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THE INNOVATION CULTURE OF CORPORATE GROUPS

**“We can be efficient, true,
but not innovative”**

*Thomas Sattelberger,
Former Chief HR Officer at Deutsche Telekom
on the innovation capability of German corporate groups*

Impact of Digital Transformation



Numerous industries threatened¹
Creative destruction from disruptive innovations endangers current market leaders.²



Creative intelligence will survive
Robots take over routine work³ – 80% of “creative jobs” are secure from technologization.⁴



Machines replacing people
15% annual growth in industrial robots⁵ and cost savings of up to 90%.⁶



Germany underdeveloped digitally
Market cap of digital US companies is 34 times greater than Germany’s Internet economy.⁷



50% of jobs at jeopardy
Increasing technologization jeopardizing numerous jobs in Germany.⁸



Startups destroy market structures⁹
Rigid structures of large corporate groups make them too sluggish to place innovations on market in good time.^{9, 10}



Efficiency mindset a threat to survival
Digital transformation demands radical rethinking of all business models.¹⁰



Big data rule the game
Companies’ core activities are increasingly data-based and IT-supported.¹¹



Permanent employee numbers decline
“Contracting instead of hiring”¹² – project work will make up more than 40% in five years.¹³

(1) Himmelreich (2015): “Digitalisierung beschleunigt das Innovationstempo”, [Link](#); (2) Perry (2014): “Fortune 500 firms in 1955 vs. 2014; 88% are gone, and we’re all better off because of that dynamic ‘creative destruction’”, [Link](#); (3) Möller (2015): “Warum Roboter bessere Jobs schaffen”, [Link](#); (4) Bakashi et al. (2015): “Creativity vs. Robots”, [Link](#); (5) Presseportal (2015): “Industrie-Roboter erobern die Welt”, [Link](#); (6) Sommer (2015): “Zukunft ohne Arbeitsplätze”, [Link](#); (7) Gillmann (2016): “Digitale Wüste in deutschen Amtsstuben”, [Link](#); (8) Kaiser (2015): “Maschinen könnten 18 Millionen Arbeitnehmer verdrängen”, [Link](#); (9) Fleig (2015): “Disruptive Innovationen: Die Regeln der Branche radikal verändern”, [Link](#); (10) Cribb (2016): “Was den digitalen CEO vom analogen CEO unterscheidet”, [Link](#); (11) Lamprecht (2016): “Digitalisierung: Innovation und Strategien”, [Link](#); (12) Deutsche Telekom (2015): “Arbeit 4.0”, [Link](#); (13) GPM (2015): “Vermessung der Projektstätigkeit”, [Link](#); (ALL) last accessed: 14 March 2016.

Corporate Culture – Green vs. Blue

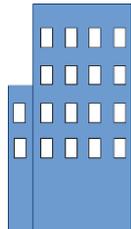


Viabile corporate culture comprises genuine values and fundamental convictions that influence the actions performed by employees. Certain features such as prescribed decision-making processes or the creative design of office space often embody these fundamental convictions in a form visible to the outside world. A number of cultures may well co-exist in corporations – but a genuine innovation culture is rarely given adequate consideration.

10 new startups
with a combined valuation of over
US\$1bn in January and February 2016¹⁴

88% of the Fortune 500 from the year 1955 no longer
exist today¹⁵

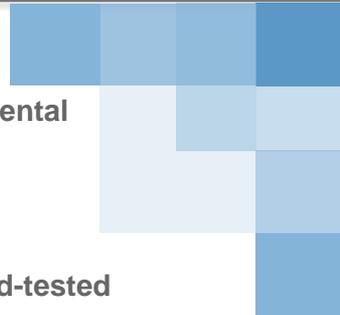
Efficiency Culture



Growth through incremental
optimizations

Productivity

Tried-and-tested



Agility

Creativity

New

Risk

Innovation Culture



Corporate groups traditionally focus strongly on efficiency and productivity. This limited focus will not secure the future potential of these companies because the growing competition from Silicon Valley is taking over entire business fields.



