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REINVENTING INNOVATION

Designing the Dual Organization

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CHAPTER 1

The Innovation Imperative

Abstract This chapter establishes the context, background, and aims for the book noting that organizations must manage ostensibly opposing forms, such as stability and change, and freedom and accountability. Organizations therefore need to manage simultaneously for both efficiency (exploitation) and flexibility (exploration). The chapter foreshadows the book's key premise that the exploration—exploitation tension represents a 'duality' that must be embraced rather than resolved. It foreshadows the results of several longitudinal research cases demonstrating that innovation works best when in concert with efficiency, rather than as a stand-alone or as an alternating on and off priority. Finally, the chapter introduces how innovation capacity can be developed through ambidexterity capability.

Keywords Duality · Explore · Exploit · Innovation

Introduction

When faced with unprecedented competition and adversity, organizations tend to fall back upon what they have always done best. But what happens when exploiting existing strengths is no longer good enough? In conditions where exploring new opportunities has become essential, the current challenge demands the pursuit of both exploitation *and* exploration at the same time, that is, both efficiency and innovation. Finding a way to navigate through the seemingly incompatible tensions between exploration and exploitation—or innovation and control—has become the quintessential

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problem characterizing management in the technologically furious, global business world of the twenty-first century. Yet, maintaining an efficient return on current operations while also developing a burgeoning pipeline of new products remains elusive.

Based on research findings, *Reinventing Innovation* charts the new innovation imperative, where exploitation and exploration must flourish at the same time. However, these two seemingly contradictory objectives cannot be achieved through some bland compromise, or by switching priorities back and forth. Only a 'dual' organization capable of amplifying the tension can optimize efficiency while seeding innovation. In this book, we examine dual organizing with particular attention on how to build 'dualities' in organizations. Our approach draws on theory and research, but it also makes heavy use of in-depth cases based on our own longitudinal studies. By bringing the theory, research, and case lessons together, we aim to expose the foundations of dual organizations, or what we refer to as 'ambidexterity capability.' We employ the term in reference to an organization's ability to perform explore and exploit tasks at the same time. However, while all organizations can do at least a little of each at any given time, ambidexterity capability means that they can deliver on both in significant, sustainable amounts.

Armed with ambidexterity capability, dual organizations can meet the twin mandate of current and future performance. Our investigation of dual organizing emphasizes the simultaneous escalation of both explore and exploit ventures in order to sustain a productive tension where creativity coexists with control. Unlike approaches focusing exclusively on innovation, which propose independent innovation programs and processes or recommend a balance between predictable maintenance and risky innovation, here we advocate for more of both. In the resulting tension, opportunities emerge for organizations to assimilate ambiguity, while still sustaining an orderly return on current strengths.

The dual organizing story presented in the forthcoming chapters advances a new perspective on the exploration-exploitation problem. It further examines duality theory's application through original and longitudinal empirical case studies, subsequently converting the theory and data into practical recommendations for implementation. These propositions revolve around the day-to-day challenge of developing ambidexterity capability.

What might be called the explore—exploit problem constitutes the contemporary incarnation of the 'innovator's dilemma.' Organizational

leaders need to find new ways to accommodate the structural and managerial tensions that accompany a commitment to innovation through both exploitation ('tight' structures, control, continuity, stability, conventional reporting and performance measures) and exploration ('loose' structures, flexible, responsive, experimental, and evolving). Numerous theories and principles inform methods for introducing either control/quality programs or innovation/change programs. However, a theoretical and practical framework to integrate both in high doses remains underdeveloped. In this book, we offer a theoretical, empirical, and practical background for students, managers, and leaders seeking to improve their responses to the universal problem of innovating for the future while delivering results in the present.

The call for organizations to be agile in exploiting the core business of today, while simultaneously exploring the business of tomorrow, has been prominent for many decades. However, no comprehensive theory has emerged to guide organizations toward authentic ambidexterity, where an organization achieves success in both organizing forms simultaneously. Instead, various contingent forms of ambidexterity have been advocated, such as temporal switching between explore and exploit. Such 'ambidextrous sequencing'—switching on and off between an exploitative framework (premised by efficiency, stability, and control) and an explorative framework (invoking innovation, adaptability, and risk-taking)—represents a significant challenge for leaders and managers trapped between shifting priorities. This book is motivated by the need to respond to the pervasive, enduring, and ubiquitous problem of ambidextrous organizing to solve the explore—exploit problem. To be successful, organizations simply must be great at both.

