

Strategy & Corporate Finance Practice

Creating high-performance innovation teams at scale

For innovation initiatives to succeed, they must be staffed with the right combination of talent.



In this episode of the *Inside the Strategy Room* podcast, McKinsey senior partner Erik Roth, partner Matt Banholzer, and communications director Sean Brown discuss how to put together winning innovation teams. (For more conversations on the strategy issues that matter, subscribe to the series on iTunes.)

Sean Brown: From McKinsey's Strategy and Corporate Finance Practice, I'm Sean Brown. Welcome to *Inside the Strategy Room*. Most CEOs understand that innovation is a team sport. The challenge leaders face, though, is identifying the right combination of players within their organization capable of developing winning products and taking them to market.

Joining us today are Erik Roth and Matt Banholzer. Erik is a senior partner based in our Stamford office. He directs our work on innovation globally. Matt is based in our Chicago office and leads our global innovation-delivery work. Both are coauthors of a recent McKinsey article, "Fielding high-performing innovation teams," which discusses some of the traits necessary for success. Erik and Matt, thanks for joining us today.

Erik, let's start with a question about your research into these high-performing teams. What is the genesis of the research?

Erik Roth: We're on a continuous journey to try to understand the dynamics of what makes a top-performing innovator. In that journey, we've continuously come back to this topic of organization—and more specifically, talent. As we step back and think about where this fits in the overall framework of innovation, we often talk about the eight essentials of innovation. Mobilize, that eighth essential, is one of the critical ones, which is all about the people, talent, culture, and organization of what supports an innovation operating model.

As we've looked across what defines a top performer from a bottom performer, one of the things is the difference between the "what" and the "how." The "what," being what we find many

companies focus on, is what I'll call the up front of the funnel of innovation—the ideas. We've found what really differentiates a top innovator from the rest is the "how"—how they architect their operating model. This has lots of elements to it, but in the end, one of the most critical things is the people that you have in these operating models making the daily tasks of innovation happen.

Within that context, one of the questions we often get asked is, "How do I get the best innovation talent into my organization?" It's an interesting question because of course we all want to find the most talented individuals and the most high-performing individuals to drive some of our most important endeavors.

But as we look at innovation, what we're finding is there just aren't that many people who are natural innovators, particularly in large organizations. What we look for in an innovator is someone who has a multidisciplinary view on their job and has a set of experiences which has taught them a portfolio of capabilities, which they're applying almost in a general management-like way to the task of innovation. The reality is there aren't as many people as we would like who understand and have that full set of capabilities—and more importantly, who can operate within a large, complex organization and deploy them in such a way that they can have disproportionate impact.

As we study this problem of people, what we've found is that the individual is the wrong unit of analysis. It's actually the team, because in reality, especially in larger organizations but even in some smaller ones, no innovation happens without a group of individuals coming together to support it. We've been fascinated by this difference between the question we get from clients—which is, "How do I find the best innovators or entrepreneurs?"—and the reality that innovation happens in teams.

This overemphasis on the individual versus a team was what led to this research and this notion that, if we start studying teams, what leads to a higher-performing team? What is it about a successful innovation team that is different from an individual?

And more importantly, how does a company assemble these teams and scale them? Because in the end, innovation at scale is what matters. It is the ability to continuously create new value propositions, create incremental, substantial value that matters to an organization. If you cannot do that over and over again, then innovation is an interesting activity and you might get some one-off successes. But you're not going to create value at scale that's meaningful to support a large organization. It comes down to, who are the people? What are the teams that you assemble? And how do you scale those teams across an organization and have that continuous positive impact around innovation?

Sean Brown: Matt, share with us a little bit more about assembling the right team, and specifically about how you think about that over time as the team evolves.

Matt Banholzer: We think about the talent and skills that people have as something that needs to be continually revisited across an entire innovation process, from the beginning of the concepts to how it's developed and eventually scaled. That's interesting to us because a lot of times when we talk to our clients and individuals, either inside or outside the organization, they're overfocused on the beginning. Like, let's just assemble the right team, put them in the room, and we'll hopefully have them wear jeans in a brick-walled area that looks nice, and hopefully something good comes out of it.

