

# The dual mindset organization

How to **grow beyond** innovation theater and failed transformations.

Successful companies constantly innovate and reinvent themselves. At the same time they never neglect running a world class operation. It's a balance between two different cultures that can feel impossible to attain. With the right strategies in place it's achievable for any organization.

And companies want to innovate – 78% of firms rank innovation as a top three priority<sup>1</sup>. But, nearly 40% of CEOs don't think their companies will be economically viable a decade from now<sup>2</sup>. And only 20% of companies are set up to scale innovation<sup>3</sup>. This reality is mostly driven by how decision-making is made on where to invest, who maintains the sphere of influence, and which roles in the business need to be aligned and collaborate more effectively.

From our experience working with leading companies around the world, we believe that the solution to the problem is successfully linking innovation with transformation. We call these **dual mindset organizations**, where the whole operation has two modes: one mode is about inventing the future, we call this 'explore'; the other mode is about managing the present, we call this 'exploit'. The best organizations seamlessly toggle between these two modes and have operating models that support this duality when it comes to how innovation and the development of products happen.

78% → 20%

OF FIRMS RANK INNOVATION AS A TOP 3 PRIORITY

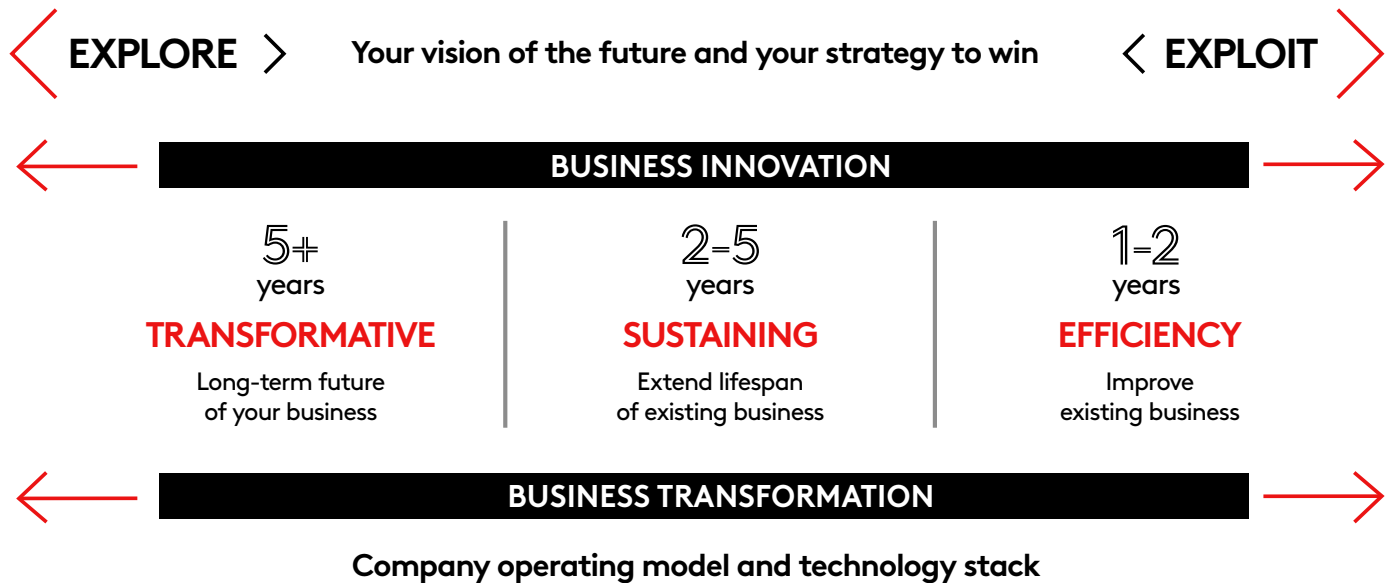
OF COMPANIES ARE SET UP TO SCALE INNOVATION

<sup>1</sup> BCG Global Innovation Survey 2023

<sup>2</sup> PwC Annual Global CEO Survey 2023

<sup>3</sup> BCG Most Innovative Companies Report 2021

# The dual mindset organization



In this short insight paper we highlight the challenge companies face and provide directions to start building dual mindset organizations. Together, Strategyzer and Emergn are a powerhouse of end-to-end experience building dual mindset organizations.

## The dual mindset organization is built on three foundations:

The dual mindset, growth and value creation from different types of business innovation, and transformation into an organization with an operating model that supports the dual mindset organization. Here we provide insights into all three.

