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SPOTLIGHT ON THE EFFECTIVE ORGANIZATION

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*Tensions between your innovation team and core operations can derail your company's growth initiatives. Here's how to end those battles.*

## Stop the Innovation Wars

by Vijay Govindarajan and Chris Trimble

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# Stop the Innovation Wars

## Idea in Brief

An innovation initiative is best organized as a partnership between a dedicated team and the group that handles ongoing operations, the performance engine. Although conflicts between partners are inevitable, they can be managed, by following three steps:

**Divide the labor.** The performance engine should take on only tasks that flow in parallel with ongoing operations—along the same path, at the same pace, and with the same people in charge. All other tasks should be assigned to the dedicated team.

**Assemble the dedicated team.** Leaders must approach the dedicated team as if they were building a new company— from scratch. Breaking down existing work relationships and creating new ones is an essential task, which outside hires can help expedite.

**Mitigate the conflicts.** The innovation leader must take a positive and collaborative approach to working with the performance engine and must be supported by an executive senior enough to prioritize the company's long-term interests and adjudicate contests for resources.

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It was just an innocent comment. While working with a client at a *Fortune* 500 company, we proposed the formation of a special group to execute a new growth strategy. "For now, let's just refer to the group as the innovation team," we suggested.

The client rolled his eyes. "Let's call it anything but that," he said. "What is this so-called innovation team going to do? Brainstorm? Sit around being creative all day? Talk condescendingly about a superior organizational culture? All of this while operating with neither discipline nor accountability? All of this while the rest of us get the real work done?"

Wow. All it took was two words: *innovation team*.

In our experience, innovation teams feel a hostility toward the people responsible for day-to-day operations that is just as biting. The rich vocabulary of disdain includes *bureaucratic, robotic, rigid, ossified, staid, dull, decaying, controlling, patronizing*...and just plain *old*. Such animosity explains why most executives believe that any significant innovation initiative re-

quires a team that is separate and isolated from the rest of the company.

But that conventional wisdom is worse than simpleminded. It is flat wrong. Isolation may neutralize infighting, but it also neuters innovation.

The reality is that an innovation initiative must be executed by a partnership that somehow bridges the hostilities—a partnership between a dedicated team and what we call the *performance engine*, the unit responsible for sustaining excellence in ongoing operations. Granted, such an arrangement seems, at first glance, improbable. But to give up on it is to give up on innovation itself. Almost all innovation initiatives build directly upon a company's existing resources and know-how—brands, customer relationships, manufacturing capabilities, technical expertise, and so forth. So when a large corporation asks a group to innovate in isolation, it not only ends up duplicating things it already has but also forfeits its primary advantage over smaller, nimbler rivals—its mammoth asset base.

Over the past decade, we have examined dozens of innovation initiatives and identified some best practices. In the process we built upon foundational management theories such as Jim March's ideas about balancing exploration with exploitation, and Paul Lawrence and Jay Lorsch's argument that firms need to both integrate and differentiate corporate units. We came to the conclusion that the organizational model we prescribe—a partnership between a dedicated team and the performance engine—is surprisingly versatile. It can be adapted to initiatives that span many innovation categories—sustaining and disruptive; incremental and radical; competence enhancing and competence destroying; new processes, new products, new businesses, and high-risk new ventures.

This article will show how to make the unlikeliest partnership work. There are three steps. First, decide which tasks the performance engine can handle and which you'll need to hand off to a dedicated team. Second, assemble the right dedicated team. Third, anticipate and mitigate strains in the partnership. Once you have taken these steps, you'll be in a good position to actually execute on your great ideas.

### How One Company Organized for Growth

In most law offices, even in the internet era, you'll find libraries full of weighty and majestic-looking books. The books contain rulings from past cases. With each verdict, judges contribute to a massive body of precedents that shape future decisions. (This is the system, at least, in the United States and many other countries.) Law students spend countless hours mastering the intricacies and subtleties of researching precedents.

