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When I think of agility, I often picture great football strikers of the past. For example, Jür- gen Klinsmann brought not only his energy and flexibility on the pitch but also his agility as a trainer. When coaching the German national team, he implemented change against much resistance, thus catapulting the team back onto the global stage. This is the type of agile and innovative leadership needed in today’s organizations, and some companies are at the forefront of this new management style. Daimler, for instance, launched its internal program “Leadership 2020” in January 2016, focusing on eight leadership principles to redefine processes, become more flexible, and remain relevant. Agility is one of the eight principles defined.

As large corporations promote agility as a part of a new corporate culture, small organizations, especially startups, embrace the notion from the beginning – because they have to. ESMT Berlin works together with multinational corporations, with companies from the “Mittelstand,” and with startups, learning from and with them, and supporting leaders from all types of organizations to meet the challenges that come with our accelerated world. We have placed a distinct focus on digitalization – including digital strategy, transformation, and cybersecurity – offering executive development and tracks in our degree programs to enable leaders to understand and manage change, drive agility, and promote innovation, to name but a few areas.

We as a business school must also strive for agility. Within the framework of a larger strategy, we continuously redefine our short-term goals. We are still a relatively young organization, and leaders within ESMT benefit from being allowed to make autonomous decisions and act quickly. As the first part of our mission states: “ESMT develops entrepreneurial leaders who think globally, act responsibly, and respect the individual.” And entrepreneurial leaders must be agile – promoting creative ideas, flexible structures, and cross-organizational functions.

I invite you to turn the page and take a closer look inside this ESMT Update.

Jörg Rocholl
President, ESMT Berlin
Knowledge Architects Wanted
by Tammi L. Coles

The role of specialist knowledge is widely recognized. But as Gianluca Carnabuci, associate professor of organizational behavior at ESMT Berlin sees it, architectural knowledge is what makes organizations agile.

Agility is (L)earned
by Christoph Burger, Bianca Schmitz, Jens Weinmann

Executives must rethink their approach to innovation.

Resilience is a Prerequisite for Agility
by Martin Schallbruch

EU data and security regulation will strengthen digital markets.

“Joiners” are Vital to Innovation
with Dr. Henry Sauermann

Autonomy and risk-affinity characterize entrepreneurial employees.

Can Germany’s Mittelstand Solve China’s Economic Challenge?
by Olaf Plötner

EU data and security regulation will strengthen digital markets.

Global Business Education is the Best Antidote to Economic Nationalism
with Global Network for Advanced Management

“Innovation success is overrated.”
with Xu Li

“Innovation success is overrated.”
with Xu Li
Agility is (L)earned

Executives must rethink their approach to innovations.

Agile leadership is the corporate answer to creative destruction. Joseph Schumpeter coined this catchphrase to characterize market-based economies more than 100 years ago, but the acceleration of today’s product cycles and social practices, in particular in the field of communication, neatly confirms Schumpeter’s observation. Both in terms of creation and of destruction, executives seem exposed to increasing uncertainty about the future. How can they engrain a culture of “fail fast, learn fast” in their companies? How can they develop sustainable business models? How can they create an attractive workplace for the generation of millennials and digital natives, as well as for an aging workforce overburdened with the challenge of life-long learning?

In this dynamic market environment, innovation shifts into the spotlight of corporate strategy. The creation of “Chief Innovation Officers” in many companies may be interpreted as an attempt to formalize this change in mindset on an organizational level. Appointing a visionary and charismatic leader to that position is certainly helpful, but does not (immediately) change the corporate DNA. Rather, a cultural shift has to trickle down from top management to everyone in the company.

We want to share three observations, based on our own experiences frequently teaching in large and medium-sized firms as well as from interviews with executives that we conducted over the last three years.

Embracing new forms of innovation

First, the size of investments that top management allocates for innovation is of course a major determinant of the capabilities of survival of a firm. With no investments in innovation, legacy markets may be served for a couple of years to come, but blue oceans (uncontested market spaces) will be left untapped. However, driven by digitalization and globalization, not only does the “how much?” count but also the “how?”

