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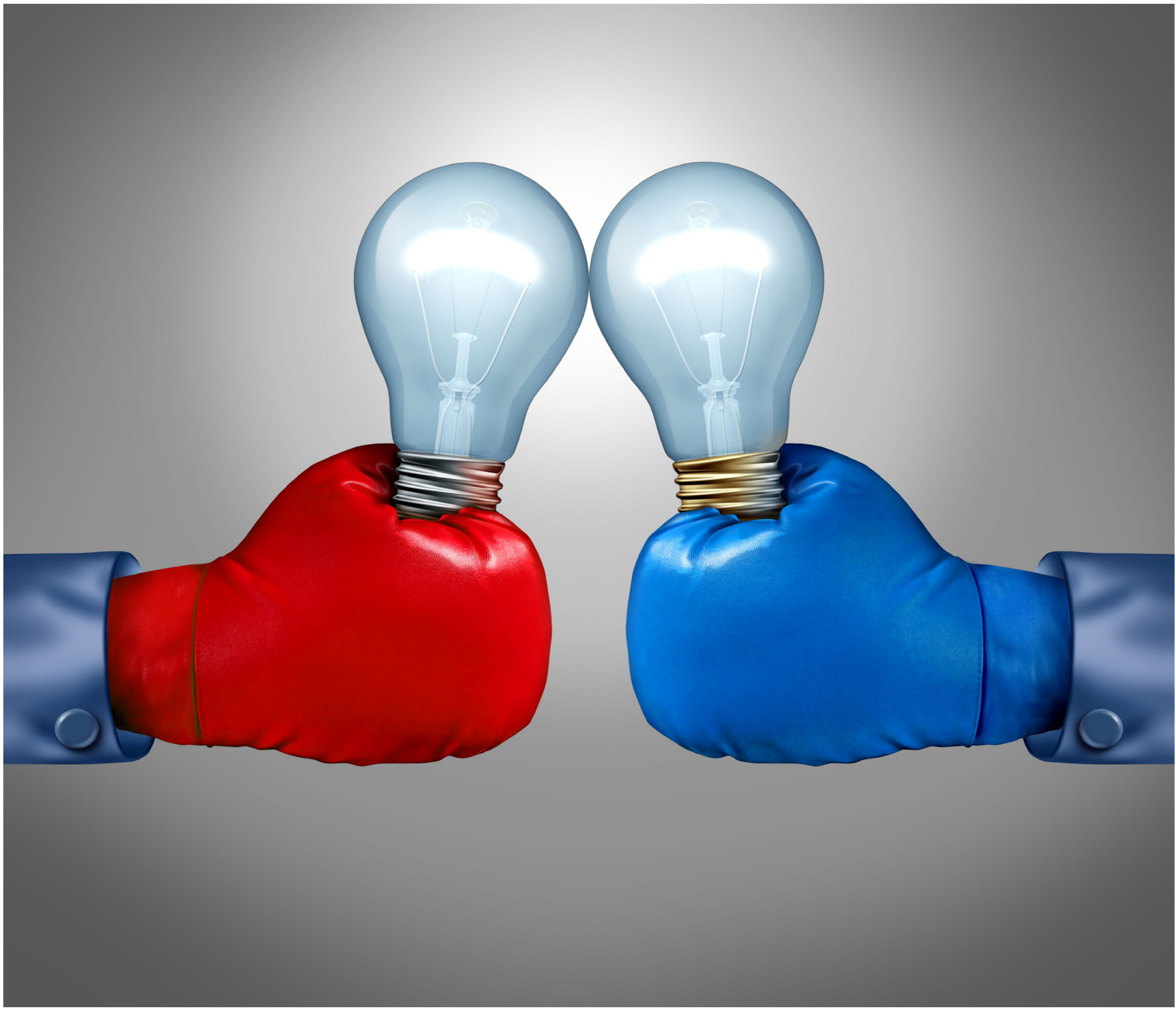
Product Innovation: Who is really in charge?

Managing Through Internal Power Struggles



Product innovation is a priority for virtually every hi-tech company. However, there is often organizational disagreement and confusion around who should own the innovation agenda and how commercialization of ideas should be managed. This lack of clarity can result in a sputtering innovation engine and a risk-averse culture. On the bright side, figuring out the right organizational model for your company isn't as complicated as you might think.

When everybody owns innovation, nobody owns innovation

Economist Milton Friedman said, "When everybody owns something, nobody owns it, and nobody has a direct interest in maintaining or improving its condition."[1] We think that his statement applies very well to product innovation as well.

