

ORGANIZATIONAL AGILITY

WHY LARGE CORPORATIONS OFTEN STRUGGLE
TO ADOPT THE INVENTIONS CREATED BY THEIR
INNOVATION UNITS AND HOW TO IMPROVE SUCCESS
RATES IN A RAPIDLY CHANGING ENVIRONMENT



AUTHORS OF THE REPORT

IESE Business School: M^a Julia Prats and Josemaria Siota
Oliver Wyman: David Gillespie and Nicholas Singleton

Published in April 2018

CONTENTS

EXECUTIVE SUMMARY	1
THE DILEMMA: EFFICIENCY VERSUS AGILITY	3
FACING A CHALLENGING ENVIRONMENT	
SELECTING THE RIGHT BALANCE	
AGILITY, AGILE, AND THE ROLE OF INNOVATION UNITS	6
FRAMING THE CONCEPT	
AGILITY IS IMPORTANT, AGILITY IS DIFFICULT BUT WHAT EXACTLY IS IT?	
AGILITY IS NOT JUST AGILE	
AGILITY AND THE ROLE OF INNOVATION UNITS	
WHAT SORT OF INNOVATION UNIT?	
WHAT CAUSES INNOVATION UNITS TO FAIL OR SUCCEED?	11
IDENTIFYING FACTORS INFLUENCING FAILURE AND SUCCESS	
INCREASING THE ADOPTION OF INITIATIVES	15
ESTABLISHING THE WIDER ORGANIZATIONAL CONTEXT	
CAN ELEPHANTS LEARN TO DANCE?	
APPENDIX	19
METHOD	
ADDITIONAL CONCEPTS	
ADDITIONAL ANSWERS OF THE SURVEY	
THE ORGANIZATIONAL AGILITY OF THE COMPANY	
INNOVATION UNITS AND THEIR RELATIONSHIP TO THE ORGANIZATIONAL AGILITY	
INNOVATION UNITS: ADOPTION RATES	
INNOVATION UNITS: CHALLENGES AND KEY SUCCESS FACTORS	

EXECUTIVE SUMMARY

We live in an age of agility, and organizations that want to survive, let alone thrive, need to increase their speed, adaptability, and innovation. It is a challenge many are not well equipped to meet. In a survey of chief innovation officers and related roles which the authors conducted for this white paper, nearly 90 percent of respondents said agility was highly important to the future success of their companies, and 96 percent said they needed to become more agile in the future. Yet only 26 percent rated their company's current agility as high or greater.

These findings echo those of a 2009 survey conducted by the Economist Intelligence Unit (EIU) in which nearly 90 percent of CEOs and CIOs called organizational agility a core differentiator, and approximately one-half said that rapid decision making and execution are essential to a company's competitive standing.¹ That study in turn reflects an earlier analysis, conducted by the Massachusetts Institute of Technology, showing that agile firms grow revenue 37 percent faster and generate 30 percent higher profits than non-agile companies.²

Executives may realize that agility is critical, but companies, especially large ones, find it difficult to achieve and sustain. In the EIU survey, more than 80 percent of corporations had undertaken one or more initiatives to improve agility over the previous three years; 34 percent said they failed to deliver the desired benefits.¹

In search of a solution to the agility challenge, many companies have turned to innovation units in a variety of guises as part of the answer. In our survey, 70 percent of respondents stated that innovation units were highly or extremely important in creating greater organizational agility.

Innovation initiatives are increasingly common and incorporate a broad range of approaches such as scouting teams, incubators, accelerators, and venture funds. In our survey, 70 percent of firms said they were increasing investment in their innovation units, 60 percent of which were created in the past five years.

Despite such increased investment in innovation, only 23 percent of companies said they had delivered a significant innovation – defined as one that accounts for more than 10 percent of the business's revenue.

Such mixed fortunes perhaps explain why high-profile companies such as Ogilvy Group, Coca-Cola and the *New York Times* have closed some of their innovation units in recent years.^{3,4} As a recent article in the *Harvard Business Review* put it, “When a CEO announces a major initiative to foster innovation, mark your calendar. Three years later, many of these ambitious ventures will have quietly expired without an obituary.”⁵

If agility is so critical, and innovation units are a way to achieve it, why are large corporations having such variable results?

This report argues that some of the root causes lie in slow decision making, conflicting departmental priorities, risk-averse cultures, and silo-based information. The success of an innovation unit, we believe, depends not just on the unit itself, but also on how the company, as a whole, functions.

For instance, we observe that companies whose innovation units have proved successful usually share strong dynamic capabilities around effectively sensing the market, an ability to make decisions, secure and align the necessary internal and external resources, and a capacity to systematically shift the wider organization to adopt new initiatives.

In this study, we will provide further background on the agility challenge and its causes. We will also point to some best practices for improving the effectiveness of innovation units as part of increasing agility more broadly, including how to remove internal informational silos, develop internal talent, and avoid delays because of internal politics, to name a few. They are, admittedly, difficult to apply systemically, but at a time when many firms operate in highly uncertain environments, they are increasingly critical.

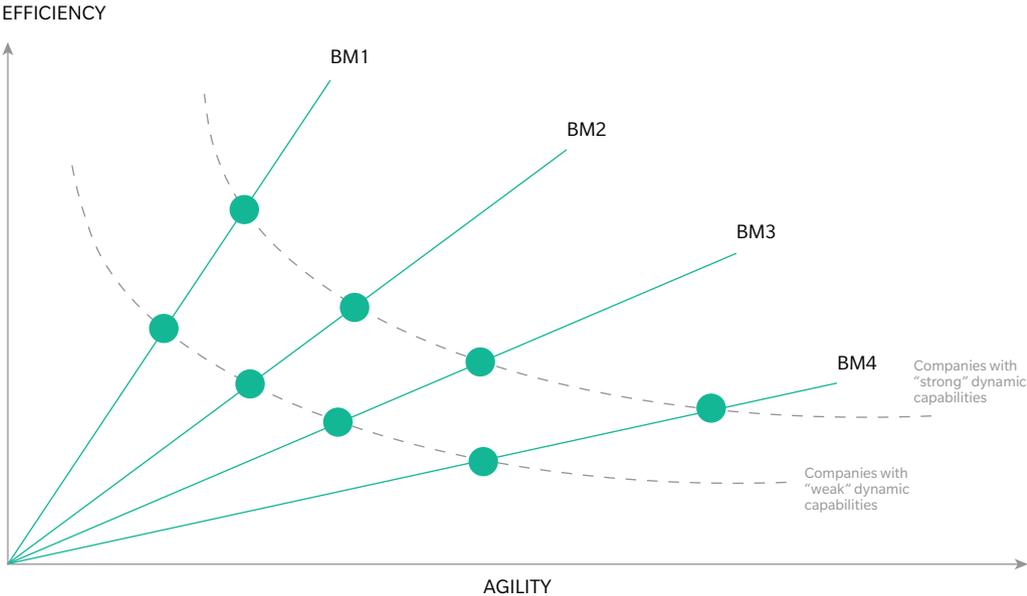
THE DILEMMA: EFFICIENCY VERSUS AGILITY

FACING A CHALLENGING ENVIRONMENT

What do these five numbers have in common: 1772, 1929, 1973, 1997, and 2007?

