



**Maintaining momentum –
innovation model
innovation and dynamic
capability at Hella**



DECEMBER 20

JOHN BESSANT
Managing Innovation

Managing innovation is all about keeping the pulse of change pumping in the bloodstream of any company. When Sally Windmüller first saw the opportunities opening up in the new automotive business he was acting as a classic entrepreneur. Finding resources, building networks, experimenting (sometimes failing) and gradually creating a business out of ideas. And so Hella was born.

But being a start-up isn't the best model for growing a business. Meeting the needs of a growing range of customers needs emphasis on process innovation – building a reliable factory to keep delivering the products. And with growing markets and new customers comes the requirement for a more systematic approach to new product development. Keeping up with fast-changing technology needs investment in creating new knowledge and connection to places (like universities and technical centres) where it can be found. And so the company grew through diversifying its approach to innovation, adding to its capabilities.

Any organization needs dynamic capability – the ability to update and extend the ways in which it meets the innovation challenge. As it grows and works in a more complex world so it needs to develop new capabilities to innovate in many directions and to strike a balance between 'doing what we do better' (incremental innovation) and 'doing something completely different' (radical innovation).

That's been the story of Hella – growing a successful business through innovation and riding the waves of change. Working with product innovation, exploiting increasingly sophisticated technology and building capabilities around key component areas. At the same time building its strengths in process innovation through commitment to

quality, to operational excellence via lean principles, to logistics and moving to internet-enabled platforms. Becoming increasingly active in diverse markets - position innovation – through getting close to different customer groups in developed and emerging markets and locating facilities in those countries to provide valuable insights into local needs and conditions. And business model innovation – rethinking and extending what Hella is, beginning to explore new industries in which its competencies might be offered and rethinking its role as it starts to explore disruptive opportunities.

Underpinning this *'innovation model innovation'* is a core strategic value – *'entrepreneurial responsibility'*. This is the glue which holds the different innovation models together and it is a mixture of top down direction and commitment to innovation and bottom-up ideas, energy and enthusiasm driving for change.

Viewed from outside Hella has an impressive history with many milestone innovations in its products and processes and a continuing stream of new developments. That's come from a consistent commitment to innovation and to finding new ways to drive the process forward.



So far, so good.....

The trouble with innovation is that it is a moving target. Things change – markets shift, technologies advance, competition emerges. So unless an organization is constantly adapting and extending its routines it risks running out of steam – even if it has a strong history of innovation. Think of Kodak – one of the ‘poster children’ of the 20th century, a growth from George Eastman’s start-up to the world’s biggest film company. Yet now it languishes, a shadow of its former self and struggling to develop a new identity in fields like printing. This wasn’t a case of a foolish business missing out on an important new technology wave – it was the earliest entrant into the new world of digital media. The world’s first patents, the first digital camera – all products of the knowledge powerhouse which was Kodak’s R&D system. The problem came with its innovation routines – how it translated those deep knowledge competencies into

value. Partly saddled with an established business model to which it was heavily committed, partly through an inability to be able to grow in new areas while letting go of its birth-right.ⁱ

Or IBM, another global business built on deep technological competencies matched by a rich market knowledge base. Once again the problem was not in what it knew but in how it translated that knowledge into value – its routines, capability. Faced with the growing trends towards decentralised computing and networks the company stubbornly retained its commitment to the mainframe centralised model and innovated along that trajectory –in the process nearly running the business over a cliff. It took a fresh perspective and a lot of wrestling to turn the wheel and begin the transformation towards the highly successful service and solutions business which IBM represents today.ⁱⁱ

At the heart of this is the question of ‘dynamic capability’ – the second order capability, which allows an organization to review, adapt and refresh its innovation routines.ⁱⁱⁱ The ways in which it made innovation happen in the past may still be relevant, they may need adapting – and sometimes there is the need to create completely new routines. Building capabilities is a slow process – a mixture of trial and error, reinforcement and refining. And they are hard to let go of. Many analysts view Polaroid’s decline as being more about an inability to change its routines for innovating to take advantage of the new digital media as being the cause of their problem rather than a lack of technological expertise.^{iv}

So a big question in staying on the innovation wave, riding it rather than being thrashed around by it, is how to keeping its innovation capabilities fresh and relevant.

