

INNOVATIVE MANAGERIAL PRINCIPLES FOR CURRENT KNOWLEDGE ECONOMY

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Abstract

The purpose of this paper is to emphasize the connections between two important phenomena which we witness nowadays. The first phenomenon is the growth in the importance of innovations and qualitatively new products for economical and social development. The second phenomenon is the persistent use of traditional management techniques which were created in the previous century, or we can say “before the Internet”. There is general consensus that knowledge is an essential source of innovation and thus supporting and developing knowledge economy and knowledge society is the best way how to maintain competitiveness and sustainable development. We are convinced that if we want to support and develop innovation-based economy and society, we cannot avoid intensive innovation in management. Thus the objective of this paper is to find examples of the best managerial techniques which foster innovations and to synthesize some generally usable principles of present-day management.

Keywords: Management, innovation, knowledge, Internet based communication.

JEL Classification: M10.

Introduction

The objective of this paper is to find examples of the best managerial techniques which foster innovations and to synthesize some generally usable principles of present-day management. To specify the best managerial methods is a never-ending and never-solved problem. There are two main reasons why it is only possible to move towards an optimum managerial solution. First, leaders and managers work closely with people, and there is no universal way how to manage people to obtain the best possible result. Nevertheless, people change; not only as individuals but also the different groups or generation recognize different values. The second reason is more important in relation to our research. It is the dynamic development of information and communication technologies. These technologies enable a very quick change of the working environment; new methods of knowledge work and cooperation are possible. Naturally, continuous innovation and improvement of management models in this continuously changing environment are essential for sustainable business success. Moreover, in the current working environment a young generation of workers meet with the new technologies. For the young generation it is natural to use these technologies, however, for their senior coworkers it is more or less new. The managers have to consider many factors: personal, generational, technological and still search for new management methods. In this paper we point out some managerial principles which are effective and inspiring today.

We have established that innovation nowadays is a key success factor for the companies. According to Gary Hamel (2012) innovation means not only product innovation, but systematic innovation of a business including management models. As innovation is typical knowledge work, it is necessary for the companies to attract talented people. However, based on worldwide researches of CEOs (PwC, 2012a, b, c) the lack of talented people is a very serious limitation of innovations. Young talented people have their own value system, characteristics and expectations. All these characteristics of the young generation of knowledge workers are known thanks to research named *Millennials at work* (PwC, 2011).

To provide some general recommendations for the present-day management, we analyze successful case studies. Before this analysis we carried out a secondary research of the data provided by PwC (2011, 2012a, b, c) and also examined the recommendations by Gary Hamel (2011). Then we studied the case studies published at the specialized website managementexchange.com (the details about this website are given below). We chose three extremely successful companies and compared the principles of their management with the theoretical recommendations and with the results of the CEOs and Millennials researches. The final synthesis of the practical examples, results of the researches and theoretical recommendations resulted in the determination of some innovative general principles of contemporary management.

The importance of a time-valued innovation

The ability to innovate is increasingly viewed as the single most important factor in sustaining competitive advantage of companies (Tidd, 2001). According to microeconomic theory the consumer wants to get as much satisfaction (utility) from his/her income as possible. The companies innovate their products to distinguish themselves from their competitors and to persuade the customers that their product brings them the highest utility. But what does it mean “the highest utility” for the customer in a developed economy nowadays? To answer this question we have to analyze the way of life in the current environment where the Internet, cell phones and other advanced technology are available. Thanks to this technology we are always connected but also information-overloaded and time-starved. And just like in case of natural resources, there is also a finite amount of time and attention available. We have 24 hours a day, no more, and even if we try to multitask, the amount of attention we are able to pay to our activities does not increase. It is only distributed among more activities which means that its quality is lower. As a consequence, the traditional saying *Time is money* has become obsolete. Nowadays for many people time is more than money and if they estimate the value of the product they add inevitable time investment to the price. They ask: Is it easy to buy this product, is it easy to set it up, is it easy to consume it? For these reasons the most successful products include so called time-valued innovation. Such products help customers limit and control the amount of time and attention they have to pay, or even better to improve the use of the time of the customers. Thinking in terms of time and attention changes the way of thinking about products and services and also about business models. This way of thinking is a great trigger for the successful innovation in the near future (Ott, 2011).