- 1 The dual mindset
- 2 Growth and value creation from business innovation
- 3 Agility from business transformation



# 1 The dual mindset

## Insight

A growth and innovation culture requires all leaders and operators to understand and embrace a dual mindset. It's the ability to toggle between inventing the future (we call this 'explore') and managing the present (we call this 'exploit').

## Pitfalls observed

Leaders who apply the mindset, processes, culture, and metrics prevalent in running the business to exploring new ideas, which results in strangling growth and innovation.

Belief that exploration should live in a separate place (e.g. letting it live in an accelerator) without a strong integration with the core business, which creates jealousy and corporate antibodies.

## Solution

Educate leaders and operators about the dual mindset. Implement and harmonize this duality from end to end in your organization across the explore-exploit spectrum.

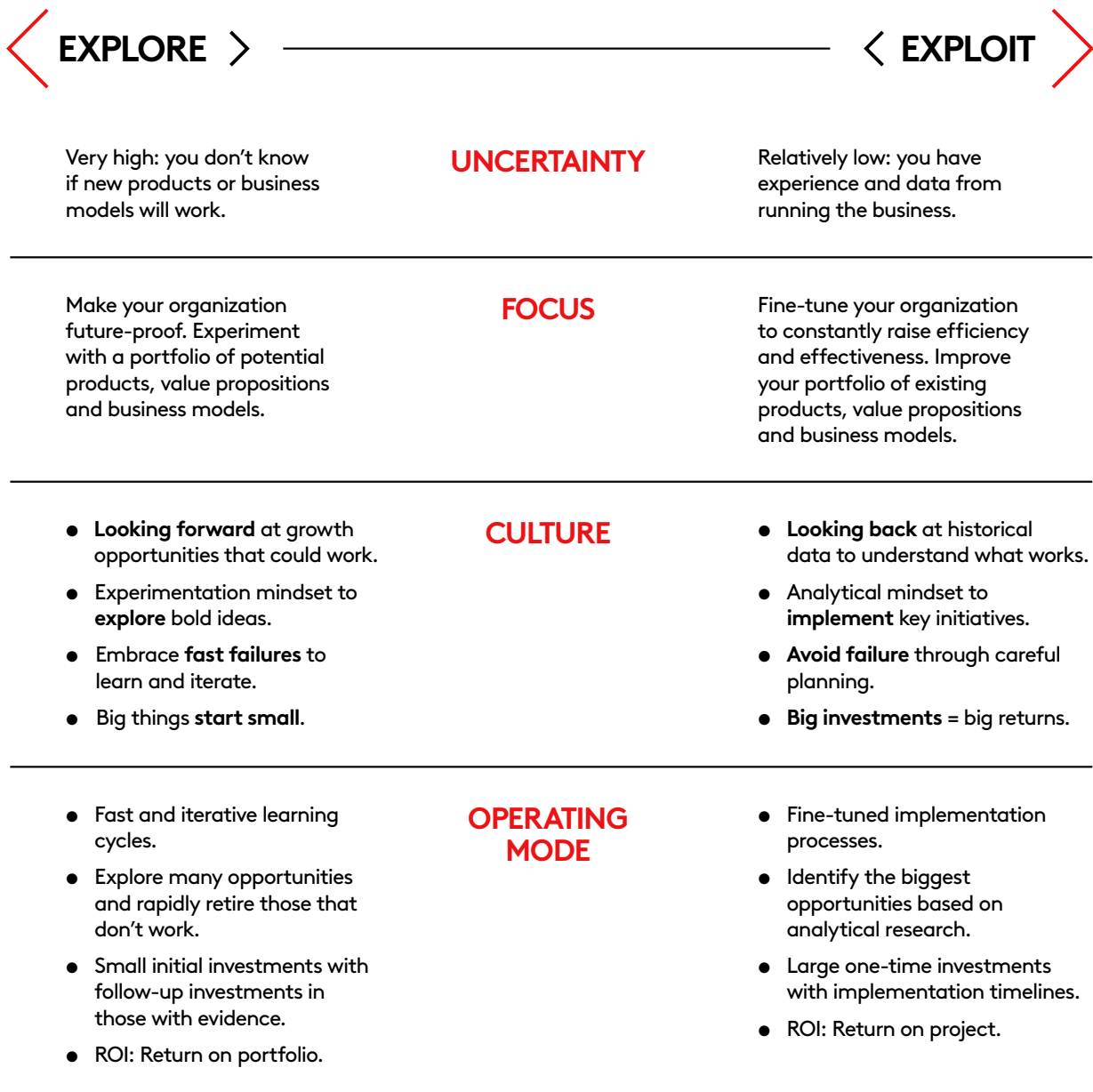
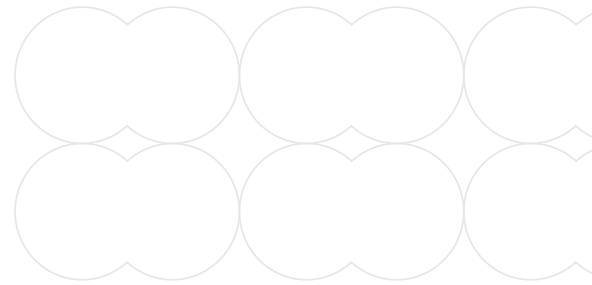
Exploration and exploitation are both activities that should be central to business strategy, yet they fundamentally differ. They contrast as to uncertainty, focus, culture, and operating mode. Dual mindset organizations acknowledge this difference, yet harmoniously integrate it into their strategy, leadership and operating model. They embrace the duality and build organizations that support both modes, explore and exploit.

