

McKinsey Global Survey results

Making innovation structures work

Executives say their companies rely on multiple organizational models to drive innovation—and that these functions struggle to integrate fully with the business as a whole.

Executives say their companies use multiple organizational approaches to drive innovation and that the success of these efforts depends on integrated strategy and C-level support. These are among the findings from our latest McKinsey survey on innovation,¹ which asked executives about the organizational innovation structures in place at their companies, the strategic and financial objectives these structures have set, and the people and processes involved in achieving innovation outcomes.

Nearly two-thirds of executives report broad innovation portfolios that include more than one type of organizational model, and nearly half say their companies use separate innovation functions that focus on developing new business opportunities, sit at company headquarters, and are less than three years old. While 86 percent say the structure of their separate functions positively influences outcomes, the results suggest that the most important factors for success are the extent to which innovation is integrated in corporate strategy and to which company leaders support and engage with innovation efforts. These separate functions are most likely to report directly to the CEO and to interact formally with C-level leaders, yet across all types of structural models and rates of success in meeting financial goals, respondents cite the same perennial challenges: namely, competition with short-term priorities and integration of the functions' strategic objectives with the rest of the business.

¹The online survey was in the field from May 15 to May 25, 2012, and received responses from 2,927 executives representing the full range of regions, industries, and company sizes. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.



²At either the corporate or business unit level, 46 percent say their companies have separate functions in place to drive innovation, followed by 36 percent who say the same about central R&D functions and 27 percent about corporate-wide innovation initiatives staffed with rotating talent.

³When asked about the strategic focus, location, age, and reporting structures for the separate functions that drive innovation efforts at their companies, the largest shares of executives say their functions focus on identifying new business opportunities, such as blue-sky innovation and developing potentially disruptive technologies (62 percent); that the functions are colocated at their company headquarters or individual business units (60 percent); that they were established less than three years ago (43 percent); and that at the highest level, they report directly to the CEO (44 percent).

The innovation function evolves

Overall, the results indicate that companies rely on various organizational approaches to execute innovation: 62 percent of executives report the use of multiple structural models to drive innovation efforts. Within this portfolio, respondents most often cite the use of separate innovation functions,² and the largest share (33 percent) rank the creation of new products and services as their companies' primary focus over the next one to three years. Their responses about the separate structures reveal some key similarities that characterize today's innovation function: one that focuses on new business opportunities, is colocated at company headquarters, was established less than three years ago, and reports directly to the CEO.³

Today's innovation functions are likely to take responsibility for new ideas through to prototyping while reporting in-market successes as well; 51 percent say their functions have successfully launched at least one in-market product, service, or business. Structurally, though, there is no clear consensus among executives (and their companies) on which organizational model is ideal (Exhibit 1). Only 4 percent, for example, depend on innovation incubators, which were common in the years of the dot-com boom.

The results also indicate that innovation functions' location, finances, and ownership have shifted over time—specifically, between the functions established more than ten years ago and those that are less than three years old. Among executives whose functions are older,

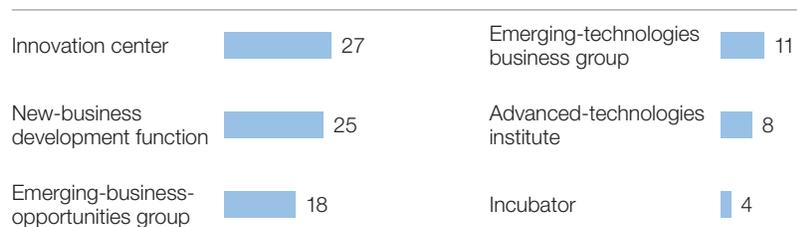
Exhibit 1

No uniform view on organizational design

% of respondents,¹ n = 1,279



Organizational structures of separate innovation function most dominant in driving outcomes



¹Respondents who answered "other" or "don't know" are not shown.

