

Abbreviated version  
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**MANAGERISM**

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**Innovation Weakness**  
**An Existential Challenge Especially for Large Companies**

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## INNOVATION WEAKNESS

### AN EXISTENTIAL CHALLENGE ESPECIALLY FOR LARGE COMPANIES

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Innovation is many things: it is more than a technical invention; it can mean the creative destruction of what already exists. It can reach all parts of a company: the technologies, products, methods, applications, machinery, materials, processes, systems (single and combined), organization and marketing. Just think of the vital inventive role played by *CAD* in engineering design and how *simulation* is used to combine computing and testing. Innovation is the market-optimized and timely creation of something new..

### DIAGNOSIS

A recent assessment of the state of innovation in Germany's largest technology company gives cause for concern. In an internal questionnaire almost half of managers judged the firm to be weak on innovation. Politicians and the IG Metall trade union (otherwise sensitive to such issues) have shown little interest. So who will call for more innovation?

Why are some companies weak on innovation? What do they have in common? The following is a list of obstacles to innovation.

#### 1. Enforced harmony

*Managerists* tend to dislike questions such as “Why?” and “Why not?” They claim to already know what should be done and how. Questioners are challengers..

#### 2. Refusal to learn (from mistakes)

Well-established major corporations like Siemens often have a history of fundamental mistakes; the evidence is in the company archives. These files are seldom retrieved for post-mortems on how mistakes happened or why old ways were followed for so long.

#### 3. Lack of ambition

Long-standing corporations, especially when they operate in oligopolistic markets, tend to measure themselves against competitors. A management method which exacerbates this is *benchmarking*.

It is hard to get pioneering innovations accepted internally. But if a branch leader “approves” an innovation, then it's easier to argue the case for jumping on the bandwagon. Starting in the 1970s and until recently, well after Siemens's pioneering years, the consensus has been “*Who starts second, finishes first*”. Avoiding failure was uppermost in managers' minds.

#### 4. **Defending territory**

Innovation does not stop at the boundaries of a discipline, technical unit, department or business division. On the contrary, innovation tends to break down boundaries and “reshuffles the pack”. But within company organizations such boundaries and territories are a dominant factor. A company with a wide portfolio and broad technology base should find it easy to try out something new, but often this is prevented by two chief obstacles: first, a lack of curiosity, and second, a recognition of boundaries between teams and departments.

Consequently, innovation only takes place, if at all, within established territories, it does not grow or spread across a company to be adopted by others.

In our age of increasing digitization, software and data become an integrator and driver of innovation. However, organizational and technical boundaries, even those between hardware and software, limit the availability of potential innovative solutions. Nevertheless, new devices converge to form new universal apparatus with various communication and cyber-technical functionalities within a new world of applications (apps). Consequently, increasingly companies will cross data boundaries, as aggressive internet firms already do, like Google. In a world such as this, intra-company protectionism is an obstacle to corporate innovation and even survival.

#### 5. ***Managerists***

What is the difference between innovation hotspots in California and the major corporations on the US East Coast and in Europe, who also claim to be innovative? While in California entrepreneurs, visionaries and makers are now leading big enterprises; European conglomerates are controlled by *managerists* who repeatedly trim business units to boost short-term returns. For the past twenty years, a large number of general managers (MBA or Grande École types) have been appointed to top positions, some with nothing more than a ‘business consulting’ background.

But there are positive examples, for example Siemens appointed Divisional Heads with operational/technical backgrounds who took an entrepreneurial long-term view. They set high innovative standards in Automation Engineering with *Sinumerik* and *Simatic*, and in Medical Technology with the *Syngo*, a cross-product user interface, and in this way created high-margin businesses. Managerists do not have the courage to create innovation hubs because they do not understand the product line or business and therefore cannot commit themselves to it, and so neither does the workforce.

Based on the above diagnosis of how innovation is being prevented, and understanding how innovation should be cultivated within enterprises, we can draw some general conclusions.

## **THERAPY**

As a general rule: leadership to promote innovation means first of all empowering people to innovate, as well as demanding innovation, and ensuring that innovations are implemented.

### **1. Act radically, openly and fast**

The time when innovation activity could be planned (*technology push*) has gone: it was a characteristic of the development of major technologies (nuclear power stations, telephone networks, industrial automation). These are being superseded by other technologies: alternative energy sources, smart grids, remote maintenance, intelligent and decentralized automation, digital factories, preventive medicine, social networking and general data management. Innovation now happens within a digital framework and increasingly in a digital world.