In today’s turbulent world where changes are continuously accelerating, many existing companies are not able to deal with this dynamic environment. It is because they use traditional management techniques based on bureaucratic hierarchies, on control, conformity, specialization etc., and do not address the way humans work best. The drive for product innovation must be connected with systematic innovation in the company. This systematic innovation involves operational innovation, product innovation, strategy innovation, ecosystem innovation and management innovation. Operational innovation is the lowest innovation level and it is a simple process change. The next level is product innovation. However, the company has to innovate also its strategy and ecosystem. Ecosystem innovation consists of changes which are connected with other markets (e.g. to save shopping time, people use e-shopping, which influences the way products are offered, delivered, etc.). At the top of innovation is management innovation. According to Gary Hamel (2011) the new management should be inspired by the Internet and become transparent, collaborative and flexible. To be able to innovate, companies need new knowledge, and to foster new knowledge, companies must also innovate their approach to the employees. Organizations need employees who take initiative, are creative and passionate about their work. Thus, more autonomy must be given to the employees.

Innovation portfolios in the companies and their constraints and opportunities

In case of business models innovation as well as product innovation the theory meets reality. According to the 15th Annual Global CEO Survey 2012 (PwC, 2012a, 2012b) the majority of CEOs include in their companies’ innovation portfolios new business models (56 %) and new products or services (69 %). But on the other hand the CEOs declare that they consider the lack of talented employees as a serious threat to their businesses. Almost one third of CEOs (31 %) declared that the company was not able to innovate effectively due to talent constraints. The CEOs also mentioned they were unable to pursue a market opportunity (29 %) and they canceled or delayed a key strategic initiative (24 %). To minimize these negative impacts the companies (41 %) increase their planned talent-related expenses (PwC, 2012c). Apparently the lack of talented workers is serious and the CEOs are aware of it. Strategies for managing talent are a priority for 78 % of them (PwC, 2012a).

It seems to be a paradox: high jobless rates persist in many countries and yet the companies complain about the lack of talented workers. The explanation is that many people look for jobs but the companies look for talent. The situation is even more complicated because the methods of the work dramatically change as very new technologies for knowledge work are available. It is not only the Internet itself but many Internet-based applications for on line communication and knowledge sharing such as, for example social networks. And today young people (Millennials) who grew up in this technological environment meet in the workplace with the people who have had to adapt to it in the course of their careers.

Peter Drucker (1999) wrote in his book *Management Challenges for the 21st Century* “The most important, and indeed the truly unique, contribution of management in the 20th Century was the fifty-fold increase in the productivity of the manual worker in manufacturing. The most important contribution management needs to make in the 21st Century is similarly to increase the productivity of knowledge work and the knowledge worker.” His vision was obviously correct. We have explained above that complex business innovations are inevitable and innovation is knowledge work. The volume of knowledge work will increase in general. According to Gartner, Inc. by 2015, 40 percent or more of an organization’s work will be knowledge work, up from 25 percent in 2010 (Gartner, 2010). When Peter Drucker wrote his book in 1999 he probably could not imagine what knowledge work would look like in a few years. Since the turn of the 21st century the era of Internet-based social media has started. Social media refers to the platforms designed for real-time communication and social networking (Dossani, 2011). Despite its short history social media are allowing what has never been possible before. Large numbers of people living around the world are able to work together and to contribute the full range of their knowledge, talent and creativity. Social media enable new ways of cooperation which is particularly important for business leaders interested in creating more collaborative, innovative and engaging organizations (Bradley, 2011). In the present challenging business environment social media can help considerably if used properly. Moreover, there is one more opportunity for companies: talented Millennials. The millennial generation, born between 1980 and 2000 now entering employment, is able to reshape the world of work. Their career aspirations, attitudes to work and knowledge of new technologies will modify the organizational culture. Attracting the best of these millennial workers is another important factor in sustaining competitive advantage of the companies nowadays.

The research *Millennials at Work* (PwC, 2011) surveyed more 4,000 graduates across 75 countries in 2011. The results are very important for the companies which try to attract talented Millennials. One of the defining characteristics of the Millennials is their affinity to the digital world, with broadband, laptops, smartphones and of course social media. They are uncomfortable with rigid corporate structures. They expect rapid progression, a varied and interesting career, a flexible approach to work but regular feedback. They value similar things in an employer brand as they do in a consumer brand. In short, Millennials are attracted by innovative employers.

