

## Effective ways to drive innovation in large companies

*Why is it difficult for large companies to innovate like startups?*

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### Abstract:

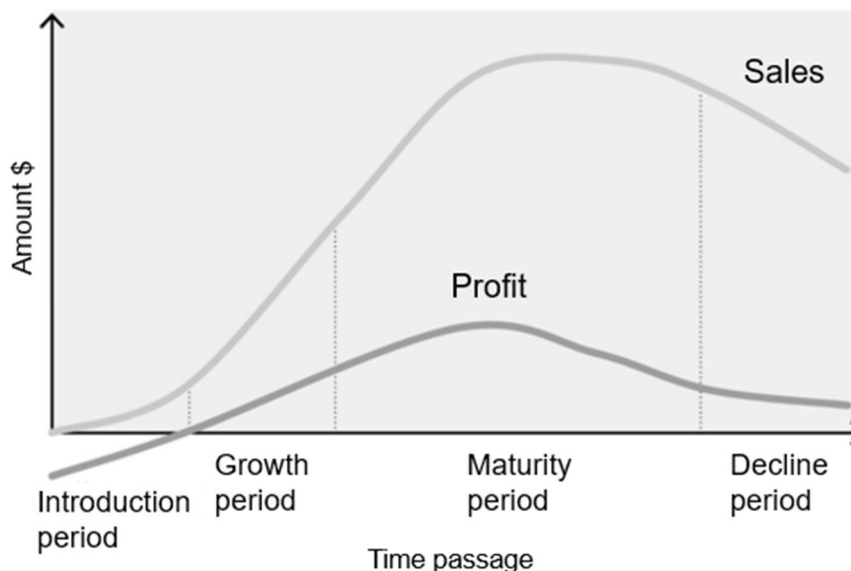
*In the age of a new normal, the winning patterns of the past will not work. A new way of thinking is required in this era of change. This is Architectural Thinking, the ability to conceive such a new world from scratch. I would like to explain what Architectural Thinking is, how to refine it and how to acquire it in order to live in this age of confusion by answering the following questions:*

***“We are a large Japanese company with a long history. The management team, including myself, has been telling our employees about the necessity of innovation and the importance of digital transformation at every opportunity, but we have not seen any signs of change nor any tangible results. To be honest, I am beginning to feel that it is difficult for a large company to innovate like a start-up. Do you have any advice for us?”***

### Products have lifecycles

A product has a lifecycle, which may be long or short depending on its characteristics, as shown below.

**Figure 1: Product lifecycle (image)**



The lifecycle of introduction, growth, maturity, and decline is easy to understand if we compare it to the life of a human being. Naturally, infants and adults, as well as the young and old have different values and use money differently. In the case of business, our way of looking at sales and profits should also be different, as shown in the figure below.

**Figure 2: Product lifecycle in terms of sales and profit**

		Introduction period	Growth period	Maturity period	Decline period
Sales	Net sales	Low	High	High	Medium
	Growth rate	Low	High	Low	Negative
Profit	Profit	Deficit	Medium	High →Medium	Low

This is also similar to the life of a human being. Initially, there is no income earned during our childhood and money is continuously spent on necessities such as food, education, etc. However, we can think of this as an "investment for the future" rather than a mere expense.

As we grow up, our expenses increase while income rises and as we move from middle age to old age, our investments for the future decrease and our priority shifts to how to control expenses while being conscious of saving sufficient money.

In business, the number of competitors also change over the different phases of the lifecycle.

This number, which was small in the introduction phase, increases rapidly in the growth phase, decreases again in the maturity phase and decline phase due to weeding out and eventually is reduced to a few companies through acquisitions and mergers. This is what happens in every industry.

### Management styles differ depending on the stage of the lifecycle

The person posing the question mentions startup innovation, but the products deployed by startups are in the introduction to growth phase, while most of the products deployed by large companies are in the maturity to decline phase.

This is a natural change, and the business is sustained by recovering the investment made during the introduction and growth periods in the mature period. The company grows by having more products in the mature stage and continues its business by investing the generated cash to create new products.

