

Innovation across business units

Why is innovation best practice not replicated across business units in the same organization?

In analyzing Arthur D. Little's benchmark dataset on innovation management practices, we discovered a pattern that challenged our assumptions about the deployment of innovation best practice: **that there is far less transfer of innovation best practice across a company's business units than is typically expected** and that the impact can represent over 5% of EBIT improvement from innovative new products and services. Because replicating best practice across business units is fundamental to improving innovation performance, we sought to understand why this happens and how businesses can overcome the challenge.

Background

Arthur D Little's long-standing Global Innovation Excellence Benchmark¹ assesses a firm's innovation performance against best innovation management practices (IMPs) and allows participants to benchmark their performance against that of their peers. The benchmark has demonstrated a strong statistical link between excellence in *innovation management* and higher *innovation success*.

Recent projects have led us to explore decentralized R&D activities in business units using the Global Innovation Excellence Benchmark dataset. We looked at multiple industries and made the following discoveries.

High variability in innovation processes across business units

We found statistically significant evidence that there is a high level of variation in the innovation management performance across different business units within a company. This variation is so great that comparisons of the variance of IMP scores for a company's business units are not statistically different from the spread of performance across the entire benchmarked industry. In fact, you would not be able to guess that the business units were from the same company. The **figure below** illustrates the variability of IMP performance for selected companies within the chemicals industry and medical technology and devices industry.

To validate our findings, we conducted a series of statistical tests² of companies that reported performance of three or more of their business units. The companies spanned a range of industries, including automotive, telecommunications, transport, manufacturing, medical devices, and chemicals. We identified 12 organizations with multiple Business Unit responses and in every case, the variance among the companies' business units was not statistically different than that of their respective industries.

This evidence fundamentally undermines a widely held assumption that multi-business-unit companies share best practices to

increase performance across their business units. Through relatively simple standardization of best practice across business units, companies could achieve significant value and likely increased sales of new innovative products and services as well as increased profitability.

Would you like to explore this with Arthur D. Little?

Arthur D. Little is organizing exploratory webinars with leading multi-division organizations to explore these results and identify the underlying root causes that drive this observed variance in companies' innovation performance as well as the key barriers to internal standardization of IMPs. Such root causes may include, for example:

- Decentralized strategy across business units, with siloed operations.
- Poor process integration and standardization post M&A.
- Lack of common process reporting.
- Missing incentives (or disincentives) for replicating best practices.
- Poorly structured R&D funding mechanisms.
- Geographical or segment specificity requiring specific IMPs.
- Lack of an effective innovation management digital platform across the BUs.
- Different leadership style and culture.

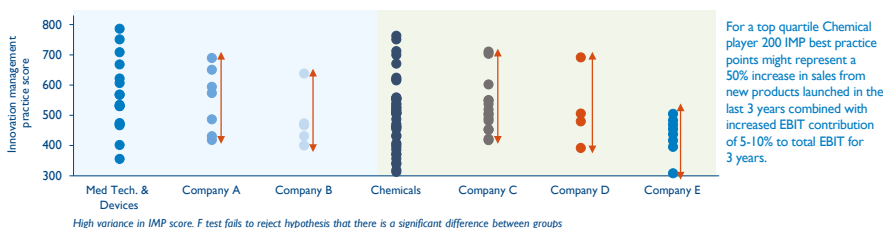
In addition to identifying the key barriers, we will explore how companies can enable all business units to learn and emulate the top-performing business units within an organization.

Please contact us if you want to join us in our reflection on this topic.

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IMP in Chemicals, Medical Technology & Medical Devices



¹ More information at www.adlittle.com/innovex

² Based on two-tailed F-tests. For all companies tested, we were unable to reject the hypothesis that the variance of the company scores versus the industry scores were significantly different. We validated the normal distribution of the datasets using the Shapiro-Wilk test.