Isn't it ironic that many companies try to drive product innovation by emulating what other companies have done? Almost every week, we are introduced to a new disruptor. This company becomes the latest role model for innovation and there's a rush to duplicate their culture, structure, and presumably, results. That is, until the next disruptor comes along and grabs the spotlight and the copycat cycle repeats. This is often a losing strategy for product innovation, yet many companies can't seem to move away from it. Because in the hi-tech sector, product innovation is an absolute imperative and management teams are eager—and under pressure—to adopt the latest trends. They have good intentions, but are rarely successful.

An especially common outcome of trying to mimic the practices of other companies is that the term "innovation" ends up embedded in the responsibilities of multiple senior executives. That in itself is not an issue because innovation does not belong in any one domain. But the lack of clarity, rationale, and distinction around these assignments can present a serious problem. For example, the chief technology officer (CTO) might be asked to own all innovation responsibilities because Company X did it that way successfully. Later, each business unit (BU) is given similar responsibilities in an effort to democratize innovation. Next, a chief innovation officer (CIO) is appointed because Companies Y and Z have had success with that model. Instead of benefiting the company, this proliferation of innovation responsibilities often breeds confusion and power struggles between the CTO, R&D executives, chief product officer, BU general managers, CIO, etc., and compromises the company's innovation objectives.

Innovation is everyone's responsibility, but it requires directional guidance, sponsorship, and focus to become a meaningful business asset.

Our opinion on a hotly debated topic around product innovation:

Should innovation be managed, or does management stifle innovation?

Product innovation cannot—and should not—be the responsibility of a select few. Innovation requires the left brain and the right brain, the technologist and the business strategist.

With that said, innovation does need oversight and nurturing, or "adult supervision." Not to be confused with bureaucracy (although it often is), this oversight is significantly less structured than traditional product development. It is required to provide overall direction, prioritize investments, guide incubation of selected ideas, interlock with businesses for commercialization, and ensure that the company's overarching strategic objectives remain in focus. Without it, good ideas will bounce around for funding, adoption, and commercialization.

Motorola Solutions' Chief Technology Officer, Paul Steinberg, leads a diverse team that includes engineers, ethnographers, venture capitalists, industrial designers, application programmers, and human computer interface (HCI) designers. However, this group does not stake sole claim to innovation; in fact, they actively scan for ideas being generated anywhere within and outside the company. With support from other leaders, Paul provides "adult supervision" to identify and incubate the ideas and investments that truly matter to Motorola Solutions and its client base (public safety agencies, which have unique and different needs from most consumers or businesses).

The bottom line is, innovation is everyone's responsibility, but it requires directional guidance, sponsorship, and focus to become a meaningful business asset.

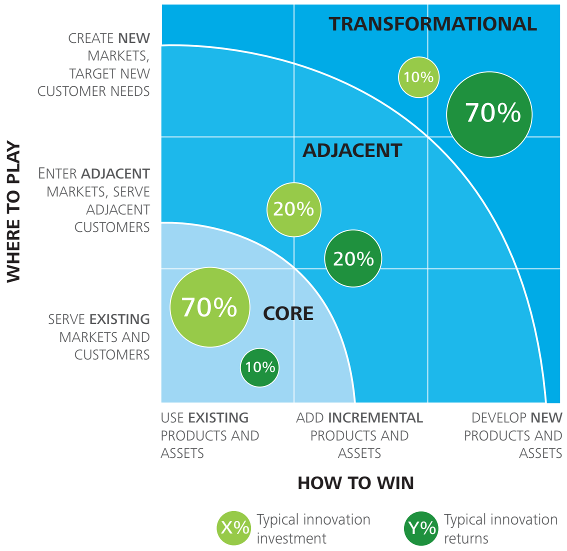
To be clear, we're not questioning the need for all executives to have a stake in innovation; in fact, we recommend it. We are, however, highlighting the need to minimize duplication and confusion by providing clarity and delineation on accountability (authority) versus responsibility (stake).

But before we talk about how to delineate innovation responsibilities, let's align on the different types of innovation. According to Pablo Stern, Chief Technology Officer, Veritas business unit, Symantec[2], "Not all innovation is equal. A clear source of organizational tensions is the lack of clarity around the definitions of the types of product innovation." Our Innovation Ambition Matrix (below) highlights the attributes of the different types of innovation.

> "Not all innovation is equal. A clear source of organizational tensions is the lack of clarity around the definitions of the types of product innovation."
>
> —Pablo Stern, Chief Technology Officer, Veritas business unit, Symantec[3]

Figure 1: The Innovation Ambition Matrix

Firms that excel at innovation management simultaneously invest at three levels of ambition, carefully managing the balance among them.