Innovation culture must be encouraged to ensure sustainably successful survival on the market!

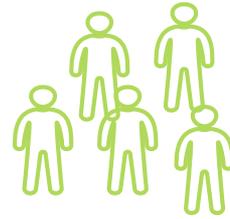
Snapshot



11 interviews with experts



60 survey respondents



5 workshops

1 result:

“Efficiency eats innovation culture for breakfast.”



Study

Design

Results

Outlook



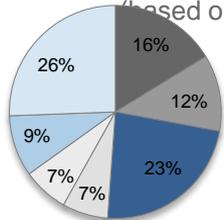
Study Design



Online Survey



Objective: Identification of measures and best practices within the corporate group environment that encourage innovativeness (based on Schein, 2010).



Target Group
Innovation experts
from corporate groups
(n=60)

- Dienstleistungen & Handwerk
- Energie & Umwelt
- Finanzen, Versicherungen & Immobilien
- Internet
- Metall & Elektronik
- Technik & Telko
- Sonstiges

 Symbol indicates a quantitative result of this study in the following

Interviews with Experts



Objective: Investigation of the advantages and disadvantages of specific organizational structures and derivation of best practices.
Among the experts:

Jens Bode
Senior Innovation and Foresight Manager at Henkel

Daniel Markwig
Director of SAP AppHaus

Hans Ehm
Head of Supply Chain Innovation at Infineon

Frank Rehme
Director gmvteam GmbH, previously Head of Innovation at METRO

Thomas Edig
Chief HR Officer Volkswagen Commercial Vehicles

Dr. Heinrich Arnold
Global Head of Telekom Innovation Laboratories

Workshops



Objective: Investigation of the special cultural traits of corporate groups and the impact of these traits on innovation capability, focusing in particular on:

Innovation strategy

Organization

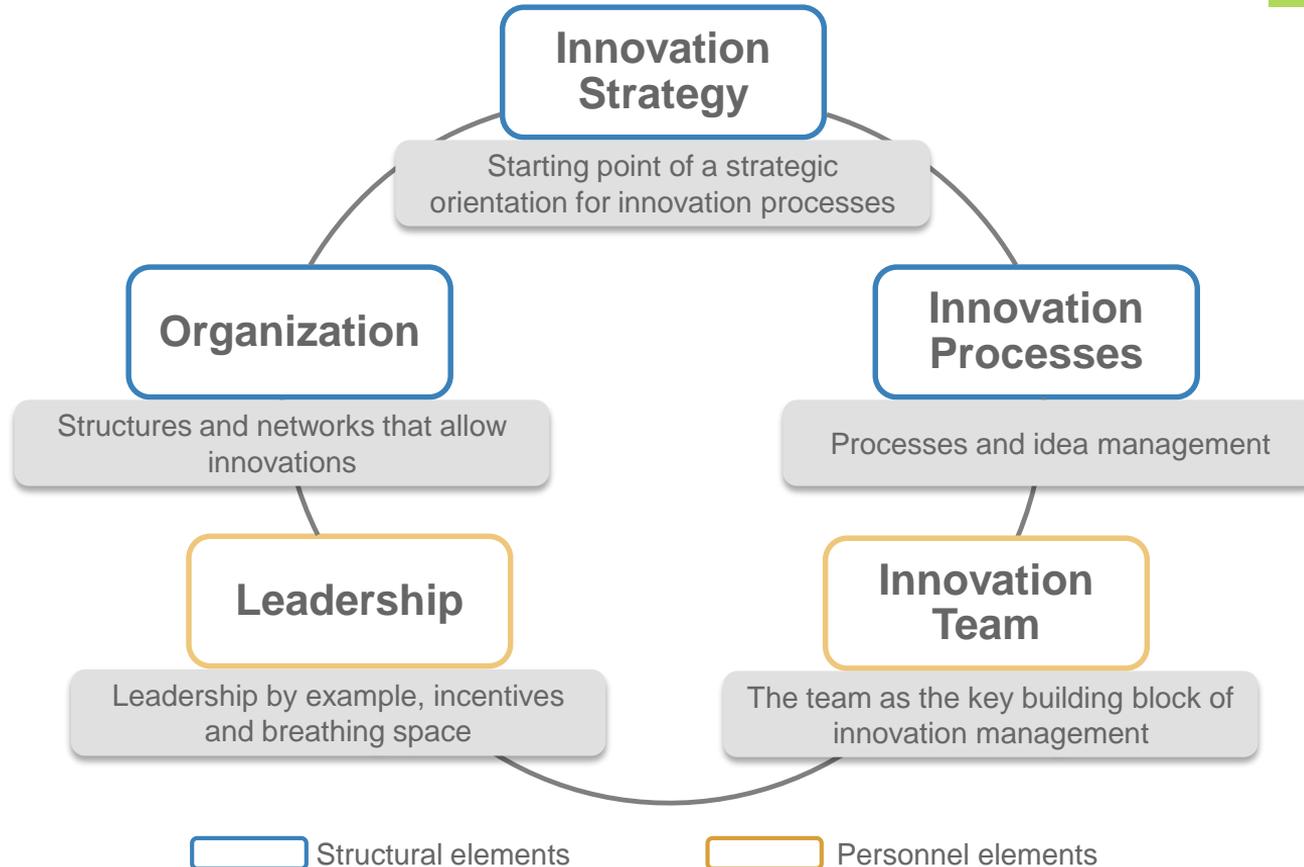
Innovation processes

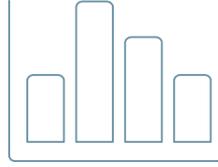
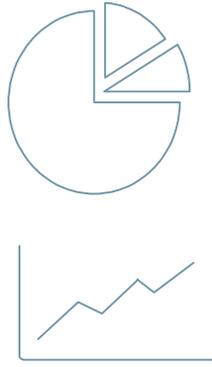
Leadership

Innovation team

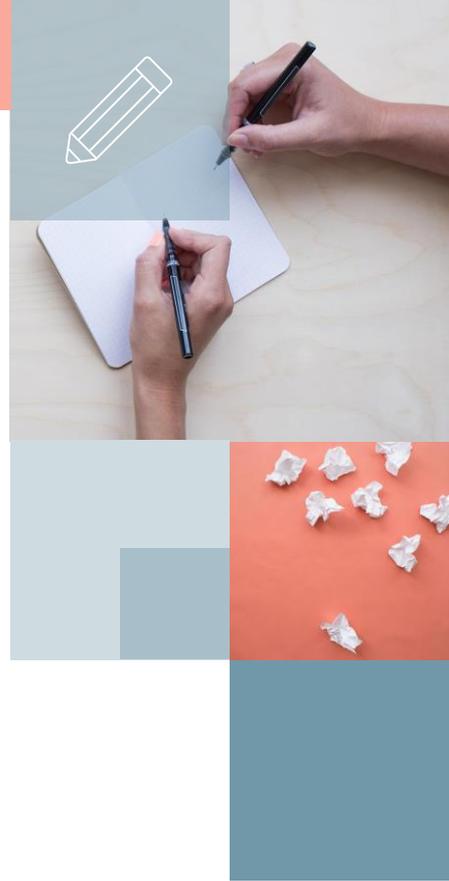
→ The five levels of the analysis of results

Areas of an Innovation Culture Critical for Success





Innovation Strategy



A more ambidextrous innovation strategy is essential for long-term survival on the market.



Traditional corporate group structures have been fashioned to produce incremental innovations and support exploit strategies. Disruptive innovations, on the other hand, are based on explore strategies that are not encouraged by corporate group structures.

