



Innovation: Leap into the Future

Steps for successfully establishing a culture of innovation

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Is innovation just creativity? Or what else is behind it? Many companies and managers believe that ideas only flourish in a generous and experimental "wellness culture" in which everyone has great freedom to do what they want. But creativity that produces viable, innovative ideas doesn't happen that way. Even the often praised, truly innovative companies are characterized by strong leadership and consistent rules.

Innovation ... but how?

Fault tolerance, a willingness to take risks, flat hierarchies, and the desire to try things out are one side of the coin. On the other side, rules of the game are needed, and they are not always conducive to fun at work. Fault tolerance must not tolerate incompetence, the employees must understand clear instructions. High standards are set for employee performance. Accordingly,

these points must also be considered when recruiting and hiring personnel, and the best suited talent possible must be hired. A strong sense of responsibility on the part of individual employees must be balanced with independent thinking, working, and willingness to experiment. Management must master this balancing act, otherwise a culture of innovation can end in chaos or as a puny seedling.

In general, we can speak of two main categories: Incremental (evolutionary) and disruptive (radical or revolutionary) innovation. The former refers to the improvement and further development of existing products or services, whereas disruptive innovation introduces groundbreaking new products, services, or business models. The latter can turn existing markets or industries completely on their head or even displace them. What should companies focus on?

Should they focus on incremental innovation with constant renewal of products, processes, and services ("product maintenance"), and business model as well as cost reduction, which is very likely to bring small profits? Or should they try to find a revolutionary idea that can potentially bring huge profits, but likely will rarely succeed? Each of the methods has advantages and disadvantages, and many companies pursue both strategies in parallel.

Where do you start if the necessary structures in the company are not in place, or only to an insufficient extent?

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Many successes, excessive optimism and clinging to the status quo often lead to a weak willingness to change. Interestingly enough, this means that especially successful companies can - at least occasionally - fall into the trap of losing innovative power and missing trends. This is also described as the "innovator's dilemma".

From corporate practice, we see the path to building a successful culture of innovation divided into three stages:

1. development of a culture of innovation
2. challenges
3. desire for new things

For companies to be innovative, they must provide an appropriate "ecosystem," be willing to constantly renew themselves, and strive to grow disproportionately and more profitably than the competition.

How does one develop a culture of innovation?

Successful companies have anchored innovation as a component of their corporate strategy. As with all other strategy components, it is essential for innovation that the culture of innovation is a part of the corporate culture and is not viewed in isolation. Without being part of the corporate culture, the implementation will not succeed.

A good culture of innovation is characterized by many factors, such as open-mindedness and curiosity, commitment and motivation of employees and managers, cross-functional teamwork, and openness to sharing results. There must be freedom to experiment, to allow and encourage disruptive approaches. And don't forget: test, test, test. When it comes to implementation, you must make sure that creativity is balanced with discipline. Do not be afraid of losing control! You have to master the balancing act of being fault-tolerant, but never allowing incompetence. Creative, new ideas

are important, in a balanced mix with the competence of experienced employees who also check feasibility (legal, technical, licensing) at an early stage.

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The culture of innovation provides the framework for innovation activities, so all parts of the company and stakeholders must understand and support the importance of innovation for the company. Innovation must be encouraged "top-down," but it cannot be mandated.

A culture of innovation develops over longer periods of time and must be carefully built up as a cultural change and not as a "cultural revolution" in the company. Otherwise, it remains a foreign body imposed from the outside, and you risk the change not being sustainable.

For a strong culture of innovation, various prerequisites must be met in the company:

Micro-management and aversion to risk are often components of a corporate culture that inhibits innovation. The decisive factor, however, is whether there is sufficient **freedom for experimentation** and risk, which is a prerequisite for a successful culture of in-

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novation. A learning culture must be established, but development and learning cannot be decreed. Innovative and creative teams must be convinced of "their cause." Yes, they must even have an "obsession" that makes them work hard on the idea: Even after many failures starting a new attempt and modifying the basic idea until an innovation emerges.

Flexible learning opportunities on current topics and methods motivate employees to operate independently and have a positive effect on creativity as well as satisfaction. An **active learning culture** allows a continuous exchange of knowledge within the company. This increases the potential for innovation and gives creative employees the freedom to develop successful and profitable ideas.

New technologies and business models not only offer opportunities for innovation and economic success but are also associated with uncertainty and challenges for many companies and employees. The pursuit of innovation is often a case of "**learning by doing**".

You have to see if the **necessary skills** are present in the entire product delivery and product marketing process. In many companies, long decision-making paths, classic processes, and hierarchical hurdles still prevent innovation. This slows you down too much for successful new developments. You don't have enough speed to react quickly to customer demands and the competition. All business units as well as all stakeholders must understand and support the importance of innovation for the company.

„Fear and convenience kill innovation.“

Are the **employees motivated** to deal with topics that carry a higher risk potential and thus also involve a possible danger for the employee? How does management behave in the event of mistakes or failure? "If you don't do anything, you don't make mistakes". Stress, fear, and convenience kill innovation.