West, a 135-year-old business, is one of several publishing houses whose mission is to make legal research easier. After it was acquired by the Thomson Corporation, now Thomson Reuters, in 1996, West experienced five years of double-digit growth, as the industry made a rapid transition from printed books to online databases. But in 2001 a major problem arose. Once nearly all of West's customers had converted to Westlaw, the company's online offering, West's growth plummeted to near zero.

To restart growth, West set its sights on expanding its product line. By studying its cus-

tomers—law firms, corporate law offices, and law schools, among others—and how they worked, West saw that lawyers had no convenient access to many key sources of information. For example, to examine legal strategies in past cases, law firms were sending runners to courthouses to dig through dusty archives and photocopy old briefs—documents written by lawyers for judges, often to summarize their arguments.

Starting with an online database of briefs, West proceeded to launch a series of new digital products. By 2007, West had restored its organic growth to nearly 7% annually—quite an accomplishment since its customer base was growing much more slowly.

An expansion into databases for different kinds of documents does not seem, at first glance, as if it would have been a stretch for West. But Mike Wilens, then the CEO, and his head of product development, Erv Barbre, immediately saw that the briefs project, because of its size, complexity, and unfamiliarity, was beyond the capabilities of West's performance engine. Some kind of special team was needed. At the same time, Wilens and Barbre were confident that portions of the project could be tackled by West's existing staff. They just had to make sure the two groups worked well together. Ultimately, the new briefs offering succeeded because Wilens and Barbre built an effective partnership between a dedicated team and the performance engine, following the three steps we've outlined.

### Divide the Labor

Step one in forming the partnership is to define the responsibilities of each partner. Naturally, you want to assign as much as you can to the performance engine. It already exists and works well. But caution is due. You need to realistically assess what the performance engine can handle while it maintains excellence in ongoing operations.

The proper division of labor can span a wide range—from 10/90, to 50/50, to 90/10 splits. It depends on the nature of the initiative and the performance engine's capabilities. So how do you decide?

The performance engine has two essential limitations. The first is straightforward. Any task that is beyond the capabilities of the individuals within the performance engine must be assigned to the dedicated team. The second

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limitation is less obvious. It involves work relationships. What Person A and Person B can do together is not just a function of A's skills and B's skills. It is also a function of the way A and B are accustomed to working together. As long as A and B are working inside the performance engine, their work relationship is extremely difficult to change. It is reinforced daily by the demands of ongoing operations. BMW was confronted with this second limitation when it designed its first hybrid vehicle. (See the sidebar "Why BMW Didn't Reinvent the Wheel.")

Therefore, the performance engine should take on only tasks that flow along the same path from person to person that ongoing operations do—at the same pace and with the same people in charge. To ask more of the performance engine is too disruptive. It embeds conflicts between innovation and ongoing operations so deeply within the performance engine that they become impossible to manage.

At West, Wilens and Barbre recognized that although product development staffers had deep expertise in judicial decisions—such as *Miranda v. Arizona*, *Brown v. Board of Education*, *Roe v. Wade*, and thousands more—they had no experience in gathering briefs, which were scattered throughout countless court-houses and were much harder to track and organize than decisions were. A complicating factor was scale. There can be dozens of briefs for every judicial decision. The dedicated team, at the very least, had to take responsibility for locating and acquiring the briefs—

and would need a few outside experts to be effective.

More critically, Wilens and Barbre saw that the briefs project as a whole would be inconsistent with the work relationships within West's product development group. Composed of about 50 legal experts, the group worked on a few dozen small initiatives at a time. The typical project was an improvement to the Westlaw database that involved only two or three people for up to a few weeks. The group was nonhierarchical, and the individuals within it did not depend heavily on one another. In fact, during a given project, a product developer's most important work relationship was likely to be cross-functional, with a peer in the information technology group.

The briefs project was much larger. At its peak, it involved 30 people full-time. The product developers needed to work together in an unfamiliar manner. Each needed to take on a specialized role as part of a tightly structured, close-knit project team. Asking the developers to operate in both modes at once would have been disruptive and confusing for all involved. Therefore Wilens and Barbre assigned nearly the entire product development task to a dedicated team.

