Building Effective Management and Leadership Practices to Enhance Organizational Innovation

A White Paper

James Taggart, MA, MA
Taggart Leadership Consulting Inc.
Ottawa, Canada

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Introduction

The future ain't what it used to be.

These words, uttered by baseball legend Yogi Berra, succinctly sum up what this White Paper is about: Canada, the United States and other rich Western countries are in the midst of massive global upheaval. The economic, technology and geo-political changes that have swept the world during the past two decades have altered the landscape within which business and governments function. In particular, the past few years since the financial meltdown and the onset of the Great Recession have placed additional strains on all Western countries.

The ability to manage complex, interrelated issues is becoming a significant competitive advantage for organizations. This in turn demands skill sets among employees that will make the difference between stronger corporate competitiveness and failure.

The growing need for companies to be more adaptable in response to market changes calls for an emphasis on the development of leaders at all levels of organizations. Those in managerial positions will feel the strain as the pace of change accelerates and as they are called upon to practice corporate values and create workplaces that foster innovation.

This White paper will enhance your understanding of the intertwined issues and trends that underlie what is commonly described as globalization, the effects of which are exerting significant impacts on the success of organizations and their role in society’s well-being.

To facilitate the advancement of the ideas and opportunities contained in this white paper, some key questions follow that are relevant to both those who work in the private sector and government. From a public policy perspective, they may serve as questions linked to Canada’s challenge of strengthening its global competitiveness. Reflect on them as you read this paper.

1) What will be the key characteristics of successful organizations in the 21st Century, and what role will leadership play?

2) What will be the most critical skills that managers in business must possess?

3) What are the primary obstacles that firms must tackle successfully? And how should business leaders get around these obstacles to position their organizations to be more adaptable?

4) Where are government’s greatest leverage points to effect positive change?
Globalization and the Innovation Imperative

This is a critical time for Canada and the United States, when the imperatives for change from global competition have escalated. It’s generally agreed that the role of management¹ is becoming increasingly important to how organizations adapt and perform in a global economy. The decisions made on which activities to undertake are typically complex. Managing global value chains, for example, is increasingly demanding, especially in areas where technology is changing quickly and the relationships with suppliers, partners and customers are evolving. The ability to manage such issues effectively will become a competitive advantage, but new skill sets will be required to sustain enhanced competitiveness.

In addition to newly industrialized countries (e.g., China, India, Brazil), the recent entry of what’s been referred to as the “new” new emerging economies (e.g., Indonesia, Qatar, Vietnam, Turkey) is adding to global competition. These new entrants are steadily building their economies and market shares by developing their human capital stocks, technological capacities and physical infrastructures.

The issue of “low-cost” countries is still important, but diminishing as countries such as China, South Korea, Taiwan and Brazil climb the value chain. These countries are hungry to succeed – don’t get in their way.

The rapid growth in global value chains and specialized niche markets is exerting pressure on organizations to be more innovative and productive, which in turn is contributing to new skills sets for workers. These changes are contributing to the growing call for effective management; Canada and the U.S. are but two industrialized countries that are facing this pressure.

Science and technology will play an increasingly strategic role in the economic development of nations, with a corresponding demand for high caliber talent. Much has been written on the knowledge economy and on knowledge workers. However, the emergence of new competitors is swiftly altering the landscape as knowledge work is now capable of being carried out anywhere around the world and as the supply of high-end talent is expanding in these emerging economies.

David Ulrich², in an interview with Prem Benimadhu, states that human capital development “...at all levels of the organization will be the primary factor in growth and organizational excellence.” The high level of uncertainty in which organizations must function, in turn making it increasingly difficult to conduct forecasts, means they need to improve their adaptability to unforeseen events. This will require organizations to develop the necessary skills among both managerial and non-managerial employees. And one of these involves cross-cultural skills, in which employees see themselves as being adaptable and part of a global labor market. These changes are placing growing strains on firms to improve their leadership practices.

¹ The word ‘management’ includes leadership in this white paper; for the sake of brevity the word ‘management’ will often be used by itself.
² Ulrich is Professor of Business Administration at the University of Michigan, and a well respected author and speaker on leadership and organizational learning issues.
The growing urgency for stronger corporate leadership is illustrated in a variety of global corporate surveys. Boston Consulting Group’s (BCG) 2007 innovation survey found that 57% of the respondents replied that their firms were above average or excellent at creating a culture that supports innovation. However, one of the key messages was that a risk-averse culture was the major impediment to maximizing the return on investments in innovation.