But in reality, thinking about the talent mix across the entire life cycle of the innovation project—and ultimately, the innovation program—is an important piece of this. And that's why we have this as a cycle, saying, “You know what? Yes, it's really important to identify the right roles and the right people early on.” To Erik's point, it's how these roles mesh together into a team that has complementary strengths. But it's thinking about the fact that what you need potentially early on in a project's life cycle, where you're trying to identify the unmet needs or the pain points of all the problems you're trying to solve, and then architect a value proposition to address that, that is a different skill

set than trying to iteratively drive a product through to the end minimum-viable product, or eventually to the market-ready product at scale. Those require things like complementary execution skill sets, for instance.

And then finally, it's scaling. That's another type of skill set needed to try and drive this along the way. We wanted to take this holistic view, because what that means is the team that you start with might be the right team, but it needs to shift and evolve over time. And it means that talent management is going to be a continuous job with any innovation program or any innovation team, rather than a one-off thing where you try and set it and forget it.

Sean Brown: Matt, is there typically a common thread, a project leader who stays involved through all phases? Also, who is overseeing how these teams evolve as you move from early concept through scale?

Matt Banholzer: You do need some sort of through thread across the life cycle of a project. Because someone has to be holding the vision and owning what this thing will become. We like to think about any innovation program, whether it's really big or small, or a project, as that it still needs to have its CEO. And CEOs tend to have a vision of over the midterm to long-term horizon. There is going to be a small core of the team that is going to persist over time. I like to think about it like you're just essentially bolting on or swapping out some of the other talent and skills and roles around the periphery of that as time goes on.

The second point is around, “How do you think about the role of the organization to assemble and think about teams?” We've seen a couple different models that work. Sometimes there's a very entrepreneurial, almost agile culture where teams are formed through a marketplace. What you have is the innovation-program, or the innovation-project, leaders themselves keep an eye on their talent and view that as their core responsibility throughout. That doesn't necessarily work for every type of corporate-culture environment. Sometimes they try and make a hybrid between that and what

I'll call a conventional HR process, where you have someone who's the HR liaison, for instance, connecting the talent program of the overall mother ship to the talent needs of the individual innovation concepts and teams. They're playing a screening role or a talent-development role in parallel to the team, to make sure they're getting the right people plugged in as time goes on.

Sean Brown: Erik, do you have something to add?

Erik Roth: Yes, if I could offer an addition to that. We often see a big difference between innovation teams that originated the idea and are carrying it forward versus innovation teams that are assigned an idea. Think about the difference between the quality of the output and the energy going towards a given initiative if it was assigned to someone versus if it was their idea. This is where the interesting challenge is, because yes, as Matt said, we find that talent deployment against an idea is one of the biggest challenges that most of our clients have. They're just not able to always put the right talent against the best ideas.

If you've got someone unbelievably passionate about their idea who wants to take it forward, it doesn't necessarily mean they're the right person. And this is where our insights come in, because we say, "Look, that's OK. But really understand what they are really good at. And how do we take those positives and wrap around them everything else that's required?"

This notion of getting a team to support the success of innovation is really important. We've done a lot of research around what really makes for a high-performance innovation team. What we've found is that, if you go to Silicon Valley or Berlin or Singapore or Israel and look for the entrepreneurs—individual founders—they overweight slightly on the vision and the collaborations and underweight slightly on the execution and learning. But again, it depends on the individual.

But in a corporate environment, we find the difference is for the person who has the energy

for the idea (and this is where it often falls apart): they often overweight on the uncovering and the generating, and they underweight on everything else, particularly in a large organization where functional expertise or functionalization is part of the organization model, because they haven't had that cross-functional experience necessarily, and they are put in a role usually to generate ideas. And so if they have been generating the idea, they don't necessarily have everything to execute it. Surrounding those individuals with everything else is really important.

