

What is management innovation and why is it so important

Interview with Henrik Skov, one of the people behind the first conference in the Czech Republic on management innovation called Rethinking the Principles of Management. In this interview he explains why it is time to focus on management as the source of competitive advantages

What is management innovation?

The academic definition of Management Innovation is that "it is a company's ability to effect fundamental changes in its own internal way of working", Said in a more comprehensive way,

Management Innovation is about rethinking the principles on which we manage our companies and innovate on those principles to obtain competitive advantages.

To do that we need to rethink the current management processes and find out what objectives they serve, and maybe even more important what objectives they do not serve.

Management Innovation is about rethinking the principles on which we manage our companies and innovate on those principles to obtain competitive advantages

If we want to create innovative companies, it is important that our management principles reflect the objectives of the company. It sounds like logic, but is too often far from practice – practice is that

Managers pays very low attention to such reflections.

Why innovate on management principles that have proven to be successful for years?

Because the way we do business, is not based on natural scientific principles and nothing is static. Management principles are created by people as a reflection of problems and challenges that exist at a particular time in a society, something people tend to forget.

Management principles were created by people as a reflection of problems and challenges that existed at a particular time in society, something people tend to forget.

If we look at most of our current management principles, we will discover that most of them were created in the beginning of the past century in order to solve problems that existed at that time. Much has changed since then.

Take for instance Ford who invented the assembly line production and decided only

to produce Ford - T in one color – namely black. Both things gave Ford huge competitive advantages at that time, in terms of mass production of a good standard product to a low price. This was something that no one else was able to do as efficient as Ford at that time. Afterwards other tried to imitate Ford and for a period of time economies of scale and cost leadership became the main key success factor in the auto industry.

In respect to Management innovation, Ford's technologic breakthrough had Management Innovative dimension as the factories were managed to meet the key success factors. The result was standardized operations, the functionalized organization, the bureaucratic structure, rule-driven operations etc. If we look at companies today we will discover that many still have Fordism in their management genes. And that is even though no one is satisfied with a standard car in black today.

Will you say that those traditional management principles have lost their relevance today?

No, several of the principles may still have some relevance but their relevance is much less significant than earlier, as the world of today are very different from the world one hundred years ago. Today flexibility and innovation has replaced economics of scale and standardization as key success factors and what makes this even more challenging is that many of the traditional management principles are inconsistent with the principles of development and innovation.

The traditional management principles were aimed at creating replication. Said in other words the purpose was to make the employee do more of what they already did, more efficiently.

Creativity or the willingness to innovate is something that people chooses to bring to work and give like a bonus to the company everyday,

If we want to create an innovative organization it is not enough just to expect replication from the employees. Innovation requires the use of the creativity and motivation of the employees. Creativity or the willingness to innovate is something that people chooses to bring to work and give as a bonus to the company everyday, and the chance that they decide to do that is low in a bureaucratic organization with tight control systems.

That the employees' motivation and willingness to innovate is a real life problem in most companies is supported by several studies. For instance a survey conducted by Towers Perrin and Gallup of employees in 16 countries shows that less than 20 percent of employees describe themselves as engaged in their work. In a world with still tougher competition, it is simply not enough! We can not afford this incredible waste of human resources. Especially not in a situation where more and more companies such as, Gore, Google or Toyota shows up in the arena.

These are companies characterized by radical different management principles that build on the employees as the most important resource to obtain innovation competitive advantages.

So what do those companies do so differently?

There are build on Management Principles that has innovation as the objective and this is reflected in as well their structures, cultures and strategies. Maybe the most significant

thing they have in common is that they understand that intrinsic motivation and influence is what brings passion to work.

The management principles of Gore are not to be found in any management textbook. Gore has a long experience with a highly innovative Business culture based on democratic principles where the leaders are appointed of the employees and the philosophy is that employees can manage themselves and perform better if they are not managed.

At Toyota lean production is combined with a philosophy about the employees, qua their everyday experience with the production, is a valuable source for improvements. Thus the employees work in self managed quality circles and last year the employees in Japan alone came up with more than 500,000 ideas to product and process improvements. How many can beat that?

Google has managed to redefine the software market from being a market where software products were sold of the shelf like soap. Google's business concept is different as their products are free for the end user because of advertisement income - . Google have also managed to create a unique innovative work culture, besides having one of the best benefit packages for their employees there are huge possibilities for coming up with ideas and innovation at Google. Among other things all employees has 20 percent of their work time defined for personal project that the employee finds interesting. The result of Google's management principles is that Google today has twice as high return per employee as for instance Microsoft and are one of the most expanding and innovative companies in the software business.