However, they assigned the marketing and sales tasks to the performance engine. Marketing and selling briefs was not much different from marketing and selling Westlaw. The buyers were the same, and the value proposition was easy to explain. The work could simply be added to West's existing marketing and sales processes. It would flow along the same path, at the same pace, and with the same people in charge. The sales and marketing teams were a component of the performance engine that could do double duty—a subset we refer to as the *shared staff*.

### Assemble the Dedicated Team

Once the labor has been divided and the required skill sets have been identified, the principles for assembling the dedicated team are uncomplicated. First, choose the best people you can get, from any source (internal transfers, external hires, even small acquisitions). Then, organize the team in a way that makes the most sense for the task at hand. Tackle the process as if you were building a new company from the ground up. This was the approach Lucent took in launching a new unit that

## Questions to Ask

### When Dividing the Labor

1. Does my company already have the needed skills for all aspects of the project?
2. What portions of the innovation initiative are consistent with the existing work relationships in the performance engine?

### When Assembling the Dedicated Team

1. What is the right mix of insiders and outsiders?
2. How should the team be structured differently from the performance engine?
3. How should the team be measured and incentivized?

### As You Manage the Strains on the Partnership

1. Is there a tone of mutual respect?
2. Are resource conflicts resolved proactively?
3. Is the shared staff giving sufficient attention to the innovation initiative?

quickly grew to \$2 billion in annual revenues. (See the sidebar “Why Lucent Engineered a Service Business from Scratch.”)

Alas, these principles are easy to state but extremely difficult to follow. Companies have a pernicious habit of creating subunits that behave just like the rest of the company, as though a genetic code has been passed from parent to offspring. We think of such subunits as *little performance engines*, and they quickly bring innovation initiatives to a standstill.

The most frequent source of the problem is the instinct to populate dedicated teams entirely with insiders. This is understandable. It’s natural to think about who you know before thinking about skills you need. Insiders are easy to find, often cheaper to “hire,” and seem less risky because they’re known commodities. They also offer a critical benefit: Because of their familiarity with the organization and credibility within it, they can help mitigate conflicts between the dedicated team and the performance engine.

The trouble is that a dedicated team composed entirely of insiders is practically guaranteed to act like a little performance engine. For one thing, everyone has the same biases and instincts, grounded in the history of a single company. Furthermore, work relationships are sticky. As noted earlier, employees who have

worked together for years have a hard time altering the way they interact.

Building an effective dedicated team requires breaking down existing work relationships and creating new ones. Including some outsiders, even just one in three, is a powerful expedient. Outsiders have no existing work relationships to break down. They must form new ones from scratch. As a bonus, outsiders naturally challenge assumptions because their biases and instincts are rooted in the experiences of other companies.

Managers can also accelerate the process of breaking down and re-creating work relationships by writing new job descriptions, inventing new and unfamiliar titles, and explicitly shifting the balance of power within the team. Shifting that balance is important because it is rarely the case that a company’s traditional power center (say, engineering) should also dominate the dedicated team (if, for example, customers for the innovation initiative will care more about a new product’s look than its performance).

Selecting the right people and forming new work relationships are the foundational steps in building an effective dedicated team, but it is also important to pay attention to other forces that shape behaviors. Beyond new work relationships, dedicated teams frequently require performance metrics, incentives, and cultural norms that differ from those of the performance engine.

West built a dedicated team that was distinct from its existing product development staff, choosing a roughly 50/50 mix of insiders and outsiders. The company acquired a small business that had assembled on microfiche a collection of valuable briefs, including the very first brief filed before the U.S. Supreme Court. With it, West brought on board about a dozen people who knew a great deal about briefs and had no work relationships with the West team.