It is important to understand that dual mindset organizations don't 'explore' in one part of the business and 'exploit' in another. They don't fall into the trap of a separate, conflicting explore and exploit organization. To achieve growth and create value sustainably they implement duality everywhere. They are run by leaders and operators with a dual mindset who infuse duality in organizational structures, processes, and metrics.

Dual mindset organizations are run by leaders and operators who seamlessly toggle between the two modes according to context. For example, they hold a product innovation team and a supply chain team accountable differently. They understand that one is about exploration while the other is about exploitation. That requires different rules and metrics. They also build operating models and technology stacks that support both modes seamlessly. We outline this in Section 3.



# Understanding explore and exploit in the organization:



# → 2 Growth and value creation from business innovation

## Insight

Companies spend the majority of their resources on incrementally improving their existing business model and products. If they don't focus on long-term reinvention they risk becoming irrelevant.

## Pitfalls observed

Mistaking technology innovation to improve the core business as transformational innovation.  
 Opaque or lacking growth and innovation portfolio masking the focus on efficiency innovation.  
 Lack of explicit resource allocation to efficiency, sustaining, and transformative innovation.

## Solution

A transparent and explicit innovation portfolio across the growth and value creation spectrum.

Business innovation is the discipline of creating growth and value from innovation. This can happen across the explore-exploit spectrum. You can roughly categorize the opportunities for growth and innovation in three buckets: there are transformative innovations, sustaining innovations, and efficiency innovations. The best organizations manage a transparent portfolio of all their innovation projects. They also have a deliberate strategy and allocate resources across all three opportunity areas.

Many organizations heavily invest in technology and believe this makes them future-proof. Often this merely makes them more efficient.

While improving your business is mandatory it doesn't prepare you for disruption. Leaders in the best companies are not willing to just more efficiently die. They know they can't cost-cut themselves to a future business model. They reinvent their products, services, and business models while they are successful.

The three different types of innovation all require an agile exploration mode with testing and iteration. Yet, they substantially differ in terms of uncertainty, how quickly they provide return on investment, and their contribution to long-term competitive advantage.



## 3 types of innovation to create value and growth



### TRANSFORMATIVE

New business models, innovative value chains, new revenue models, new environmental models.

ROI in 5+ years, low predictability, positions the company for the future.

Large and long term new revenue generation, profit, or impact.

ROI is calculated as return on a portfolio of projects of which only few will succeed.

↑ ...unlock new digital business models and value chains.

### SUSTAINING

New customers, new or sustainable products and services, innovative value propositions and positioning, innovative go-to-market strategies.

ROI in 2-5 years, medium predictability, sustains lifespan of business.

Replaces expiring revenues, extends existing ones, and adds new ones.

↑ ...create digital value propositions, new channels, and digital customer experiences.

### EFFICIENCY

Improved processes, refined and iterated value propositions, reduced costs, sustainable processes.

ROI in 1-2 years, high predictability, limited lifespan of impact.

Short term, but potentially large revenue or profit impact.

ROI is calculated as return on a project since success is fairly predictable.

↑ ...make existing business models, value propositions, or operating model more effective and efficient.



## Digital transformation: use of technology to...



# → 3 Agility from business transformation

## Insight

No company lacks (product) innovation activities. Unfortunately, most remains innovation theater with mediocre results. Fix it with a dual mindset, product management, and the right operating model.

## Pitfalls observed

Separate explore and exploit too strongly and/or overemphasize one over the other.

Broken feedback loops between innovation and (product) implementation.

