

BPM and Innovation - Part 2 How to Achieve Innovation Balance

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Introduction

In our previous Article we presented our first main finding – that BPM promotes incremental innovation. It appeared that the practices of BPM are associated with incremental innovation, at the expense of more radical innovation. If this is the case, there is a high risk that companies are heading towards short-term gains and long-term problems. An innovation balance consisting of a purposeful combination of both incremental and radical innovation is required to reap the benefits from both short-term gains and long-term prosperity.

This Article is focused on how to achieve this innovation balance with business process management. The first section gives a brief presentation of innovation balance, the focus of this Article. The second section is a discussion and presentation of our findings from the literature. The third section is focused on explaining our recommended solution to achieving innovation balance. The fourth section discusses practical implications and gives four suggestions to promote innovation balance. The fifth and final section contains our conclusion.

For the full 120-page paper with deeper discussion, see Andestad & Grung-Olsen (2013) <http://brage.bibsys.no/xmlui/handle/11250/169885>. (in Norwegian).

Section 1: The Essence of Innovation Balance

There is a need for organizations to embrace both exploitation and exploration to achieve short-term gains and long-term survival (Teece, Pisano, & Shuen, 1997; Huang & Kim, 2013), which means that there is a need for innovation balance. This might seem to be paradox since exploitation is associated with effectiveness and efficiency, limiting or controlling variation, while exploration is associated with variation increasing activities.

March (1991) explains the value of innovation balance in the following manner: *“Adaptive systems that engage in exploration to the exclusion of exploitation are likely to find that they suffer the costs of experimentation without gaining many of its benefits ... Conversely, systems that engage in exploitation to the exclusion of exploration are likely to find themselves trapped in suboptimal stable equilibria. As a result, maintaining an appropriate balance between exploration and exploitation is a primary factor in system survival and prosperity”.*

Section 2: Findings from the Literature

Although our findings suggest that BPM mainly promotes incremental innovation, we also found that it can be adjusted to promote radical innovation. This can be realized

by shifting the customer focus to potential customers, instead of existing customers. This shift in customer focus will inherently entail an increased focus on long-term goals. Unfortunately, this adjustment would seem to promote radical innovation at the expense of incremental innovation, instead of promoting an innovation balance.

Our study of the literature revealed interesting findings on how to achieve innovation balance. Several authors argue that the organizational structure should be adjusted to regardless of whether the different processes should be more incremental exploitive or more radical and explorative (Benner & Tushman, 2002; Davila, Foster, & Oyon, 2009; Vilkas, 2011; Güttel, Konlechner, Müller, Trede, & Lehrer, 2012; Huang & Kim, 2013; Hall & Johnson, 2009). This is a solution that realizes a form of innovation balance by carefully choosing the amount of standardization and variation necessary within each process, and designing the processes accordingly.

Another option also presented in the literature is to establish structural ambidexterity, as shown in figure 1, below, which is a holistic structural approach.

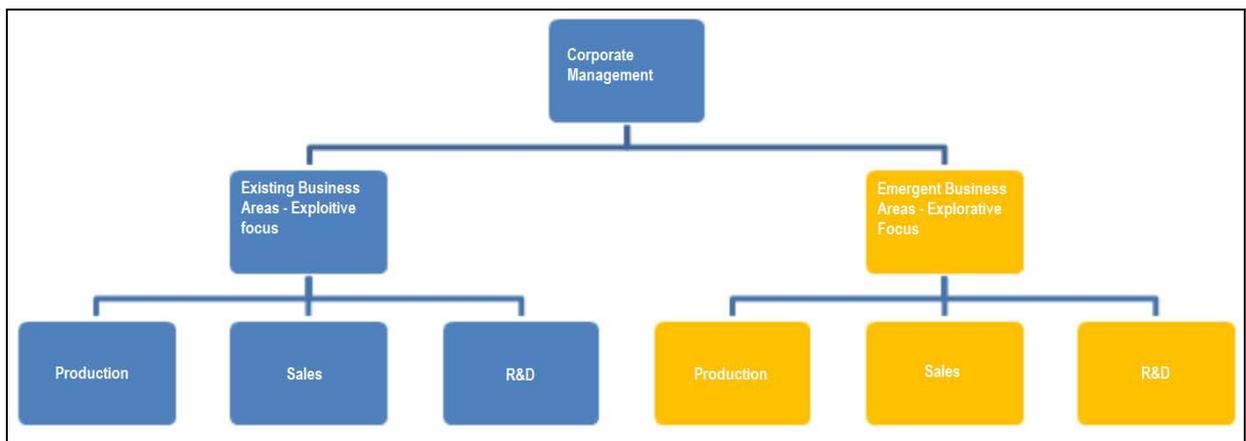


Figure 1: Visual representation of structural ambidexterity, adapted from O'Reilly og Tushman (2004)

