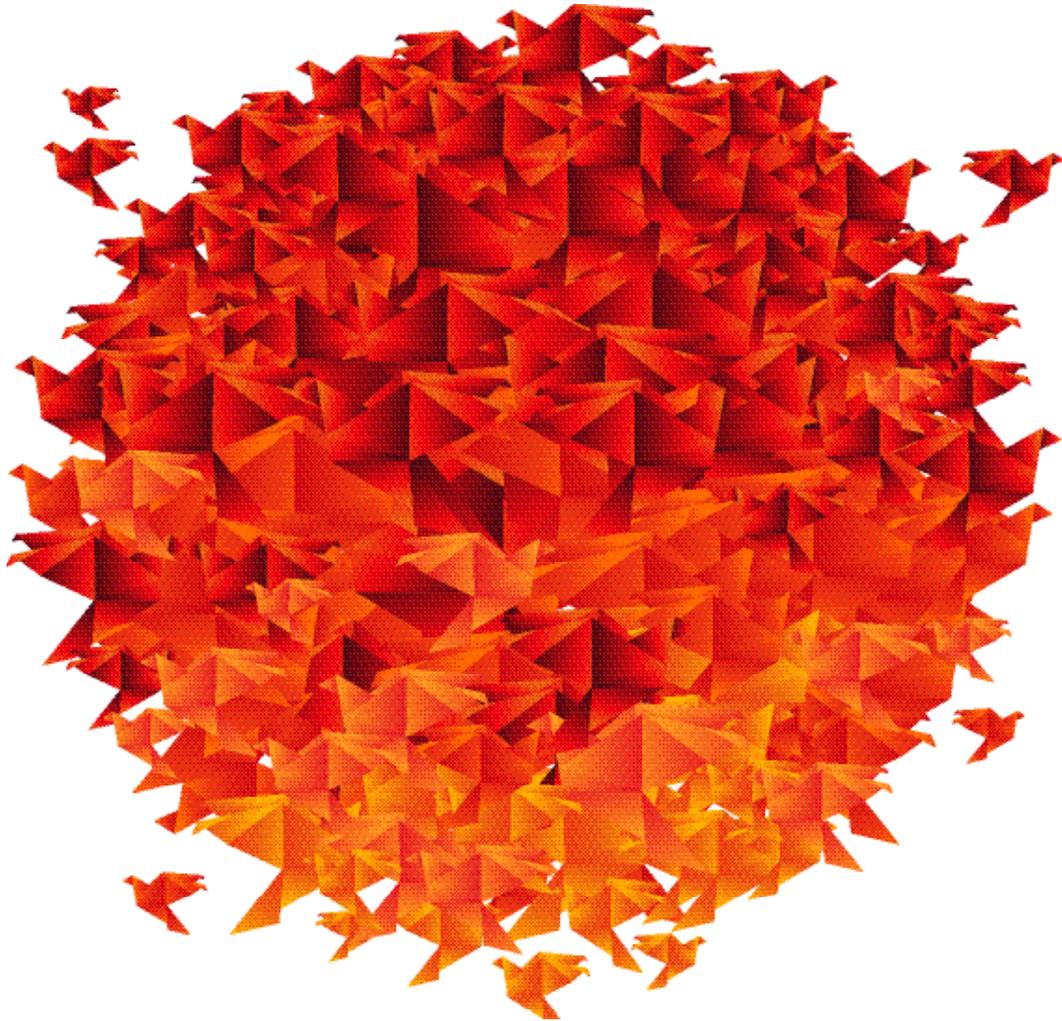


**Deloitte.**



**The evolution of  
business innovation**



A constant shift in the market landscape requires businesses to understand their internal organizational networks to effectively drive innovation.

Adapt or risk becoming obsolete. It's a fundamental rule of nature, and of business, where ongoing changes in the environment directly impact a species'—or an organization's—ability to survive. While pterodactyls and raptors used to dominate their territories, today they are relics in museums. In nature, the risk of not adapting is to become extinct; similarly, in business, the speed at which you can move from market leader to becoming extinct is accelerating exponentially.

For example, not too long ago the companies that made up the Fortune 500 list were considered the bedrock of the business world. With recent research showing that the average life span of an S&P 500 company has decreased from 61 years in 1958 to less than 18 years today,<sup>1</sup> the need for companies to evolve and to develop more purposeful, holistic approaches toward innovation has never been greater.

## Innovation demands adaptability

To avoid the potential extinction that all companies face, it is incumbent on today's business leaders to not just understand the pitfalls and disruptors that can threaten their futures, but to actively pursue new solutions and strategies that will enable them to adapt to changing marketplace conditions, and to innovate so that they may thrive where their competitors cannot.