The implication here, as stated in the report, is that an organization’s innovation efforts will “…succeed or fail depending on the quality of its leadership.” Risk-taking is a “critical” aspect of leadership because of its inherent role in the innovation process:

“A strong, committed leader will create an environment that supports innovation and drives it forward; a less determined leader will likely watch the company flounder. The caliber of leadership and the commitment to innovation seen at the helm of the most innovative companies demonstrate the truth of this axiom.”

The onset of the recession in 2008 dampened corporate innovation efforts. BCG’s 2010 innovation survey, however, showed a resurgence, with companies indicating more investments in innovation activities. Similar messages to the 2007 survey reappeared in such areas as risk-averse cultures. Of interest, only 49% of the respondents stated that they believe America will be the most innovative country over the next five years.

An earlier survey conducted by the Conference Board (2006) on leadership development in Asia-Pacific found that 79% of the respondents were “accelerating” their efforts in innovation. Almost half of the respondents stated that budgets for leadership development had been increased.

The American Management Association carried out two global surveys on leadership and innovation. Leading into the Future identified a number of change drivers that will affect how management is practiced in companies, with the top five being:

- increased global competition
- greater customer focus
- operating efficiency
- accelerating pace of change
- growing need to innovate

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3 Conducted in November 2010 with 1,590 business executives from BusinessWeek’s Market Advisory Board.

4 The Human Resource Institute was hired to conduct the surveys. The Leadership Development Survey was carried out in 2005, involving 1,573 respondents from North America (284 from Canada), Eastern and Western Europe, the Middle East, Latin America and Asia. The Innovation Survey was also conducted in 2005, with 1,396 respondents from the same geographic regions.
Talent management poses challenges for business leaders in the area of human capital development. In addition to addressing such domestic concerns as an ageing population, generational differences and evolving gender roles, the emergence of new competitors will add to the complexities Western business leaders face. As the report states:

“Business leaders in developed countries in particular will need to adapt to the talent-pool dynamics with more creative human resource management approaches....outsourcing and offshoring will require the realignment and redefinition of business roles...that have so far been unaffected by these trends. Anything that is “non-value-added” will be changed or eliminated. Leaders of the future will need to be creative, efficient and effective in terms of how they allocate their global talent.”

With respect to the leadership competencies that managers will need to develop within the next 10 years, the top five identified in the report are:

- strategy development,
- communications skills,
- fostering innovation and creativity,
- developing leaders,
- hiring talent.

Of special note are the top three barriers to developing leaders:

- lack of leadership behavior measures,
- weak leadership development content,
- insufficient rewards for leadership development.

The “quest,” therefore, to initiate and sustain continuous innovation at the firm level presents very real challenges; as the AMA Quest for Innovation survey notes: “...[it begins] with leadership excellence and the creation of an innovation-friendly work environment.”

**Emerging Trends**

Disruptive events are increasing in frequency, making business more vulnerable to economic crises, security threats, consumer backlash, and breaks in global value chains. Manufacturing in industrialized countries is especially being affected as production and its inputs (e.g., labor) are becoming more mobile geographically. Consumerism is a new driving force, bolstered by newly industrialized countries and their rapidly expanding middle class.

Greater global interdependency has led to business strategies to increase efficiency (e.g., global sourcing, lean manufacturing and global ICT networks). But they have also produced fragile networks, based on the traditional assumption that the world is stable and relatively predictable. An integrated business environment, characterized by linked supply chains, has inherent risks from increased interdependency.
Manufacturing, for example, is especially vulnerable in such a setting. The traditional, vertically integrated supply chain, consisting mainly of domestic producers, has evolved to horizontally-integrated value chains that span continents. Each value chain is in effect a complex matrix of interdependent corporate relationships, in which innovation and value are generated at each stage. But this new paradigm calls for new managerial competencies and practices, especially with the much greater emphasis on establishing partnerships that are not only international but perhaps more importantly cross-cultural.