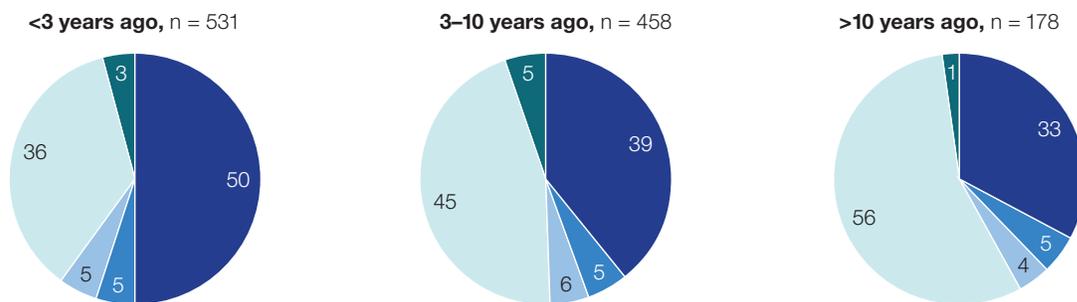
Exhibit 2

Younger functions more focused on profit

% of respondents¹

- Turn a profit
- Break even
- Cover losses or expenses
- No financial targets, or function used as a cost center
- Don't know

Financial objectives of separate innovation functions, by function's age



¹Figures may not sum to 100%, because of rounding.

46 percent say these structures sit at company headquarters, compared with 65 percent at the companies with younger functions. Younger functions also are likelier to focus on profits (Exhibit 2). Perhaps not surprisingly, because they have had less time to develop and launch new innovations, the younger functions have had fewer market successes: 31 percent with these functions say they have successfully launched at least one in-market offering, compared with 83 percent of those with older functions.

Factors for success

An innovation function's success is not only a matter of maturity, though; while there is ongoing debate on how separate from or aligned with corporate strategy a company's approach to innovation should be, the results from several questions—and our own experience—affirm that strategy (particularly one that is focused, clearly articulated, and integrated) is key to successful outcomes. At companies where innovation is fully integrated into strategy, executives are six times as likely as those without integrated strategy to say their separate functions meet their financial objectives effectively.⁴ More companies with integrated

⁴ Either “very effectively” or “extremely effectively.”

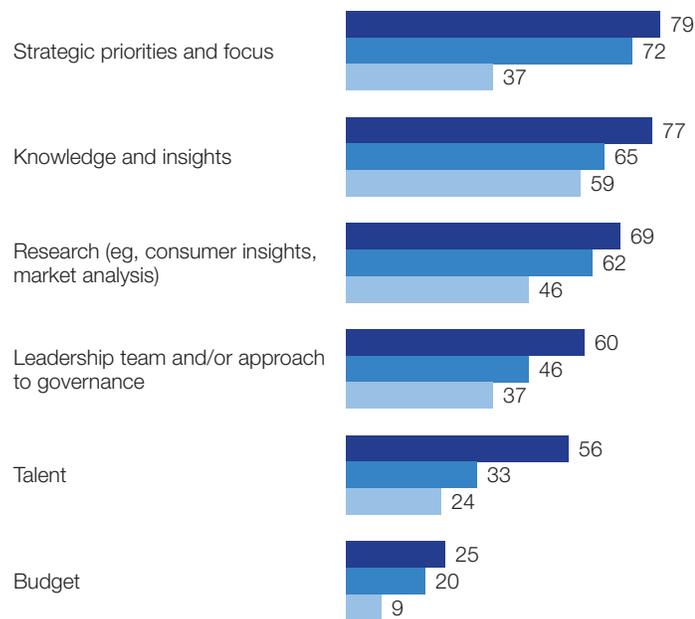


Exhibit 3

Integrated strategy breaks down silos

% of respondents,¹ n = 1,205, by degree of innovation's integration in corporate strategy

■ Fully integrated, n = 296
 ■ Somewhat integrated, n = 423
 ■ Not at all integrated, n = 75

Organizational elements shared among companies' innovation structures²

¹ Respondents who answered "other," "none of the above," or "don't know" are not shown.

² This question was asked of all respondents who cited at least 1 organizational structure—including separate innovation functions, a central R&D function, corporate-wide innovation initiatives staffed with rotating talent, mergers and acquisitions, and corporate venture capital groups—that are in place to drive innovation at their companies.

strategies also share organizational elements across the portfolio (Exhibit 3)—a practice that our experience suggests is a boon to innovation programs overall. And 57 percent of all respondents (the largest share) cite clear strategic focus among the factors that are most important to their functions' success.