These are the approximate starting dates of five of the world’s most devastating financial crises – events that, unfortunately, have become increasingly common.⁶ If history is any indication, the market turbulence of recent years may presage a new, ongoing phase of volatility in which traditional businesses and operating models will be disrupted by underlying fluctuations in energy, commodity, and currency rates; new and nontraditional competitors; and rising customer demands.

Exhibit 1: Tradeoff between efficiency and agility in companies with strong/weak dynamic capabilities on several business models (BM)



Source: Adapted by the authors from Teece, D., Peteraf, M. & Leih, S. Dynamic Capabilities and Organizational Agility: Risk, Uncertainty, and Strategy in The Innovation Economy. California Management Review 58, 13–36 (2016)

This new environment is inherently volatile, uncertain, complex, and ambiguous (VUCA). One analysis predicts that by 2027 the average tenure of a company on the Standard & Poor's 500 Index will fall to about a third of what it was 50 years ago.⁷ Many iconic companies have filed for bankruptcy or been acquired, while others (such as Phillips, Nokia, and IBM) have gone through significant downsizing and restructuring. Fewer than half of the companies in the 2000 edition of the Fortune 500 still exist in their original form.⁸

For large and previously successful companies, the new external environment presents a dilemma: How can they respond quickly and nimbly enough to its demands, while maintaining their long-term strategic vision and scale efficiency? In other words, how can they retain the hard-won benefits of scale while developing attributes of smaller, more agile companies? (See Exhibit 1.)

CEOs face a clear challenge: Their old model required them to make long-term commitments to goals and strategies, deploy considerable resources to implement them, and ensure that every part of the firm was dedicated to achieving them. In contrast, the new, more agile model requires them to stay flexible, seek out new evidence, always be ready to reassess past choices, and change direction in light of new information, often via small, iterative improvements.

As a result, corporations today find themselves having to balance an approach that favors scale efficiency, stability, and long-term focus; with another that focuses on agility, speed, and rapid response. The tradeoffs are not easy: Scale brings efficiency, but it also tends to limit companies to lower levels of agility. Nonetheless, no matter what business model an individual corporation pursues, it will benefit from developing strong dynamic capabilities.^{9, 10}

SELECTING THE RIGHT BALANCE

Agility is not just a goal for tech and manufacturing companies. Increasing agility – speed, adaptability, and level of innovation – is a goal relevant to all companies. This helps explain why tools that come out of the tech and manufacturing sectors, such as Agile project and management methodologies, are finding application in more traditional sectors such as financial services (for example, Bank of America¹¹), oil and gas (Shell¹²), air transport (Brussels Airlines¹³), and pharmaceuticals (GSK¹⁴).

Yet how much agility should a company – your company – strive for? There is a temptation to seek to always maximize agility; who wouldn't want a faster, more adaptable of an organization? But there are costs to increasing agility. It requires expenditure, for example, to build the internal "radars" required to sense the rapid changes that are taking place in the external market, to customize processes to enable them to respond more rapidly, or to develop the leadership behaviors to shift the organization into a new way of working. Building agility into the organization can incur higher short-term costs even if it typically saves expenditure on change programs over the longer term. Agility might be a necessity for many organizations but the process of achieving it shouldn't be undertaken blindly; it is crucial to think in terms of both anticipated costs and target benefits.

Since not all businesses are facing high levels of dynamic competition and uncertainty, it is helpful to take a company-specific perspective, analyzing megatrends affecting the organization and considering the implications for your organization's operating model. For the most part, the companies that stand to gain the most from increased agility are those in sectors with a highly unpredictable future.

It appears that many organizations have already "done the math" and concluded they need to do things differently than their competitors. eBay, for example, has made its online forums, where customers and sellers post an average of 10,000 messages each, the company's de facto product development team.^{16,17} Procter & Gamble's "Connect + Develop" platform helps initiate partnerships with stakeholders from sole traders to Fortune 500 companies.¹⁸ And Nissan now uses ethnographic studies of consumers to inform and tailor designs for autonomous vehicles.¹⁹

Of course, what works for eBay, Procter & Gamble, or Nissan won't necessarily work for you, especially if you define "work" on a net benefits basis. The key to success is not to implement the latest management trend, no matter how attractive, but to analyze your company and its external environment, then make a decision that is specific to your company and its challenges and opportunities.

AGILITY, AGILE, AND THE ROLE OF INNOVATION UNITS

FRAMING THE CONCEPT

There is extensive published literature on organizational agility, which addresses many relevant questions: How should a company implement Agile?^{20, 21} What patterns distinguish successful implementations from unsuccessful ones?^{21, 22} What are the main barriers to adopting Agile principles?^{9, 23} What are the innovation mechanisms for interacting with startups, and how do they contribute to agility?²⁴ How can innovation be sustained through dynamic capabilities?²⁴⁻²⁷ The list goes on.

Agility is important in the modern corporate world: In a survey the authors conducted with chief innovation officers and related roles for this white paper, almost 90 percent of respondents said agility was highly important to the future success of their companies. In a similar vein, in a 2009 study carried out by the Economist Intelligence Unit (EIU) nearly 90 percent of CEOs and CIOs surveyed said agility was critical for their business success; approximately one-half said that rapid decision making and execution were essential to their company's competitive standing.¹

Agility may also be linked to profitable growth: Research conducted at the Massachusetts Institute of Technology suggested that agile firms grow revenue 37 percent faster and generate 30 percent higher profits than non-agile companies.²

Despite or perhaps because of its importance, agility is hard to achieve. In the EIU survey, 27 percent of respondents said their organization was at a competitive disadvantage because it was not agile enough to anticipate fundamental marketplace shifts. Likewise, only 26 percent of the executives surveyed in our poll rated their company's agility as high or better. (See Exhibit 2.)