TRANSFORMATIONAL
10%
70%
ADJACENT
20%
20%
70%
CORE
10%
CREATE NEW MARKETS, TARGET NEW CUSTOMER NEEDS
ENTER ADJACENT MARKETS, SERVE ADJACENT CUSTOMERS
SERVE EXISTING MARKETS AND CUSTOMERS
WHERE TO PLAY
USE EXISTING PRODUCTS AND ASSETS
ADD INCREMENTAL PRODUCTS AND ASSETS
DEVELOP NEW PRODUCTS AND ASSETS
HOW TO WIN
X% Typical innovation investment
Y% Typical innovation returns

Source: Doblin, Deloitte's innovation and design practice.

Most companies have varying degrees of need and ambition at all three levels of innovation. The question therefore becomes, how do companies find the organizational model that's right for their unique needs? The rest of this article helps answer that very question.

Three organization models: All are rational, none is perfect

Fundamentally, three organizational structures are used to foster hi-tech product innovation. Some companies' needs may not fit neatly into one model and they may choose to employ a couple of these models in different parts of the organization.

1. **Centralized:** Adjacent and transformational innovation responsibilities are centralized in, and owned by, a dedicated organization (for example, labs, CTO, CIO). This central team is responsible for ideation and incubation, while the BUs own commercialization of those ideas. Incremental innovations in the core, including continuous enhancements to features and capabilities, are managed within BUs.
2. **Decentralized:** Innovation responsibilities are fully distributed. BUs own end-to-end innovation responsibilities, from incremental to transformational, from ideation through commercialization. The primary role of a centralized team, if one exists, is to run a venture capital-style setup to scout for innovations from outside the company and then work with the BUs to invest in, advice on, and if appropriate, integrate them. Another role can be to own the definition and development of cross-BU solutions.
3. **Federated:** Similar to a centralized model, except that key members of the central innovation team are embedded in the BUs. These individuals are responsible for funneling the BUs' ideas to the central team, as well as for creating awareness and pull for emerging concepts from the central team. They also help the BUs create product roadmaps and go-to-market plans for new ideas. Similarly, key members from the BU are routinely borrowed for a period of time and assigned to the central team to collaborate on incubation of specific projects.

We're not advocating one model over the other because there isn't one approach that works for everyone. Each company's unique culture and needs determine the model that fits best.

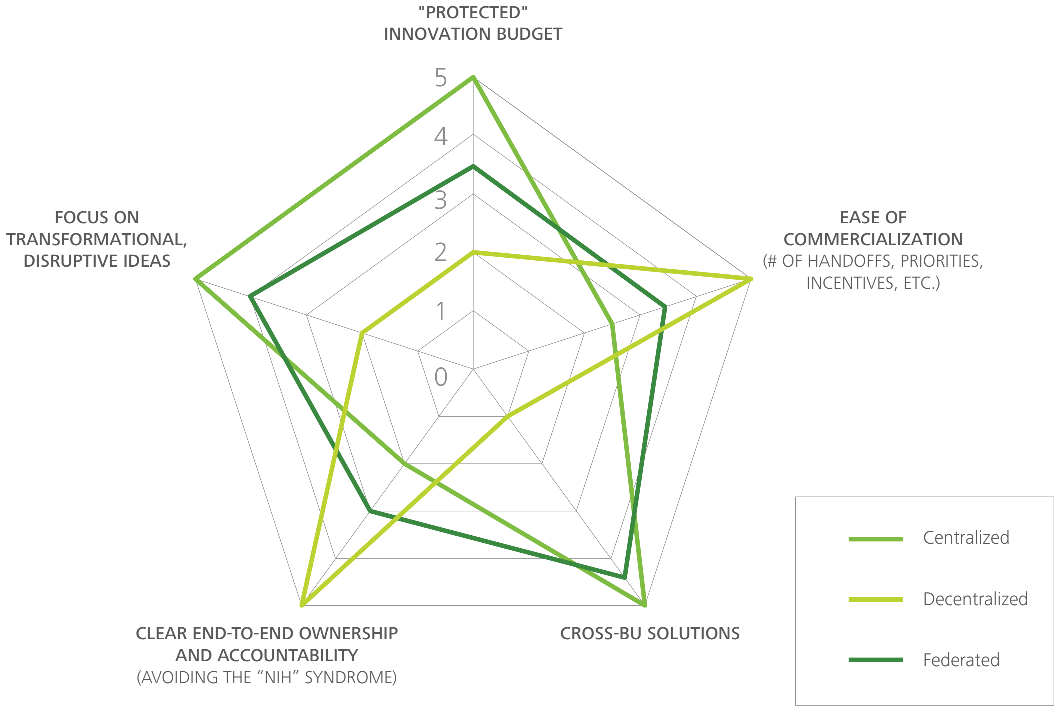
A centralized model can ensure focus and "protected" budget—and people—for longer-term innovation. Stern believes that in order to deliver truly transformational solutions, a project team should not be encumbered by other day-to-day business priorities – a key attribute of the centralized model. However, he points out that, "although tougher to execute, such project teams can exist anywhere within an organization, not just in a central team. In a centralized model, the transition of ideas from the central team to the BUs can sometimes be a point of contention and failure." In a centralized model, BUs may not care for the product or solution—"not invented here" (NIH)—or may not find it to be a good fit for their roadmap or portfolio. As a result, excellent ideas may end up in a black hole after they are thrown over the proverbial wall. And when ideas *are* successfully commercialized, BUs tend to get most of the credit. In an ideal world, it wouldn't matter who gets the credit, but the reality is that it absolutely does.

