

Increasing Innovativeness through an Integrated Development Strategy IDS¹

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1. Marketing and innovations

Many business corporations face the problem that »innovativeness« is decreasing even though more resources than before are spent on product development projects. Both in Europe and the US there is a general awareness that the development of new industrialized nations and shifts in raw material prices and wages call for an orientation toward new and differently defined markets.

¹) This article is built on the theory and practice of »IDS« present in Asplund and Asplund »An Integrated Development Strategy, Wiley, London 1982.

In order to adapt to new conditions, firms in the old industrial countries do spend resources on establishing »new business divisions«, »strategic centers«, »cross divisional development programs« etc. and yet surprisingly little seems to come out of it in terms of increased profits.

In this article we will argue that the way organizations deal with their own development is a major reason why adaptations and new orientations are so ineffective. We will suggest that effective development work should account for both *technical development* in strategic thinking, marketing, organizational structure, production etc and *behavioural development* including changes in vital organizational norms and behavioural modes. And not only should these both sides be considered but they should be dealt with in such a way that they feed back in a synergistic way on one another.

In the following we will present a method that we call an *Integrated Development Strategy* and we will illustrate some aspects of this method in a case that we call the Eagle Corporation.

2. The Eagle Corporation

The Eagle Corporation can serve as a good example of the development that we described in the beginning of this article. The »Eagle« (a fairly large, raw material based corporation with highly advanced technology) found that even though it had spent a lot of resources on research and development, which had resulted in about a hundred innovations in the lab, practically none of all these new products ever reached the market. For some reason the organization did not effectively market new products and did not orient towards new markets. As one executive put it: »It seems that we have become so good at doing what we're doing that we are getting increasingly incapable of doing anything else«.

The company had the major part of its sales in Europe and in the US and 80% of its production in Sweden. The sales organization consisted of small sales companies with local management based on the skills of the local leaders who often held a considerable share in the companies. Lately when the sales companies had found difficulties in marketing the company's products they had made complaints to the top

management about the price level and urged that the manufacturing divisions should be forced to lower their prices.

The critique from the sales companies had made the president of the company send letters to the manufacturing divisions and order them to make efforts to lower their costs in order to be competitive. These letters had upset both management and unions in the production units.

The heads of the manufacturing divisions and the labour unions had expressed publicly an opposite view including that the sales companies were to be blamed because they did not make any real marketing effort.

The dynamics described above went on: The sales companies blamed the manufacturing divisions for too high prices; the top management blamed the manufacturing divisions for not cutting costs effectively; the unions and the heads of the manufacturing divisions blamed the sales companies for bad marketing and also the top management for not searching new ways of marketing the products.

While all parties blamed one another and complained about tightening competition the situation grew worse inspite of certain structural efforts made: a New Product Division and substantial budget increases for Research and Development.

Facing this situation the president of the Eagle contacted us and asked us to present what we could do to help the Eagle. We suggested that an Integrated Development Strategy (IDS) could be of help and presented the main characteristics of such a development strategy as below.

3. An Integrated Development Strategy (the IDS)

The IDS has three corner stones:

- 1 A processoriented view on change.
- 2 An action theory approach to change.
- 3 Simultaneous focusing on task (marketing, production and other areas) and behaviour (individual, group and organizational).

With these corner stones the change strategy may be somewhat different depending on what particular problem (task) is at hand or what kind of organization that is to be developed. But by and large it can be described as follows:

A Processoriented view on change

A processoriented approach means, in our view, that focus should be set on what people in the organization actually do (during a certain period of time) rather than on some structural aspects of the organization or its performance. By focusing on sequences of behaviour, feedback from a consultant or an internal change agent becomes constructively oriented toward practical change.

The feedback is an important component in the different stages of the client's learning cycle. In a processoriented approach it is urgent to produce valid data on behaviour as well as task and to be aware of the effectiveness of the process. Therefore:

- 1) A tape recorder should be used in order to get directly observable data on behaviour.
- 2) Efficiency criteria should be set in advance both on task performance and behaviour development.