Supporters of structural ambidexterity argue that just adapting the amount of standardization in the different departments according to their needs and focus is not sufficient. The central idea of structural ambidexterity is that departments or units with different focus, explorative or exploitative, should be physically separated, not located together. The reason is that departments, in addition to having different needs for standardization, often have different and conflicting needs for governance and culture. Adapting a structure of physical separation between the two distinct areas help to reduce ambiguity and conflict related to the roles of employees when working to realize conflicting types of innovation. This is therefore a solution to make the company excel at both incremental exploitive innovation and more radical explorative innovation. Within this structure, it is generally advised that mainly higher-level managers should be responsible for connecting the physically separated areas and bearing responsibility for knowledge sharing. (O'Reilly & Tushman, 2004; Benner & Tushman, 2003; Vilkas, 2011, Guttel et al, 2012; Huang & Kim, 2013).

Section 3: Process Oriented Structural Ambidexterity

Our suggestion is that organizations should adapt structural ambidexterity to business process management, in order to achieve a good innovation balance. The idea is closely related to the idea of structural ambidexterity, only that the focus is on the different processes need for innovation, not departments.

As BPM is focused on organizing work in processes rather than departments, it seems natural that the ambidextrous approach should be adapted. We find two adaptations to be particularly important. First, we think that it is the processes and related culture that should be separated and managed differently, depending on desired innovation focus, not departments. Secondly, rather than directly separating processes into independent physical units according to their innovation focus, we argue that organizations should choose a degree of process-separation from low to high.

The degree of separation can differ and should be adapted to the specific company. Benefits such as increased specialization are related to a high degree of separation. At the same time, it may reduce cooperation and knowledge transfer between processes. Conversely, the benefits related to a low degree of process separation are increased knowledge transfer and cooperation. It may also have a potential negative impact on specialization.

The optimal degree of separation can be affected by the employees' ability to cope with and tolerate the conflict and ambiguity arising from conflicting innovation focus. The employee's coping ability is also affected by the unique culture of the company and the structure of the management - and incentive system. It is thus suggested to assess these factors when selecting the degree of physical separation.

A good fit in the degree of process separation in an organization's ambidextrous BPM-approach should contribute to each process being able to nurture its particular capabilities and deliver upon its selected innovation focus. These positive effects should be delivered without negatively influencing, or being influenced by, other processes. We therefore argue that this is a recommended solution in the search for a good innovation balance. It increases the organization's odds of future survival and adaptability, while simultaneously experiencing short-term gains.

Section 4: Practical Implications – Four Suggestions to Promote Innovation Balance

Based on our research we have provided four suggestions that can help practitioners achieve a better innovation balance in their BPM-oriented organizations. The suggestions are organized in a sequence from the most effective to least effective, but also from most costly to least costly to implement. We argue that if it appears impossible to realize recommendation one, the second best option would be to adapt recommendation two etcetera. Our recommendations are:

1. Explore the possibilities for introducing process oriented structural ambidexterity.
2. Adopt a more nuanced customer orientation and adjust process and company goals accordingly.
3. Nuance the degree of standardization to the needs of the organization's processes.

4. Adjust the organization's management system to be more interactive or more diagnostic depending on desired innovation focus.

Section 4: Conclusion

This Article suggests that it is possible to achieve an innovation balance with business process management. The method to achieve innovation balance is called process oriented structural ambidexterity, and is based on the idea that each process should be designed to deliver upon its desired innovation focus. It is also recommended that rather than directly separating processes into independent physical units according to their innovation focus, organizations should choose a degree of process-separation from low to high.

These are our findings and thoughts, what are your thoughts on how to achieve innovation balance?

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