Management, supervisory bodies, partners, and shareholders must promote the culture of innovation, and **endure the tension between short- and long-term goals**. And they must be aware of the dilemma that traditional structures generate the money today, while new things initially bring only a promise for the future.

Disruptive approaches must be allowed, even encouraged. Flexible incubation stages are necessary, which can be enabled via start-ups, for example, as they have greater freedom than the traditional headquarters. Another option are collaborations or partnerships, inside or outside the company. And keep in

mind: Innovations are made by people, not by systems and processes.

If organizations with a deficient or missing corporate culture open up and rethink old power structures, question processes and reinvent themselves, it can make them more successful in the future. They decide what kind of behavioral and thought patterns to develop further and which ones are better eliminated.

Challenges to establishing a culture of innovation

What obstacles and challenges can be encountered when creating a culture of innovation?

Micro-management kills all employee motivation and passion through lack of trust and tight controls and rules. Resistance can come not only from employees, but also from the top, i.e., management and other stakeholders.

A silo mentality, i.e., orientation only towards one's own department or area, and a lack of willingness to take risks paralyze a culture of innovation and prevent productive collaboration.

Corporate culture must be lived. Values must be agreed upon and motivation must be provided through visions. Above all, management and executives must exemplify this and roll it out to all affected areas of the company so that this corporate culture is accepted and lived bottom-up. It is not without reason that companies with a mature feedback and participation culture are among the most successful.

In addition to anchoring it in corporate culture and strategy, other prerequisites are adapting the organization and providing the necessary resources, structures and spaces. To enable employees to innovate, they must be equipped with the necessary information, tools, and skills. The approaches must therefore be both bottom-up and top-down.

If there is a lack of commitment in the top-down strategy, then the process of change will not be seen or encouraged at the top management level. Innovation must become a part of the corporate vision and thus of the corporate strategy.

Experiment more: The new does not come through creativity alone. We need a culture of trial and error. This is closely related to the design of a positive error culture in companies. Error culture must be enabled and exemplified, thus giving employees a safe area to learn and try things out.

Fault tolerance includes an open and transparent approach to errors and an environment that recognizes er-

rors as learning opportunities. A genuine and open feedback culture helps to retain employees and prevent future errors. However, it is also clear that not every error is a learning opportunity. If, for example, they are made out of carelessness or the same errors are made several times, appropriate consequences must follow.

It must also be ensured that one operates within the framework of "controlled" exceptions, for example in policies, achievement of KPIs and formal processes, since ultimately the parent company is liable.

„A high percentage of innovations fail due to rigid structures.“

A high percentage of innovations fail due to rigid structures. Agile innovation methods help companies to act more dynamically and flexibly. For example, design could be integrated with development and market launch, making processes much faster and more successful.

Centralized and long decision paths are an obstacle to an agile and innovative organization. Control according to short-term key figures without a long-term view of the development of the enterprise value, leads to incorrect assessments of opportunities.

The lack of ability to recognize customer needs or to market customer benefits often leads to sham innovations without economic success. This creates innovation for innovation's sake. Too much product diversity also goes hand in hand with high complexity without creating added value. The customer and their needs must be firmly anchored in a successful culture of innovation and be the center of attention.

Incorrectly planned resources, e.g., financial, technological, or human talent, are another obstacle. New creative, innovative employees must be able to integrate quickly into a culture of innovation, otherwise they will be neutralized by the existing organization and lose inspiration and esprit.

Lack of leadership and unclear rules create a weak culture of innovation. Success leads to convenience ("Success hinders learning", "Innovator's Dilemma"), as one constantly per-

petuates one's success, not noticing upheavals early enough. Saturated companies and insufficiently challenged, too complacent employees are content with the status quo or extrapolated development steps.

Changes are welcome - welcome change! But if priorities change too frequently, then it is no longer possible to deal with topics with the necessary intensity over a longer period, and so one "pulverizes" one's resources without sustainable progress.

On the other hand, it is important to avoid the "experience trap" and to not approach new ideas with old, entrenched strategies, tactics, and knowledge, but to allow new thoughts and ways (experiment). If you look beyond the end of your nose, you can find ideas in other industries and adopt them.

Examples from practice

Let's look at some real-world examples, each highlighting a characteristic that is critical to innovation.

Practical example no. 1

Good and proper corporate management as a governance structure promotes innovation.

This situation describes a family-run company which, as a partnership, is not listed on the capital market. As a result, there is no short-term pursuit of returns due to external investor pressure. Investments in innovations are not only designed for the short term, but for the long term.

The company's healthy financial substance ensures the necessary financial strength to provide resources for research and development. The product portfolio facilitates the necessary willingness to take risks to invest in development projects.

In this company, innovations are very actively and generously supported. Elements critical to success include other factors such as a differentiated selection of innovation topics with a focus on the strategically relevant innovations (because not every inspiring idea should be pursued uncritically). It is important that the probability of success of ongoing innovation projects is accompanied by good, close controlling. And failed innovations must be followed by open and honest feedback and learning (learning culture).

Practical example no. 2

Here, the long-term corporate strategy is combined with lean operational implementation.