Exhibit 2: How would you rate your company's agility today? (in %)



Source: Prepared by the authors

AGILITY IS IMPORTANT, AGILITY IS DIFFICULT BUT WHAT EXACTLY IS IT?

One definition of organizational agility is a company's capacity to be infinitely adaptable without having to make a radical change.^{28,29} By that definition it includes the three organizational capabilities of **sensing** (sensitivity), **securing** (unity), and **shifting** (fluidity).^{9,30}

AGILITY

=

SENSING + SECURING + SHIFTING

Sensing (or sensitivity) is the ability to detect, identify, and assess the opportunities and challenges presented by the changing external environment. It supports informed decision making. In sectors where the pace of technological development is extremely rapid, or the impact of consumer and social factors is uncertain, it is clear the importance of effectively "sensing" the need to change (when) and the areas where adaptation or innovation is required (where).

Securing (or unity) refers to a company's effectiveness in mobilizing the required resources from various parts of the organization and externally in order to capture value from opportunities the company has identified. The larger the company, the more challenging this may be. While large organizations by their nature have extensive assets, they often find it challenging to support new initiatives while focusing on today's key issues. All too often, large companies either put restrictions on access to resources or dilute the impact of their change by starting up too many competing initiatives.

Shifting (or fluidity) is the term used to describe an organization's ability to transform itself internally to reflect the new requirements of the external environment. In this realm, agility translates to the ability to shift not just the company's resources but also its old way of working. Organizations with this sort of agility are the most receptive to change.

AGILITY IS NOT JUST AGILE

Companies seeking to increase agility as the desired “output” sometimes make the mistake of focusing solely on deploying Agile practices as their “input” to achieve it. Nonetheless, Agile and agility are not the same thing.

Agile is a way of working, built on the lean philosophy; an iterative approach to planning and guiding project processes, completed in small sections. In each typically two-week iteration the project, reviewed by the team and the business sponsor, gains insights, validates assumptions, and refines the outstanding backlog of work to be completed in the next iteration. This methodology originated in the software industry and was enshrined in the Agile Manifesto of 2001. Agile has been deployed extensively in a number of related software and project methodologies such as Scrum, Kanban, DSDM, and XP and, more recently, in broader ways of working and organizing non-IT teams, as seen in companies such as ING, Siemens, and Amazon.

Agile is effectively an input that can play an important part in creating organizational agility as the desired output, but the two are not interchangeable. Agile is an approach to running teams and projects that, if implemented successfully, helps improve the organizational agility of a particular area of the business. But it isn't the only thing that can increase agility. There are many other elements to that task, for example those centered on leadership, organizational governance, and decision-making processes – not to mention the role of innovation units, which is covered below.

Nevertheless, Agile stands out as an emerging practice for many companies, and it is well suited for use in innovation units. Half of respondents in our survey stated that between 76 and 100 percent of recent initiatives launched from their innovation units were built or developed using Agile principles. (See Exhibit 18.)

AGILITY AND THE ROLE OF INNOVATION UNITS

At the risk of stating the obvious, a company that wants to increase agility has to do things differently. It is not enough to simply optimize existing practices. New technologies, competitors, and customer needs often demand materially different solutions, which call in turn for radically different ways of working. It is no surprise that innovation units are increasingly part of the answer to that challenge.

When a company is experiencing change (for example, in the market), adaptation is usually required (for example, in the offering), but the business-as-usual corporate mindset makes adaptation difficult. In this context, innovation units may help. In our survey for this white paper, we asked respondents to rate the importance of innovation units in achieving greater organizational agility. Seventy percent answered “high” or “extremely high”. (See Exhibit 15.)

Innovation units are designed to break out from today's business model and to explore new, competing ways of working – to create new business models that cannot otherwise be achieved in today's business. In situations where companies are facing more significant levels of change, dedicated innovation units may play a central role. Among the companies we polled, 96 percent have innovation units; 60 percent of them were created in the past five years. Moreover, 70 percent of those corporations are increasing their investment in innovation units. (See Exhibits 3, 12, and 14.)

Exhibit 3: In terms of investment in innovation unit(s), are you currently increasing, decreasing or making no change? (in %)



Source: Prepared by the authors

WHAT SORT OF INNOVATION UNIT?

The term “innovation unit” is somewhat misleading, implying a single type of unit, when in fact innovation teams take many forms: scouting teams, incubators, accelerators, excubators, venture funds, and many others. Identifying the appropriate sort of innovation unit is an important part of the process of getting value from the investment they required and delivering greater agility as a result.

To determine which innovation model to use, organizations should consider a number of factors. Should a company's innovation unit focus on innovating from within the organization, or using external partners, or acquiring new businesses to inject the agility the company needs? Or is the optimal solution a combination of all three?

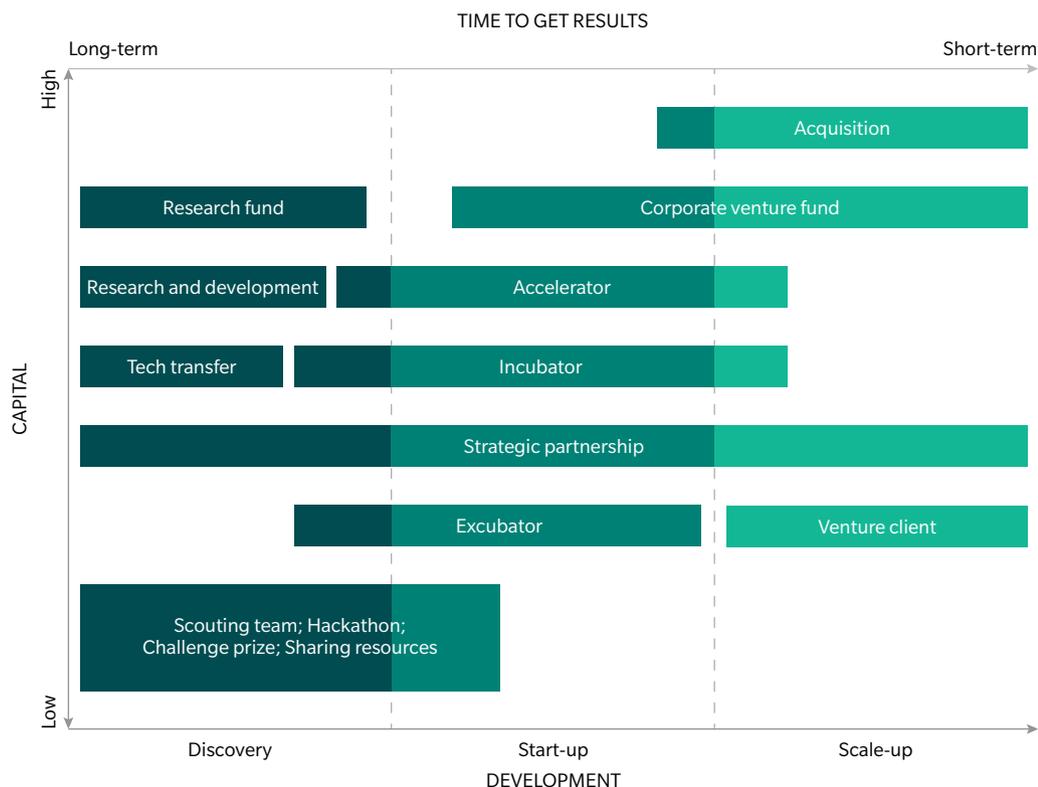
Determining whether to build, partner, or buy will require an understanding of the internal capabilities of the organization, the budget available, the timeline for the required change, and the stage of development of the business opportunity.

