories and "white space" opportunities.

Innovation Councils

A governance structure for coordinating and maximizing cross-enterprise innovation

How is it possible to maximize the value of disparate innovation efforts that take place concurrently in many parts of a large organization?

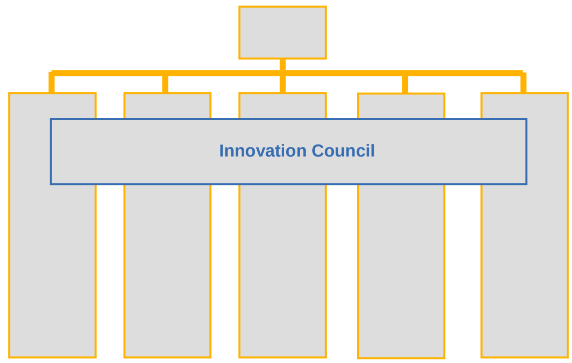
With so much going on in various business units executive management often lacks a macro view of the various levels of activity and resource investment. Sometimes, several different groups may be pursuing similar opportunities yet operating in a vacuum. Equally, various ad hoc activities may be underway without a clear connection to corporate strategy. This lack of oversight costs the organization unnecessary expenditures of time, money and human capital, and creates a lack of synergy that could severely inhibit time-to-market. Well-intentioned, yet disparate activities must be coordinated for the enterprise to maximize value.

Maximizing value, staying true to strategy

An Innovation Council is a small, cross-functional governance body of senior managers that enables cross-business / function / geography decision-making and coordination. Innovation Councils ensure that innovation-related activities in various parts of the organization are strategically aligned and coordinated, and are supported by appropriate processes and resources. From a leadership standpoint, council members' roles involve removing internal roadblocks so that enterprise innovation can be effectively managed.

Made up of senior manager representatives from various business units and functions, Innovation Councils are responsible for strategic choices as to where, when and how the enterprise will pursue growth. They meet on a scheduled basis (e.g. quarterly) with a specific capability building agenda such as: the development of innovation metrics, the development of coordination processes across units, or the development of appropriate culture and reward mechanisms.

The following figure illustrates how individuals from different business units participate in an Innovation Council.



When creating an Innovation Council, the following must be considered:

- What are the Council's charter, responsibilities, deliverables and metrics?
- How often will the Council meet? What is the output of its discussions and decisions?
- Decision rights: what kinds of decisions will the Council make/not make?
- What are its operating principles?

Case in point

Hewlett Packard assessed projects that came out of HP Labs and the business units, and applied criteria to make sure each project had sufficient sponsorship, resources and support for its success.

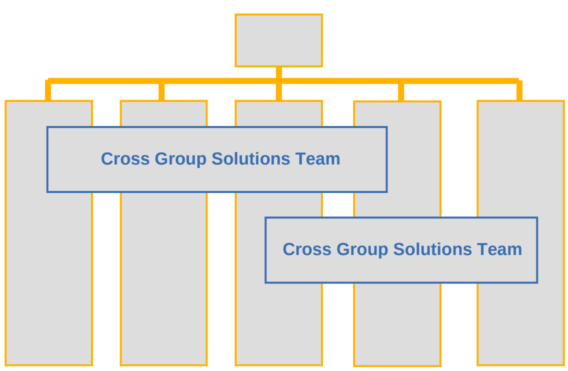
Cross Group Solutions Teams

An innovative approach for pursuing new growth opportunities "between the silos"

How can a large organization with discrete, independently-operating business units successfully identify and pursue opportunities that lie *between* organizational boundaries? Since business units are focused on their delivering against their own metrics, there is often no accountability or incentive to look for 'new growth' opportunities that often fall through the cracks. If an organization suspects that it could be missing a potential growth area, it has the option of creating a Cross Group Solutions Team.

This is a self-directed team of individuals chosen from selected business units who work together for a period of time and have a specific charter, often looking to identify new opportunities that combine the competencies of discrete businesses. These individuals, (technologists, consumer insights experts, marketers, manufacturing specialists, etc.) are assembled to help identify or pursue white space opportunities for which no single business group has formal accountability. In some cases the individuals relocate to a single location for the duration of the project.

The following figure illustrates the relationship between individuals who ordinarily report into different business units and come together to form a Cross Group Solutions Team.



Key considerations

When creating a Cross Group Solutions Team, the following must be considered:

- What is the rationale for investing time in the effort?
- Who will sponsor and fund the effort?
- What are the charter, deliverables, timeframes and success metrics?
- What skill sets and key stakeholders should be involved in the team?
- What milestones must be met in order to sustain ongoing management commitment?
- Is the organization's current Stage Gate® process appropriate for this kind of approach?
- Will the team be involved in implementation?