Many Millennials (41 %) prefer to communicate electronically at work than face to face or over the telephone. Three-quarters of them believe that access to technology makes them more effective at work. However, many Millennials feel held back by rigid or outdated working styles. Almost a half felt that their managers did not always understand the way they use technology at work. Over a half of Millennials (59 %) said that an employer’s provision of state-of-the art technology was important to them when considering a job. A Millennials-friendly work environment may be fully digital, but it also needs to be comfortable and creative. Millennials expect to work hard and will be drawn to organizations that offer an engaging, comfortable, and stimulating atmosphere that creatively blends work and life.

Innovative companies – case studies

In the following part the examples of concrete companies which have the above-mentioned characteristics are given. These companies have innovative products, innovative management techniques including the use of social media and are attractive employers for Millennials. The companies and their business know-how are chosen from the website Management Innovation Exchange (MIX), www.managementexchange.com. This website itself is a perfect example of Internet based knowledge sharing. The MIX represents an open innovation model to help accelerate the evolution of management. MIX members (everybody can log in) can leverage the expertise and insights of a global community of management innovators.

Vodafone UK

The first example is Vodafone UK (Laurence, 2011). Vodafone UK has demonstrated new ways of working that combine communication tools, flexible working hours and locations, and a highly efficient utilization of building space. The changes are associated with the arrival of new Chief Executive Guy Laurence in 2009. He realized that while Vodafone UK’s products and services remained innovative and competitive, its corporate culture was too rigid for the fast-paced market and too autocratic to attract the best new talent. Vodafone UK has created an open plan, weightless office designed to provide opportunities for

face to face as well as virtual collaboration. Laptops have replaced desktop PCs, mobile phones have replaced desk phones, wi-fi has replaced fixed broadband connections and paper is not used anymore. Traditional offices of the managers with secretaries also disappeared. Even the employee restaurant has been transformed to a place which enables and supports the discussions and knowledge sharing. The new ways of working started with behavior change from the senior management team and then spread across the business.

This new way of working has helped Vodafone become more agile, competitive and environmentally friendly. The open and collaborative working environment has lead employees to feel more engaged with the business which has helped increase morale and reduce staff turnover. Decisions are now being taken by the people with the best knowledge of any particular situation and the process of decision making is dramatically shorter. For example, it used to take 90 days to change a price plan. Now it is done in four days. Changing the way everyone within a field of business works not only reduces costs but improves productivity and shortens the time period during which the product hits the market. It is also helps attract and get the most out of millennial generation.

Boeing

The second example is Boeing, which has started implementing innovative methods of people management (Winter, 2011). In 2009 Boeing's Strategic Workforce Planning Organization recognized the need to build a newly-engaging work environment that would enhance knowledge sharing and collaboration across generations in the future workplace. It was decided the best way of growing skills would be within a real business context. A new approach, which brings together early-career Millennial talents and experienced managers at the Workplace Innovation Lab, was used.

The Lab brought together highly experienced managers with early-career employees, enabling "reverse mentoring" (for example on new technologies) when needed. The focus was as much on embedding new capabilities and ways of working for the future, as on generating immediate business results. The program was entirely voluntary. Virtual collaboration with the use of new technology including social media was part of the program.

The people in Boeing have learned that a junior employee can bring fresh perspective and valuable insight to a long-standing business problem and that having a manager open to innovative solutions and using young talent in innovative ways can be a powerful retention lever. Overall, the Lab participants concluded that to be a leader or a team member in an increasingly virtual world, a focus on building trust is the key both to productivity gains and to the use of new tools, technologies and flexible ways of working.

LiveOps

The third example is related to the service sector. It describes an innovative way of a business model and management. This example is LiveOps, a contact center (call center) focused on providing the full platform, applications, and talent in the cloud (Mathur, 2011). LiveOps has realized that consumers increasingly expect quick on-demand information and constant contact with the companies with whom they do business. LiveOps employs 20,000 geographically distributed home-based independent agents. LiveOps has identified the changing demographics of consumers as well as the need to balance cost optimization with quality interactions. In response LiveOps Talent in the cloud solution began providing a distributed home-based workforce. LiveOps uses a proprietary technology platform to allow their independent agents to bid for and perform contact center work for clients in many business sectors. LiveOps' business model precludes traditional methods for managing direct employees. Instead of supervising, LiveOps has pursued the strategy of community management. The company began to facilitate cooperation using a knowledge base and forums so that agents can share best practices with each other, as well as tools for peer coaching and networking. These tools also facilitate competition, because an agent who actively works on improving his/her skills using the above-mentioned tools (as well as company e-learning suite) is able to do more business in a result-oriented environment. The community management involved providing instant and relevant feedback on performance and quality using gaming mechanisms.