As Exhibit 4 illustrates, organizations have many available mechanisms for generating new initiatives, and not all of them are exclusive to particular capital or development cycle requirements. These units engage diverse participants on a long-term basis in collaboration for the purpose of creating, elaborating, and prototyping solutions to pre-identified systemic challenges.

In some firms, the boundaries of the innovation unit are limited to what they can do in-house; in other organizations those units cover all relevant relationships within the innovation ecosystem.

There is no single model. Finding the right combination requires analysis, extensive experimentation, and iteration – a process that benefits from a consciously managed approach to innovation.

Exhibit 4: Mechanisms used by innovation units classified by required capital, degree of integration, time to get results and stage of development of the idea



Note: Please, keep in mind that these mechanisms are not a sequential process

Source: Adapted by the authors from Prats, J., Amigó, P., Ametller, X. & Batlle, A. Corporate Venturing: Achieving Profitable Growth Through Startups. IESE (2017), and Siota, J. Linked Innovation: Commercializing Discoveries at Research Centers. (Palgrave Macmillan, 2018). Please, note that this scheme is not exhaustive. However, it includes the most common tools. Additionally, some tools are embedded in these mechanisms. For instance, strategic partnership includes consultancy joint-venture, external licensing, and think tank

WHAT CAUSES INNOVATION UNITS TO FAIL OR SUCCEED?

IDENTIFYING FACTORS INFLUENCING FAILURE AND SUCCESS

Companies sustain their long-term competitiveness through innovation.³¹ Organizational agility typically increases through innovation by enabling organizations to be adaptable without always having to make a radical change across the main business.^{28,29} Yet despite considerable investment, in recent years, for different reasons, some innovation units of renowned companies have closed, including Coca-Cola Founders, the New York Times R&D Ventures and Ogilvy Labs.^{32,3,4}

Or, in the words of a recent essay in the Harvard Business Review, “When a CEO announces a major initiative to foster innovation, mark your calendar. Three years later, many of these ambitious ventures will have quietly expired without an obituary.”⁵

The companies that participated in our survey, 46 percent have launched between one and ten initiatives from their innovation units in the last year; 69 percent of the surveyed companies scaled fewer than 30 percent of those new ventures across the wider organization. Moreover, fewer than one-quarter of those units delivered a significant innovation that now accounts for more than ten percent of the annual revenues of the business. (See Exhibits 16, 17 and 20.) That 10 percent mark is sometimes seen as the threshold of materiality.³³ What causes so few companies to achieve it?

In our survey, 70 percent of interviewees said they encountered resistance from other parts of the organization, and almost 40 percent of them faced difficulty (or extreme difficulty) in introducing innovations into the main business. (See Exhibits 21 and 22.) According to them (see Exhibit 5), the top five reasons for failure to adopt new initiatives across the wider company were:

1. Survival mentality
2. Internal politics
3. “Island” situation
4. Lack of strategic fit
5. Lack of buy-in

Survival mentality, in this context, refers to the unwillingness of business units to adopt innovations because of risk-avoidance mindsets or the perceived risk of cannibalizing existing business.

Internal politics reflects situations where goals and priorities are misaligned across business units, in addition to bureaucratic barriers to innovation. Internal politics can lead to a diffusion of innovation effort and competing innovation units being set up within the same enterprise, stretching resources and diluting impact. It may also manifest itself in an unwillingness to rationalize the innovation portfolio to focus on a few mission-critical priorities, and instead sustaining “pet projects” for extended periods of time.

The “**island**” situation mentioned by respondents refers to information silos and the failure to share information between business units. When information – or any precious asset, such as key talent – is hoarded within a unit and kept away from others, the company as a whole can suffer. Together with internal politics, the island situation may explain why some innovations, while successful within the unit, do not achieve scale in the main business.

The fourth-most-frequent reason given for a failure to adopt new initiatives is a **lack of strategic fit** with the company’s vision and mission. Over time, innovation units can grow out of touch with the main business and lose focus on the company’s vision and mission. When this happens – and it is especially likely when innovation units are located in a different city or country than the management team – the innovation team can come to define its purpose in ways incompatible with that of the main business.

Lastly, the fifth-most-common reason for failure is the **lack of buy-in and involvement of the main business’s leadership team**, either because they were never properly engaged or because their attention is spread too thin over too many initiatives.