That's the challenge facing Hella today – a large company with a global presence and strong networks of connections with key customers and suppliers.

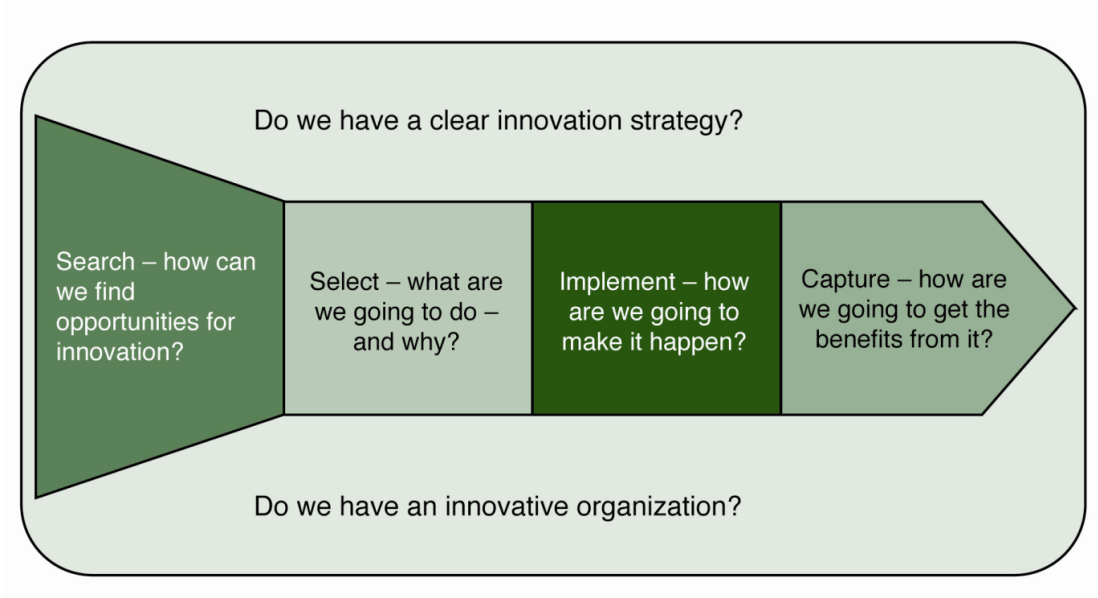
How well does Hella manage innovation?

How well does Hella manage innovation? One answer has to be 'well enough' since the company has survived and grown over its hundred plus year history. It has a long expressed belief in innovation and backs this up with investments which have consistently been close to 10% of turnover reinvested in R&D. Around a fifth of its increasingly global workforce is involved in developing new products, processes and services and it is extensively networked into key strategic technology areas.

But these are all input measures – evidence of a commitment to innovation and a willingness to invest strategically in the area. The real question is around innovation management capability – how well are they able to build a knowledge base and successfully translate it into value?

Innovation research tells us that this capability is not a single thing but a cluster of behaviours embedded deep in the processes and policies of the organization. It includes the ways in which they tackle challenges of searching for opportunities, selecting, implementing and capturing value, and it brings in issues like strategic direction and developing a supportive innovation culture.

Here's a simple model which highlights these question areas.^v



Extending innovation capability

So Hella has a pretty clean bill of health in terms of its innovation fitness. But sometimes this isn't enough. Organizations don't just need capability to manage innovation, they also need a second order capability, allowing them to step back and review their approach. They may need to emphasise some activities, reduce or even

eliminate others and add new approaches to their repertoire. In short they need the capacity for innovation model innovation.

Building reflective capability

Successful organizations do not just recognise the importance of innovation – they understand that they need to create the context in which it can happen. And they also recognise the need to step back, reflect and review their capabilities and intervene to develop them further. So a key issue is how a company like Hella manages this strategic reflection process.

