Leadership in the Innovative Organization

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ABSTRACT
In the context of the increasing globalisation of value chains the management of both manufacturing and service firms find themselves faced by contradictory pressures to reduce costs whilst at the same time engaging with customers and suppliers in product improvement and innovation. For advocates of lean production methods the answer is often to be found in a check-list approach to rationalising the present modes of value creation within any organization. Much can be gained by combining such approaches with modes of continuous improvement or kaizen. As Nonaka and Takeuchi (1995) have brilliantly illustrated, the most successful of Japanese firms have achieved their ability to adapt and to innovate through the uses of internal and external appropriation of tacit knowledge. For these authors this implied not only a 'bottom-up' structure of formal organization but also a means of listening and translating experiential knowledge into codifiable product and process designs. In the Japanese context this was seen as being brought about by the day-to-day integration of group decision making into operational management as well as the use of special project teams. The application of the methods has proved much more problematic for Western managers, although Japanese transplants have been relatively successful in the same Western context. In this paper I suggest that leadership styles and the formal organization of knowledge creation have to be seen as being congruent both in their aims and in the manner in which they are operationalised. Managers have also to begin by recognising the basis for the psychological contract held with outside customers, suppliers and other organizational members. Quality, especially in service fields, is often in the eye of the beholder!

Keywords: Innovation, Tacit knowledge, Listening, Translating, Psychological Contract.

1. Introduction

I do need to learn a more systematic approach to my aims and purposes in life. But if this is true of individuals, how much more is it true of **leaders** of organizations? Indeed, is not the heart of management leadership **the ability to learn from others**? And most especially from those who have to implement their leadership decisions at the operational level? This ability to absorb others' ideas and to mould them to one's own aims and mission - seems critical to the success of the innovator. Very few ideas, whether in product or process, are entirely original. The real entrepreneur is one who sees new uses, new applications, for already existing ideas or processes and is able to weave them into something distinctly new. The most innovative managers in many areas of manufacturing are still to be found in Japan, even though R&D expenditure in Japan at the time of its fastest growth lagged behind that of its nearest rivals. (See Table 3). How did this happen? Clearly Japan has a national capability in the field of science and technology that even before World War 2 was a match for most Western countries. But, while there is no doubt that Japan now has a formidable scientific capability, the real answer to Japan's success in the immediate post-War period was due in large part to its operational management. More particularly to their ability to **listen** both to their technologists, to their customers, their suppliers and, of course, to their shop-floor workers.In doing so they set up mechanisms designed to **translate experiential knowledge** into conceptual ideas in a way that enables them to be codified into new product designs and new production processes (Akao, 2011).

2. Work Groups as Teachers

Japanese operations managers have brought together not one but a range of mechanisms by which they pass much of day-to-day control of the production of goods and services down the hierarchy into the hands of operators themselves. To do this they have created World Class Manufacturing systems from a variety of mixes of techniques such as Total Quality Management and Just-In-Time manufacture, often with appraisal systems and incentives that rely on collective rather than individual responsibility and effort. In many cases this has led to the redesign of the production line into multi-disciplinary and semi-autonomous teams or work groups. Of course a great deal of top-down control is still needed to provide structure, often through the use of statistical process control, by reporting charts and other means of electronic surveillance. But what has always impressed me, and other Western observers, is the sheer amount of time Japanese managers spend in **listening,** not just to colleagues in other departments and to customers, but to shop floor operatives. In the early 1990's I interviewed an American operations manager in the Nippon Denso plant in Battle Creek, Michigan USA who had previously worked for a major American auto corporation. He told me that one of the most difficult things he had to learn in arriving at Denso was that 70% of his time had to be spent listening to project groups and work groups as well as management committees. By contrast, 70% of his time in his former job was spent in 'crisis management', chasing mistakes that were about to halt the production line.