Case in point

SRI International had a C-level team that wanted to create new market growth opportunities within their strongly silo'd business structure. They established a dozen "watering holes" to bring researchers together from different practice areas to share various technologies and explore new solutions. As a result, four Communities of Excellence were created with formal leaders working on new IP for newly identified markets.

Thought Leader Resource Networks

A model for tapping into external knowledge, inspiration and strategic relationships

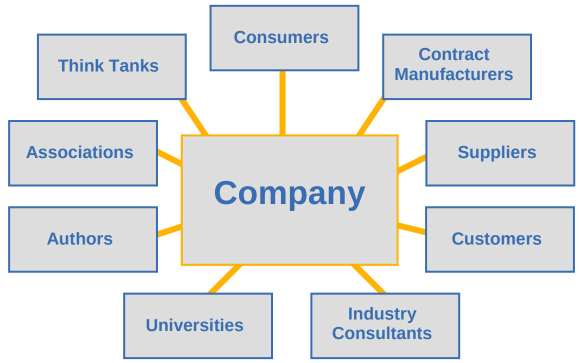
Internally-focused organizations sometimes feel they lack the spark of fresh, insightful perspectives that drive their business to greater heights. Companies often struggle to see beyond their own world view, in which established capabilities, mindsets and orthodoxies limit their ability to envision and pursue new possibilities.

Identifying strategically interesting "sandboxes" or specific "blind spots" is a first step in deciding what types of gaps exist, including specific technologies, consumer insights, supplier or channel insights, competitive intelligence, potential strategic partners, and other critical knowledge. From there, the enterprise can then envision a variety of ways to reach out beyond its internal capabilities by adopting an "open innovation" mindset. One approach is to build a Thought Leader Resource Network.

External perspectives & connections help identify and pursue new opportunities

A Thought Leader Resource Network is an external network of expert practitioners and thinkers that can tapped at any time. Thought Leaders within the network come from companies, universities, consulting firms, research institutions, contract manufacturers, think tanks, and other organizations. Often under a non-disclosure agreement or as-needed consulting contract, at a moment's notice they provide specific knowledge, foresight or recommendations to specific issues, challenges and opportunities. Because they are all connected to their own knowledge networks, they can also become the doorway to additional strategic resources and relationships.

Formal or informal in nature, this kind of network can be created either by systematically reaching out over time, or coming out of a *Thought Leader Innovation Panel*[1], which serves as the impetus for establishing the network.



InnovationPoint can help you identify strategically interesting "sandboxes", pinpoint your most critical knowledge gaps relative to these opportunity areas, and then identify and reach out to dozens of experts and potential partners from various industries and disciplines to become part of your proprietary network.

[1] InnovationPoint's non-traditional *Thought Leader Innovation Panel* is a one-day client-sponsored event that "stretches" a team's thinking around a particular issue or potential opportunity, by introducing the fresh perspectives of external practitioners, visionaries and provocateurs. By juxtaposing non-adjacent worlds – and by exploring emerging trends it is possible to envision entirely new possibilities and opportunities for growth.

Open Innovation Network

Looking outside the organization for fresh ideas and promising new opportunities

Research & Development and marketing groups often find it challenging to deliver truly breakthrough ideas. Fresh thinking is hard to come by if long-time staff always have the same conversations with each other based on common wisdom and orthodoxies. Introducing fresh perspectives, knowledge and inspiration from the outside allows us to go beyond day-to-day thinking and opens up the mind to entirely new possibilities.

Proctor & Gamble, for example, has leveraged an Open Innovation strategy with great success in the past few years. While many companies have historically looked to their own R&D efforts to drive innovation and growth, Open Innovation proponents argue that today's business logic has changed and that companies today must embrace new strategies for systematically tapping into ideas, resources and knowledge from the outside. Relationships with external partners such as universities, academic research institutions, government or private labs and individual entrepreneurs can bring emerging technologies onto the radar screen or spur fresh insights that can be combined with internal competencies to create novel technology combinations that drive new products.