An action Theory Approach

People hold theories of action that guide their behaviour¹⁾. The norms and values held in an organization and the systems of control evolved there are mainly produced by people in the organization. These productions are a result of their theories of action.

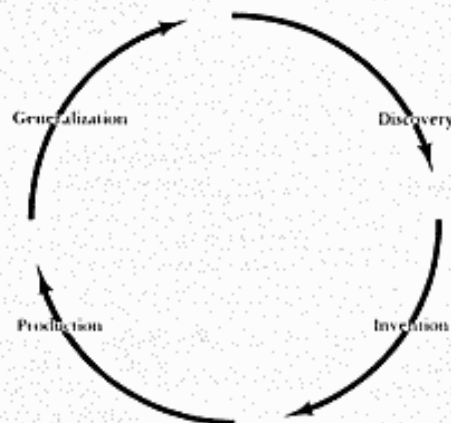
If a durable and thorough change is going to take place in an organization, the theories that guide the present behaviour must be altered. However, even if people have *discovered* that their present theories in use are not effective for reaching their objectives they may be incapable of *inventing* new theories that are more effective. Moreover, even in cases where they are capable of inventing new theories they may lack the skills necessary to *produce* behaviour in accordance with the new theory.

1) Compare Argyris and Schön, *Organizational Learning*, Addison-Wesley, 1978.

The statements above leads us to the following assumptions:

1. In order to accomplish a change in the present (e g marketing) actions we must focus on the underlying theories of action that guide the present actions.
2. People must discover the ineffectiveness of their present theories of action in order to be willing to change these theories.
3. Once people have *discovered* the ineffectiveness and are willing to change their behaviour they must be given a fair chance to learn how to *invent* new theories and to *produce* new types of behaviour that are consistent with the new theories. Further, in order to evaluate the new behaviour they must also *generalize* what has happened. This leaves us with a learning cycle of discovery invention, production and generalization like in figure 1 below.

Figure 1. A learning cycle (from Argyris C & Schön D)



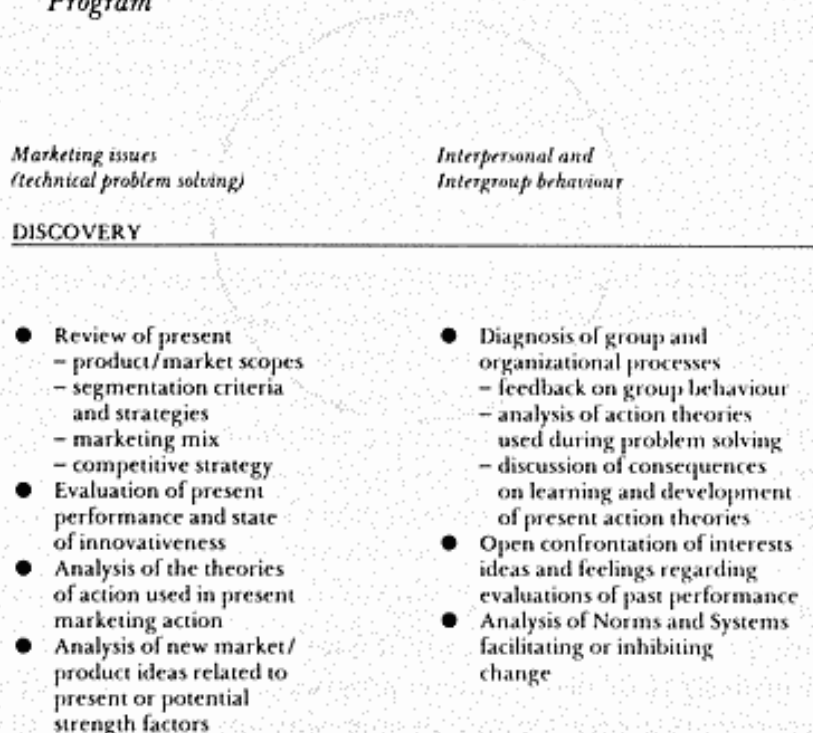
Simultaneous focus on task and behaviour

In figure 2 below we present a list of issues that are frequently represented in designs of development programs. The left side of the figure represents topics treated in one way or another in develop-

ment programs for more effective marketing and the right side shows frequent issues in development programs geared at interpersonal and intergroup relations. The usual way to deal with these issues is to focus only on one side. When both sides sometimes are accounted for the normal procedure is to develop separate processes for them, with little or no connection between them.