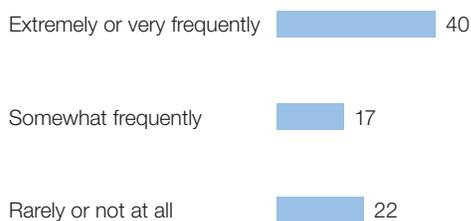
Yet strategy remains an innovation challenge for many companies. Only one-third of executives report that innovation is fully integrated in their organizations' corporate-level strategies, and nearly half say integrating the separate functions' strategic objectives with those of their core businesses is one of their functions' most significant challenges.

Exhibit 4

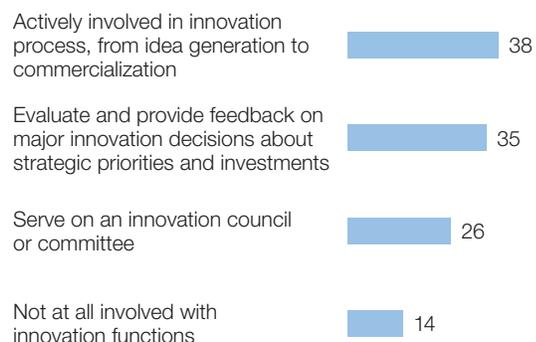
Effective outcomes with leadership support

% of respondents whose functions meet desired financial objectives extremely or very effectively

Frequency of interaction between separate innovation functions and C-level leadership (eg, senior management, executive committee)



Level of company leaders' involvement with separate innovation functions



Apart from integrated strategy, other success factors emerge from the results. Fifty-six percent of executives identify C-level and leadership support as a driver of success (second only to clear strategic focus). The results suggest that this support also links to good outcomes: 36 percent whose innovation functions report to the CEO say they meet financial objectives effectively, compared with 27 percent whose functions report to other company leaders. Similar patterns hold for the functions that interact frequently with the C-level team and whose leaders are actively involved in innovation (Exhibit 4). Not surprisingly, the executives whose functions have more responsibility for their value chains say their functions are more effective at meeting objectives, whether or not they are profit focused; the functions responsible for ideas, proof of concept, launch, *and* scaling report more in-market successes, too. Finally, executives say geography may also tie to success. The functions located near talent or target markets have more market success and meet objectives more effectively than others, though they are less likely than the functions at or near HQ to engage regularly with company leaders.

Differences in philosophy and design

While the results create a clear picture of today's innovation function—its practices, successes, and challenges—they also reveal some areas of divergence and reflect a larger philosophical tension in innovation. With respect to financial objectives, equal shares of executives say their functions exist to turn a profit or have no financial targets at all. According to respondents,



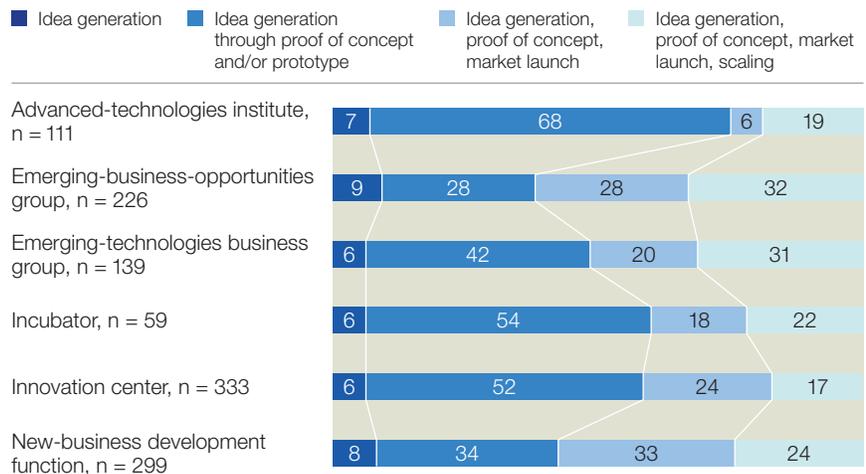
companies are split on measuring individual innovation performance: 30 percent say their functions use the same performance metrics as the rest of the organization, while 32 percent report the use of innovation-specific metrics and another 23 percent fall somewhere in the middle. The number of full-time employees also varies, with 35 percent of executives reporting ten or fewer full-time equivalents working in their functions; 30 percent say at least 51 full-time-equivalent employees work on innovation.