A good illustration of what we are talking about is an interview I watched with one of the employee on CBS, when Google was

nominated as the best company to work for in USA by fortune Magazine. When the interviewer asked the employee, how she felt about her work she replied "I think it is great we are always having fun, sometimes it is hard to leave in the evening. I am a little embarrassed to say this... but sometimes I think it is a little boring to get back to my family. How many of us have employees like that? The answer is few, next question is why? The answer is to be found within management, and should give most managers a good reason to reflect over their management principles.

Do you mean that all companies should apply the management principles found in Gore or Google?

No, absolutely not, Management Innovation is about innovating own management principles that reflect the specific context of a company and what works in one context does not necessary work in another.

This is a fundamental point in Management Innovation. There are way too many best practice Junkies out there and to few Management Innovators.

There are way too many best practice Junkies out there and to few Management Innovators

But sure managers can learn from Gore, Toyota or Google and maybe what is most important see that things can be done in radical different ways.... and with success!.

What are the obstacles for companies to become Management Innovators?

Trajectories and Management Myopia!
Trajectories, is a well known phenomenon in

technological innovation, and refers to that if a company poses a specific technology on which they build their products it will tend to use that technological platform for future innovations rather than to seek radically new technologies. Similar you can speak about management trajectories.

Management development has primarily been the "AD-ONS" or modification of the present management principles rather than a showdown with the principles

Management Trajectories are principles on which management are developed without questioning or reflection on the purpose behind them. The result is Management Myopia (narrow-sightedness) and that management development primarily becomes „AD-ONS" or modification of the present management principles rather than a showdown with the principles.

An example of what lies in the "AD-ON" principle can be illustrated by the way the U.S. automakers responded to Toyota and other Japanese auto manufactures success in the late 80's. First it took the American automakers long to realize what was going on; when they finally did, they tried to imitate the production systems of the Japanese Auto Manufactures, hereunder lean production. The imitation did not bring the expected success, and the lack of success was initially explained by the cultural differences between Japan and the United States. GM for instance came to the conclusion that profitable car manufacturing in the United States apparently was impossible, where after they moved large parts of their production to Mexico. What is interesting is that at the same time, Toyota expanded their production in the United States ... and managed to establish a successful production. How comes that Toyota could

manage to start a successful production when GM could not? One of the answers is that even though GM and other American auto manufactures tried to imitate Toyota, it was just an AD-on to their existing business philosophy, where Lean, quality circles etc. was an integrated part of Toyotas business philosophy.

Is management innovation another management fad?

No, Management Innovation is no fad; Management Innovation is not one of the many "of the shelf" management solutions that are offered to managers, but a fundamental concept. In fact there is nothing new in management innovation itself, management innovations have occurred all the time ever since management was invented. Just to mention a few examples on big management innovations we can take Fords assembly line, General motors principle of divisionalization, or Toyotas Kaizen lean production, all examples of Management Innovations that gave the respective companies long lasting competitive advantage at the time they were introduced. When we speak of the need of putting attention to management innovation, we speak of how companies can and should become conscious Management Innovators.

The case is most of the management innovations, happens more or less by coincidence or because the company is in a crises.

The case is most of the management innovations that happens, happens more or less by coincidence

Today many companies has structured principles for product innovation, process

innovations and some even for strategic innovation but very few has the same structured processes when it comes to Management. It seems like management is the last wholly bastion when it comes to innovation. I believe that companies could benefit from having same structured processes for the management innovations as they have for other kinds of innovation since management innovation is the most important form for innovation.

You claim that Management innovation is the most important kind of innovation How comes?

To answer that question it is important to understand what Innovation is and how it is created. Innovation is a brought term and includes all from process innovation, product innovation, to strategy innovation and management innovations. Each genre makes its own contribution to success. But there is a hierarchy among these various forms of innovations. The highest level consist of Management innovations, followed by cultural innovations, strategic innovation and structural innovations

Said in other word Management Innovation is about inserting innovation into the genes of the company

At the lower levels we find product and process innovations. It is through the higher level innovation the innovative organization is created and these higher level innovations serve as the platform for the lower level innovations such as product and process innovations. Said with other word Management Innovation is about inserting innovation into the genes of the company and thus create an innovative organization

where other forms of innovation can take place.