This chapter establishes the context, background, and aims for the book. It begins by noting that organizations must manage ostensibly opposing forms, such as stability and change, and freedom and accountability. In short, organizations need to manage simultaneously for both efficiency (exploitation) and flexibility (exploration).

The chapter foreshadows the book's key premise that the exploration—exploitation tension represents a 'dual' tension that must be embraced rather than resolved. Supporting this argument, the chapter outlines the results of our longitudinal research around the explore—exploit problem. Our foundational suggestion is that innovation works in concert with efficiency where the two peak together, rather than as a stand-alone or as an alternating on and off priority. From this base principle, we address the

mechanics of success through real-world examples of how ambidexterity capability has been built.

We think that much effort and resources are wasted on directionless 'innovation' and on the prosecution of innovation at all costs even when maximizing returns from existing products is warranted. In addition, we maintain that many innovation programs declare ambitions of novelty and revolution when a better focal point would advance some 'innovative' progress around products that are well known to be in demand. Disruptive innovation is not the only innovation. It need not be measured by the de-installation of what is already working and replaced by something else that does much the same sort of thing. Hence, there is an endless stream of innovation programs that get nowhere, instead of an overarching and sustainable program that allows an interface between sound returns on existing investments and pipeline ambitions. The chapter also introduces the forthcoming chapters and their contents. We continue next with a brief introduction to the pivotal contextual and historical issues that presaged the need for dual organizations and ambidexterity capability.

The Organizing Quest

Business commentators have been talking about the 'new' organization in various forms since the 1950s. The prolific resulting literature on the so-called new forms of organizing, while divergent in approach and emphasis, has embodied a shared rhetorical message: 'the world is changing, traditional bureaucracy is bankrupt and the future is now—or at least soon' (Nohria and Berkley 1994, p. 108). Typically, the need for change features prominently in justifications for organizing differently. As a result, industry deregulation, free-trade markets, and the rise of Asia and its subcontinent, for example, have all been used to explain a newfound impetus for global competition, connectivity, and economic activity. At the same time, disruptive technological advances—including cloud-based commerce, the Internet of Things, and machine-based learning through artificial intelligence—mean that borders and geography no longer impede the transfer of information, capital, people, or products. This new 'Information Age' has occurred alongside a gradual, but inexorable shift in the focus of developed economies from the manufacturing and commodities sectors to the information, communications, and services sectors. A technology revolution in tandem with rising consumer expectations and

access to global markets has also contributed to shorter product life cycles and the need for go-to-market speed and flexibility. In many industries, technological advances have eroded the traditional barriers to entry where high start-up costs and economies of scale no longer present severe obstacles. We have therefore seen an explosion of fast, small, and nimble companies entering markets that were once the protected sanctum of industry behemoths.

A review of the commentary about all of this environmental complexity and uncertainty reveals a narrative about the need for urgent change toward more flexible forms of working. For example, organizations have been urged to downsize, decentralize, de-bureaucratize, decouple, differentiate, empower, innovate, integrate, and involve. In an apocalyptic style, labels abound for the new organizational forms that will save the day: boundaryless, network, platform, virtual, clickable, hybrid, modular, horizontal, shamrock, loosely coupled, individualized, learning, knowledge-based, and cellular (DiMaggio 2001; Schilling and Steensma 2001; Palmer and Hardy 2000; Whittington et al. 1999). At the core was a call for a horizontal, boundaryless organization—a network of interconnecting parts comprising smaller, cross-functional business units with inter-organizational partnerships and alliances (Ghoshal and Bartlett 1995; Dunphy and Stace 1993; Limerick and Cunnington 1993; Ulrich and Wiersema 1989). In short, as the world was changing so too were organizations urged to match that change. The answer, it seemed, was to shrug off the oppressive, bureaucracy-laden shackles of traditional command and control systems, and experiment with more flexible and agile organizational forms encouraging innovation, exploration, and self-learning (Bahrami 1992; Jonsson 2000).

If the answer in the new, knowledge-driven business world was to be found in organizing forms designed for swift adaptation to change, the 'old' bureaucratic model had to be tossed aside. Adherence to hierarchy, stability, uniformity, and specialization, designed to exert authority and control over a largely uneducated workforce, all had to go. Indeed, if organizations hoped to survive and succeed in complex, high-velocity (Eisenhardt and Brown 1998), chaotic (Dijksterhuis et al. 1999) environments, they had to make flexibility the focus (Schilling and Steensma 2001). Moreover, organizing structure was seen as the critical feature in continually transforming to accommodate the needs of the competitive environment (Rindova and Kotha 2001).