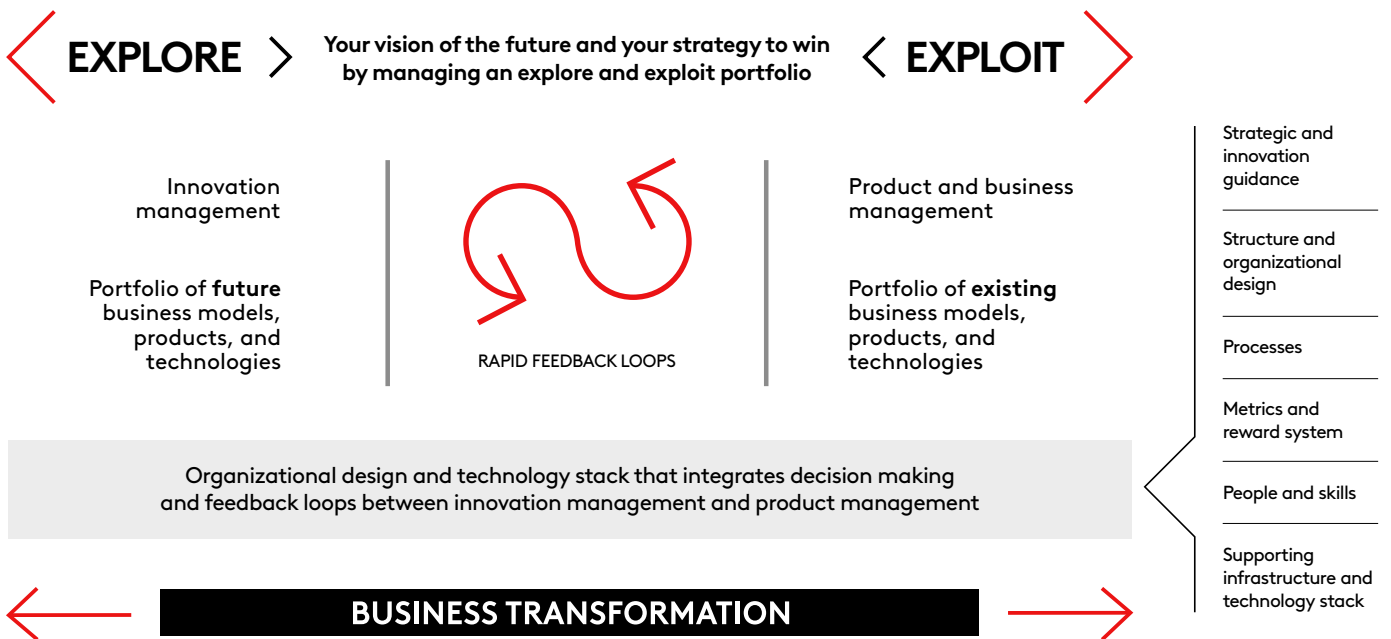
Lack of specialized people, processes, and metrics in innovation and product management.

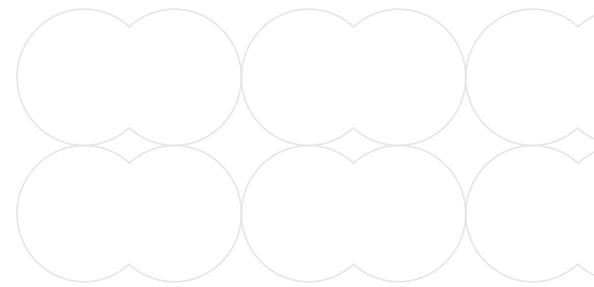
## Solution

Growth and value creation is bottom-up (teams) and top-down (leadership) as well as across the explore-exploit spectrum. Implement a strong end-to-end operating model that infuses the dual mindset everywhere.

Bringing the dual mindset organization to life involves the right people across the explore-exploit spectrum. It means identifying and implementing the right incentive and performance structure to support the different goals. This is true for senior management and throughout the business.

It also means that feedback and performance loops are well communicated and understood across all participants. Finally, it all translates into managing a portfolio of existing businesses and exploring a portfolio of future opportunities.





# Dual mindset organizations build an operating model that takes the two modes into account across **six different themes.**

## #1 Strategy

One strategy that guides resource allocation in the portfolio of existing businesses and the portfolio of growth opportunities.

## #2 Organizational structure

Exploration has power, legitimacy, and sufficient resources, and tightly integrates exploitation. Both modes mutually support each other to get the best of both worlds.