What does the financial crisis mean to management innovation?

It is sad to say but history is full of examples on how it takes crises to changes things, just take IBM as an example. Today IBM is a highly innovative organization that pays much attention to business model innovation, but the turn for IBM was that they nearly went bankrupt in the 80'es because of a rigid and inflexible business model.

Those companies that are able to think differently and realize that they cannot just cut themselves out of the crises will probably be the ones that survive

No doubt that the financial crises affect all companies, management innovators or not, but it is like the survival of the fittest, the dinosaurs that do not rethink management and are not flexible enough to maneuver in the current environment will be the ones that dies.

Those companies that are able to think differently and realize that they cannot just cut themselves out of the crises will probably be the ones that survive.

It is wrong to draw an idealistic picture that shows that Management Innovation can solve all problems, unfortunately in the real world, downsizing might be needed. What is important is that downsizing does not cure the disease, so it is about downsizing what need to be downsized and then start the process of rebuilding. What to avoid is Downsizing and a simultaneous transformation towards being more innovative. Innovation and Downsizing is a dangerous cocktail as it takes employees

who are inspired to innovate and normally it does not inspire employees or strengthen the innovative culture if the company is in a continuous process with cut backs and firings.

Another argument for management innovation in the financial crises is that Management innovation is low cost that to a large extent extends a mental concept.

Is Management Innovation only for CEOs?

It is an interesting question that has several answers. Theoretically it should not be since innovation should be everybody's business in an innovative organization, but far from all organizations has a structure where changes can come from the bottom.

So in most cases management innovation will be initiated from a certain management level. If this level need to be the corporate C.E.O or it can take place on business unit level, depends on the degree of autonomy the single business unit has. In organizations with strict control from the head office where changes are initiated top down the corporate C.E.O. has to be committed to create structures for creating management innovations while in subsidiaries with a high degree of autonomy the management innovations can happen more decentralized.

Innovation should be everybody's business in an innovative organization, but far from all organizations has a structure where changes can come from the bottom

Another dimension we have to distinguish between to answer the question is if we are

speaking about radical management innovations or more incremental management innovations. While the radical ones requires top managements involvement the more incremental ones can occur decentralized in a business unit or even in a functional unit. For instance if a customer service unit decides to implement Management By Objectives and creates time, space, new reward systems to be more innovative and it can be done without interfering to much with the processes of other departments, it can be seen as an incremental management innovation.

In all cases the more people in an organization that reflex over how things are done and how they can be improved the greater the chance is that top management sooner or later must address the issue

What do you hope to achieve with this conference?

I hope to bring focus on Management innovation here in the Czech Republic since I am worried about the future of this country if we do not become more innovative, thus it is obvious that we are going to face an ever increasing competition in the years to come, and even though we have experienced a positive development in the Czech economy, we are still in the lower end in EU when it comes to innovation which is likely to cause problems in the near future.

The Czech Republic and the companies here are an integral of the global economy and seen in the light of the increasing global competition and the increased cost level operating in the country, this development means that the Czech Republic and companies located here cannot only rely on operation, based on the moderate level of costs.

This development means that the Czech Republic and companies located here cannot only rely on operation, based on the moderate level of costs

In fact, the Czech Republic has the potential to offer much more than low cost operation since we have factors such as a favorable business climate, a well skilled workforce and a well developed infrastructure

No doubt that the government is aware of the above mentioned problematic perspectives and a lot is done to improve the innovativeness primarily in form of increased focus on technological innovation and via various incitements to increase R&D activities. This is all good initiatives, but there is a blind spot when it comes to the stimulation of creating innovative organizations, bound to create innovation

What is the future of Management Innovation?

I believe that more attention will be paid to management innovation in the future, under all circumstances we will see that those companies that becomes the winners are the ones that comes up with contemporary management principles that reflect the key success criteria of today. My hope is that this conference fill be the first step on some of the participants' journey towards becoming conscious Management Innovators.

Confrence Contact Info

Henrik Skov - HSConsulting
(Conference Coordinator)
+ 420 776 352 479

Birger Husted – UniqueConsult
+ 420 728 244 444

Jesper Vej (contact International)
+ 45 4589 2077

E mail: info@Managementinnovation.cz

Web : <http://www.managementinnovation.cz>