Open versus Closed Innovation

Open Innovation is as much a mindset as a process, and challenges an organization's assumptions about the way R&D should be conducted. Below are some of the key differences between traditional approaches and the principles of Open Innovation (adapted from Henry Chesbrough, University of California Berkeley):

Closed Innovation

- The smart people in our field work for us
- To profit from R&D, we must discover it, develop it, and ship it ourselves
- If we discover it ourselves, we will get it to market first
- The company who gets an innovation to market first will win
- We should control out IP, so that our competitors don't profit from our ideas

Open Innovation

- We need to work with smart people inside and outside our company
- External R&D can create significant value; internal R&D is needed to claim some portion of that value
- We don't have to originate the research in order to profit from it
- If you make the best use of internal and external ideas, you will win
- We should profit from others' use of our IP, and we should buy others' IP whenever it advances our own business model

Key Considerations

An Open Innovation philosophy must be driven by an organization's senior executives. In addition to R&D teams, other key internal stakeholders (such as general managers and representatives from marketing, consumer insights and manufacturing), should be involved to assess feasibility and buy-in from a multidisciplinary perspective. Finally, metrics must be established around Open Innovation efforts to ensure that the approach delivers the desired value.

Case in point

Procter and Gamble has actually innovated the Open Innovation model itself. P&G connects with external sources of new ideas, and then develops those ideas within their internal R&D and marketing functions to create profitable new or incremental products. New ideas are identified through networks – university and government labs, supplier innovation processes and talent, web-based talent markets, consultants, and independent researchers. Multiple ideas are carefully nurtured and managed and then screened through a funnel process. Today, P&G sources approximately 50% of its new innovations from outside the company and has reduced its overall R&D budget from 4.5% of its annual sales to 3.5%.

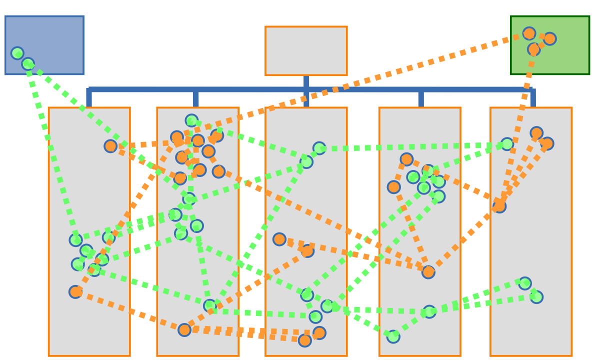
Innovation Communities of Practice

A collaborative approach to leveraging innovation best practices

Less than 5% of employee knowledge is actually captured and made accessible across an enterprise. Given this alarming statistic, how do you best harness critical knowledge to support the strategic innovation of your products, services, and processes within an ever-changing, fast-paced, global environment?

To create value for the organization's internal and external stakeholders, companies must rely on their collective intelligence and shared knowledge to generate best practices. Communities of practice (CoP) are groups of key stakeholders (both inside and outside the organization) who share a passion for an area of knowledge or practice and interact regularly to learn from one another and advance personal and organizational goals. CoPs provide a collaborative framework for this to take place and are a way of leveraging a company's best practices by developing, integrating and applying knowledge from diverse sources. CoPs ultimately shape organizational culture, foster innovation, and help attract and retain innovation-focused talent.

The following figure illustrates the relationships among individuals across different business units and partner organizations that form a defined community of practice.



Communities of Practice tap into knowledge and resources at the edges of the social networks responsible for driving business strategy, technology innovation and implementation. They rely on the fact that their cross-functional members belong to multiple communities, which allows for the community, itself, to stretch its thinking and gain insight into multiple, complementary perspectives. The effectiveness of the community's contribution to innovation greatly depends on the criticality of the community's driving purpose, the quality of top leadership's support and the collaborative and learning processes and activities that underlie the social interactions that support the community's goals.

Case in point

The National Institute of Health's business challenge was to drive a large-scale multi-year innovation project that required collaboration between individual functions and across functional groups. Formal meetings and project management tools were too limiting to manage the complex relationships and interactions necessary for knowledge sharing and implementation. A CoP was created to drive collaboration and knowledge sharing to ensure overall project success, and resulted in the ongoing identification of critical linkages and dependencies and the sharing of best practices within and between groups.

About InnovationPoint

InnovationPoint is a non-traditional consulting firm that helps its Fortune 1000 clients take a strategic approach to innovation. InnovationPoint blends traditional and unconventional methodologies to identify breakthrough opportunities, develop growth strategies and consumer-inspired new products, and to align organizational strategy and design in a way that supports sustainable innovation. InnovationPoint's clients include Hewlett-Packard, Kimberly-Clark, PepsiCo, Frito-Lay, Philips, Dial Corporation, Charles Schwab, Microsoft, Yahoo!, SRI, Alegent Health, Genentech, SK Telecom (South Korea) and Nestlé.