100%

...of the experts from the qualitative analysis regard a more ambidextrous innovation strategy to be an important management task and critical for the success of the innovation capability.



Frank Rehme – Director gmvteam GmbH, previously Head of Innovation at METRO:

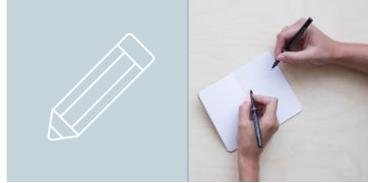
“Large corporations have simply been designed for conformity – this is where their strength lies.”



Ambidexterity is the combination of explore and exploit strategies – it enables managers to act in the future and the present in equal measure (Deutsche Telekom, Shareground Study “Work 4.0”, 2015). Corporate groups are expected to **focus on exploit strategies**. Often, however, this practice clouds the view for the exploration of disruptive innovations that are required for the ability to survive long-term.

Explore strategies should ideally be realized only in separate units and away from traditional corporate group organization and traditional processes. But the “what” and the “how” are not the only decisive elements; they are joined by the question of “Who are the suitable people for exploration, and how do I find and encourage them?”

Disruptive ideas should be developed in independent and agile units that have startup character.



Corporate groups have in the past come up short when it came to linking agile units with the operating core business and the processes in the parent group. Well-planned interface management, however, is decisive if ideas are to be developed successfully to market maturity.



Claus Peter Schröder – Senior Vice President Deutsche Telekom Services Europe

“Constantly rethinking processes and ideas and being innovative are vital elements for maintaining competitiveness, especially for **shared service centers**. In practice, this means reconciling two cultures (efficiency and innovation) under a single roof – a **mammoth task**.”



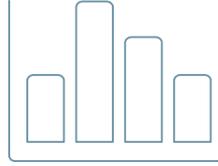
1 Think Tank, 7 Managers

Jens Bode – Senior Innovation and Foresight Manager at Henkel, speaking about the challenge of idea transfer:

“Despite the flood of new ideas, we nevertheless determined that their **transfer** to our operating business was anything but simple. The learning curve was integrated into downstream innovation processes.”



The integration of disruptive ideas is the greatest challenge for German corporate groups. Although there is still no definitive concept for the success of structural integration, two approaches have emerged: For one, a **well-considered interface design** can assure the integration of disruptive ideas in the various departments of a corporate group. This requires the drawing of clear lines of responsibility to ensure the trouble-free implementation of this process. Second, there should be a careful weighing of whether a disruptive innovation must necessarily be integrated into the corporate group or whether an **end-to-end realization of the idea in a small, decentralized innovation unit** is not more promising.



Organization

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A more ambidextrous organizational structure requires defined interfaces and extensively networked facilitators.



Interfaces that are too rigid or the lack of any interfaces in the organizational structure of various innovation units as well as the inadequate personnel staffing of interface functions hinder the successful linking of agile units to the corporate group and inhibit the successful integration of disruptive ideas.



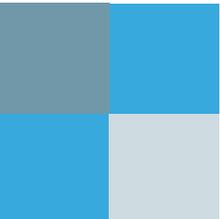
Organizational Innovation Killers

“[...] include the lack of an inspiring and motivating **environment**, missing or overly technocratic **processes**, undefined **interfaces**, no clear definitions and a lack of **innovation vision**, poor **communication**, no consideration of individual and creative **mindsets**, a lack of balance between **breathing space** and **structure**, and a lack of **interaction** both internally and externally [...]”

Jens Bode – Senior Innovation and Foresight Manager at Henkel

The definition of interfaces has proved to be an important best practice for ensuring interaction between the corporate group and agile units. Moreover, internally connected networkers who simultaneously maintain orientation to the outside are the best choices for **filling interface positions**.

You need people with a visionary outlook, excellent process understanding of the market and operating business/processes and a resilient network both within and outside of the corporate group. Their task is to convey ideas from innovation departments to the business units and to network the doers in the different areas with the objective of promoting their integration and evolvment. Regular workshops with specific themes between departments that are open to all employees create an additional network of more informal character.