The main reason we see for working simultaneously with the two processes is that this gives us a chance to enhance both speed and quality of the development processes. This is possible because we design the two processes so that they feedback on one another in a synergistic way. Learning cycles containing discovery, invention, production and generalization are designed for both the task process and the behavioural process (figure 3a) and special measures are taken to integrate the two learning cycles (figure 3b).

Figure 2. Examples of Marketing and Behavioural Issues in a Development Program



INVENTION

- Invention of new action strategies in product/market scope, segmentation, competitive strategy and marketing mix
- Experiments and simulations of new marketing strategies
- Decision on new strategies
- Invention of new action strategies
- Development of more effective norms and of more valid control systems
- Experiments in behaving according to new action strategies

PRODUCTION

- Revision of decisions and assumptions
- Implementing new marketing action
- Inventing new market information systems
- Introduction of new control systems
- Introduction of new norms
- Experiments in new ways of communication

Figure 3A. Learning cycles in the Task and Behavioural processes and the integration between them.

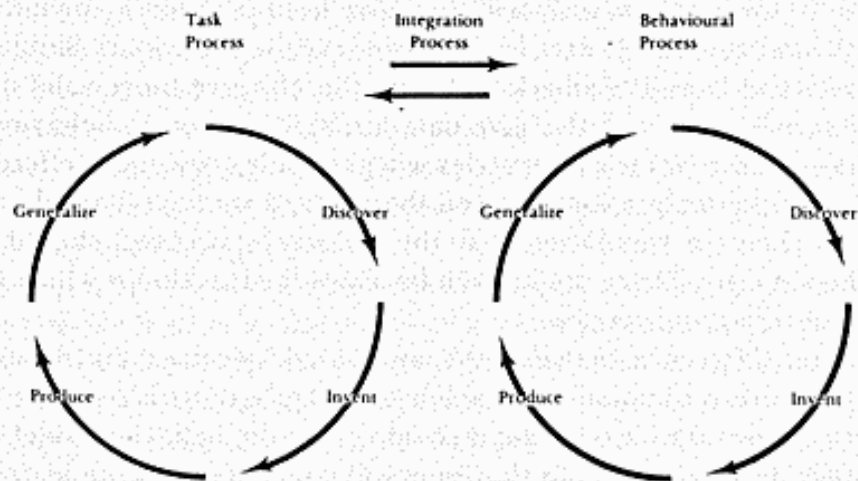
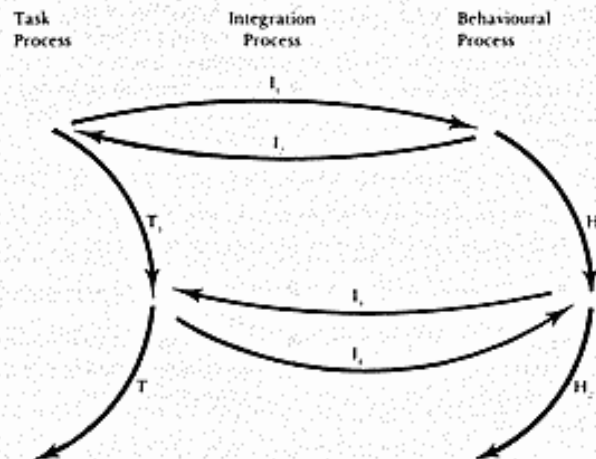


Figure 3B. The feed back loops at different stages in the integration process.



The integration loops I 1-4 would not necessarily occur if they were not purposely built in to the development program and it is our experience that loops of this kind greatly enhance the learning in *both processes*. We usually start to diagnose some problem in the task process because in our experience this is a natural way to start.