Our respondents also ranked the top reasons innovation units succeed in having their initiatives adopted across the wider company:

1. Buy-in of the top management
2. Connectivity among business units
3. Strategic fit with the company’s vision and mission
4. Validated assumptions
5. Customers’ involvement from the beginning

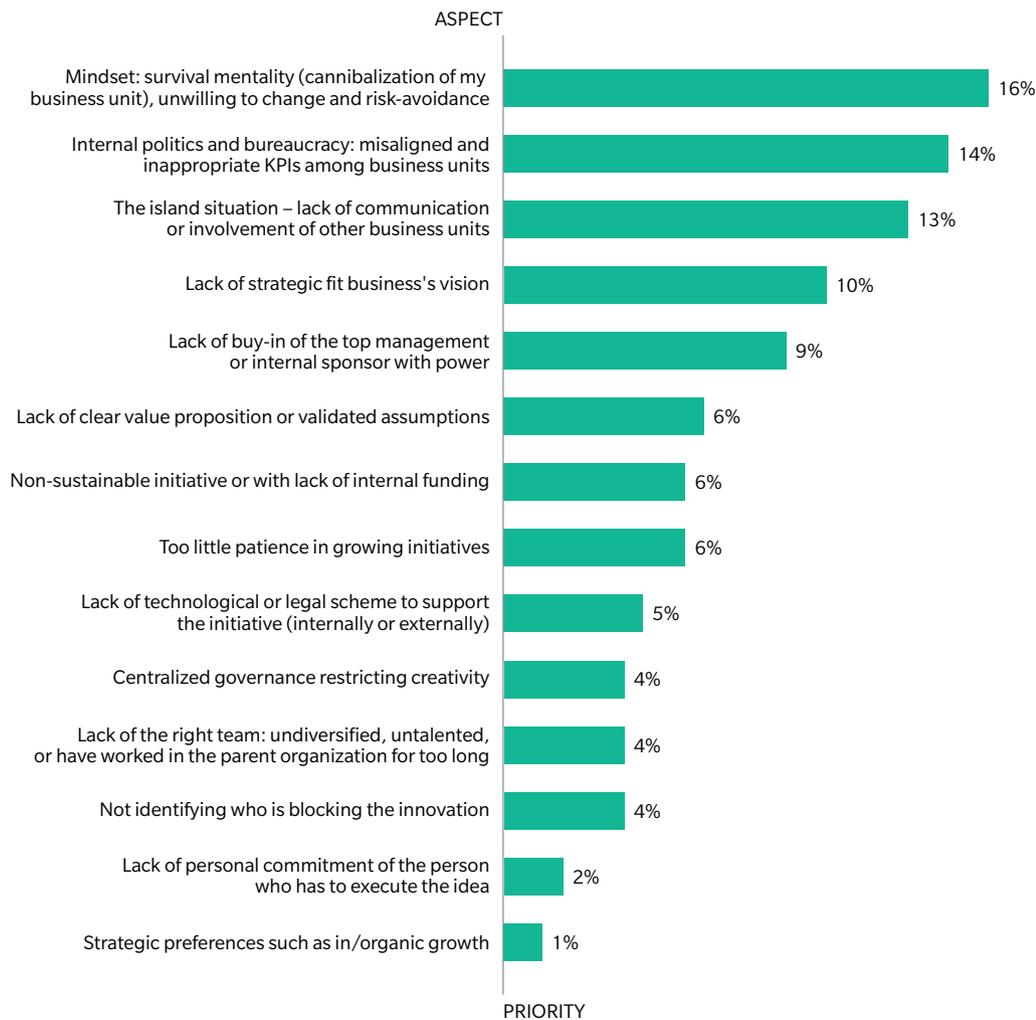
Engaging the leadership team of the main business in the innovation process, and securing an internal sponsor with influence within the organization, is the most important factor behind an innovation unit’s success, according to our respondents.

The connectivity of the person launching a new initiative across the other business units, and his or her ability to communicate properly with them, was ranked as the second-most-relevant factor, underlining the importance of linking the innovation unit to the main organization.

Strategic fit with the vision and mission of the organization plays a crucial role, as do the presence of validated assumptions concerning the feasibility of the initiative, the credibility of the initiative’s leader, and the availability of required funding. The fifth success factor is involving customers from the beginning of the innovation process.

These five items, in addition to the majority of the other success factors, have a common pattern: They can be improved by adopting the principles of the Agile philosophy.

Exhibit 5: What do you believe are the top three reasons innovation units fail in getting adopted their initiatives in the wider company?



Source: Prepared by the authors. Note that the answers were categorized

Exhibit 6 gives a sense of the capabilities required to be agile on both the individual and corporate level. It takes the success factors we gathered in interviews and groups them under the headings of sensing, securing, and shifting – the primary capabilities required for agility. (We also verified that they were consistent with the literature of the field).^{17, 23, 34}

Exhibit 6: Characteristics of the dynamic capabilities of an agile corporation

	SENSING	SECURING	SHIFTING
COMPANY LEVEL	<p>Startup ethos</p> <ul style="list-style-type: none"> • Responsive to environment • Dedicated time and talent • Connected to internal and external radars 	<p>Purposeful experimentation</p> <ul style="list-style-type: none"> • Bias to action and willingness to re-deploy resources • Separation of the strategy from the structure • Freedom to test, learn, and develop new ideas 	<p>Dynamic organization</p> <ul style="list-style-type: none"> • Flatter, faster, simpler structures • Diverse, cross-trained, and functional teams • Modular processes and change architecture
INDIVIDUAL LEVEL	<p>Explorer behavior</p> <ul style="list-style-type: none"> • Customer focused • Hunger to learn: inside and outside • Knowledge sharing 	<p>Leadership agility</p> <ul style="list-style-type: none"> • Delegated authorities: bold decisions fast • Execution not delayed by politics • Bureaucracy aversion 	<p>Entrepreneurial mindset</p> <ul style="list-style-type: none"> • Clear vision and mission • Ownership mentality • Working as a teammate

Source: Prepared by the authors

In this context, it is easy to see why so many corporations have invested heavily in innovation units as part of the solution to the agility challenge. In Agile projects developed within innovation units, the cross-functional, real-time nature of the work and feedback helps ensure close strategic alignment and ownership by the main business. The fact that Agile projects require cross-functional resources and sponsors helps align the efforts of the organization and reduces the likelihood of competing innovation efforts being set up, thereby diluting the overall impact.

In summary, innovation units using Agile methods can increase cross-functional working, reduce the risk of dispersion of innovation effort across the enterprise, and increase the likelihood of individual innovations being adopted across the wider organization.

Still, 12 percent of the surveyed respondents in this study think that their company has a low probability of achieving the necessary transformation to be more agile. (See Exhibit 11.) What are the best practices to improve the organizational agility of the company necessary to optimize the innovation process?

INCREASING THE ADOPTION OF INITIATIVES

ESTABLISHING THE WIDER ORGANIZATIONAL CONTEXT

In our research, we identified six action-oriented principles to help organizations establish the optimal, internal environment for successful innovation at both company and individual level.