On the other hand, a decentralized model does not have any walls because all innovation happens within each BU. There are no hand-offs. The BU leader owns core, adjacent, and transformational innovation from ideation through commercialization. He can ensure that there is no drop-off in investment or focus for the right ideas. Sunk costs and "dead-on-arrival" projects will be minimal. However, this model often leads to risk-averse behavior. Mid- to long-term innovation is compromised in favor of short-term benefits because BU general managers are typically incentivized to hit quarterly or annual business metrics, not to take risks on longer horizon bets. Technology and market visionaries within the company often clash with the "suits" (clearly used as a metaphor in the hyper-casual Silicon Valley culture).

So is a federated model the best option? After all, it fosters collaboration and removes the NIH syndrome by cross-pollinating ideas—and people—between the BUs and the central innovation team. The challenge in this model is that the central team members who are embedded in the BUs tend to suffer from an identity crisis. They can be conflicted between their charters from the central team and doing what's right to help the BU's objectives. Truly transformational ideas, which by definition are more risky and longer-term, may get shelved in favor of complementary opportunities. Multiple executives can stake claim to people and successes, and if things go bad, it's very easy to point fingers.

It's a complex problem with no easy answer. So it's understandable that leadership teams try to blend the best attributes of every model and create an overly complex—or hopelessly simple—innovation organization. But this simply doesn't work. Companies should select one model as their primary, or anchor, model. Some customization of the model is typical, but it's a thin line between optimizing the model for efficiency and changing it so much that the key attributes are lost.

Figure 2: Innovation attributes of the three organizational models



It's important to emphasize at this point that selecting a model is just the first step, albeit arguably the most critical one. Ashan Willy, Polycom's senior vice president for Worldwide Systems Engineering and Product Management, cautions that a centralized model can lose credibility unless there are early and sustained commercial successes, which in turn create pull for the central team's ideas. In other words, poor execution can ruin even a well-considered organizational choice.

The billion-dollar question: What's the right model for you?

Selecting the right model can be overwhelming. Understandable, because making the wrong choice can have disastrous results in today's fast-paced hi-tech industry. But it doesn't have to be complicated. Rather than turning this into an extensive, overly-structured exercise, consider these three critical questions objectively and unemotionally.

1. **What is the extent of disruption in your industry?**

   Disruption is a big word. Harvard Business School professor Clayton Christensen says that, "A disruption displaces an existing market, industry, or technology and produces something new and more efficient and worthwhile."[4] If your industry is truly being targeted by competition that could effectively displace your value proposition, a centralized or federated innovation organization is appropriate. It is imperative that you dedicate people, funds, and resources to chart the longer-term future of your company.

   On the flip side, a central innovation team is a significant, ongoing investment. If your customers' preferences do not shift rapidly and if your competitive set is limited to a few, well-understood players, a decentralized model will work well. In this case, the need for continuous investment in truly transformational solutions is typically low and can be managed within the BU construct. When a valuable cross-BU opportunity is identified, a cross-BU team can be created with the specific objective of addressing that opportunity.

   Ashan Willy of Polycom points out that decentralized teams are more susceptible to being disrupted by companies who look at customers' needs through a different lens. Executives deploying this model will need to constantly monitor industry shifts, track new entrants, and shift their innovation model, if necessary, well in advance of any emerging disruption.

2. **Is there significant market demand or opportunity for you to co-develop—not just bundle—products and services across your businesses?**

   The operative word here is 'significant'. If the answer is yes, a centralized or federated model is necessary to define, design, and develop a roadmap of cross-BU use cases and solutions. It forces focus on commercial solutions where the whole is more than the sum of its parts.