The leader of the briefs effort, Steve Anderson, treated the process of turning the mix of insiders and outsiders into a structured team as a zero-based effort. Rather than drawing on any of West’s norms for how work gets done (who’s responsible for what, who has what decision rights, and so forth), he simply gathered everyone and said, “Here we are. This is our task. How should we make it happen?” Of course, the way to organize the effort was not obvious on day one. Innovation initiatives are

## Case Study: Why BMW Didn’t Reinvent the Wheel

At the heart of every hybrid automobile lies a regenerative brake. Traditional brakes dissipate the energy produced by a vehicle’s motion, generating friction and useless heat. Regenerative brakes, by contrast, capture the energy and put it back to work. An electrical generator built into the brake recharges the hybrid’s massive batteries as the car slows.

Chris Bangle, then chief of design at BMW, was discouraged by slow progress early in the company’s first effort to design a hybrid vehicle, launched in 2007. The source of the problem, Bangle saw, had nothing to do with engineering prowess; BMW employed the right experts. The problem lay in the company’s formal structure and processes. Under its

well-established design procedures, there was no reason for battery specialists to speak with brake specialists. There was no routine work flow between them.

Bangle ultimately decided to create a dedicated team to enable the deep collaboration that was necessary among all component specialists involved in the regenerative brake design. He named it the “energy chain” team, and it succeeded in moving the project forward quickly. Although a dedicated team was required for this one aspect of vehicle design, all other aspects of BMW’s first hybrid launch—design, engineering, sales, marketing, distribution, and so forth—were handled by its performance engine.

ambiguous. As Anderson's team gained experience, its structure evolved. It's not essential that the dedicated team's structure be perfectly clear at the outset—only that it be unconstrained by the parent company's past.

Working on Anderson's dedicated team felt much different to the insiders who were part of it. They had less autonomy. They had to collaborate with peers much more closely. And they knew that if they stumbled, they would be letting down not just themselves but their teammates and their company. Some struggled with the transition and chose to return to the performance engine. While this may seem unfortunate, it was actually a mark of Anderson's success. As a general rule, if all the insiders on the dedicated team are comfortable, it must be a little performance engine. (Note that it's also important for insiders to have a clear path to get back to the performance engine. Innovation initiatives frequently fail, and the individuals working on them sometimes don't succeed in their assignments. Companies that create an out for insiders will find that they can more easily motivate people to join a dedicated team.)

To further shape his dedicated team, Anderson drew clear distinctions between its standards and cultural values and those of the performance engine. West had long maintained

extremely high quality standards. For judicial decisions—literally, the law itself—customers demanded infallible information. Therefore, West had implemented multistep checks and safeguards in loading documents into its database, a process that often started with scanning a physical document. With briefs, however, West needed to relax, slightly, from being obsessive about quality to being diligent. The dauntingly high number of briefs made exhaustive precautions impractical. Besides, customers cared more about convenience and availability than perfection.

### Anticipate and Mitigate the Strains

Make no mistake, nurturing a healthy partnership is challenging. Conflicts between innovation initiatives and ongoing operations are normal and can easily escalate. Tensions become rivalries, rivalries become hostilities, and hostilities become all-out wars in which the company's long-term viability is the clearest loser.

Differences between the two groups run deep. Managers of the performance engine seek to be efficient, accountable, on time, on budget, and on spec. In every company, their basic approach is the same. It is to make every task, process, and activity as repeatable and predictable as possible. An innovation initiative, of course, is exactly the opposite. It is, by nature, nonroutine and uncertain. These incompatibilities create a natural us-versus-them dynamic.

Leaders must counter conflicts by constantly reinforcing a relationship of mutual respect. Dedicated team leaders must remember that profits from the performance engine pay for innovation, and that their success depends on their ability to leverage its assets. They must also remember that pushback from the performance engine does not arise from laziness or from an instinctive resistance to change. Quite the contrary—it arises from the efforts of good people doing good work, trying to run ongoing operations as effectively as possible. For their part, performance engine leaders must recognize that no performance engine lasts forever. To dismiss innovation leaders as reckless rebels intent on undermining discipline in the pursuit of an esoteric dream is to write off the company's future.