This means that innovation is no longer bound to a product (take an internal combustion engine and repeatedly improve it) but involves considering and creating new applications (what power source to power what). Radical approaches may still be devised and tested in garages, but no longer in R&D departments that have mutated into ‘innovation agencies’.

If innovation is desired, being open to reality is essential. Employees often have good reason to withhold bad news as long as possible. That is why management, one experienced at assessing and judging, must have an open ear for such information. It is important that the know-how of specialists and authority to decide are no longer separate. Procedures and tools will not change this state of affairs: what is essential is trustworthy cooperation across borders. This must be wanted by management, encouraged and supported.

It is noticeable that in many cases it is peripheral company sites (at the coalfaces of technology and markets) where innovation takes place and not at company or divisional HQs – if such smaller facilities (nearer the bottom of corporate pyramid) are actually sufficiently empowered.

### **2. Ensure spatial proximity**

Innovation requires constant personal interaction between actors who jointly develop new ideas, transfer outcomes to production,

launch them on the market, and assimilate feedback from users. Experience and evidence shows that spatial proximity saves transport costs and facilitates personal communication. Although, exceptionally, this may not apply to pure software products, it still applies for most manufacturing industries and their supply chains (despite the emergence of teleconferencing). Clusters of successful small and medium-sized enterprises (the *Mittelstand*) are widespread in Germany. This is a good example of an external benefit which is hard for competitors to copy. A case study is the *Medical Valley* around Erlangen, near Nuremberg, in southern Germany.

### **3. Create overseeable units**

It is well known that centralized, large, complex organizational structures have a strong detrimental effect on work performance, and especially on creativity. Innovation prospers best in overseeable structures with reference points. These overseeable structures should be created and separated, on a case-by-case basis, from existing organizations to encourage co-operation, informal exchanges, and *synaptic* connections between operating and technical teams. This must be reflected in the original design of innovation centers and the architecture of buildings.

Why not take a natural route like cells, which split up into separate cells? The natural entrepreneurial option of *spin-outs* should (at long last) be put into practice by conglomerates, to counteract their disproportionate size and complexity. After all, the often cited synergetic benefits of mergers are often imaginary. Instead, companies should decentralize their multi-layered organization structures and empower smaller business units.

### **4. Put more partnership into practice**

Large sized companies often assimilate the output of science and research institutes (such as universities) and extract innovations made by startup and small firms. Whereas major corporations may abide by rules on exchanging utility (patent exchange contracts) between equals, their behavior toward “unequal partners” is sometimes a problem. Major corporations should forge fair partnerships (a key element in sustaining technology clusters) also in order to benefit from a deserved good reputation.

### **5. Activate existing employees; gain creative employees**

Promoting innovation means, first of all, creating the preconditions for it to prosper. This starts with the insight that employees, above all in research and development, are intrinsically motivated and should not be pressed into a routine with repetitive and proceduralized activities. Creativity and innovation are incompatible with work which is stifling familiar: numerous regulations,

approvals and applications, permanent proof of performance and regular reports, with frequent meetings, formal hierarchies and “emotion-free workplaces”. In general a strict external control over the makeup of teams and their methods of working inhibits the ability of creators to self-organize and reduces both motivation and responsibility.

It is important, especially for talented employees, to see opportunities for getting directly involved in innovative operational matters and gaining greater autonomy within evolving business units. Experience shows that personnel departments and trade unions often come into conflict with research and development departments, as demonstrated by the timekeeping regulations they attempt to impose upon them.

## **CONCLUSION**

The principle task facing managers of major companies is how to create a corporate culture of innovation. Innovation will prosper when the culture is one of openness, curiosity, team-spirit, diversity, appreciation of others, and determination to succeed. This is the only way to strengthen innovation and safeguard competitiveness.

It is a fact that when unpalatable matters come to light, advisory literature on that topic also expands and ‘management experts’ on the subject appear. Problems of corporate culture and leadership have no easy solution. There is no straight and level route to innovation. However, observers do agree on one thing: that certain ways of thinking, behavior and types of organization, can act as formidable obstacles to innovation, even making innovation impossible. Removing these obstacles is one of the prime challenges facing corporate management today.

Only through innovation can Germany and its companies reaffirm their leading positions on world markets.