One emerging trend that will call for enhanced leadership is how to address the offshore outsourcing of R&D and innovation. The transfer of increasingly complex production and service activities to newly industrialized countries has been referred to by some as the third industrial revolution. Included in this transfer is such knowledge-intensive work as R&D and innovation. Alan Blinder, for example, argues that those who claim that offshore outsourcing is only a “routine extension” of international trade ignore the huge transformation it will have on the world’s economy.

As technology enables such services as R&D and innovation to be conducted anywhere around the globe, and as emerging economies continue to strengthen their human capital formation, opportunities will grow for alliances, partnerships and networks, reflecting a transition towards co-production across borders. However, the ability to obtain value from distributed R&D and innovation will depend to a large extent on how organizations manage the innovation process across geographic and organizational boundaries and cultures. This is where effective management practices will become critical to the success of firms.

A new report by HSBC presents a cogent reality check for Western economies. Entitled The World in 2050, HSBC’s comprehensive analysis and forecasts illustrate the massive changes that are underway in the global economy, and which will accelerate over the coming decades. Here are some highlights of the report:

- **World output will triple during the next 40 years, but it will be the emerging economies that contribute double that of developed economies,**
- **By 2050 the “emerging world” will have grown by 500%, larger than the developed world,**
- **China will have the largest economy, with India number three; the U.S. will be in second place,**
- **Yet China’s per capita income will be only 32% of that of the U.S.,**
- **Canada, now in 10th place (GDP), will remain in the same position (previously it was 7th),**
- **Rich European nations such as Switzerland and the Netherlands will slide far down the Top 30 country list, with Sweden, Denmark and Belgium getting removed from the list entirely,**
- **Population shifts will be dramatic, often in opposing directions: Japan’s working age population plummets 37% while Saudi Arabia’s skyrockets 73%. Egypt and Israel also see huge gains, contrasted against large declines in South Korea and Poland.**

Forecasting is more art than science, though population forecasts can be made more reliably than economic ones. Of significance are two overriding assumptions by HSBS. First, its projections are based on “good decisions” being made by policy makers. Second, and of particular importance, protectionism
is avoided. The opening of trade barriers over the past two decades has greatly enabled global economic growth.

These developments pose real challenges to Canadian and American business, especially over time. It’s time to cease short-term thinking and prognosticating by Canadian and U.S. governments and business and look to the longer-term issues and trends.

The international marketplace has become much larger, more turbulent as new players enter, and more competitively brutal. These changes will place mounting pressures on small and medium businesses as they attempt to maintain existing market share, pursue emerging markets and become more integrated into global value chains. The cornerstone to companies positioning themselves for success in this global environment is effective management and leadership practices. While this is a significant challenge for large corporations, it’s of special concern and urgency for small and medium businesses because of the unique obstacles they face.

The interdependencies in the global economy require a broader view if sense is to be made of what is occurring and if organizations are to be well prepared as the 21st Century unfolds. This calls for effective management and leadership.

The Future for Management and Leadership Development

Some business leaders and management experts are now advancing the concept that the area with the greatest potential for innovation is management. Jorma Ollila (non-executive chairman of Nokia and Royal Dutch Shell) believes that innovation in management is a better measure than using, for example, the number of patents or new technologies introduced. However, this perspective presents the major challenge of creating managers who are capable of leading people beyond the generation of ideas to the more difficult task of applying them to benefit the organization.

GE’s Chairman, Jeffrey Immelt, explains that his company’s strength is not in the process of invention but rather in “...turning $50m ideas into billion-dollar ideas.” To do this, GE invests heavily in a combination of management training, exposure to outside ideas and continuous funding for the creation of new ideas.

Two examples illustrate the power that emerges from management innovation. Toyota introduced a management innovation a number of years ago in which employees were given the training, tools and power to correct problems as they arose on the assembly line. Competitors, notably North American, were very slow to understand Toyota’s innovation, namely capturing the knowledge and abilities of its employees.
The second example is General Electric. This company takes management development very seriously, and has gained international recognition for its huge management training facility in Crotonville, New York. GE’s unwavering efforts to continuously strengthen its management capacity, combined with exploring new methods and strategies, sets the company apart from its competitors.

The pursuit of continuous innovation never ends, and the global trends outlined in this paper underscore this. Managerial leadership in this environment calls for the ongoing nurturing of corporate culture and maintaining alignment between corporate vision and employees. An excellent example of this is US-based flooring company Interface Inc., founded and led by Ray Anderson. The vignette at the end of this section illustrates Anderson’s pursuit of continuously pushing his company for more innovation while simultaneously transforming corporate culture.