The key point is that **the management style of a business differs depending on which stage of the lifecycle it is standing in.**

**From the introduction to the growth phase**, the company needs to focus on new customer needs and social issues and clearly articulate its vision. This is more easily understood by imagining visionary managers such as Steve Jobs or Elon Musk.

**In the mature stage**, a fluid and adjustable style of management is required as it is important to identify how to generate stable profits in the formed market. This is the PDCA type of management that Japanese companies excel at, increasing sales and reducing costs in order to raise profits from the previous year.

**During a period of decline**, fact-based, top-down decision-making is required to determine whether to remain in the declining market or to withdraw from it. Making a decision to withdraw from a declining market, even if it is an inherited business or still profitable at that point in time, requires autocratic management.

## Ageing of organisations is inevitable

In its early days, every company strives to solve the problems of their customers, but as soon as they reach the growth stage, they start to focus on their competitors.

In order to beat the competition, they adopt a variety of measures to hire talented employees and introduce a number of systems to retain them. The gaze of the management and employees gradually turn inward to their own company, and the ageing process is rapidly exacerbated in an organisation that has become insensitive to external stimuli.

This is the reason why startups lose their liveliness when people coming from large companies introduce various HR systems and management structures, or why their decision-making process becomes slower than before after being acquired by a large company.

Also, since ageing is an irreversible process, even if we can slow it down slightly, we cannot stay as young as a teenager forever.

Per the question above, **it is not easy to make the same innovations in a large company as compared to a startup.**

The stages they are in are different, the problems they need to solve are different and the goals of their management may be different.

Don't be seduced by the words "innovation" and "transformation," but **think about whether you have a clear idea of the issues your company needs to address now.**

If the overall concept of problem-solving drawn from these issues is not shared with your employees, it will be inevitable that your frontline will not proceed in the direction intended by management. Though you may be able to accumulate small improvements, you cannot expect to transform the organisation as a whole.

Innovation and digital transformation is not the goal, but rather, the first priority is to **listen to the voices of your customers and frontline, identify the issues that need to be solved and share them with the entire company.**

For example, Sony recently announced that it is working with Honda to develop an electric car. Sony is much older than when it launched the Walkman, but continues to innovate at an age-appropriate rate.

There is no need to be pessimistic just because your organisation has aged.

## Architects are unlikely to be born from a well-developed organisation

An entrepreneur is the equivalent of an architect of a company. Entrepreneurs are business architects who are generally:

- **Able to draw a vision from a blank sheet of paper**
- **Consider all facets of the company**
- **Possess the ability to think in solitude**
- **Free from constraints of existing 'common sense' and rule in their thinking**
- **Able to incorporate a personal touch to their company**

Therefore, we may presume that many entrepreneurs are more or less capable of practising Architectural Thinking.

However, it is not enough if only entrepreneurs can practice it.

### **Innovation and new ideas are needed at various levels and in various situations**

The reason why I advocate Architectural Thinking is because this way of thinking is required at many business scenes. The age of “鷄口牛後 (Better be the head of a dog than the tail of a lion)”, brought about by digitalisation, requires innovation and new ideas at different levels and in a variety of situations.

While the architect of the company as a whole is the entrepreneur, Architectural Thinking is also required at the "upstream" level in each department and project.

However, although Architectural Thinking can be applied in various situations, it is a difficult skill to develop in certain organisations. This is because the organisation itself exists as a product of Architectural Thinking by its founders and other upstream people.

The reason why it is difficult to create architects from established organisations is because there are few opportunities to utilize such abilities even if there were people who possessed them.

### **Governance reform to bring diversity to the management is important**

While it is difficult to create architects from established organisations, **architects are essential for developing new products and new businesses.**

Thus, in order for ageing companies to survive, it is important to raise basal metabolism and ensure that this metabolism is working properly.

So, what can we do to achieve these goals in the organisation?