What we find is that if you've been assigned an idea, then you often lack that vision, that product ownership, if you will, that Matt was just describing. And so you might be from somewhere else, your background or your strengths may be somewhere in the execution, or perhaps in the collaboration. And without a rudder to steer innovation forward, and the vision that selling, generating, and uncovering that next level of insight requires, then initiatives fall off the track.

So this notion of how you make sure you've got the right teams, and also the right people, really starts at, "Well, where did that idea come from, and who owns the vision for that idea?" And then adjusting the team structure based on that to ensure it's got the highest probability of success and the right capability mix associated with it.

Sean Brown: Do you see any difference in terms of size and incumbency in terms of managing these teams? In other words, a lot of times innovators or small companies focus on one thing, but as you become a larger company and you're an incumbent, one would imagine that gives you more resources to try and field more and more diverse teams. How does that work in practice?

Erik Roth: I would say yes, in theory, a large organization should have more resources from which to draw upon. However in practice, a larger organization has more difficulties at redeploying those resources. As we all know, the best predictor of next year's resource allocation is this year's resource allocation, where the average resource

reallocation is between 5 and 10 percent, year in, year out. In a world where opportunities are shifting, but people aren't, how do you deploy the best people against the best opportunities? Large organizations really struggle with this, which is why I think "agile" has become such a buzzword and an aspiration for so many organizations. What we do is help companies put a new operating model in place that allows for this redeployment and reallocation of resources so you do take advantage of all of that untapped talent that exists in a larger organization.

Sean Brown: Where do you see the most important part that HR can impact and encourage this collaboration in building high-performing innovation teams? What's the role of HR in all of this?

Matt Banholzer: I have two reactions. One is they can play a really important job early in the process by helping the leaders of the company expand the lens they're using for what good talent is. A lot of times people think about, "I'm going to put my A-list high performer into a talent program," which is great. You want to staff it with your best talent. But oftentimes a high performer is defined as someone who can—with high reliability—deliver the quarter, and may be different from a high performer or someone who's going to start something from scratch. It could be that a high performer is a really good executor, and a really good collaborator, but maybe they have a little bit less confidence in the visioning piece of the wheel. Having them understand the wider solutions space needed to build the team is one important piece early on. And then really "thought partnering" with the leadership team along the way.

The other thing is later in the process, especially when they're trying to expand the team beyond the core group, how do they think about harmonizing the rewards and recognition and performance-management processes of the larger company with what the innovation teams need? A lot of times friction comes in when people are placed on an innovation team, and they're told to move fast, to try things differently, told they're going to be rewarded for different outcomes, which could be learning.

Other people use the term "fail fast." I'll say "learn quickly." But then they go and they get reported on the same performance review as anyone else in the organization, around, "Did you deliver your numbers?" et cetera. And so the whole idea of needing to bifurcate performance management from someone on an innovation team from their old day job is important, so they don't feel like they have two masters. And then making sure that you're not trying to force fit a square peg in a round hole, so if they deliver what you asked them to, they still aren't punished inadvertently by a legacy performance-management system, is really important.

And along underneath that, being very clear throughout the whole process that you have their back as the HR organization, that you're going to make sure that they are fairly treated and consistently rewarded for what they're being asked to do. It just gives them the liberty to take those risks, which is so important when you're launching a new start-up type of environment.

Erik Roth: I have a few comments on this because I love this question. It's hard for me to count on two hands the number of times where I've even seen HR involved in the innovation team's operating model. It's very rare that I've seen an HR group engage at the construction of an innovation team. I see HR talking about structures of innovation teams—like incubators—and, at the high level, an org's boxes and charts and maybe a little bit in recruiting. Although oftentimes we hear the comment, "I found the right person for this, but we couldn't hire them, because they didn't fit in our leveling system based on the rewards and the compensation we'd like to pay this individual." There's an opportunity for HR to jump in and get involved here.