Meanwhile, claims proliferated that organizations needed new ideas, paradigms, and practices in order to cope with the unprecedented demands that the global, knowledge economy had delivered (e.g., Kelly 1998). For example, by the late 1990s, the key themes in business literature could be summarized under seven labels: technology, globalization, competition, change, speed, complexity, and paradox (Tetenbaum 1998). In response, management theorists started to think of organizations as robust and dynamic systems characterized by a constructive tension between order (the push of exploitation) and disorder (the pull of exploration). It was a description that gained traction in the management world—at least for consultants—under the 'edge of chaos' nomenclature (Lewin et al. 1999). As the edge of chaos metaphor gathered momentum, organizational theorists and practitioners slowly relinquished a linear, dualism view in favor of a less neat, duality view.

Dualism is a long-enduring approach to classification where the object of study is divided into paired and opposite elements, the most common examples being mind/body and theory/practice (Jackson 1999). Duality theory on the other hand—a by-product of Gidden's (1984) structuration theory—suggests that dualism elements may be independent and conceptually distinct, rather than opposed (Smith and Graetz 2006). Thus, theorists who employ duality theory 'can maintain conceptual distinctions without being committed to a rigid antagonism or separation of the two elements being distinguished' (Jackson 1999, p. 549).

In practice, a duality mindset translates into organizational designs built around seemingly opposing forces such as efficiency and innovation, hierarchy and networks, global operating control and local responsiveness, and centralized vision and decentralized autonomy (Child and McGrath 2001; Pettigrew et al. 2003). Yet, a dualities-aware perspective does not favor one side of the organizing duality pole over the other. Rather, it recognizes that both have merit, thus encouraging a creative tension between opposing forces such as a short- and long-term focus, differentiation and integration, external and internal orientation, and continuity and change (Evans 1999). It is at this point of dynamic tension, 'when organisations are neither so structured that change cannot occur, nor so unstructured that chaos prevails' (Evans 1999, p. 335), when both efficiency and innovation are most likely to take place (Lewin et al. 1999). Although perhaps a little counterintuitive, success in the new world of business meant that organizations had to balance on the cusp between order and disorder (Pettigrew and Fenton 2000).

New Forms, Change, and Innovation

As environmental turbulence escalated, organizing forms became increasingly associated with organizational change and innovation. At first, management practitioners reacted to external uncertainty with tentative and contained experiments in restructuring (Dijksterhuis et al. 1999). Mostly, this came through a cautious weakening of rigid bureaucracies in the hopes of stimulating more flexibility and responsiveness. Slowly, the intuitive hesitancy to relinquish control was overtaken by more aggressive forays into flatter structures, devolved decision-making responsibility, improved intra-organizational collaboration, partnerships with other organizations, participative and empowering management, and a generally more creative orientation (DiMaggio 2001; Pettigrew et al. 2003; Dijksterhuis et al. 1999; Volberda 1998). In short, traditional forms of organizing exemplified by the bureaucracy were considered obsolete in a world where change was the sovereign currency. Vigorous calls prescribing the flattening of hierarchies, horizontal collaboration, diminished formalization, and a weakening of ties between workers and firms (DiMaggio 2001) had become the convention. But it was not to be a smooth exchange of one for the other. New forms adherents claimed that network-driven, decentralized, malleable structures worked better in fluid environments than traditional, hierarchical, rule-centered bureaucracies. However, it turned out that there was a catch.

Evidence from organizations that had attempted to introduce new forms of organizing showed that the wholesale replacement of traditional forms for new forms was wildly unrealistic (Fenton and Pettigrew 2000; Pettigrew et al. 2003). Despite the claims, in practice bureaucracy is robust and resilient because it contains safeguards through line management, job specificity, and control systems (DiMaggio 2001). Of course, the very nature of redundancy makes flexibility troublesome, particularly in a changeable marketplace. On the other hand, flexibility in the new forms costume leaves everything to the chance whim of empowered employees and teams. As organizational researchers like us discovered, this choice can be unpalatable or even untenable (Graetz and Smith 2009; Palmer and Dunford 2002). A consequence of this non-choice was the concomitant use of both traditional and new forms in a kind of paradoxical and uneasy partnership described as a duality (Pettigrew and Fenton 2000; Whittington et al. 1999). New forms bolstered rather than replaced traditional forms of organizing.