Like many Western corporations, his former American employer has spent some 20 years in trying to adapt Japanese modes of lean production to their assembly line cultures. Even today few major multinational corporations from the USA and Europe have truly adopted the systemic approach to formal techniques of operations management pioneered in Japan in a way that transforms their entire system. One reason is that it has been difficult for Western operations management to understand that in adopting the notion of employee self-discipline required by world class manufacture, managers at all levels have also to respect the second element in total quality management, which is that of listening and translating employee observations on day-to-day practice. This experiential knowledge of present practice has to be translated into the more abstract language of the design engineer and marketer. In turn, the languages of these specialist communities have to be translated back to the shop-floor.

3. The Learning Spiral in Appropriating Knowledge

The purpose of the TQM work-group in such organizations goes well beyond the confines of a control chart. Professors Nonaka and Takeuchi (1995) see the process as the bottom-up appropriation of the unspoken experiential knowledge that exists in every individual and department of the organization. These latter often make up 'communities of practice' with their own collective identity (Brown and Duguid 1991)). In the second Figure (see below) they illustrate the process of the articulation and codification of shared knowledge followed by its mixing and recombination in new forms.. It begins in the top left box of the diagram labelled 'Socialization', in other words team-building. It moves to the right hand box and to 'Externalization' or articulation. This is the encouragement of group discussion and report-backs leading to a systematic recording and archiving of the outcomes. Then comes the 'Combination' of ideas through project teams and other inter-departmental mechanisms. The new knowledge can result in the reframing of aims and goals across the organization. All employees have then to be persuaded to commit to these new goals and tasks through their 'Internalization'. Again the work group is often the most effective way of training towards the new tasks – particularly since they can be seen to have participated in their construction.

4. Hypertext Organizational Learning

According to Nonaka and Takeuchi through this continuous process of communication the experience of the present can be merged with that of presenting a finite range of possible futures. In this way, a systemic body of codified knowledge is built up. This becomes the unique knowledge capability that forms its core asset and underwrites its future business. In mainstream business school teaching today the importance of this uniquely enterprise-based knowledge capability is central to the creation of competitive strategic advantage. This enables corporate strategists to be ahead of competitors in **anticipating** – not just responding to - the needs of customers. For example, the automobile industry today is dominated by fashion in body design. Often the world car produced by Ford or GM looks very much like that produced by Volkswagen or even Hyundai. This, despite the rhetoric of a post-modern customised consumer-led market-place! It took a leap in the dark by Honda to produce the first 'Tall Boy' people carrier in the 1980s or by Tata Motors to produce the $ 2,500 People's Car today.

But was it such a leap in the dark? Back in the early 1990's I visited the central Design & Development laboratories of Matsushita (now more generally known by its Panasonic trade name) outside Osaka, and still one of the largest producers of electronic equipment in the world. I was astonished to observe that the laboratories were surrounded by training rooms. In them, technologists were explaining to the line supervisors of Matsushita operating plants what were the likely leading edge technological developments in their fields. The supervisors were telling the engineers what might be the difficulties in translating these ideas into operational practice. The same conversation was taking place between technologists and sales and marketing. In this way information and ideas generated in one group of specialists became recombined with that of others. The result was a view of the future that could be much better than any one of them could have produced alone.
At that time Matsushita was becoming what Nonaka and Takeuchi call a 'hypertext' organization. Communities of practice within the organization to hold regular problem-solving conversations with others. This is not a matrix structure but, most often, is based on project teams that span departments and whose first objective is to create **innovative** solutions. Honda is named by them as the classic hypertext organization. I cannot say that Tata is, I simply don't know. My guess is that Ratan Tata will find ways of both separating and integrating the specialised knowledge present in a spread of brands that now include Land Rover and Jaguar.