## #3 Processes

The explore mode is focused on experimentation, learning, and iteration. The exploit mode is focused on analysis, planning, and implementation. Strong feedback loops between the two modes make it easy to kill innovation projects when there is no evidence for future success.

## #4 Metrics and reward systems

The explore mode rewards risk-taking and smart and cheap failure. The exploit mode rewards risk avoidance and predictability.

## #5 Skills and people

Both modes require different skills and experience, which is reflected in hiring and talent development.

## #6 Infrastructure and technology stack

Infrastructure and technology stack support both, exploration and exploitation equally.

### Definitions:

#### The dual mindset organization

An organization that is world-class at managing the existing business while simultaneously exploring the future.

#### Operating model

An organization's systems and processes to allocate and manage resources and create value, including the key performance indicators to define success.

#### Portfolio management

The process of managing an organization's existing and exploratory products and services, business models, and brands.

#### Product management

The discipline of aligning ideas, processes, and capabilities to business outcomes and prioritizing the activities that deliver measurable value.

#### Business innovation

The discipline of creating growth and value from innovation. Results can come from transformative innovation, sustaining innovation, and efficiency innovation.

#### Business model innovation

The discipline of inventing new business models or shifting outmoded models to superior models based on an organization's existing or new assets.

#### Business transformation

The process of improving the way organizations think, operate, and apply the right practices that result in lasting change.

# The Strategyzer Emergn alliance

Strategyzer and Emergn are joining forces to help companies build dual mindset organizations. Strategyzer is the leader in helping organizations develop, test, and crystallize new ideas. Emergn is the leader in helping organizations commercialize those ideas with core digital services centered on product management, development, and engineering. It also offers toolkits and a suite of learning solutions.

The Strategyzer and Emergn alliance is uniquely positioned to help close the innovation gap. Our combined expertise and offerings span the explore-exploit spectrum. Together we cover everything required to build dual mindset organizations.

Strategyzer and Emergn: eliminating the critical distance between the desire for change and the ability to make it happen. We help companies consistently create and deliver successful new products, services, and business models.

## → About Emergn

Emergn is a global digital business services firm with a mission to improve the way people and companies work. Forever. With an 'Ideas to Impact' philosophy, Emergn helps some of the world's most respected businesses – including Fortune 500, FTSE 100, and Global 2000 companies – develop their most promising ideas into valuable digital products and customer experiences, faster.

Emergn's experts work with clients to transform their business in three ways:

1. Helping to better define their thinking, including shaping their product organization and clarifying and communicating their product strategy.
2. Developing their people by delivering exemplary training in product management, modern ways of working, and leadership.

3. Delivering their outcomes by building customer-centric products and customer experiences.

Emergn has invested nearly fifteen years perfecting a game-changing philosophy for the world of work to transform businesses – Value, Flow, Quality (or VFQ for short) – combining the best of Agile, Lean, design thinking, systems thinking, economics, psychology, and sociology. Its unique approach has been built to support enterprise-scale change and consists of the latest models, techniques, and tools for delivering work in an agile and effective way. Emergn has a strong presence in over a dozen countries, with its US headquarters in Boston and EMEA headquarters in London.

Learn more about Emergn from its [website](#) and follow Emergn on [LinkedIn](#) and [X \(formerly Twitter\)](#).

## → About Strategyzer

Strategyzer is a pioneering force in the world of innovation and business strategy. With its programs, platform, and services, it addresses the challenges faced by organizations today. It combines technology, coaching, and systematic programs to help organizations scale innovation.

Strategyzer has a rich legacy of pushing the boundaries of conventional thinking. For over two decades, it has redefined how organizations and their leaders approach innovation. It has guided some of the world's most well-regarded businesses to innovate and grow.

The company was founded by visionary strategist and innovation expert Alex Osterwalder. He and Strategyzer have played a pivotal role in professionalizing the practice of innovation.

Ground-breaking contributions include the Business Model Canvas and the Value Proposition Canvas. They have become indispensable tools for businesses worldwide. Alex ranks #4 on the Thinkers50 list of top management thinkers globally. He is also a visiting professor at IMD Business School.

Beyond programs and platforms, Strategyzer boasts a global network of expert coaches and advisors. Over five million readers across the globe rely on Strategyzer's seminal books that have been translated into 40 languages. It empowers more than seven million individuals with innovation tools and content.

Learn more about Strategyzer from its [website](#), and follow Strategyzer on [LinkedIn](#) and [X \(formerly Twitter\)](#).

Contact us for more information on our services, programs, and platforms.

US +1 617 482 0830 UK +44 808 189 2043 Email [info@emergn.com](mailto:info@emergn.com)