Now at the same time, I'm not sure they have the tools. We want to give HR the tools to get involved in the dialogue here. I can go to company after company, and by the way, many of these companies I could list would be on the top 50 list of the most innovative companies in the world, and they're missing an angle here as to how to deploy the great talent they have in a much more productive way.

And I could go through an even longer list of all the companies that wish they were in the top-innovator category that aren't even thinking about talent.

I was in with a client yesterday. We had the entire leadership in the room from the R&D and innovation groups. This is one of the biggest companies in the world. We were talking about the technical competencies required to support the innovation pipeline that they're doing. And no one had mentioned talent. I said, "Well, I'm going to offer a different competency here. How are we thinking about making sure we have the best individuals from around the world in this already very high-performing company, and how do we make sure we're assembling them in the right multidisciplinary cross-functional teams with the right inclusiveness and diversity, to get the best mix of ideas and talent and experience against the highest potential opportunities?" And it was like crickets in the room. Then there was one individual who stood up said, "Look, this is not the job of this group to determine those [people-related] decisions." Now this is a high-performing team. I thought that was an interesting observation, but not unfamiliar relative to what we see everywhere.

This is why I say it's an opportunity to get involved in the discussion. HR should not be about staffing teams in innovation. I think they can be about creating dynamic, winning, high-performance organizations with teams that generate value creation. And if you start looking at, "What's my role in accelerating innovation as an HR professional?" they disproportionally should have the talent, skills, capabilities, and experience to be able to really help in this way. I'd say it's a huge opportunity underweighted relative to what we see across the world.

Sean Brown: In your article, you present something called a "talent wheel." This includes several types of people. Can you tell us more about these types?

Matt Banholzer: The first group was around visioning. This is the idea around, "Hey, can you really uncover an unmet need? Can you generate a value proposition or an innovation that meets an unmet need? And then can you sell it internally and

externally to people who understand your vision in a compelling way and want to jump on to be part of the team or also try and use whatever innovation you're going to deploy down the line?" That whole idea of opportunity identification and generation is really important. Obviously if you don't have that, you're not going to have an idea.

The next group was around execution. And this is almost the yin to the yang of visioning, where a lot of times people have great ideas, but then turning that into a reality is all around lining things up, knocking them down, and iteratively marching forward. This is around making rapid decisions. This is something that a lot of large organizations have trouble with: making a decision and moving with it, particularly in the face of ambiguity. A lot of times people are hesitant to make a decision until more data come in rather than saying, "We are going to move forward, test, learn, and adapt quickly." This idea of moving forward through that uncertainty and analyzing the results is actually quite a complementary skill set.

And then there's something around collaboration, which is how you glue these things together. The idea that you have to do this as a team is important. We already talked about the importance of complementary skill sets on your team. It's important to keep those people motivated. It's important to make sure that they're working together in an integrated approach, because you need a lot of multidisciplinary talent oftentimes to run an innovation team.

And you need to network both within the company, especially if it's a large company, to make sure the antibodies are kept at bay and you turn people who might be skeptics into supporters, and outside of the company, right? You have to network with your partners, whether they're suppliers, channel partners, customers, et cetera, to make it work.

And then finally, this is all about learning. I think innovation is a lot about learning the product market fit and learning about what you need to do to do better next time. If you aren't that kind of fast-style learner who's willing to take risks, admit mistakes,

and change, it's just going to be really hard to get your product where it needs to be. You see these points in a lot of all the different start-up and innovation literature you read across the last ten or 20 years.

What's interesting to me, just as an observation, is that different organizations, particularly large organizations, come from different areas of strength. Of course, the individual traits are going to start to swap these out from the overall innovation culture of the organization. But it can give you hints. For instance, I also work with a lot of science-based companies that are trying to bring innovations from new materials, or new innovations, or new processes. They tend to be quite strong on the execution and collaboration front because if you want to get a scientific advancement done, you must have a lot of people working together, and you must march through innovation gates that have been so popular the last few decades. But where they start to be a little bit weaker is this idea of, "How do we actually uncover the visions and the insights from our customers down the line and turn it into reality?"