Deloitte and MIT Sloan Management Review recently copublished the results of their eighth annual survey, focusing on accelerating digital innovation. The findings indicate that flexible hierarchies, network-based teams, and loosely coupled governance structures were key aspects found in digital organizations that were identified as highly innovative.<sup>2</sup> Although the findings help us understand the key building blocks for developing an innovative organization, it is not always clear where to start. According to the Deloitte 2019 Global Human Capital Trends Report, 90 percent of organizations are looking at redesigning their organizations, yet only 11 percent of today's executives feel confident in their ability to get it right. Further, just 9 percent truly understand how their internal organizations work.<sup>3</sup> In order to drive innovation across the enterprise, leaders must first unpack the way innovation evolves and takes shape before they can influence it. But building an innovative organization doesn't occur overnight. Transitioning to an optimal structure, understanding and tapping into informal networks, and breaking down silos and barriers require a thoughtful process that creates an organization where innovation flourishes. In short: Companies must be intentional to effectively organize their teams for innovation.

# Organizing for innovation

To affect change, companies first need an understanding of their organization's current potential and limitations, including a willingness to embrace new organizational models when and where the need arises. There isn't a "one size fits all" organizational model for innovation—many innovative companies do so using a variety of business models. Organizations looking to become more innovative can start by identifying the area(s) in which increased innovation can most effectively help them succeed and then determine how to cultivate that innovation using the business model that best fits their needs.

There are several structural models for embedding innovation within a company's structure: Identifying the right business model for your organization and understanding the tradeoffs is the first step to becoming innovative: However, this alone does not allow for successful innovation—the traditional organizational chart does not accurately describe how work gets done. A company may have the right organizational structure on paper, but in reality may not be successful in cultivating and spreading innovation. There is a need to understand the ways of working and understand the mechanisms that allow for collaboration and connection. Understanding the informal networks and "dark matter" that exist between the "sticks and boxes" of the organizational chart is the next step on the journey to a more innovative organization.

**Structural model options for innovation vary in the level of disruption they cause to an organization, but all are underpinned by the same agile-like operations and behaviors**

Structural Models	Description	Foundational Enablers
<p>Least Disruptive</p> <p><b>Cross-Functional Project Teams</b></p>	<p>Separate functional groups form teams to manage end-to-end lifecycle. Teams shift to a focus on short term project based outcomes</p>	
<p><b>Customer-Centric Service Models</b></p>	<p>Teams form around prioritizing the customer experience when developing and delivering services</p>	
<p><b>Experimentation Hubs</b></p>	<p>Incorporation of a centralized experimentation hub within the org to test small-scale experiments</p>	
<p><b>Mission-Oriented Models</b></p>	<p>Teams focus on "missions" that are longer term and help drive towards the organizations strategic purpose</p>	
<p><b>Autonomous Teams</b></p> <p>Most Disruptive</p>	<p>Decentralized, self-managed teams that control their own budget and make decisions to meet their goals</p>	

Adaptable Behaviors



## Tapping into informal networks

Employing the insights of Organizational Network Analysis (ONA), savvy leaders can identify these hidden social networks that often exist below the surface of their organizations and develop a detailed picture of how decisions are made, based on the formal and informal flow of information throughout the business. ONA can utilize both active and passive data including data collected from an organization's human resources system data and qualitative survey data where respondents select colleagues in their network and answer questions to assess and quantify the nature, importance, frequency, and directionality of their relationships.

### **Adaptable Organizational Network Analysis (AONA)**

is Deloitte's proprietary tool that provides insights on the relationship between organizational hierarchy and informal networks to help organizations adapt. This form of analytics enables leaders to understand how to better influence change in the organization by identifying which employees informally serve as the "knowledge brokers" or "central nodes" of information between various groups within the organization.<sup>4</sup> Companies that understand their informal networks can architect the design through intentional deployment of these nodes to facilitate better information flow and innovation throughout the organization. By identifying and placing these influencers in the "right" spots within the business, leaders can then leverage their connections to ensure that key information about new ideas, programs, products, or services is spread and scaled throughout the business. The more leaders understand the formal and informal networks connecting their teams means the more effective the adoption of new innovative ideas within their organization. Regardless of the business model chosen, understanding who your influencers are and how to relate to them enables you to better control the integration of innovative ideas, so you can protect core business while still injecting innovative ideas.

### **Global firm increases efficiency through organizational design**

A large multinational firm was looking to redesign their organization to increase the number of new products they tested, and the speed to market of products approved for national distribution. Deloitte conducted a network analysis and used the results to recommend structural organization designed to enhance cross-unit collaboration. Deloitte also identified which employees others in the organization see as trustworthy, influential, and with whom they want to discuss innovative ideas. This information was used to place these influencers on teams where they could serve as knowledge brokers and increase innovation within the new organizational design.