How companies approach management and leadership development is critical to their long-term success. Building a strong culture of innovation within firms is now extremely important as global competition escalates and as a broad spectrum of nations (industrialized, newly industrialized and emerging) implement new or updated innovation policies. And one key question that firms must ask themselves is: **How do we define management and leadership within our organization?**
Interface Inc.
Climbing Mt. Sustainability

Atlanta-based Interface Inc. is one of the world’s largest interior furnishing companies, with plants in the U.S., Canada (Belleville), England, and Australia. In 1994, company founder and chairman Ray Anderson initiated a process to transform the company using nature as the model. His QUEST process (Quality Utilizing Employee Suggestions and Teamwork) focused on eliminating waste from cost and measuring workers against perfection. For example, it was found that 10% of each sales dollar went to waste. Between 1994 and 2004, Interface calculated that the elimination of waste (“the savings”) represented 28% of its operating income. Anderson, in a 2004 interview, stated that the company was only one third of the way to eliminating waste: “It gets close to doubling your profit if you can eliminate waste.” (p. 7)

Anderson and his management team were inspired by Janine Benyus’s book Biomimicry. The manager of product development was so inspired that he took his design team into the forest to study nature to determine how floor covering could be produced using nature’s design principles. The outcome was new flooring, which when installed has virtually no waste since cut pieces are reintegrated.

“Everything stays in the flow, the material loop. All of that is basically emulating nature in an industrial system, and that remains our goal,” asserts Anderson. One of Interface’s measures is carbon intensity, the amount of petroleum removed from the earth and then processed through the supply chain to yield one dollar of revenue. The company’s carbon intensity fell by one third over nine years, and it closed 39% of its smokestacks and 55% of its effluent pipes. This was achieved by such means as eliminating certain processes or redesigning others to produce a waste-free, emission-free, effluent-free production line.

Anderson refers to climbing Mt. Sustainability in Interface’s pursuit of sustainability. Understanding how to climb each of the seven “faces” to the peak will yield a zero environmental footprint. The faces are:

1) Eliminate waste: eliminate all forms of waste throughout the business
2) Benign emissions: eliminate toxic substances from products, vehicles and facilities
3) Renewable energy: use all forms e.g., solar, wind, landfill gas, geothermal, biomass
4) Closing the loop: redesign processes and products using recovered and bio-based materials
5) Resource-efficient transportation: transport people and products efficiently to reduce waste
6) Sensitizing stakeholders: integrate sustainability principles to improve people’s lives
7) Redesign commerce: create a business model that supports sustainability-based commerce

Although Interface has made significant progress during the past decade, Anderson has had to work diligently at transforming the company’s corporate culture and ensuring that new employees share his vision. One major benefit Interface has experienced is that it has become a “magnet” for attracting talented people as word has spread about the company, a notable occurrence in an industry with a poor reputation.
The Manager of the Future

Much has been written over the past two decades on the skills those in leadership positions need to possess if they are to contribute fostering innovation in their organizations. The recent resurgence of the management literature has introduced new concepts.

In a 2007 interview Nambisan (University of Pennsylvania) talked about the need to address the “mindset challenge” across the entire organization when developing management skills to create innovation networks. To date, the approach has been firm-centric innovation, which has involved a certain style of managerial skills. However, the trend is now towards network-centric innovation, spurred on by globalization, and which is in turn demanding a very different skill set from managers. To be successful in the long-term, senior leaders must communicate a ‘broad mental framework’ at all levels and ensure that the corporate culture adapts quickly.

Along this line of thinking and as a complement, the Boston Consulting Group (2006) prepared a report for Innovation & Business Skills Australia entitled The Manager of the 21st Century, 2020 Vision 5. The report states that if managers are to be provided with the necessary “survival” skills up to 2020, then those involved in educating and training managers must “continuously refine” the learning agenda to ensure that it remains relevant to changes in the workplace, global economy and society. This agenda comprises three parts, within which the successful manager in 2020 will have acquired experience and mastered the following key competencies:

A) Maximize Opportunities in a Changing World
   • Keep a global perspective and learn constantly,
   • Be flexible and capable of adjusting to different geographic markets and cultures,
   • Adjust organizational structures to reflect the needs of an ageing workforce,

B) Manage Diversity in a Changing Workplace
   • Create a balance among the approaches needed to effectively manage and lead three generations in the workplace 6,
   • Measure staff performance using outputs not inputs,
   • Understand the motivations underlying peoples’ behaviours in a diverse workplace, and be creative when designing incentives to recruit and retain talented staff,

C) Respond to Changing Times with a Changing Mindset
   • Create a workplace where talented teams, not just individuals, flourish,
   • Develop specialist skills along with general management skills,
   • Promote and practice work-life balance.