I also do a lot of work with consumer-packaged-food companies, and they have the opposite problem. They know what they need to go and do. They need to go in higher-end segments. They need to try and innovate different types of products. They have a good idea of what the consumer or the customer wants. But they start tripping over their own two feet about scaling these ideas into something that's substantial. They don't have that kind of execution muscle along the way, because it's not what they've identified as a priority for them outside of innovation. Thinking about how these different cultural norms can influence how you draw your team is also pretty interesting down the line.

Sean Brown: How can a small team be motivated to integrate these principles? If you're a small team, how do you motivate them to integrate these principles when they still have that day job, and that's probably what their year-end review will be based on. Erik?

Erik Roth: I'm so glad you asked this question. Let me give you two thoughts. First of all, don't

give up. Second of all, a given team needs to be in an operating model that can support the team. A team alone in a large organization may persevere through blood, sweat, and tears. It always happens. But it's not necessarily the most enjoyable process.

The reason I loved your question is because you said the last part, which is: "What if it's my objective?" We are finding one of the root causes of the lack of agility around innovation and the challenge of staffing those teams is the fact that people have day jobs. And what does that mean? Well, we've gone in, and often when we do these assessments, we look at the annual contract the person signs up for with their boss as to what they're expected to deliver, whether that's a review, or an objective page, or OKR [objectives and key results], or whatever format a given company uses.

What we're finding is these things are like stone tablets. They get etched in, and they don't get revisited until the next review cycle. And however long that review cycle is, that person is effectively signed up to deliver what that is. So now let's play the scenario out; these are real-life stories. You are on a team, small, big, or large. And you know that your innovation initiative isn't going so well. Maybe it needs support. Maybe it needs a pivot. Maybe it shouldn't exist. Who knows? You are just plodding along. But let's say, whether it's the whole team or an individual on the team, you don't believe in it. What starts to happen? What starts to happen is that the team loses its motivation, it doesn't think it's a big priority, yet it's still responsible for delivering something.

So it will spend resources and time, probably disproportionately a little less than it should, to pull something over the line because that's what it has agreed to deliver. And guess what? The outcome is not nearly what it could be. Now more often than not, there was a pivot that could have happened.

So back to your question around, "How can a small team succeed and be motivated?" Highlight the assumptions that you're testing and the learning that you've had and say, "We just learned X. Therefore, we need to go do Y. Do we have

permission to go do it?” And you know what? If you don’t, then be bold enough to say, “Let’s just stop this because it’s not a good use of resources. I should be redeployed on something else.”

Now on the flip side, from a company standpoint, be aware of what you’re asking your people to do. If you’re asking people to sign up for more than they should on an individual basis or to stick with something longer than it should be stuck with, then shame on you, right? Go back and revisit. HR has an opportunity for a role. Revisit how you set up these OKRs or these objectives for an individual. And then, more importantly, step back and view it from a team standpoint.

As you’ve set individual objectives, how much is about the individual pathway versus the collective success of a team, especially in relationship to an innovation portfolio or initiative? There’s tremendous opportunity for companies to revisit this and open up a whole opportunity set of reallocation of resources against stronger, more successful, high-probability teams. And the individual you just asked the question about won’t have to suffer. They’ll have the support and an operating model that’s engaging them and supporting them to accelerate their innovation or putting them on a different one that’s a higher, better use of the resource.

Sean Brown: One related question to this is, when you see these gaps, how does training and development fit in? Because in some cases people might say, “I’m not particularly strong in this, but I want to get better.” How do you see that effectively delivered?

Erik Roth: What we’ve found is that pattern recognition and experiential learning tend to overweight as a better mechanism with innovation than watching a video. That doesn’t mean you can’t watch a video and learn how to be an agile scrum coach. These are good skill sets. But doing is better. And then back to the notion of, what can organizations do? I think they can be a lot more thoughtful about the team’s configuration. Let’s say I believe someone is a high-potential performer

and they’re just not a real visionary or a salesperson in the sense of representing an idea well. I can surround them with people who they can learn from. They can be apprenticed. Then I can remix teams.