Adopt a start-up ethos. This topic has been well covered in research terms and for good reason with books such as *The Lean Start-up* by Eric Ries being widely read. By adopting a start-up ethos, corporations cultivate responsiveness to the changing environment, both internally and externally through adopting more of a start-up mentality that constantly scans the external market and customer input. As the president of Toyota said in 2017 “Today, we are faced with a number of new rivals. We share with them the start-up mindset...”³⁵

In a similar vein, the start-up ethos is typically characterized by leveraging networks, internal and external, rather than trying to do everything in-house. Some large corporations, such as Google, are using innovation maps to identify opportunities within their organizations, including market opportunities as well as innovation initiatives that each employee is working on. This information is updated using the company’s own technology.⁶ Pharmaceutical giant Merck’s World Wide Licensing and Knowledge Management group includes a scouting team to simplify interactions with start-ups.⁶ These types of innovation units usually create stakeholder maps to understand the internal ecosystem of their organizations.

Experiment with purpose. Be willing to take a decision and redeploy resources from business-as-usual to experiment with new innovations currently at the “edge” of the business. Do not allow resources to become firmly embedded in organizational silos or tied to outdated components of the strategy; increase fluidity of resources and experiment. Make decisions, secure resources and start small with experiments in innovation units before trying to scale across the company.

The lean mentality – a philosophy that helps to maximize learning speed and minimize testing costs – is often a starting point for agility and successful innovation. Many organizations, such as Nike, have considerable experience with lean, and that experience can be drawn on to drive speed, reduce waste, and support innovation. With quick, cost- and time-effective experimentation, corporations reduce the risk of losing their window of opportunity for new initiatives and provide a platform to develop their agile mindsets and behaviors.

Linked to this is the importance of “Design Thinking,” a critical component of successful experimentation covered in our previous article.³⁶

It is helpful to separate the design-of-the-future strategy from the current organizational structure or processes, avoiding barriers to experimentation. For instance, in interviews, we found that some companies unpack core businesses into smaller market-facing units or projects to increase the speed of testing.

Adopt a flexible organizational structure. Review the governance and risk-management model to enable innovation units to scale up what has proven to work in experiments by encouraging people to move at speed, make decisions, and take controlled risks. Companies such as Amazon have shown the benefit of adopting differential governance, which they call “one-way doors” and “two-way doors.” The former reflects the “full” governance for decisions that cannot be reversed, and the latter the more rapid and agile approach required for most decisions.

Facilitate speed and dynamism by reducing the number of management layers between the CEO and the front line by reducing matrices and multiple reporting lines, and increasing personal and team accountabilities.

Establish greater diversity and agility in the business-as-usual teams and in the skills and capabilities of individuals. As the experience of organizations such as ING shows, it is possible to create the conditions for greater speed and innovation by changing the composition of your core teams and increasing the use of cross-functional units with different skill sets. Use Agile principles to inform your teams’ size, composition, skill mix, diversity, and ways of working. This approach consciously cross-trains individuals in new skills outside their silos and changes team structures in light of changing market conditions.

Move from fixed processes to modular processes, optimizing core procedures. For instance, build agile networks of internal teams and third parties to respond to changing external conditions. Review the practices of your internal IT department to consider how Agile principles can be more broadly adopted. And check your procurement and onboarding processes to ensure that you can work with a 30-person specialist tech firm, and not just a 30,000-person global leviathan.

Encourage explorer mindsets and behaviors. Put clients at the center and using design thinking deeply immerse yourself in their world. Use iterative experimentation to validate your assumptions about what clients prefer (mapping their desires), and apply what you learn to your innovation process. Innovation units in banks such as JPMorgan Chase’s Technology Hub or BNP Paribas’s Innovation Center are already applying client-centric methodologies such as design thinking and Agile principles in their initiatives.⁶ Similarly organizations such as Hasbro place great emphasis on developing new ways to “sense” changes in the external market such as social listening and digital listening.³⁷

Foster knowledge-sharing processes within the institution and break down information silos. For example, encourage employees across all levels of the organization to develop their networks and share information about what is happening both internally and externally, through crowd-sourcing or networks of external experts. Because initiatives like this require time and talent, it is important to give them adequate resources – and not to cut their budget at the slightest sign of financial pressure. You can structure your investments across different time horizons and stages of innovation from discovery to scale-up.

Empower and encourage leadership agility. Ensure that decision makers at all levels are able to make bold, quick decisions (either by themselves or through delegation), avoiding delays because of individual uncertainty or win-lose internal politics.

Develop and communicate the leadership mindsets and behaviors you want to see in leadership of all levels, and create the right roles and select the right people to achieve that.

Barriers to change may include resistance of individual leaders, conflicting departmental goals and priorities, a culture of risk aversion, and silo-based information. Therefore, it is important to foster leadership development and mobility among different roles, in addition to designing cross-functional teams.

Give leaders time and space to practice and embed the new mindsets and behaviors you want to see in your organization – something that can be achieved by seconding your very best talent to work on your experiments in your innovation units, which has the added benefit of addressing some of the causes of failure listed earlier.

Competitive advantage goes to companies that can overcome their embedded cultures of bureaucracy and long deliberative processes to engage the wider workforce on action rather than theory. To navigate the bureaucratic environment, it may help to map the main stakeholders and influencers of your organization and develop a clear near-term mission that supports a bias to action and focuses disparate groups on a common goal.

Develop an entrepreneurial mindset. Like successful start-up founders, ensure you have a clear purpose to guide and inspire the organization to take action. Evolve, adapt and innovate at speed to challenge the status quo and deliver on this purpose. Hewlett-Packard, for example, was leveraging a core purpose when it transformed from an engineering company that created electrical products to a manufacturer of personal computers. Use a compelling purpose and associated core principles to act as your touchstone rather than rules and policies. Leverage this approach to accelerate decision making and experimentation, and overcome internal silos within the organization.

Identify the common key performance indicators (KPI) that can be part of your narrative on agility and experiment. Make it easier to align interests and create win-win opportunities by sharing these KPIs in real-time – ensure the language and progress of the organization is common to the CEO.

CAN ELEPHANTS LEARN TO DANCE?

Organizations know they need agility, but they often struggle to achieve it. Within this context, innovation units have emerged as an important part of the solution – but with inconsistent results. Despite best intentions, companies can find that their efforts to change blocked by internal barriers such as a survival mentality, internal politics, the “island” situation, and a lack of strategic fit or of buy-in from the top management.