These competencies are reflected below in a diagram that sets the context for the development needs of managers.

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5 This study was an update to one done earlier in 1995 for the Commonwealth Government’s Industry Taskforce on Leadership and Management. The study at that time was entitled “The Manager of the 21st Century.”
6 This refers to Baby Boomers (41-60), Generation X (27-40), and Generation Y (15-26), also called Millennials.
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| **Changing World** | - Three generations  
- Longer working life | - Management styles  
- 50+ career planning |
| **Changing Workplace** | - Workplace Flexibility  
- People businesses  
- Talent optimization | - Managing flexibility  
- Managing people businesses  
- Optimizing individual and team performance |
| **Changing Mindset** | - Serving stakeholders  
- Top team focus  
- Personal expertise  
- Personal wealth | - Understanding aligning and balancing needs  
- Leading teams  
- Developing personal Expertise  
- Work and life choices |

The Boston Consulting Group, 2006
Conclusion

The economic, geo-political and technological changes that have swept around the world during the past two decades have permanently altered the competitive landscape for companies. The need for organizations to be more adaptable in response to market changes calls for an emphasis on the development of leaders at all levels of the organization. Those in managerial positions will certainly feel the strain as the pace of change accelerates and as they are called upon to lead people while being unclear of what lies ahead.

At its core, the management-innovation issue is about strengthening the capabilities of managers to encourage and foster innovation among employees. Within the public sphere, the issue is also about how governments (national and provincial) create an enabling environment for business to not just survive but in fact thrive in what one prominent Canadian businessman has called a “global streetfight.”

An Agenda for Corporate Action

1. Understand the web of inter-relationships spanning the globe.
2. Embed a culture of learning, creativity and innovation within your organization.
3. Transcend from managing information to generating and sharing knowledge.
4. Value diversity within your organization, with your partners and virtual collaborators.
5. Adjust your managerial leadership approaches to reflect your demographic composition.
6. Create a work environment that serves as a catalyst to self-empowerment.
7. Embrace collaboration; move beyond teamwork.
8. Value employee’s individuality.
9. Build depth of knowledge and specialization along with generic skills.
10. Go for niche markets.

An Action Question for Managers

As a manager, what do you need to do to generate a culture of innovation within your organization?
Resources

The following websites contain a wealth of information on issues critical to organizations effective functioning in a globalized world. Click on each of the links to access the web page (by pressing the control key and clicking at the same time).

AT Kearney Management Consultants
American Management Association
Boston Consulting Group
Business Exchange
Center For Creative Leadership
HSBC - The World in 2050
HR World Top 100 Management Blogs
McKinsey & Company
Michael Porter's Five Competitive Forces: Video Interview
Michael Porter’s Five Forces Description
Royal Dutch Shell Energy Scenarios
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**Blinder, Alan.** (March/April 2006). *Offshoring: The Next Revolution.* Foreign Affairs


**University of Pennsylvania.** (2007). *Want to Create Innovative Products? Tap Into the Global Brain.* India Knowledge @ Wharton. Interview with Satish Nambisan.
About the Author

Jim Taggart is a leadership and organizational learning consultant, offering services to business executives and managers who wish to enhance their effectiveness as leaders. With more than 30 years of personal leadership experience, Jim’s knowledge combined with his results-oriented approach will help move your organization to the next level.

Jim worked for three decades with the Government of Canada. His career spanned labor market forecasting and analysis, innovation and competitiveness policy development, and leadership development and organizational learning project management. A recognized thought leader, Jim maintains a website and blog on leadership and management issues. He holds a Master’s degree in economics from the University of New Brunswick and a Masters degree in Leadership and Organizational Learning from Royal Roads University.

Visit his leadership website: http://changingwinds.wordpress.com/