For the partnership to work, the leader of the innovation initiative must set the right tone—positive and collaborative. Antagoniz-

## Case Study: Why Lucent Engineered a Service Business from Scratch

In 2006, Lucent signed a deal to help a major telecommunications company transform its network. Four years earlier, such a huge service deal would have been hard to imagine.

Lucent's historical strength was in products and in making technological breakthroughs in telecommunications hardware. But after the dot-com bust, Lucent needed a new source of growth and looked to services.

While the company had the necessary technical skills for services, it hardly had the organizational DNA. Technologists, not client relationship managers, held most of the power. And the pace of service operations was week to week, a stark departure from telecom hardware pur-

chasing cycles, which lasted years. As such, Lucent recognized that nearly the entire project needed to be executed by a dedicated team.

Lucent assembled that team as if it were building a new company. It hired an outside leader, a veteran of services from EDS, and several experienced service executives. It adopted new HR policies that mimicked those of service companies. And it created a new performance scorecard, one that emphasized workforce utilization, not product line ROI. It even tied compensation for service deliverers directly to their utilization rates. The result? In four years' time, Lucent's service group was generating more than \$2 billion in revenues.



ing the performance engine is a *really bad* idea. The performance engine always wins in an all-out fight. It is, quite simply, bigger and stronger.

In fact, for precisely that reason, even the best innovation leaders need help from high places. They must be directly supported by an executive senior enough to act in the long-term interests of the company, overriding the performance engine's short-term demands when necessary. This typically means that the innovation leader must report two or more

levels higher up than managers with budgets of a similar size. At WD-40, for example, an innovation initiative relied on the direct involvement of the CEO. (See "How WD-40 Minimized Frictions.")

The senior executive to whom the innovation leader reports must be careful not to be a cheerleader only for innovation. He or she must also extol the virtues and importance of the performance engine and emphasize that a long-run victory for the company requires that both sides win.

Together, the innovation leader and the senior executive must anticipate and proactively resolve conflicts. The clashes can be intense, but if the labor is properly divided between the performance engine and the dedicated team, they'll be manageable. The most common conflict is over scarce resources. When the sum of activities, innovation plus ongoing operations, pushes the performance engine beyond its resource constraints, choices must be made.

Sometimes, this competition for scarce resources takes place through formal budgeting processes. Innovation leaders often find themselves seeking explicit commitments from multiple performance engine leaders. These negotiations are best resolved through a single plan and budgeting process for the entire innovation initiative, with conflicts directly adjudicated by the senior executive.

In other cases, the competition is for the attention of the shared staff. It's tempting for the innovation leader to think that once the budget for an initiative is approved, the fight for resources is over. It is not. Each shared staff member chooses how much energy to devote to the new initiative every day. The innovation leader's powers of persuasion are critical but may not be adequate. Some companies create special incentives and targets for shared staff members to spur them to keep up with the demands of both innovation and ongoing operations. Others charge the innovation initiative for the shared staff's time. That way, the shared staff treats the innovation leader more like a customer than a distraction.

Emotional conflicts must also be managed. Sometimes resentments are grounded in substantive business conflicts, like the possibility that the innovation initiative may cannibalize the existing business. Senior executives must argue clearly and consistently that the innova-

## Case Study: How WD-40 Minimized Frictions

To spur organic growth, Garry Ridge, CEO of WD-40, created a team to develop breakthrough products. He called it Team Tomorrow. It included newly hired research scientists and new outside partners. One of its first endeavors was developing the No Mess Pen, which made it easy to dispense small quantities of WD-40 in tight spaces. Though it doesn't sound like a radical innovation, the technological challenges were steep, and the product took months to develop.

Historically, WD-40's marketing team had handled product development, which generally entailed routine efforts to improve, renew, or repackage existing products. Now marketing took on the responsibility of partnering with Team Tomorrow to commercialize its offerings.

The sources of conflict in this partnership are not hard to identify. First, some marketing staffers felt that the attractive challenge of developing breakthrough products should have been theirs. Then there was a resource constraint. Would the marketing team expend its limited time and resources on experimental products or proven performers? Finally, marketing worried that Team Tomorrow's new offerings would cannibalize existing products.