Flat hierarchies and unbureaucratic budget release processes foster product placement in good time.



Hierarchical structures, complex coordination channels, long cycles for making decisions, and the focus on learned KPIs and processes from core business are unsuitable for the placement of new, innovative products on the market. Moreover, the demand for “100% error-free” and short-term profitability prevent fast time-to-market of new products.

Only half of the respondents

...see themselves in a position to present ideas openly to people at various levels of the hierarchy.

Best Practice:

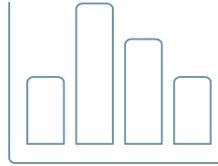
The financing of an idea should be approved within a maximum of two higher hierarchy levels

How exactly does **UQBATE** do it ?

UQBATE is an **internal innovation program at Deutsche Telekom** for the targeted encouragement of intrapreneurs. The unit generates high iteration speed because top management provides the breathing space in which teams can and must act autonomously. Allowing teams to make decisions on their own responsibility without individual management approvals presumes a fundamental trust in the team and leaves management free to concentrate on core business. Moreover, innovative employees can be found everywhere.



Ideas must be close to the decision-maker, so that they can be assessed quickly and unbureaucratically and **resources (budget, time, and skills)** for their realization can be mobilized. Best practices show that this heightens the ability to persevere and the probability of realization. When the innovation department reports directly to the management board, **spontaneous budget approvals** without constantly closing ranks with individual business units becomes possible. Lucrative innovations can be driven forward more efficiently and placed on the market.



Innovation Processes



Iterative “self-learning” processes and long-term sponsoring are decisive for disruptive innovations.



The classic, sequential Stage Gate process analogous to traditional idea management is suitable primarily for incremental process innovations in a familiar environment. When it comes to disruptive innovations in an unknown environment, on the other hand, agile methods that promote iterative product development (“Build – Measure – Learn”) are recommended. In either case, fast realization of ideas requires a sponsor on the management board.



74%

...of the respondents would *not* say that their innovation processes encourage fast realization of ideas.

80%

...have a positive attitude to a change in existing processes.

88%

...would say that flexibility in the innovation process is vital for the development of new ideas.

How exactly does **SAP** **apphaus** do it ?
H E I D E L B E R G

SAP’s AppHaus provides a creative space in which **design and co-innovation projects** are carried out in close collaboration with customers.
Process, People, and Space!

These are the three most important criteria for successful innovating. By consistently applying the **Design Thinking** method and exploiting specialized design skills, new ideas can be developed quickly, and integration of end users assures the fast validation and iteration of the results.



Disruptive ideas are not born in traditional processes! The Stage Gate process is eminently suitable for the selection of large numbers of ideas and for making a decision about which project will be given budgetary resources. But the pursuit of an explore strategy requires other methods and processes that permit **iterative product development**. **Digital platforms** foster interaction with external parties, thus supporting the co-creative innovation process.

An end-to-end integration of external partners in projects ensures objectivity, market focus, and new ideas.



Corporate groups often develop innovations on the basis of existing approaches that have become established in the immediate environment. This “tunnel vision” ignores disruptive innovations or the addressing of future market needs. Collaboration with external partners ensures “thinking outside the box” – encouraging impact-oriented innovation.



82%

...of the experts confirm that collaboration with customers and partners is fundamental for **driving market-oriented** innovation projects **forward**.



I am convinced that **open innovation** with **experts** from the innovation hotspots in Israel, the USA and Germany, **partner companies**, and **universities** is the foundation that will enable us to realize innovations quickly.