Fortunately, corporate decision-makers can draw today on an entire toolbox of methods and practices to enhance innovation within their firms. With open innovation and crowdsourcing, the boundaries and silos of conventional, internal R&D units can be perforated. For example, a scientist in a research lab in Nairobi may work on a type of concrete that a construction company in Switzerland needs for reinforcing its bridges. Similarly, corporate accelerators and incubators may breed internal ideas or draw inspiration from outside sources. Startups that have neither failed nor survived on their own, for example, are sometimes integrated into larger firms, with their ideas being absorbed by the corporate innovation funnel.

In our experience, while multinational companies have understood the necessity for change, their efforts often evaporate in an “Innovation Theater,” as serial entrepreneur Steve Blank calls it – a marketing effort without lasting consequences for their current and future business lines. Many German “hidden champions” have realized that they can (and have to) complement their traditional revenue streams by offering service

Appointing a visionary and charismatic leader is helpful, but does not (immediately) change the corporate DNA.
solutions related to their products. They have established innovation labs in places like Berlin, where they can attract a different crowd of employees and join a larger startup ecosystem. Some of them have launched incubators composed by representatives from the “old world,” internal innovators, and external specialists bringing in a different mindset and experiences.

By contrast, smaller companies venture more slowly into the global, digital innovation space. They could greatly benefit from expanding into new types of innovation, for example, via the thriving market of specialized providers of innovation services. It does not stretch a company’s budget excessively to become part of a consortium that sponsors an accelerator, or to employ trend scouts in key world markets who can report back to headquarters what they observe, or to organize a hackathon, say, with the objective of developing an app for its products or services.

Customer-centricity: from “push” to “pull”

Our second observation is that even fairly traditional industries move from “technology push” to “market pull,” as one representative of a large chemical company described it to us. In his industry’s old world, a “technology push” consisted of a new, superior product that typically became the basis of a new market. According to him, existing technologies and chemicals can now cover almost everything that is needed. Instead of chemicals, future revenues will be generated by chemistry – a fundamentally different business model than just selling tons of substances. Understanding the market implies coming closer to clients; hence his company’s trend scouts actively search for new ideas on all continents.

The move from “push” to “pull” no longer stops at the doorstep of an executive’s office. Methods such as Design Thinking are used to train managers across hierarchies in a more customer-centric view. For example, how can a 50-year-old sales director of an insurance company know the mentality of a millennial, and why might representatives of Generation Y be uninterested in taking out insurance? An inconvenient but efficient way to explore this puzzle is to leave desk and office behind to speak directly with millennials. In our experience, middle managers especially struggle when we ask them to leave their comfort zone and enter the “learning zone” by walking in the streets and interviewing.
people they would never have contact with in their private or professional lives. But those who are most skeptical and hesitant at the beginning of the exercise often return with plenty of stories and empathy for the interviewees they encountered.

The customers may not always be found in the streets – they can also be internal staff. For example, if a company suffers from too high employee turnover, a long questionnaire may provide statistical evidence but will hardly generate “customer journeys,” that is, real enquiries into an individual’s narrative of how the working environment is perceived and could potentially be improved. To generate in-depth knowledge about a person’s motivations, Design Thinking serves as a toolkit for these qualitative insights and provides instruments such as “shadowing,” where an employee is accompanied by an observer over a certain time period. Emotionally engaging with the “customer” is a prerequisite for innovation.

**Networks of like-minded agents of change**

Third, in our experience the most difficult part of innovation is its implementation in daily corporate practices. After a crash course in Design Thinking, fully enthusiastic executives return to their offices and are quite often confronted with ignorance, organizational inertia, and arrogance vis-à-vis the newly acquired skills. Under these adverse circumstances, it greatly helps to establish a network among equal-minded innovators. As John Kotter claims in his book XLR8 (Accelerate), formal hierarchies can be circumvented by creating a parallel organization within the firm, a structure which he calls a “dual operating system.” For example, virtual exchange platforms and real meetups can be established to discuss organizational and mental barriers that are encountered during the change process. Alliances can be established beyond silos, and coalitions can be formed.