   For instance, Motorola Solutions' CTO, Paul Steinberg, sees disruptive, cross-BU solutions as an imperative for his company's future. His federated teams apply design-led thinking to test whether an idea is viable and "provably doable". Their focus is largely on integrated solutions, not functional or BU specific innovations. Conversely, if the business units or product lines don't have much opportunity, or need, to collaborate on product innovation, a decentralized model will likely work better.

   On a cautionary note, just because there's an opportunity to integrate offerings (or R&D) across BUs doesn't mean that you should. The recent spike in spin-offs and divestitures in the tech sector are telling – there may have been opportunities to integrate offerings across business groups, but the complexity outweighed the value. They were better off running independently.

3. **How collaborative is your culture, really?**

   This question can be somewhat deceptive because many people believe that they are in a highly collaborative corporate culture. Most senior executives are confident that there is tremendous collaboration and communication at their level (and there typically is) and that those attributes trickle downstream (they typically don't). Deeper in the organization, individual contributors will insist that they work in a tightly integrated fashion. And they're right, except that their strong ties are primarily within their teams, not beyond. Mid-level managers usually provide the most accurate assessment of a company's culture of collaboration, one that may well impact which innovation organization works best.

If your company truly has a “do what it takes, together” culture, a centralized or federated model can be very effective. The right skill sets and capabilities can be housed where they can best benefit the organization, without concern for political fallout. The NIH issue can be overcome by the central team getting buy-in and input from the BUs early and often. Objectives are tied together at the top, so there tends to be minimal conflict of agendas, priorities, or credit.

A decentralized innovation model may be the best option if your culture isn’t inherently collaborative. (Caveat: This does not apply if your strategy calls for cross-BU solutions, in which case a federated model is better.) Some companies have attempted to use a centralized model to force their silo mentality culture to change, but that’s a fool’s errand. If anything, it can exacerbate the cultural divide because of the perception that the central innovation team gets to do the “cool” stuff.

None of these factors should be considered independently of the others. Considered jointly, an honest conversation can help you develop a hypothesis of the model that’s right for you. You can then pressure-test it against the other forces that will strain its merits. This is especially true when trying to select between a centralized and federated model. Other factors to consider include size and complexity of the company, geographic footprint, strategic priorities, R&D structure (independent vs. embedded in BUs), competition, management philosophy, and track record of innovation.

No model will be perfect, but one will be more “right” for you than the others.

Act

At this point, you’ve likely done some quick analysis and developed a preliminary hypothesis of the organizational model that’s right for you. If your company’s current structure looks—or operates—differently from the one you just envisioned, initiate the conversation to change it.

Start at the top. The topic of decision rights, especially when it comes to innovation, is almost always emotionally charged, so it’s critical that the chief executive officer (CEO) and/or chief operating officer (COO) is driving it. Identify the right model, then the right leadership roles, and finally, the people who fit those roles. Adult supervision for innovation, as described earlier, requires a different mindset from typical management skills, so it’s imperative that suitability trumps seniority or legacy. Establish unambiguous, end-to-end innovation-related decision rights for all impacted executives. Finally, make the changes meaningful by appropriately shifting resources, budgets, incentives, and control.

Innovation is about being fast, agile, lean, and adaptable. An ineffective organizational structure will compromise all those attributes to varying degrees and demotivate even the most passionate, loyal employees. An appropriate model, on the other hand, can establish the foundation for a culture of collaboration and innovation success.

TEN
TYPES OF
INNOVATION

Our view is that building a high-functioning innovation engine requires a systemic approach, thinking holistically about the core building blocks needed to build an innovation competence. Our innovation practice, Doblin, has a compelling model for defining this systemic approach, advocating that high-functioning organizations must combine elements of approach, organization, resources and competencies, and metrics and incentives. While this article focuses on the element of organization specifically, more information on the broader model can be found at www.doblin.com and through the Ten Types of Innovation® App for iPad®.

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References

[1] Friedman, Milton and Rose. *Free to Choose: A Personal Statement*. Orlando: Harcourt, Inc., 1980. Print.

[2] Veritas is the name Symantec has chosen for the independent information management company that will be created following the completion of the previously announced separation of the two companies.

[3] Ibid.

[4] Howard, Caroline (March 27, 2013). "Disruption Vs. Innovation: What's The Difference?" Forbes.com, Retrieved from http://www.forbes.com/sites/carolinehoward/2013/03/27/you-say-innovator-i-say-disruptor-whats-the-difference/.

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