*Dr. Heinrich Arnold –
Global Head of Telekom Innovation Laboratories*



Careful consideration of the **organizational structure** can lay the groundwork for the specific interaction among colleagues from various innovation departments. DHL develops new ideas in **innovation workshops with customers**; in other corporate groups, experts are invited to give weekly talks, or groups establish their own “**associated institutes**” for cooperation with universities and research institutes (e.g.: the cooperation of Deutsche Telekom with the TU Berlin). Some corporate groups have established the “**rotating CEO**” **principle**: individual management board members take charge of the coaching of an important innovation project, but are replaced in the position by a different management board member after nine months.

Successful cross-departmental collaboration presupposes enablement throughout the entire organization.



The units within a corporate group operate in accordance with the division of labor principle and are therefore isolated from one another – and this is no less true for innovation projects. The result is redundant work and the squandering of resources, leading to losses of knowledge and synergies. Corporate groups have recognized the added value of digital tools with respect to interaction and the evolution of ideas. A lack of enablement in the workforce, however, leads to inadequate use of platforms for these purposes.



...of the surveyed companies have at their disposal digital tools and platforms that are intended to encourage the sharing of knowledge and cross-functional collaboration.



...believe that these platforms are used effectively and frequently by managers and employees.



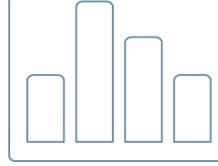
The Success Factor Sharing Culture

“Ideas always come from ‘problems’, inspiration, and interaction with other people – both internally and externally.”

Jens Bode – Senior Innovation and Foresight Manager at Henkel



Corporate groups have recognized the **potential of digital platforms and tools**, but only a minority of the employees are making effective use of them. Determined **enablement** of the workforce **specific to target groups** – e.g., through (reverse) monitoring, (digital) learning formats, and workshops for the communication of disruptive methods – is consequently essential for demonstrating to executives and employees what added value digital tools can contribute to the encouragement of virtual, cross-departmental cooperation. A digitally operating organization is therefore a major success factor for the encouragement of an innovation culture.



Leadership

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An appropriate target system is critically decisive for the willingness of executives to take risks.



As a rule, corporate group managers are trimmed to achieve efficiency and short-time, supposedly plannable successes. This leads to a lack of willingness to take risks and “silo thinking” of the executives. New ideas are perceived as distractions or even threats – “questioners of the status quo = planning basis for the future” – and innovations are blocked.

 **Only 59%**

...of the managers consciously accept risks when realizing ideas.

“Industrial companies listed on stock exchanges are generally strongly driven by KPIs. When you have responsibility for the business, there is **no culture of reward for taking risks.**”

Senior manager of a German technology company



“It is a paradox, but **trying out a lot of new ideas reduces the risk of bad decisions.** This presupposes, however, rigorous customer-centric thinking and, at the same time, that ideas and project teams are validated before investments or scaling take place.

The market, not ‘the boss’, is the primary target group!”

Johannes Nünning – Director UQBATE Deutsche Telekom

A willingness to take risks is especially necessary for disruptive innovating. The governance of corporate groups must take into account that the effects of disruptive innovations generally do not become visible for a number of years and that “making mistakes” in development makes good sense because existing processes can be steadily improved. **Risk management** for innovations can provide justification for investments in innovation projects ahead of other departments. CVCs¹⁶ have already realized this within corporate groups – just one successful investment can and should amortize all other investments.

(16) Corporate venture capital (CVC) units work according to a portfolio approach to justify the investment risk in a young startup. There is a fundamental assumption here: Just one successful investment is enough to amortize all of the other investments in startups. All that is needed is for 1 out of 20 startups to be successful.



Trust, breathing space, and appreciation enhance creativity potential and innovation capability.



The creative potential of employees is not fully exploited in corporate groups because of the wrong incentives – focusing on efficiency, short-term successes, and quantitative measurement parameters – and/or a lack of appreciation (lack of acceptance of new ideas, no access to decision-makers).



Only **30%** ...of employees consider their present **incentive systems** to be truly **effective** in encouraging the participation in innovation projects.