Although the majority of companies in our survey undertook several initiatives to improve agility over the previous three years, more than one-third failed to deliver the desired benefits. They have become “elephants that are trying to learn how to dance.”³⁸

Companies can perceive adaptability as something that gets in the way of the kind of long-term commitments that deliver sustainable differentiation. Finding the right balance – one that builds on today’s strengths while incorporating the new capabilities that come with agility and flexibility – is essential.

To succeed in this endeavor and improve the adoption of inventions in the wider organization, corporations have to develop the ability – at the company and individual level – to sense market opportunities, quickly secure the right resources, and shift the organization to meet the needs of its ecosystem.

APPENDIX

METHOD

In this study, we have applied a variety of techniques in coming to an approximate answer to the question: Why do large corporations often struggle to adopt the inventions created by their innovation units and how can they improve success rates in a rapidly changing environment?

Our initial literature review on the topic was complemented by the results of a survey, including both closed- and open-ended questions, of executives at 29 large companies in 11 industries in 4 countries. These executives know and understand the innovation practices applied in their organizations.

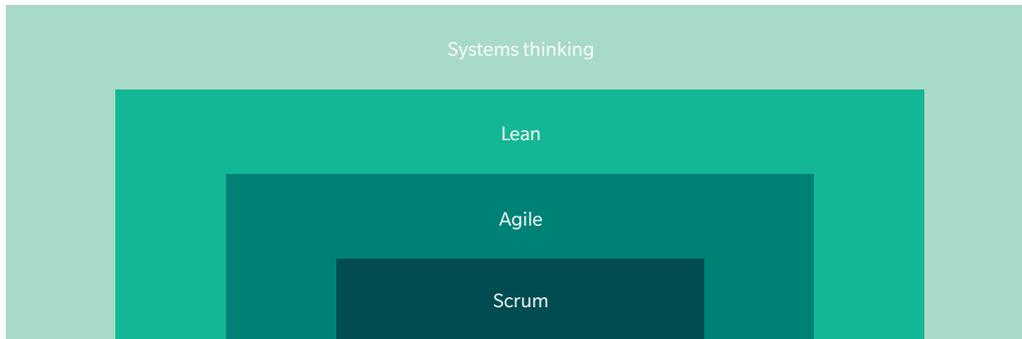
A few of the surveyed companies were analyzed in more detail by gathering publicly available data about the companies and their initiatives related to organizational agility, dynamic capabilities, and innovation.

Our respondents were selected as a representative sample of industry. But we acknowledge that a larger, wider sample could increase our understanding of the phenomena we discuss.

Further research would be welcome in forthcoming white papers to provide an answer to the following questions. How much does the entrepreneurial mindset among the employees of a corporation affect the growth of its EBITDA? What are the suggested KPIs to maximize the adoption of innovations and the long-term financial performance of a corporation? How can agility be specifically applied in highly regulated industries? What are the differences between good and great agile performers at a leadership and individual level?

ADDITIONAL CONCEPTS

Exhibit 7: Relationship among systems thinking, lean, agile and scrum



Source: Prepared by the authors

ADDITIONAL ANSWERS OF THE SURVEY¹

The organizational agility of the company (%)

Exhibit 8: How important do you believe agility is to your company's future success?



Note that there were zero percent of answers with "Low" or "Not at all."

Exhibit 9: Do you believe your competitors are having greater agility than your company?



Note that there were zero percent of answers with "Many."

Exhibit 10: Do you believe your company will need to be more agile in the future to be successful?



¹ Prepared by the authors

Exhibit 11: If Yes, how likely do you believe your company will be able to achieve the necessary change?



Note that there were zero percent of answers with "Unlikely."

Innovation units and their relationship to organizational agility (%)

Exhibit 12: Do you have an innovation unit or similar?



Exhibit 13: Do you have more than one innovation unit? If so, how many?



Exhibit 14: When was your first lab established?



Exhibit 15: How critical do you believe your innovation unit is to the overall organization in achieving greater agility?



Note that there were zero percent of answers with "Low."

Innovation units: adoption rates (%)

Exhibit 16: How many initiatives have been launched from the unit in the last year?



Exhibit 17: How many of them (see Exhibit 16) have been scaled to the wider organization?



Exhibit 18: How many of them (see Exhibit 16) were built/developed using agile principles?



Exhibit 19: How successful would you describe the unit in terms of innovation being adopted in the main business?



Exhibit 20: Has the unit delivered significant innovation that now accounts for more than ten percent of the revenue of the business?



Innovation units: challenges and key success factors (%)

Exhibit 21: Has the innovation unit(s) encountered any resistance from parts of the main business in terms of the techniques and approaches used?



Exhibit 22: How easy has it been to introduce innovation developed in the unit(s) into the main business?



Exhibit 23: Do you believe more money should be spent on the current innovation unit(s)?



BIBLIOGRAPHY

1. Glenn, M. Organizational agility: How business can survive and thrive in turbulent times. Economist Intelligent Unit (2009).
2. Weill, P. MIT CIO Summit. MIT Sloan School of Management's Center for Information Systems Research (2006).
3. Pompeo, J. "New York Times" closes R&D Ventures. POLITICO Media. (2018). Available at: www.politico.com/media/story/2013/10/new-york-times-closes-r-d-ventures-001237. (Accessed: 2018, March 14th).
4. Connelly, T. Ogilvy Labs to close and staff made redundant as part of post Brexit cost cuts within Ogilvy Network. The Drum. (2016). Available at: www.thedrum.com/news/2016/08/09/ogilvy-labs-close-and-staff-made-redundant-part-post-brexit-cost-cuts-within-ogilvy. (Accessed: 2018, March 14th).
5. Kirsner, S. The Stage Where Most Innovation Projects Fail. Harvard Business Review (2017).
6. Siota, J. Linked innovation commercializing discoveries at research centers. Palgrave Macmillan (2018).
7. Anthony, S. & Viguerie, S. 2018 Corporate Longevity Forecast: Creative Destruction is Accelerating. Innosight (2018).
8. Research Summary: Sneak Peeks From Constellation's Futurist Framework And 2014 Outlook On Digital Disruption. Constellation research (2014).
9. Teece, D., Peteraf, M. & Leih, S. Dynamic Capabilities and Organizational Agility: Risk, Uncertainty, and Strategy In The Innovation Economy. California Management Review 58, 13–36 (2016).
10. Weigelt, C. & Sarkar, M. Performance implications of outsourcing for technological innovations: Managing the efficiency and adaptability trade-off. Strategic Management Journal 33, 189–216 (2012).
11. Putnik, G. et al. Scalability in manufacturing systems design and operation: State-of-the-art and future developments roadmap. CIRP Annuals – Manufacturing Technology 62, 751–774 (2013).
12. Siota, J., Klueter, T., Staib, D., Taylor, S. & Ania, I. Design Thinking: The New DNA of the Financial Sector. IESE Business School; Oliver Wyman (2017).
13. Hurley, M. & Hunter, R. Gateway to growth: innovation in the oil and gas industry. PWC (2013).
14. Jepsen, F. Brussels Airlines: A digital redesign drives increased bookings. Design for Europe. Available at: www.designforeurope.eu/case-study/brussels-airlines (Accessed: 2018, March 14th).
15. Research & Development overview GSK Belgium. Available at: be.gsk.com/en/careers/areas-of-opportunity/research-and-development/. (Accessed: 2018, March 14th)
16. The People's Company. Bloomberg (2001). Available at: www.bloomberg.com/news/articles/2001-12-02/the-peoples-company. (Accessed: 2018, March 14th)
17. Sambamurthy, V., Bharadwaj, A. & Grover, V. Shaping Agility Through Digital Options: Reconceptualizing the Role of Information Technology in Contemporary Firms. MIS Quarterly 27, 237–263 (2003).
18. Rindova, V. P. & Kotha, S. Continuous "morphing": Competing through dynamic capabilities, form, and function. Academy of Management Journal 44, 1263–1280 (2001).
19. Brickle, T. & Gonzalez, S. Ethnography and Engineering: How Qualitative methods can help build the car of the future Society for Applied Anthropology (2015)