## Cultivating network-based teams

Innovation relies heavily on management’s ability and willingness to establish teams to achieve specific goals, and to reassign individuals as needed. In fact, many companies in the 2019 Deloitte Global Human Capital Trends “Leading the Social Enterprise” report found that while highly innovative organizations tend to have many senior leaders and functional departments, they move people around rapidly, spin up new businesses quickly, and have the ability to start and stop projects at will by moving people into new roles to accommodate both the organization’s short-term and long-term goals.<sup>5</sup> Highly innovative organizations understand their people and are intentional about creating space for collaboration. They utilize cross-functional, network-based teams to foster new ideas and rely on leaders and governance to drive ways of working effectively.

Innovation can occur naturally in any organization, and it is each leader’s responsibility to develop and support formal networks that help ensure that information flows easily throughout the organization, especially to areas where it is necessary for success. To get started, leaders should consider the following to build a picture of how innovation is occurring within their organizations:

-  How does innovation occur within your organization today? Is it intentional or organic?
-  Does innovation start with me or my team?
-  Who do you consider to be the formal/informal leaders or influencers in your organization?
-  Who do you work collaboratively with? Who is difficult to access?

## No more business as usual?

It’s been said that the definition of insanity is to do the same things over and over, and to expect different results. The same can be said of businesses that want to pursue innovation, but refuse to change the ways in which they operate.

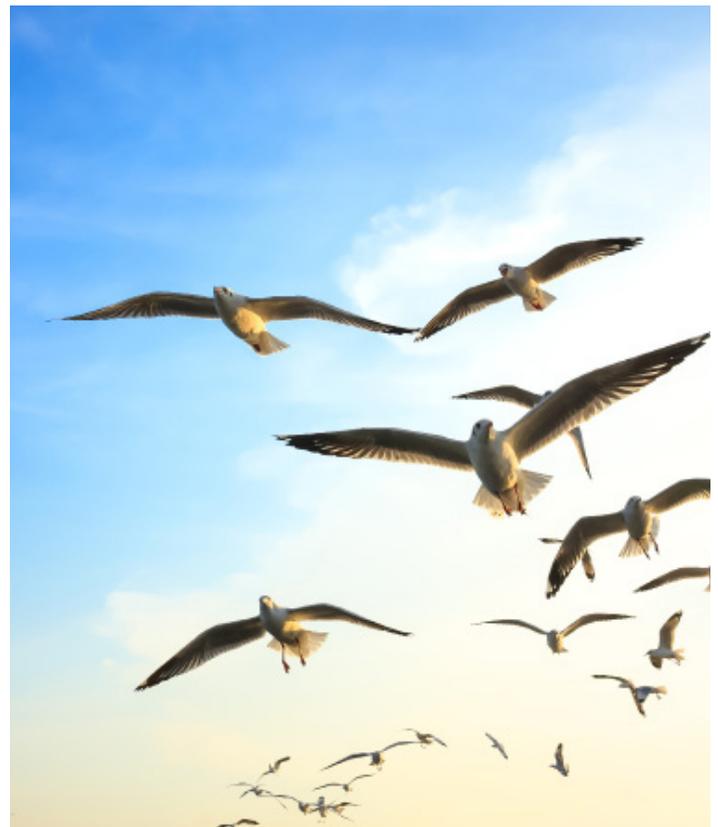
If leaders remain steadfast in doing things “the way they have always been done,” even the most ambitious organizations will fail to establish an effective culture of innovation because they are not setting themselves up to succeed. Simply trying to be innovative isn’t going to cut it. Instead, would-be innovators need to take a critical look at their current organizations and identify areas where traditional siloed business units are stifling the free flow of information and ideas across the organization.

Only by addressing these informational bottlenecks, empowering their workforces, and empowering leaders and teams can businesses become truly innovative and—more importantly—nimble enough to act quickly on new ideas that can drive future growth.

**Remember:** Extinction is avoidable with adaptation. Not all dinosaurs went extinct. Many adapted and survived—just look at the fascinating variety of birds today.<sup>6</sup> There is no reason why organizations today can’t do the same.

### Siloed organization spreads and scales innovation capabilities

A large organization with siloed business units believed pockets of innovation existed within the business and wanted to spread and scale these capabilities. Deloitte conducted an organization network analysis to identify how people were actually working together on innovative ideas. This analysis identified many employees who needed to be cross-functional while, simultaneously, identifying areas of the organization that could benefit by staying functional. Deloitte also identified individuals who could serve as knowledge brokers in the new organizational structure and recommended establishing a formal alignment between these individuals and leaders to increase access to leadership, and demonstrate leadership support for innovation.



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