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“Creating unique-innovation and thriving in the changing world economy”

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We've created a new mission for Lotus: to inspire innovative solutions that transform communication and knowledge into value. And our value is both in connecting communities in a way that shrinks the world and in providing access to ideas that will expand the world.

Chris Newell, Executive Director of the Lotus Institute

Aim

I suggest in this paper that ECR partners should seek to utilise their international resources to make unique-innovation which is not attainable in the home market. The innovation outcome of this process will address the new phenomena of the changing world economy, as well as the acute lack of innovation in home markets. Against this background the relevance of “What’s new Shopper” becomes more profound.

Background

Increasingly partners in ECR are subject to the dynamics of an ever faster changing world economy. Four phenomena have driven this. The first is the opportunity or threat posed by the internet, which has led to innovative products and business models. The second is the increased competition leading to saturation in existing domestic markets. The third is diversification into new international markets. The fourth and final point is that, the sector is increasingly competing with other sectors for shoppers’ share-of-wallet.

Coupled with the ever changing world economy, there is an urgency to create innovation, reflected by deficits in:

1) Service: It has been jeopardised in favour of price (Albers and Peters, 1997); there have been few changes in service. As a consequence of the limited emphasis on service, shoppers have been characterised by the search for the next bargain in the “Schnäppchenjagd” in Germany or search for the “Fêtes Anniversaire” in France. The only notable exceptions have come from Tesco in the UK with their “One In Front”, whereby the number of people standing in a queue was limited to two people. Secondly, in Germany Globus launched the initiative “Woche der Rose”, which encourages staff to increase customer contact. If the customer is satisfied with the service given by a staff member, that individual is rewarded with a rose by the customer.

2) Product: Although there is an anxiety to innovate, many of the so called new inventions are actually me-too products. Indeed, the German market research company GfK, has found that only 4% of SKUs are real innovations.

3) Store environment: According to McNair, the antecedent of success of the „Retail-Revolution“ in the 1950’s was based on shopper’s acceptance of the concept of the supermarket. This no longer prevails and is reflected by the fact that nearly 50% of customers find shopping a tiresome experience (IGD, 1999). The only fundamentally new concept has been Albert Heijn's “World of Worlds”.

The effects of inertia in the industry in existing markets have been outlined above; the lack of addressing the needs of shoppers in new international markets is unclear. My concern is that this exists, as international "wholesale" expansion (excluding joint-ventures) by retailers has generally left little room for adaptations. For example, in most cases the fascia, store name included, remains identical.

However, as has been proven by the internet, in this changing economy new entrants will innovate and give emphasis to the customer base. They will acquire from ECR partners existing as well as potential customers. An industry which can provide something new will be able to create a truly unique selling proposition in order to appeal to hedonistic values. The challenge is therefore multifaceted; it is neither country, technology nor sector dependent.

The above suggests that despite the increased global competitive environment, retailers and suppliers have yet to address fully the subject of innovation¹. Therefore, ECR partners should prioritise the need to understand the potential shopper in new markets and be able to create innovation for the existing shopper. The ability to accomplish this lies in new untapped resources, which have been acquired through international markets.

[I]t's not about whether you're centralized or decentralized; I think the world is moving in both directions at the same time.

John Patrick, Vice President of Internet technology at IBM

Decentralisation is not considered a prerequisite for every activity in the value chain. In many cases centralising operations in certain fields can create value for the customer, for

¹ Innovation is defined by O'Reilly and Tushman in the book *Managing Strategic Innovation and Change* as "the successful introduction into an applied situation of means and ends that are new to the situation"

example, in the purchasing of most products. However, as Bartlett and Ghoshal have stressed, “Headquarters can only do so much. Often that’s too much”. I see headquarters providing more of a supportive role, by creating an environment of mutual learning involving multinational teams to address matters in the original and international markets. Headquarters should be effectively acting as a knowledge-brokers. For it is essential to use the resources which have different competitive environments, customer bases and mental models². I will suggest that enabling these world-wide resources will provide ‘unique-innovation’, which would otherwise be impossible in the home market.

Clearly, this type of enactment is required. Change is uncomfortable, so why bother?

Clearly, one has to be mindful of the consequences.

ECR has been the vehicle to create the increased awareness in adopting new practices in contentious areas. It has provided the medium in which to assess the pros and cons. It has given support by providing best-practice. Therefore my argument is not conclusive, but merely provides ‘food for thought’.

Types of innovation

I suggest that innovation in an international context can result from two different means. Firstly, by ‘cross-pollination’ of best practice knowledge from one country to another; and secondly, by deploying the multinational teams to enable the creation of new solutions. These solutions will arise from the application of old ideas to new situations

² In the academic press the term mental model is labelled as heuristics. Heuristics help decision makers respond to situations and interpret information, evaluate outcomes, and judge the likelihood of failures (Daft and Weick, 1984)

(Hargadon, 2000). Furthermore the diversity of the individuals will enable different ways of tackling issues utilising a variety of mental models.