Almost **1/4** ...of the respondents say that their proposals for improvements or the development of new innovations are *not* accepted with gratitude.

“An incentive system really functions best when people are given the **freedom** to develop their ideas.”

Senior manager of a German technology company



“Many innovators are simply **not taken seriously**; this is often because they are in the wrong organizational location. They are frequently given enough budgetary resources to keep them quiet so that they do not disrupt the usual course of business.”

Frank Rehme – Director gmvteam GmbH

Corporate groups have a huge backlog in establishing effective incentive systems.

Yet they are indispensable if the full creativity potential of executives and employees is to be mined. In the opinion of the experts, the **provision of budgetary resources, freedom, appropriate appreciation, and trust** in employees and the mirroring of these factors in the target system are among the most important elements.

In this respect, the teams' freedom to make decisions and utilize resources is decisive for the success of the realization of innovation projects.



Executives must set an example of a positive culture of mistakes and encourage employees to dare new things.



The right balance between “permitting mistakes” for innovations and “avoiding mistakes” in the core business is a serious challenge for top management. The leadership culture of corporate groups and its focus on efficiency inhibit motivated free thinkers from initiating innovations and driving them forward long-term – this paralyzes the willingness to act and the commitment of employees for new ideas.

Only 11% ...would tell their employees in every case about the mistakes that had been made so that they did not occur again in the future.

Only 53% ...would agree that their bosses generally urge them to assume responsibility in innovation projects.

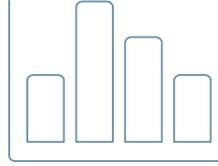


“Every manager has the assignment to practice **innovation management in his or her own purview.**”

Thomas Edig, Chief HR Officer Volkswagen Commercial Vehicles

Set an example! Encourage! Support! Boards and decision-makers must create the systematic frameworks and assume a role model function **in harmony with vision and corporate strategy.** It is important in this context to give employees the freedom to “try out” new things and to question the current situation. Managers must allow mistakes in the innovation business so that learnings can be derived from them. Mistakes in the core business, however, are more expensive than in a project that is still in its early phase – so the aim here is to avoid mistakes. “Living with” this paradox is a critical factor for the success of an innovation culture.





Innovation Team



Systematic skills management is the cornerstone for the formation of suitable innovation teams.



The complexity of corporate group structures prevents the (voluntary) formation of interdisciplinary teams that are suitable and have the necessary enthusiasm for the development of the particular idea. The know-how pool (systematic skills management) of a corporate group is not systematically utilized because of a lack of transparency, structures, and platforms. Instead, innovation teams tend to be staffed top-down or from units “in charge of” innovation, and both diversity and ideal fit of skills are neglected.



“Our teams are highly heterogeneous, that is what is so great. But every single individual must have at least one **extraordinary characteristic that goes far beyond the standard level** (...). The core element is found in the personality of every single individual.”

Dr. Heinrich Arnold, Global Head of Telekom Innovation Laboratories



“The people doing the work are more important to us than the idea because **what counts is he who wants to do it.**”

Johannes Nünning – Director UQBATE Deutsche Telekom AG



Best practices show that the same criteria always apply for the ideal composition of innovation teams. What is needed is a small, highly **heterogeneous team with no more than five members** that has a passionate team leader. This is already being realized in many companies.

Systematic skills management ensures selective (global) screening and **flexible onboarding and offboarding** of experts. The study results reveal that the more heterogeneous the innovation team, the more successful the course of the innovation process.

Special leave and incentivization of the idea contributor ensures end-to-end responsibility for innovations.



Corporate groups do not have the necessary framework conditions that would enable them to foster innovation projects alongside the line organization. The criteria and the procedures from the core business are applied – as a knee-jerk reaction and often subconsciously – to innovation initiatives. Line managers frequently lack the incentive to grant indefinite leave to idea contributors for an innovation project because they fear the loss of know-how on the line. Clear leadership “from higher up” and “for the company” rather than “for the department” is required.