One solution is to **create a mechanism for selecting a diverse management team.**

For example, OMRON, which has been actively promoting governance reforms, has established the President Nomination Advisory Committee and the Personnel Advisory Committee for the purpose of selecting the management team with an objective viewpoint. The current president does not sit on this committee.

In the case of a startup, an entrepreneur can focus on driving the growth of the company as an architect. However, as mentioned earlier, management skills such as adjustment and autocracy are required in addition to playing the role of an architect in large companies, so diversity of management personnel is key to further growth.

In order to continue running a large company while monitoring businesses in the mature or declining phase, it is important to find people with Architectural Thinking skills that have little to no opportunities in the established organisation and assign them to the right places to create new businesses or develop new products after assessing their potential.

This is applicable not only to the management of a company as a whole but also to each department. Especially in the age of VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), where things are changing rapidly, it is imperative that as many departments as possible make profits from existing products while investing for the future.

So, how can we achieve governance that is both diverse and balanced as an organisation?

### Issues are occurring on-site

When talking about governance reform, we tend to focus on formalisms such as increasing the number of external directors or inviting women and foreigners as external directors. The fact is there is no such general solution in management.

As mentioned above, the management team of a large corporation needs to be diverse. If the current president is an autocratic architect with overwhelming influence, the others in the management team may be of the adjustment type.

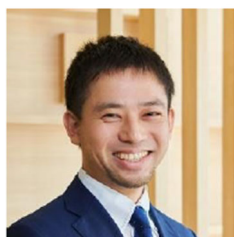
As long as management diversity is ensured according to the lifecycle stage of each company and business and there is fundamentally no issue with having a male-only, female-only, or Japanese-only management team in each company.

However, we must keep in mind that even if the management team is renewed, new products will not be created, and sales and profits will not increase unless the behaviour of the frontline changes.

When undertaking management reform, keep a high perspective and analyse the stage your company is in and at the same time, pay close attention to what is happening on-site. **By going back and forth between concrete and abstract to develop an overall concept from scratch, we can create a balanced view of the big picture.**

It is also important to share this vision with on-site employees. There is no doubt that a group of people who are forced to walk without knowing where they are heading and a group of people who each recognise their destination and walk with purpose, will have different strides and completely different views.

### About the author



**Kohki Sakata**  
Chief Executive Officer

**Kohki Sakata** is CEO of IGPI Singapore. After joining Cap Gemini and Coca Cola, Kohki joined Revamp Corporation, where he managed projects on global expansion and turnaround in various sectors, including F&B, healthcare, retail, IT, etc. After joining IGPI, Kohki has managed projects mainly on global expansion and cross border M&A in various sectors such as logistics, IT, telecom, retail, etc. In addition to his broad experience in implementing solutions that have been developed in Western countries, he has developed multiple methods to turnaround Asian companies with a focus on setting a clear vision and employee empowerment. He has proven the practicality of these methods by turning around Asian companies not only as an advisor but also as senior management. He graduated from Waseda University Department of Political Science and Economics and IE Business School.



## About IGPI

Industrial Growth Platform Inc. (IGPI) is a premium Japanese management consulting and M&A advisory firm headquartered in Tokyo with offices in Singapore, Hanoi, Shanghai and Melbourne. IGPI has 14 institutional investors, including prominent Japanese mega-corporations such as Nomura Holdings, SMBC, KDDI, Recruit and Sumitomo Corporation to name a few. <http://igpi.co.jp/>

IGPI has vast experience of supporting Fortune 500s, Govt. agencies, universities, SMEs and startups across Asia and beyond for their strategic business needs such as market entry and growth strategies, various aspects of M&A, innovation advisory, new business creation etc. IGPI is consciously an industry agnostic firm (work in 10+ industries) and this coupled with it making its own venture investments (30+ till date) adds to its uniqueness. IGPI has a JV with Japan Bank of International Cooperation (JBIC) – one of JV's initiative is a VC fund in Europe (EUR 100mn fund) with participation from Honda, Panasonic and Omron. <https://nordicninja.vc/>

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