Cross-pollination and transnational capabilities

Die neue Struktur beruhte auf zunehmend spezialisierten, weltweiten Einheiten, die ein Netz von Aktivitäten integriert waren. Auf diese Weise konnten sie (die Unternehmen) ihre multidimensionalen strategischen Ziele (Effizienz, Marktnähe und Innovationen) gleichzeitig verfolgen. Die Besonderheiten dieser Struktur machen ihre Stärker aus: die Streuung der Anlagen, die Spezialisierung der Aktivitäten und die Interdependenz der Beziehungen.

Bartlett and Ghoshal, 1990

The industry is, however, no stranger to innovation and it has been inherently international in its fashion in seeking innovation. Innovation has been rife ever since explorers and migrants have encircled the globe, and has been especially prevalent with the expansion in commercial transport. Being exposed to different environments and foods, inspired these inventors to adapt the foods to their countries culture.

Jollibee, a Philippines fast-food organisation, who first entered the U.S. market in 1998 have already sourced chicken and beef suppliers for its restaurants in Southeast Asia. Philippines stores have launched a cheesy bacon-mushroom sandwich originally developed for the U.S. market. Such cross-pollination of ideas is key if emerging multinationals are to compete successfully with the companies they take on (Bartlett and Ghoshal, 2000).

European supermarkets learnt considerably from the expansion in America of the self-service concept "Cullenisation". They were inspired and adopted the business model with

some country modifications in 1963, when Carrefour opened Europe's first supermarket. The French retailers kept the atmosphere of the "Marché", with counters still in place in fresh food departments.

European markets have the potential to create innovation due to their diverse markets and cultures. However, far from realising this potential, European retailers have continued to look to the USA for the search for inspiration by carbon copying.

Harvard Professor and previous Mars employee Vernon, coined the phrase 'global scanner', attributing the multinational to an enterprise which is stimulated to innovate by the market opportunities in any given market. However, given the fact that only 24 per cent of Czechs use their cars very often when going shopping, it is hard to see that retailers active in this market are acting as global scanners. If they had this capability, then smaller local stores would be favoured, in addition to hypermarkets. The competitive environment in the Czech Republic is arguably the most international of all markets. Many European retailers including Globus, Carrefour, Axet Johnson, Alhold and Rewe are represented in the Czech Republic. Therefore employees in this country may be more informed about the international competitive environment than someone at headquarters.

Given the competitive environment, it could be concluded that the Czech Republic could one day be considered as a 'lead country³' in a particular competency, for example, town centre outlets. Team meetings between the lead country groups become forums for passing on ideas, creating knowledge-brokering. Lead countries task as knowledge brokers will be to seek positions between otherwise disconnected domains, and innovating by recognising that knowledge in one domain might be novel and valuable to the inhabitants of

another. Therefore, organisational type, entitled transnational, will capture knowledge and expertise in influential markets, provide interdependence rather than independence in the organisation and lead to the formation of competency areas. Learning capabilities serve as efficient mechanisms for the creation and transformation of knowledge into economically rewarding products and services. Such capabilities constitute ownership advantages that help mitigate the liabilities of foreignness during international expansion.

Multinational diversity

Motorola is a good example of a company using multicultural teams to good effect. You might create chaos that way, or you might create a new culture which is so much richer.

Fons Trompenaars

Multinational diversity offers a rich context in which to rise to the challenge of “What’s new shopper” . A changing environment also expects diversity in the propositions made. Truly unique selling propositions are therefore required. Utilising international resources by creating teams to innovate gives an advantage to the international retailer, which has hitherto gone unused.

The multinational team incorporates individuals who will react in different ways to the opportunities and threats posed by a circumstance. This is explained by the norms and values of the country which the individual comes from. In general, these parts makeup the so called ‘collective programming’ or dominant mental map prevalent in one country. They are

³ The lead country phenomenon is attributed to the part of the organisation which has responsibility for a competency area (Bartlett and Ghoshal, 1986)

reflected by what is valued and desirable, or undesirable, to what is right or wrong for a particular society (Hickson and Pugh, 1995). A meeting comprising individuals from different countries will create a very diverse discussion, and lead to unique suggestions which would have unlikely surfaced in a meeting comprising individuals from the home market. An account in research conducted by Earley and Mosakowski during a marketing meeting in a multinational team of a large clothing producer underlines this:

"Siri, I couldn't agree with you more on this point even though this isn't how we are doing things in KL...I just hadn't thought about it the way you suggested it but I understand your suggestion"

In addition the multinational environment will facilitate dynamic effects, whereby the more varied the arguments are in a group the greater the degree the individual will broaden his thinking process. A shift in the mental model occurs, allowing one to recall details not easily recalled for the other [original] perspective (Fiske & Taylor, 1991). These individuals are then able to innovate by recombining their past ideas in novel ways (Hargadon and Sutton, 1997).