The company created an on-line community with gamification, reputation features, and awards that engage and motivate the independent agents. The agents are provided updated opportunities for work, clear indication of individual performance metrics and leader-boards showing community frontrunners. The agents build their online identity through creating a personal avatar. They have the ability to customize their avatars by earning online points for positive behaviors. The avatar then becomes a method of identity and reputation

of the agent in the community. The community of independent agents in LiveOps becomes a community of passion. The agent turnover lowered, the agents learn new skills very quickly, the service levels improved by about 10 % and sales performance increased also by about 10 %. It is also interesting to note that during the implementation of these new business and management models the company has identified that 79 % of agents are on Facebook, which helped the company understand them and create a suitable cloud environment and working tools.

Analysis of success factors in case studies

Let's shortly compare the practices of the presented companies with the recommendations for sustainable business success in the current economy. The most important factors of success mentioned in the theoretical part are: time-valued product innovation, management model innovation (including transparency, flexibility and cooperation support) and talent-attractive, i.e. Millennials-friendly. Millennials-friendliness means among the above-mentioned factors also the access to state-of-art technologies including social media. Table 1 shows if the companies deal with the particular factor. If they do, the concrete way or method is shortly described.

Table 1. Success factors in the companies

| Success Factor | Vodafone UK | Boeing | LiveOps |
|---------------------------------------|---|---|--|
| ▪ Time-valued product innovation | Yes Faster response to market changes | Not mentioned | Yes Quick on-demand information and constant contact with the customers |
| ▪ Management model innovation | Yes Corporate culture change | Yes In the field of people management | Yes Community management |
| - Transparency | Yes Decisions are taken by the workers with the best knowledge | Yes Experienced managers with early-career employees | Yes Indication of individual performance metrics and leader-boards |
| - Flexibility | Yes Flexible working hours and locations | Yes Voluntary program | Yes Independent agents |
| - Cooperation support | Yes Communication-supporting environment | Yes Reverse mentoring | Yes On-line community with gamification, reputation features, knowledge sharing |
| ▪ Talent-attractive (for Millennials) | Yes Abandoning autocratic managerial methods | Yes Collaboration across generations | Yes Intentionally supported, Facebook-inspired activities of the agents |
| - Access to state-of-art technologies | Yes Virtual collaboration | Yes Virtual collaboration development | Yes The only way of work (cloud based) |

All the companies focus on all of the identified critical success factors (in case of Boeing, product innovation is not mentioned). They do it purposely and systematically. The methods of work and management are creative and can be seen as revolutionary. Moreover, the companies do not consider their knowledge as a business secret but they share it to enable others to learn from their experience.

Conclusion

The managerial practices in the presented companies more or less intentionally cover all of the above-recommended success factors for a modern and progressive company: their models of management are highly innovative, based on transparency, flexibility and cooperation support. They use Internet-based applications and they try to attract and gain talented people from the millennial generation. Thanks to the combination of new technologies such as social media with the talented people they foster collaboration and increase available collective intelligence. Nowadays people and computers can be connected so that

collectively they act in a more intelligent way than any individual, group, or computer has ever been able to before. Our three case studies are successful, however, many other initiatives have failed. Either they do not attract interest or they do not create any business value. The executives should see themselves not only as decision makers but as social architects responsible for architecting the sorts of values and collaborative systems that help their organizations become innovative and adaptable but also efficient and disciplined. The presented case studies have one important common characteristic: the purpose. They enable new ways of work and collaboration and the creation of these innovative models of management and work is purpose-driven. The absence of a clear purpose can be a reason for the failure. On the other hand, there are many more successful firms or activities (Google, Facebook, Wikipedia, Linux to mention only a few of many). If we examine the causes of their success, one of them is always the evolution of a management model into a more adaptable one. The executives were able to make their companies socially accountable and inspiring places to work. Thus in our opinion the innovative general principle for the current knowledge economy is a unique combination of technology, community of passion and purpose. To find the unique way how to connect people and technologies, how to set a company purpose and how to motivate the people to become passionate about the purpose and work remains a management art.

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