“You will **not find anyone with more passion** than the one who had the idea.”

Frank Rehme – Director gmvteam GmbH, previously Head of Innovation at METRO

How exactly does **real-Drive** do it?

The success story of real-Drive, realized by METRO

- Idea contributor as end-to-end project manager
- Small, interdisciplinary decision-maker team without hierarchies
- Separately operating unit parallel to the regular organization
- Pragmatic rather than complicated approach

→ **From conception to realization: 4 months**



An **end-to-end accompaniment of innovation projects** by idea contributors can have a positive influence on the team’s stamina. The demands made on the corporate groups are that the idea contributor and the core team must be able to devote 100% of their efforts to the idea, that a flexible incentive system exists, and that there will be an opportunity to return to the line position. One latent problem frequently encountered here, however, is that the managers in the line positions see the release of their employees in part as an **imminent loss of power** and respond by blocking the release. This roadblock can be lifted by offering appropriate incentivization. All in all, internal projects have one clear advantage: the **marginal costs**, especially during the early phase of the project, are virtually zero because the personnel expenses, the major block of costs, are covered by the existing employment contracts.

Wrap Up



A 3D illustration of a group of grey human figures standing in a line, with one red figure standing out in the foreground.	<h3>Innovation Strategy</h3> <ul style="list-style-type: none">• Exploit and explore strategies• Linking of agile units• Carefully considered interface design
--	--

A 3D illustration of a network diagram with various colored human figures (red, blue, purple, yellow) connected by lines on a white grid.	<h3>Organization</h3> <ul style="list-style-type: none">• Staffing of interface positions• Decision-makers with close relationship to the idea• Unbureaucratic budget approvals
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A 3D illustration of a white human figure interacting with a large red gear and a smaller grey gear.	<h3>Innovation Processes</h3> <ul style="list-style-type: none">• Iterative “self-learning” processes• Systematic integration of externals• Cross-unit cooperation through digital collaboration
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A 3D illustration of a red human figure leading a line of white human figures on a path marked with red dashed lines.	<h3>Leadership</h3> <ul style="list-style-type: none">• Target system that allows risk-taking• Effective incentive systems• Empowerment and breathing space for employees• Live with paradox between “avoid mistakes” and “permit mistakes”
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A 3D illustration of several white human figures standing around a large, colorful puzzle (red, yellow, green, blue) that they appear to be working on together.	<h3>Innovation Team</h3> <ul style="list-style-type: none">• Systematic skills management• “Who” more important than “What” and “How”• Small, heterogeneous teams• Idea contributor as end-to-end project manager
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Conclusions for Management



1.

Digital transformation challenges corporate groups to rethink fundamentally their corporate cultures that are characterized primarily by efficiency. A future-oriented strategy must include elements that promote innovations and make them a topic of concern for management boards.

2.

Ambidexterity is the “basic ingredient” for a corporate culture that is capable of survival. This means living two different cultures (efficiency and innovation) in one organization and being *either* efficient or innovative as appropriate to the specific situation.

3.

The acceptance of the paradox between “avoiding mistakes” in core business and “appreciating mistakes” in the early-phase development of new products and business models is one of the most important management tasks of the future.

4.

The incentive system for managers must give consideration to innovations as well as to KPIs that measure efficiency so that the willingness on the part of top management to take risks that is essential for an innovation culture is enhanced.

5.

Control and power are truly innovation killers. The understanding of leadership for tomorrow includes setting an example of company spirit, breathing space, and empowerment as well as the courage to accept creativity and new ideas.

6.

Top management must provide intrinsically motivated innovators with the necessary freedom and budgetary resources that will enable them to drive their projects forward actively and on their own responsibility. The passion necessary to foster a project end-to-end is generally found in the idea contributor.

Feedback



Do you have any questions?



Have we drawn the right conclusions?



Do you have a different opinion?



We look forward to talking to you about it!



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