Creating an environment which is conducive to innovation

O'Reilly and Tushman found that managers from diverse countries and industries identified the following criteria in promoting innovation in organisations: challenging the status quo, designing systems that tolerate some failure, encouraging risk taking, providing resources and open communication.

A pot-pourri of innovation

Take for instance the Hamburger. In one form or another, the hamburger has been around for more than a century. It is believed to have originated in Germany, Hamburg and appeared in the United States as early as 1834, when it was listed on a menu for the New York restaurant Delmonico's. It has evolved over the years, acquiring a bun of a similar shape to the patty in 1912, and an optional slab of cheese in 1938 said to have originated from Dutch immigrants.

This typified the type of reinvention which took place in 1840s in the USA. Immigrants from diverse nationalities brought recipes from their cultures to the US. The taste would be acquired by immigrants from other cultures, who adapted them to consumption habits by including add-ons.

The mental model prevalent in the US culture at that time was one that encouraged experimentation, freedom, and risk (Dune, 1999).

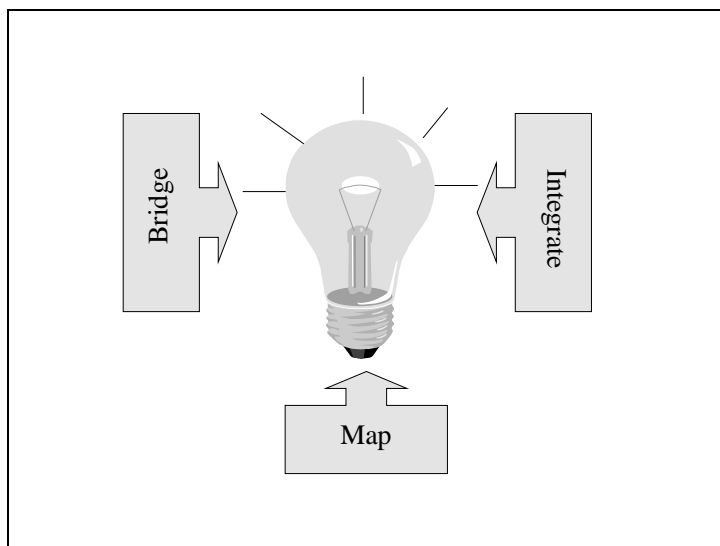
Of great importance was the nature of the environment, which laid down the basis for innovation: The transfer of ideas, the diversity of people and audacity led to perpetual innovation.

Obstacles to using multinational teams

One has to be aware of the fact that multinational teams come at a cost (Kogut, 1989). They can not be expected to have an instantaneous effect (Earley & Mosakowski, 2000) and require significant time investment. Furthermore, the cost of travel expenses, co-ordination of

the teams and time set aside for the participating personnel in such an endeavour would give concern. Another problem arises in the lack of commonality in the shared group, not only inhibiting any dialogue but also leading to potential conflicts in the manner of articulation. Rapport may, however, be established initially, if the team is totally heterogeneous and a feeling of being amongst equals exists.

Major potential conflict areas can exist in the establishing of a hybrid team culture, which will be referred to as a set of rules, norms, expectations, and roles that members share and “enact” (Earley & Mosakowski, 2000).



The MBI approach

DiStefano and Maznevski suggest their Map-Bridge-Integrate (MBI) concept for creating value in teams. By adopting the above teams can develop a constantly shifting dynamic that incorporates innovation into cooperative structures. Mapping is the unit which comprehends the characteristics affecting each member’s approach to the team. In summary this leads to an appreciation of how the member will benefit the team. The second unit entitled bridging, addresses the effective communication across differences to bring people

and ideas together. This unit enables the sending and receiving meaning as it was intended, without any misunderstanding. Lastly, the integrating unit enables three important steps to integrating: participation, resolving disagreements and building on ideas.

When the aforementioned prevail, there is a strong culture against the background of many cultures. This could be linked to the analogy, that whilst musicians in an orchestra play in harmony, they all play different notes, but as a unit their sound is radiant.

Conclusion

As it has been demonstrated, using multinational teams truly lends itself to the opportunity of dealing with the inertia in the sector and the changing world economy. A mechanism for dealing with this, can only come from an environment exposed to other influences, but yet competent in fully understanding the nature of the problem. The result of this process is a pertinent, and unique in its outcome.

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