Data in T_1 (discovery in task) will then give both data for T_2 (invention on task) and through I_1 data for B_1 (discovery on behaviour). Similarly discoveries in B_1 will feedback to T_1 and thereby give more valid data in the task process and also give data for B_2 (invention in behaviour). The loops in the two learning cycles will gradually grow more effective because of the integration between them. Once we have started in T_1 , there is then no stipulation that the different processes should be matched in time. There might even be »late« feedbackloops which will start a »new learning cycle«.

The main difference between the integrated Development Strategy and the more traditional approaches to OD-programs is not that the issues (whether they are on the task side or on the behaviour side) will be totally different ones but that they will come about in the learning situation in a way that we have designed for them so that synergies can be utilized.

The IDS in the Eagle

The initial work

In order to develop an Integrated Development Strategy in the Eagle Company a group was formed consisting of the president and six executive vice presidents (four heads of divisions and the staff heads of marketing and administrative systems). The group was to meet regularly with us for a six-months period in order to learn about why the Eagle had marketing problems and what could be done about it.

We suggested to explore some of the most urgent marketing problems to start up the process. Two vice presidents suggested that they should start with the price policies since these had been a controversial issue vis à vis the sales companies.

After a lengthy discussion two things were concluded:

1. The division managers mistrusted the capability of the sales companies when it came to more sophisticated marketing of the products.
2. Prices were set for all products in the same way using a conventional cost plus pricing method.

These two revelations seemed trivial and everybody knew about them. However, they were contradictory to the official (espoused) company policy which instead stated: »The sales companies are the backbone in our marketing strategy and their marketing competence and flexibility constitute one of the major strength factors of the Eagle« and »Prices are set through a negotiation process between the division and the sales companies«: »Price should be considered as one parameter in the total marketing mix and different pricing methods and criteria should be used depending on e.g. the products place in its life cycle, the role of the product (cash cow, star, questionmark, dog) or the objectives with a particular market segment«.

This gap between the pricing system »in use« and the »espoused« pricing policies lead to a discussion of a more general character – »are these differences between what we say and what we do common in other areas and in that case what are the consequences?«

During the pricing discussion we had been able to see certain things going on in the group and we therefore asked the group if we could analyze these behavioural aspects. We took some transcripts from some of the tape recordings of the sessions in order to discuss valid

data on group behaviour in the same way as we had done on pricing behaviour and on evaluations of the sales companies. The tapes that we had chosen contained three types of behaviour

1. at several instances groupmembers had covered facts about the profitability of certain products and the others had let it happen without comments,
2. when one group member had estimated a topic as »hot« or threatening to the others he had played down his estimations in order not to »hurt« anyone
3. when the president had put forward the »espoused« evaluation of the sales companies as competent, market oriented, flexible etc the vice presidents had, generally agreed although it contradicted their own previous evaluations.

When this kind of behaviour was revealed to the group there were some initial efforts to make jokes about it and to play down its importance. Here, however, we insisted that we should treat these data in the same way as we had treated the data about e.g pricing procedures.

The group members eventually agreed and started a discovery process of their own interpersonal behaviour that very much resembled the discovery process of pricing procedures. During this process of discovery they started to reflect on the differences between what they said and what they did when treating one another. Openness and trust were believed to be two proper words to describe their interpersonal relations but the tapes revealed mistrust, conformity and defensiveness.

At this point we (the consultants) started to compare the discoveries about pricing and evaluation of sales companies with the discoveries of interpersonal behaviour and we raised the question of if what happened in the group in fact mirrored what happened in the whole organization and that pricing behaviour and various interpersonal behaviour in fact were guided by the same kind of values and norms.

Learning and Change during the first six months

During the next five seminars the group had analyzed present pricing methods, segmentation strategies, product development policies and promotion strategies, product development policies and promotion strategies. Some major problems were identified:

- rigid control systems prevented adaption of pricing to the particular objectives of the different products
- segmentation criteria were based on classifications in industry statistics rather than related to customer needs
- segmentation strategies (choices and priorities) were based on tradition rather than on estimations of growth and profitability
- product development was production and technology oriented rather than market oriented
- promotion expenditure was calculated as a percentage of expected sales and the contents were handled by an external agency.