20. Rigby, D. K., Sutherland, J. & Takeuchi, H. Embracing Agile. Harvard Business Review (2016).
21. Hoogerhuis, K. & Olson, E. Agile whole leadership: How to become an agile leader. Oliver Wyman (2010).
22. Davila, T. & Epstein, M. The Innovation Paradox: Why Good Businesses Kill Breakthroughs and How They Can Change. Berrett-Koehler Publishing 62–240 (2014).
23. Zook, C. & Allen, J. The Founder’s Mentality: How to Overcome the Predictable Crises of Growth. Harvard Business Review Press (2016).
24. Prats, J., Amigó, P., Ametller, X. & Battle, A. Corporate Venturing: Achieving Profitable Growth Through Startups. IESE Business School (2017).
25. Thomas, H. The State of Art of Dynamic Capabilities Schools. in Rethinking Strategy (eds. Elfring, T. & Volberda, H. W.) SAGE Publications (2001).
26. Zott, C. Dynamic capabilities and the emergence of intraindustry differential firm performance: Insights from a simulation study. Strategic Management Journal 24, 97–125 (2003).
27. Zott, C. & Amit, R. Business model design: An activity system perspective. Long Range Planning 43, 216–226 (2010).
28. Dyer, L. & Shafer, R. a. From Human Resource Strategy to Organizational Effectiveness: Lessons from Research on Organizational Agility. CAHRS Working Paper (1998).
29. Norlander, A. Cognitive Systems Modeling and Analysis of Command and Control Systems. Swedish Armed Forces Joint Concept Development and Experimentation Centre (2012).
30. Nejatian, M. & Zarei, M. H. Moving towards organizational agility: Are we improving in the right direction? Global Journal of Flexible Systems Management. 14, 241–253 (2013).
31. Tushman, M. L. & O’Reilly, C. A. Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal. The Management of Innovation and Change Series 33, (2002).
32. Kim, Y. What the Media is Missing About The Closing of Coca-Cola Founders: The Coca-Cola Company. Coca-Cola Journey (2017). Available at: www.coca-colacompany.com/stories/what-media-is-missing-about-the-closing-of-coca-cola-founders. (Accessed: 2018, March 14th).
33. Moore, G. A. Zone to Win. Diversion Books (2015).
34. Doz, Y. L. & Kosonen, M. The Dynamics of Strategic Agility: Nokia’s Rollercoaster Experience. California Management Review 50, 95–118 (2008).
35. Toyoda, A. Toyota Open letter. Available at: www.toyota-global.com/company/message_from_president/. (Accessed: 2018, March 14th).
36. Dieter, S. & Siota, J. Design Thinking; The new DNA of the financial sector. IESE Business School & Oliver Wyman (2017).
37. Berkowitz, J & Cocks, C. Hasbro Investor Toy Fair Brand Initiatives – Gaming Leadership. Available at: <http://investor.hasbro.com/static-files/11cd4026-0478-4062-a66e-22bdff557943>. (Accessed: 2018, March 14th).
38. Gerstner, L. V. Who Says Elephants Can’t Dance? Harvard Business Review (2002).

ACKNOWLEDGEMENTS

The authors M^a Julia Prats, Josemaria Siota, David Gillespie, and Nicholas Singleton would like to thank all the people who contributed to this study. They especially wish to express their sincere gratitude to Paula Sancho and Eddy Zakes at IESE Business School, in addition to Inigo Ania, Ivan Palencia, Margery Infield, and Georgia Ware at Oliver Wyman.

Moreover, we want to thank the insights, perspectives, and recommendations of the experts José Insenser (Airbus), Peter Borchers and Alexis Brion (Allianz), Pedro L. González (Almirall), Sanjay Khanna (Baker McKenzie), Montse Guardia (Banco Sabadell), Benjamin Weber (Boehringer Ingelheim), Reza Ghassemi (Carrefour), JP Rangaswami (Deutsche Bank), Milagros Rey (Gas Natural), Carlos Haertel (General Electric), Antonio Vázquez (LG Electronics), Carlos Costa (Mango), Karolina Korth (Roche Diabetes Care), Jason Wild (Salesforce), Emmanuel Lagarrigue (Schneider Electric), Michael Nuernberg (SAP), just to name a few. Nothing mentioned in this study refers either to them or their corporations.

Lastly, our gratitude goes to the Entrepreneurship and Innovation Center at IESE Business School and to the Organizational Effectiveness and Financial Services practices at Oliver Wyman. Without their effective support, we would have been unable to complete this project.

Copyright © 2018 Oliver Wyman and IESE

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and IESE. Oliver Wyman and IESE accept no liability whatsoever for the actions of third parties in this respect. The information and opinions in this report were prepared by Oliver Wyman and IESE. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman and IESE have made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman and IESE disclaim any responsibility to update the information or conclusions in this report. Oliver Wyman and IESE accept no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman and IESE.