Sean Brown: Do you recommend things like Skunk Works, separate organizations for large companies that are trying to foster innovation?

Erik Roth: There are always Skunk Works somewhere. Be careful of Skunk Works and what I call “green-box organizations” set up specifically to do innovation. More often than not, they become MVP [minimal-viable-product] organizations doing simple demonstration products. The quick heuristic we use is: How well are those organizations linked to the go-to-market vehicles? Can they get something to commercialization? And more often than not, the answer is they don’t have a direct path to a customer.

Sean Brown: In many cases, large companies will acquire small teams as “acqui-hires.” Are there any specific steps they should take to bring those innovation teams into the mother ship to make it effective?

Erik Roth: A company needs to be really clear on why they’re acquiring something. If it’s an acqui-hire, then it’s the talent. If it’s a business-model acquisition, it’s the business, the technology, and the IP [intellectual property]. There are lots of different reasons. So first, be super clear on why you’re acquiring something. And then, I always like to say, there’s pitchers and catchers. The pitcher is who’s pitching the company to the large organization. And the catcher is the mechanism to catch it. It’s a little bit of a baseball analogy. And if you don’t have a strong catching mechanism for ventures in particular and really strategically understand where it fits into your portfolio, then the likelihood that you’re going to derive tremendous value out of that acquisition is quite a bit lower.

We see lots of different theories and purposes. Some like to keep them separate. Some like to bring them in. Some have well-developed talent-acquisition models that absorb them. There are all different kinds of ways to do it. There’s not

one model. My advice would be to have a model. Whatever it is, the idea of scale is not always friendly to a small organization. You have to be thoughtful about how you plug the pieces in, and what you're borrowing, and what you're not. And I've seen quite honestly all sorts of different models work. But the common thread is somebody, usually an executive, understands precisely what is helpful and what is not relative to the strategic intent of that acquisition and makes sure that it's handled very carefully to get the most out of it.

Sean Brown: Can you share how this relates to your prior research on the eight essentials of innovation?

Erik Roth: We've been tracking the eight essentials of innovation for a good seven years or so. As far as we're aware, this is the only inside-out assessment of innovation based on the practices that we know drive innovation. There is an assessment, the innovation quotient—the IQ, which is an index—that says, "How do you perform relative to other companies on these eight essentials?" We can now connect the eight essentials to shareholder performance in a way that hasn't been done before. So now we have a bit of predictive value as we assess you and compare you and see how much value you're likely to create on a curve.

Talent in particular obviously appears, as we've said, across all eight, right? You need the right talent across all eight. And particularly if you think

about high-performance teams, that's fast and effective scale-up. The higher-performing teams you have, the faster and more effective the scale-up is going to be, getting things through the various development processes that you might have.

In a multipipe organization—some incremental, some more challenging, breakthrough, disruptive—you're going to need different types of teams with different configurations and skills to move those along. Some will have to deal with a lot more ambiguity. Some will have a lot more certainty associated with what they're taking forward.

And then to mobilize an organization and culture, well, that is all of those soft and hard levers and things that go around the operating model, which is the thing that links all of these different eight things together which makes the organization hum. Talent is everywhere—team configuration against an individual initiative. But then the broader culture is going to be a summation of all these high-performing teams. If you are an organization with lots of high-performing, successful innovation teams, you will have an innovation culture. It will be dynamic. It will be exciting. It will be a talent magnet. And it will be one of the best companies in the world to work for.

Sean Brown: Erik, Matt, thanks for joining us today.

Sean Brown is McKinsey's global director of communications for strategy and corporate finance and is based in the Boston office, **Matt Banholzer** is a partner in the Chicago office, and **Erik Roth** is a senior partner in the Stamford office.

Designed by Global Editorial Services
Copyright © 2019 McKinsey & Company. All rights reserved.