The group had also analyzed its own behaviour and been able to enlarge the group experiences to general organizational characteristics. They had come up with the following map of organizational norms underlying marketing and interpersonal behaviour:

The Eagle company was steeped in *conservatism* and the people identified and developed emotional ties with old products and product lines, which made it difficult to discontinue a product on objective grounds. Similarly, it was difficult to convince a sales company which had been doing well in the past, that it should change its sales methods.

In the Eagle company there was also more emphasis on »punishing« mistakes than in rewarding successes. Sometimes even »successes« were punished because they deviated from accepted norms or policies. Thus a *conformity norm* had developed that prevented individuals from taking risks and seeking new opportunities. Another reason for the development of conformity in the Eagle company was its hierarchic system: bosses were anxious to have control over their departments, and they had to see that all operations run according to the plans laid down. This overemphasis on control and order led to that it was estimated as more important to check that the »ranks kept in step« than to allow for creativity.

In the Eagle company a person's chances for promotion very often depended on the information he could show that he possessed. Therefore people tended to hold information for use at special occasions. As a result of this *defensiveness* among the staff, important strategic information often came to be used for opportunistic purpose rather than as a constructive basis for decisions about changes and development in the company.

It was also shown that the general norms of conservatism, conformism and defensiveness were reinforced by rigid systems for control leaving us with the following picture of the Eagle.

Figure 4. Norms, control systems and innovativeness in the Eagle.

Static organizational culture
characterised by

Norms

- Conservatism
- Conformism
- Defensiveness

Control systems

- Locked planning systems
- Function-centered reward system
- High degree of formalization

Low degree of innovativeness
characterised by

- Focus on old products, technologies, markets and methods
- Low degree of adaptation and flexibility in face of structural change

If the Eagle company was to succeed in its ambition to lance new products, to explore new market opportunities and try new and less conventional marketing methods the group had discovered that the Eagle had to change both its cultural climate and its technical competence to handle marketing issues. Thus, the Eagle should try to move towards the status of a dynamic organization.

Figure 5. The dynamic organization – a desired state of the Eagle.

Dynamic organizational culture
characterised by

Norms

- Risk taking
- Individualism
- Openness

Control systems

- Flexible planning system
- Performance centered reward systems
- Low degree of formalisation

High degree of innovativeness
characterised by

- Focusing on development and change in choice of markets, product policy, technologies and marketing methods
- High degree of adaptation and flexibility in case of structural change.

How the Eagle moves on

The group that worked together during the six months had learned some important things about the group itself and were beginning to solve some of the original task problems. But, the most vital aspect of learning, was that it also had been able to learn how to surface some organizational core problems that now had to be dealt with if some substantial changes in the overall marketing behaviour could be realized. The group wanted to use their experiences on how to work in small task groups and thereby use data on group behaviour to enhance and activate the surfacing of tacit assumptions, in their discussions with the sales companies. New groups involving the heads of the sales companies and people from the R + D and the Marketing departments were formed and these groups continued to work on both task-problems and organizational norms in a two folded process.

By the end of the year the R + D and the Marketing departments were, on the basis of their new learning restructured, so that some of the formerly centrally placed experts now were moved to the different sales

companies. As eventually the overall marketing strategy grew more clear and understood by both divisions and sales companies, decision making was more easily decentralized. Project groups including the manufacturing divisions and the sales companies now themselves took care of issues like segmentation strategies, pricing and promotion strategies. On the whole it seemed the Eagle was moving in the right direction.

However, the learning still goes on in the Eagle and it is far from the ideal picture the group set up for it. Perhaps an even more important fact is that the heads of the Eagle are beginning to realize that such an ideal status is not desirable per se, but that the learning that occurs in moving towards what was believed (a year ago) to be an ideal status, is a process that strenghtens the company and provides it with a more holistic view and some successful new ways of dealing with its marketing policies.

This, we would argue, would not have happened, at least so fast, if they would have worked on the marketing problems without learning from their own behaviour. Because it was the learning about their behaviour that made it possible for them to see organizational norms and actions that they had been unaware of.