Responses also diverge on the separate function’s financial objectives, which can be specific to its structure: incubators, innovation centers, and advanced-technologies institutes tend to be used as cost centers or not set financial targets, while new-business development functions, emerging-business-opportunities groups, and emerging-technologies groups are guided by profit. This is consistent with the finding that the functions without financial targets, such as innovation centers, have less responsibility across the innovation value chain; a majority focus on idea generation through proof of concept or prototype (Exhibit 5). By contrast, those with profit targets are likelier to carry their innovations through market launch and scaling.

Exhibit 5
Structure linked to responsibilities

% of respondents,¹ by type of organizational structure

Scope of responsibilities across value chain, by organizational structure of separate innovation function



¹ Respondents who answered “don’t know” are not shown; figures may not sum to 100%, because of rounding.

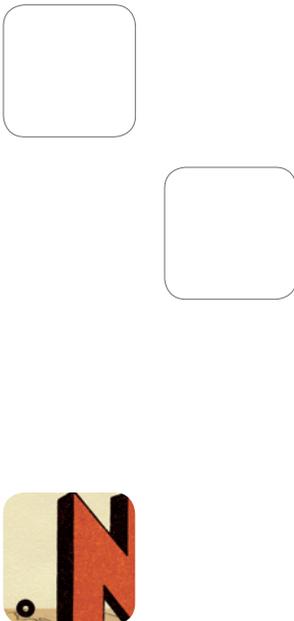
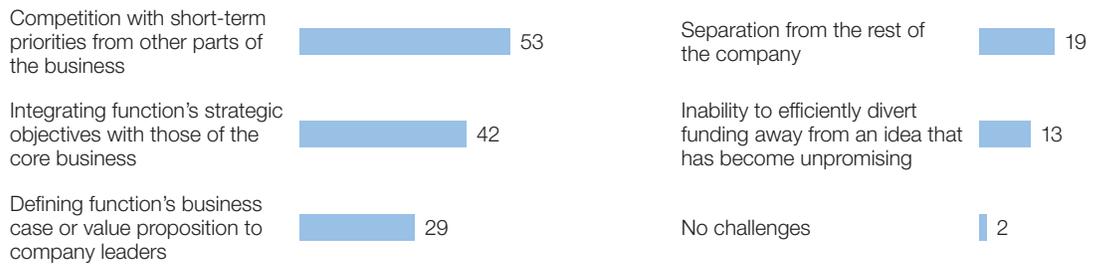


Exhibit 6

Difficulties in aligning innovation

% of respondents,¹ n = 1,205

Separate innovation functions' most significant challenges in meeting strategic objectives

¹ Respondents who answered "other" and "don't know" are not shown.

But regardless of the organizational structure—and the fact that 86 percent of executives say structure has a positive influence on their functions' outcomes—these functions face the same challenges. Respondents most often cite competition with the business' short-term priorities and integrating strategic objectives with those of the core business as the most significant challenges their functions face, regardless of their structure, strategic focus, or ability to meet financial objectives (Exhibit 6). These are cross-cutting and perennial challenges for both the innovation function and the organization as a whole.

Looking ahead

- While an overwhelming majority say their separate functions' organizational structures have a positive influence on outcomes, these functions face the same challenges regardless of structure. This finding reaffirms the classic need for strategy (a key factor for success) to precede structure when companies decide to create new innovation functions. Companies should also focus on other enablers, such as C-level support, which the results indicate can drive success—and take care to tailor the function to existing company objectives and culture. Companies cannot rely on a single innovation function alone to create successful outcomes; it must be integrated with the entire organization.



- Before sourcing the appropriate talent to ensure a steady stream of innovation successes, companies must first establish a clear strategic focus and garner buy-in from the top-management team. Executives cite strategic focus and C-level support most often as the key factors to innovation success, which align with our own experience and provide a good road map for companies looking to expand their own innovation programs.
- Whether or not the separate innovation function's outcomes are linked to financial targets is neither a reliable measure nor a guarantee of success. Rather, our experience suggests that a better measure of performance is the function's success at playing its respective role in the innovation value chain, whether it is responsible for idea generation alone or for seeing each idea through to its launch and scaling.

Contributors to the development and analysis of this survey include **Marla M. Capozzi**, a senior expert in McKinsey's Boston office; **Ari Kellen**, a director in the New Jersey office; and **Rebecca Somers**, a consultant in the Washington, DC, office.

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