5. Transplanting in the West?

At the time I visited Matsushita I was surprised firstly at the apparent ease with which each group understood the other, and secondly, at the trust being placed in line management. I felt that British executives might be afraid that supervisors and sales staff might promptly leave for another employer taking their trade secrets with them! Later, of course, concurrent engineering was adopted by a number of Hi Tech manufacturers in the U.K. such as Rolls Royce turbine engines. This process often brought technologists out of their design office to share a platform with the shop floor. But generally it has often proved more difficult in US and European corporations to gain the same collaboration within and between communities of practice in giving up their tacit knowledge – especially in professional communities working within very large organizations like the British National Health Service. The move towards the out-sourcing of knowledge work in the West is not just simply driven by lower cost. It is also a means of spinning-off specialised communities of practice in relatively small organizations where the synthesising of ideas can be accomplished within a relatively homogeneous group. In new and emerging sectors, clustered networks of specialists in the manner of Silicon Valley has become the model. The market is seen to allow more flexibility between specialist communities.

6. Managing Alliances

But this also has obvious problems. Quality management and operational standards have to be enforced between users and suppliers through mutually governed monitoring mechanisms. Again this has not always proved as successful as it has been inside the Japanese *keiretsu*. Furthermore, the need to retain a more general core of **absorptive capacity** is demanded by the speed of innovation within this complex networked world. Leadership again demands **listening**. Transactions with other organizations in strategic alliances and supply chains are not simply conducted through formal governance mechanisms or even through trade fairs and professional conferences. Relations of trust with customers and suppliers in the mutual creation of new products and processes depend on their reliability as partners in day-to-day operations. Employees at all levels of the organization also have an every-day knowledge of how both rivals and collaborators are bringing about change. Effective monitoring of the strategic environment must, then, include the use of the knowledge present in participative group meetings.

7. Conclusions

In all that I have said today, I have not tried to discount the important techniques of operations management. I have, however, attempted to emphasise the two-way process of knowledge creation in innovative companies. Leadership certainly needs control and clear direction. It also requires commitment from the led. Perhaps we should also take note of the short-lived occupation of leadership roles by those who have missed the way in which their market was moving simply by not **listening**.

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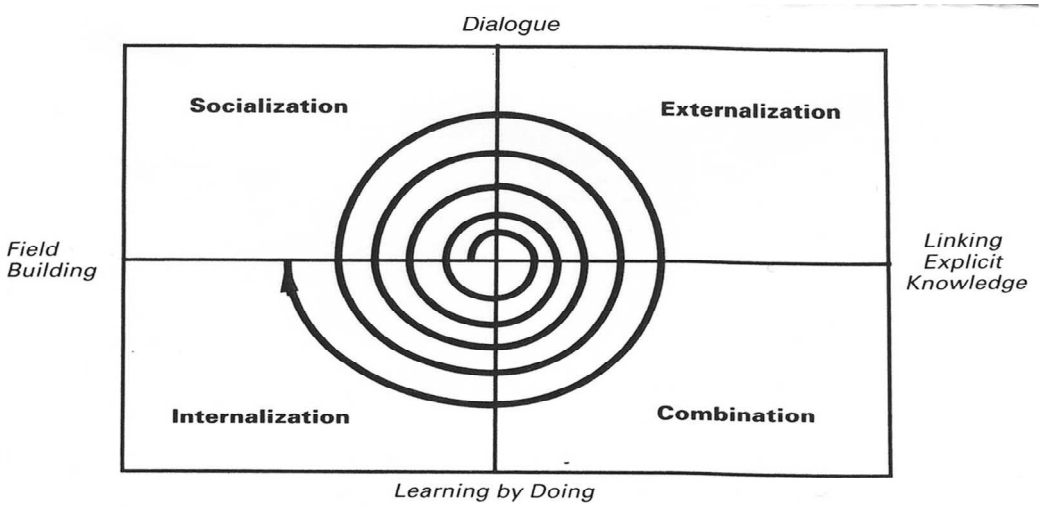
Table 3: R&D-Expenditures as a Share of GDP, %
Relative Rank in Parentheses