Of course part of the answer to this has always been the role played by engaged leadership, giving a sense of clear direction and importantly reinforcing core values which underpin the company. Themes like entrepreneurial responsibility and the external networking strategy are good reminders of this. But how else can the theme of innovation capability be kept in the foreground and reviewed regularly?

Challenges along the innovation frontier

Responding to these challenges requires new ways of innovating. Not to replace the well-established and effective routines which it already has but to extend those capabilities in new directions, to explore more of the rich innovation space out there. In particular it needs to look at:

- New dynamics – today's innovation world increasingly stresses co-creation, working with many different interacting players and users. This puts greater

emphasis on prototyping and ‘probe and learn’ approaches, accepting failure as a part of planned experimentation and seeing it as an opportunity to learn fast.

- New roles – alongside its mainstream it needs a new cast of characters on the innovation stage. Open innovation needs brokers, bridges, gatekeepers, and ways of making knowledge flow. And working in the uncertain context which many emerging markets and technologies are opening up requires a much higher level of entrepreneurial thinking and behaviour. It’s not just about people starting new ventures but about the mindset associated with being flexible, looking for new connections, prepared to experiment, take risks and accept failure as part a learning process.
- New structures and operating routines – making innovation happen in this new space. Uncertain environments need flexible structures, able to move quickly and experiment

Smart and successful large organizations are meeting this challenge by realizing that they need more than one approach to innovation. In a complex environment they try and match the variety ‘out there’ with multiple parallel innovation models – it’s not a case of ‘one size fits all’.

The good news is that Hella has a good track record in such innovation model innovation. It has grown through extending links into new worlds (open innovation), and through exploring new ways of working with Hella’s core knowledge in new markets. It is trying to extend its range through investments in capabilities like the

new Advanced Engineering structure (and learning to work with that) and working with internal entrepreneurs. Initiatives like ‘Driving e-novation’ have begun to mobilize internal ideas and entrepreneurs, and there are now moves to create further disruptive innovation capability.

Running through all of this is the need to co-ordinate many very different approaches to innovation. It’s a problem sometimes called ‘ambidexterity’ – the ability to work in different modes simultaneously. One metaphor for this is the idea of an ‘innovation orchestra’. Rather than trying to play the innovation symphony on a couple of instruments we need to bring many different instruments together, each with a different approach, playing a different part of the tune. But we also need to ensure that there is some harmony – not easy but essential if innovation is to succeed.

Notes

ⁱ You can find more details of innovation challenges faced by organizations like Kodak and IBM in Joe Tidd and John Bessant, (2014), *Strategic innovation management*, John Wiley and Sons, Chichester

ⁱⁱ The IBM story is well described in Garr, D., *IBM Redux: Lou Gerstner and the business turnaround of the decade*. 2000, New York: Harper Collins.

ⁱⁱⁱ For a more detailed discussion of ‘dynamic capability’ see Teece, D., G. Pisano, and A. Shuen, *Dynamic capabilities and strategic management*. *Strategic Management Journal*, 1997. **18**(7): p. 509-533.

^{iv} The Polaroid story is explored in Tripsas, M. and G. Gavetti, *Capabilities, cognition and inertia: evidence from digital imaging*. Strategic management Journal, 2000. **21**: p. 1147-1161.

^v This model is described in detail in Joe Tidd and John Bessant, (2013) *Managing innovation* , (5th edition), John Wiley and Sons, Chichester.

Reflection questions

- (1) Choose an organization with which you are familiar and use the Innovation Fitness Test framework to explore how well they manage innovation.
- (2) Now do the same but using the Discontinuous Innovation audit framework to explore how prepared they are for disruptive external changes
- (3) Innovation is a moving target – there are always new challenges on the horizon, coming from different directions. Try and draw a map of the threat and opportunities along the frontier of your chosen organization -technological, market, competitors, regulation, etc. – which might require new approaches to organizing and managing innovation.