The strategy is developed both top-down and bottom-up and is broken down by management to the respective departments in the form of defined work processes, tasks, and targets (individual target agreements coupled with bonus payments and definition of budgets). This prevents silo thinking and ensures target conformity.

Product management is organizationally located under the same umbrella as research and development and is in direct exchange with marketing and sales. This organizational integration enables a direct exchange between customer and market needs (product management, PM) and research and development (R&D).

New product ideas are evaluated in cross-departmental decision-making committees in which marketing and sales are also represented.

The project portfolio is continuously evaluated and optimized by a department that is independent of PM and R&D. This ensures that the project and product portfolio complexity remain within controlling-adequate and economic bounds.



Summary

Innovation is vital for every company. At the same time, it cannot simply be ordered and planned. It is difficult to grasp, and success is not guaranteed. This makes it all the more important to create a culture of innovation, the organizational prerequisites, and rules of the game so that innovation can happen as successfully as possible. These are the topics addressed by the ICV expert work group Innovation Management, which is presenting the results of its work. Steps for building a culture of innovation, also based on successful practical examples, are presented.

Practical example no. 3

The focus in this case is on how "new knowledge" can be translated into innovation.

Sustained sales growth means a constant need for personnel, also in the field of innovation. New employees undergo a mandatory training program, which is differentiated by area of activity, in the company's own training center.

The aim of this program is to impart to new employees not only technical knowledge but also the actively practiced corporate and innovation culture, to provide orientation and to prevent dilution of the corporate culture.

At the same time, there is freedom - e.g., for building on their own strengths and competencies as part of individual training programs - to ensure that the knowledge new employees bring with them, and their innovative approaches and techniques, are not lost. In addition to training programs, internal knowledge platforms are offered, for example about error prevention and best practice.

To gain access to further, external, innovative knowledge, the company participates in promising start-ups and companies. In order not to stifle their innovative strength, the integration into the existing corporate culture is differentiated and carried out with a sense of proportion.

Specialized sales areas, such as software sales, have been established to successfully sell innovative products that differ significantly from the existing product range.

Practical example no. 4

The industry of the third-generation family business (keyword continuity) requires a deep and long-standing understanding of the market.

This ensures that the management has very good industry experience and knowledge, as well as valuable contacts that provide input regarding key innovation trends. This is essential in order to set appropriate priorities in the generation of salable, economic innovations. The needs of customers are always at the center. Consequently, the focus is on applied research rather than pure fundamental research.

Desire for new things – overcoming innovation obstacles through intelligent management

Instead of innovation bureaucracy, organizations should create fast and lean decision-making paths and processes. It is essential to maintain a balance between creativity, systems, and processes. Costs and investments should be allocated by project effort, not by cost center. Projects must be filtered and evaluated on a regular basis: The greater the

anticipated effort, the higher the probability of success or growth potential must be. This also requires the courage to stop less successful projects in time.

„It is essential to maintain a balance between creativity, systems, and processes.“

It is important to allow lateral thinking, to encourage creativity and to support risk-taking. Failure can happen, but it is important to learn from it. The company's expectations for innovation must be clearly communicated to employees so that the purpose of a necessary culture of innovation is also understood.

Strong leadership is required, with simultaneous flat hierarchies. It is promising to break out of the hierarchy and form interdisciplinary, changing, and cross-company teams, supplemented by experts.

In the process, targets for innovation activity must be agreed upon. Recognizing achievements through praise and bonuses is a good motivator for employees. By having employees report on successes in the company, the culture of innovation is better anchored in the company, the idea is spread, and at the same time individual successful protagonists are highlighted. Ideally, a competi-

ICV expert work group Innovation Management

The ICV expert work group Innovation Management develops best practice approaches from the practice of successful, innovative companies. The prerequisite for implementation is anchoring it in the corporate culture. The basis for this article was developed by the participants in the ICV expert work group Innovation Management: Dr. Stefan Caliz – Hilti AG, Siegfried Gänßlen – Executive Advisor, Dr. Lars Grünert – TRUMPF GmbH + Co. KG (head of the work group), Martin Köstner – KARL STORZ SE & Co. KG, Udo Kraus – Hansgrohe SE, Dr. Nicholas Matten – STIEBEL ELTRON GmbH & Co. KG, Dr. Benedikt Müller-Stewens – Hilti AG, Florian Schwendinger – KARL STORZ SE & Co. KG, Lukas Wagner – TRUMPF GmbH + Co. KG, Helmut Willmann – SICK AG..



We look forward to welcoming interested members. Event information and registration via the ICV homepage, section expert work group Innovation Management: www.icv-controlling.com or by mail to the head of the work group.

on of ideas is created! Everyone can contribute ideas and be an innovator, otherwise you get a culture of elites.

Disruptive innovations may make little sense from the perspective of successful companies. This is where the power of start-ups and start-up initiatives can be applied. Because of their completely different culture, these can pursue completely new, even seemingly senseless paths and often be very successful as a result. This gives the culture of innovation a completely different dynamic and contributes to the success of the entire company.

Companies that manage to become innovative are rewarded on the market, because innovation leaders dominate the market. ■

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