	1981		1987		1993		1999	
Germany	2.47	(1)	2.87	(2)	2.35	(6)	2.44	(6)
U.K.	2.38	(2)	2.20	(7)	2.05	(8)	1.88	(11)
United States	2.34	(3)	2.69	(4)	2.52	(4)	2.66	(4)
Sweden	2.23	(4)	2.88	(1)	3.27	(1)	3.78	(1)
Switzerland	2.18	(5)	2.82	(3)	2.66	(2)	2.64	(5)
Japan	2.11	(6)	2.57	(5)	2.62	(3)	2.94	(3)
France	1.93	(7)	2.24	(6)	2.40	(5)	2.19	(7)
Netherlands	1.79	(8)	2.20	(7)	1.93	(9)	2.02	(9)
Belgium	1.56	(9)	1.64	(11)	1.70	(12)	1.96	(10)
Canada	1.24	(10)	1.42	(12)	1.70	(12)	1.80	(13)
Norway	1.18	(11)	1.67	(10)	1.73	(11)	1.70	(14)
Finland	1.17	(12)	1.73	(9)	2.17	(7)	3.22	(2)
Austria	1.13	(13)	1.29	(14)	1.47	(15)	1.83	(12)
Denmark	1.06	(14)	1.38	(13)	1.74	(10)	2.09	(8)
Australia	0.95	(15)	1.19	(15)	1.55	(14)	1.51	(15)
Italy	0.88	(16)	1.19	(15)	1.13	(17)	1.04	(17)
Ireland	0.68	(17)	0.83	(17)	1.17	(16)	1.21	(16)
Spain	0.41	(18)	0.61	(18)	0.88	(18)	0.88	(18)
Portugal	0.30	(19)	0.38	(19)	0.61	(19)	0.75	(19)

Source: *OECD (2002).*

The Group Learning Spiral

Nonaka and Takeuchi (1995)



Author's Background

Prof. Ray Loveridge *is a Research Fellow and Emeritus Professor at the Said Business School, University of Oxford. He has a LittD from Cambridge University, an MA (Economics Tripos) also from Cambridge, MSc from LSE, and a Dip.Pol Econ.Sc. from Ruskin College, Oxford. He had previously worked as an apprenticed aircraft engineer and completed national service in the RAF. He has held tenured positions at the London School of Economics, at London Business School and was latterly Professor and Head of Strategic Management and Technology Policy at Aston Business School. He has been visiting professor at a number of universities including Fudan University, Shanghai; the University of Mannheim, Germany; the University of Helwan, Egypt; McMaster University, Ontario; Ecole Superieure des Sciences Economiques et Commerciales (ESSEC),France; the University of Nottingham in Malaysia; the University of Leicester; Royal Holloway, University of London and the Science Policy Research Unit, University of Sussex. Between 1989 and 2000 Ray Loveridge was chief editor of the 'Human Relations' journal and remains a trustee and council member of the Tavistock Institute, London. He has recently (2007) been employed as consultant on a UNDP project. His recent publications include 'Institutional Approaches to Business Strategy' in D.O.Faulkner and A. Campbell (eds) The Oxford Handbook of Strategy, OUP, (2003, 2006); 'Embedding the Multinational', Asian Business and Management, 4, (2005); 'Developing Institutions - "crony capitalism" and National Capabilities; a European perspective.', Asian Business and Management, 5, (2006); 'Embedding the Multinational Enterprise: the micro-processes of institutionalization in Developing Economies', in M.Geppert and M.Mayer (eds) Global, National and Local Practices in Multinational Companies, Basingstoke UK: Palgrave Macmillan (2006);. 'Bridging internal and external networks in transitional institutional contexts' in J.H. Dunning and Tsai-Mei Lin (eds) Multinational Enterprises and Emerging Challenges of the 21st Century, Cheltenham UK: Edward Elgar (2007). 'The MNC as a locus of learning', in G.Morgan and S. Collison (eds), Images of the Multinational Corporation, Oxford UK: Blackwell (forthcoming).*