Graham Milner and Stephanie Barry, the leaders of Team Tomorrow, overcame these conflicts by taking a collaborative

approach, particularly with the head of marketing. They shared information, established an open-door policy, and coordinated plans carefully with marketing, anticipating bottlenecks and resource conflicts. Knowing that such conflicts could be resolved only by the CEO, Milner and Barry made sure Ridge was aware of them early, so that he could set priorities. When Ridge saw that it was necessary, he added staff to the marketing team to make sure that it had sufficient bandwidth.

To signal the importance of the long term, Ridge carried a prototype of the pen with him wherever he went. This gave Team Tomorrow the attention it needed, but it also, at least initially, exacerbated feelings among some in the marketing team that they had been left out. Ridge, Milner, and Barry all quickly saw just how important it was to celebrate the accomplishments of the core business's team as well.

Ridge took other steps that contributed to WD-40's success. He made it clear that he would evaluate all involved employees on their effectiveness in collaborating across organizational boundaries. And he was able to lessen the anxiety about cannibalization by collecting data and sharing analyses that showed that the No Mess Pen generated purely incremental sales.



*Conflicts between innovation initiatives and ongoing operations can easily escalate.*

tion initiative is nonetheless in the company's long-term best interest and do as much as possible to allay fears about job security.

At other times, resentments amount to simple jealousy. The performance engine may feel disenfranchised if the innovation initiative is viewed as the company's most critical project. Or the dedicated team may feel marginalized as pursuers of a quirky experiment. Some companies have countered the effects of envy by making "ability to work productively with internal partners" a key assessment in individual performance reviews.

The briefs project at West faced multiple kinds of conflict but overcame them. Steve Anderson provided the right type of leadership. He viewed the performance engine as his partner, not his enemy. And he received constant support from two senior leaders, Mike Wilens and Erv Barbre.

Wilens and Barbre paid close attention to resource conflicts. When Barbre asked members of the shared staff to make contributions to the briefs effort, he also explicitly discussed what was on their plates and what could be deferred. In some cases, he hired contract labor to help with routine tasks, such as loading documents, to ensure that the priorities of both innovation and ongoing operations could be met.

Meanwhile, Anderson recognized the importance of galvanizing the shared staff. He and his team got people on board by, among other things, creating a skit based on the *Perry Mason* television series. It showed what a lawyer's life was really like and why a product like a briefs database would be enormously valuable. Wilens and Barbre backed up his effort, in part by creating a special incentive for the sales force to push the new offering. All three leaders monitored emotional tensions. As the briefs project started to show signs of success, they saw that some in the performance engine felt as though they had been left out of a real "glamour project." The leaders countered by reinforcing the importance of the core business and by holding events at which they spread credit as widely

as possible, within both the dedicated team and the performance engine.

### **The Unlikeliest Partnership Is Manageable**

The reception of West's briefs database exceeded expectations. In fact, the company was deluged with queries about how quickly the database would be expanded to include additional legal specialties and jurisdictions. The company followed with many more initiatives like it, such as new databases of expert testimony and court dockets.

The organizational formula was not always the same for those initiatives. For example, when West pursued a product called PeerMonitor, it assigned almost the entire job—development and commercialization—to the dedicated team. PeerMonitor provided data that enabled law firms to benchmark their business performance against that of rivals. West chose to assign sales and marketing to the dedicated team because selling PeerMonitor required a different skill set and a longer cycle. The target customer was also different: West sold most of its offerings to law librarians, but PeerMonitor was sold directly to managing partners. The PeerMonitor sales force collaborated with the performance engine's sales force to coordinate an overall approach.

West's example is one worthy of study. The company succeeded where others have stumbled because it saw that innovation is not something that happens either inside or outside the existing organization, and that innovation does not require that an upstart fight the establishment. Instead, innovation requires a partnership between a newly formed team and the long-standing one.

While such partnerships are challenging, they are manageable. And they are indispensable. Indeed, without them, innovation goes nowhere.

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