In hierarchical organizations, it definitely helps to obtain high-level approval and support for these initiatives. One of the most prominent examples of German multinationals with an innovative DNA is software giant SAP. One of the company’s five founders, Hasso Plattner, not only promotes the Design Thinking methodology within the organization, he also launched the Hasso Plattner Institute to provide a platform for teaching, practice, and research, similar to the famous d.school at Stanford University and its spin-offs.

Especially in traditional manufacturing industries, we have observed that innovations have a high likelihood to cross the “chasm of death” between pilot stage and successful commercialization if they are very early anchored in an existing business unit. That type of ownership stimulates identification and commitment, and the innovation evolves in close coordination with those who will later use it.

Our last finding deserves a word of caution: We recommend an incremental implementation of new innovation practices within organizations, in particular via a dual operating system. Unless markets have turned a company’s business model entirely upside down, the willingness to change is likely to remain limited among the bulk of employees. Implementing a full-fledged Design Thinking process to enhance customer-centricity or imposing a Scrum process on an entire business unit outside the IT sector is doomed to fail under most circumstances.

But no one can prevent you – as an agent of change – from personally cherry-picking some features of these methods and testing them with your team. The nucleus of creative destruction is not your company’s Chief Innovation Officer, it is you!
Today’s fast-paced digitalization and increasingly turbulent global markets mean that the ability of an organization to renew itself, adapt, and succeed is more important than ever. The effectiveness with which a company is able to respond to the increasing variability of markets and technologies is what we commonly understand as agility - its ability to...
Knowledge architects are key

Carnabuci brings it to the point: “Because architectural knowledge is often hard to gauge, management approaches that promote architectural knowledge are systematically overlooked because they appear inefficient and poorly motivated. But if managers continue to reward, train and recruit specialist knowledge alone, they sacrifice organizational agility.”

As Brusoni and Prencipe note in their research, Pirelli succeeded with MIRS by recognizing, valuing, and furthering the cross-domain connections of knowledge architects. Yes, the company recruited those with specialized skills, such as tire designers and software engineers. But the introduction of robotics demanded an integrated approach, say the researchers, so that such specialists could contribute their knowledge to the development of whole other areas of organizational competence. Such radical innovation would have been otherwise impossible.

Knowledge architects are important because they can help the organization adapt and swiftly reconfigure internal processes and resources to meet new challenges. Companies aiming to become agile should acknowledge, reward, and facilitate the role of knowledge architects as lubricants of the organization. “This may require rethinking existing human resource strategies,” says Carnabuci, “but it is vital for businesses aiming to thrive in environments that demand constant change.”

Where specialization fails

Organizations are complex systems that need all parts to work well together. According to Prof. Carnabuci, for this to happen, they need to develop two kinds of organizational knowledge. The first – specialist knowledge – pertains to the organization’s distinctive competence areas, such as logistics, marketing, or production. The second – architectural knowledge – pertains to the interdependencies that exist across those areas.

“Most organizations recognize the value of specialist knowledge and are well equipped to develop it,” says Carnabuci. “For example, HR departments are often charged with recruiting and training personnel to fulfill competence gaps within a company’s competence areas. This is a widely accepted strategy, yet there is a problem – it is architectural knowledge rather than specialist knowledge that makes an organization agile.”

If building agile organizations necessitates architectural knowledge, why do many organizations fail to develop architectural knowledge? There are three related reasons, explains Carnabuci.

• First, architectural knowledge is mainly tacit, hence hard to detect. It resides in the minds of those who have it but it is difficult to see by (or communicate to) those who do not.

• Second, the value of architectural knowledge tends to become visible only when it is too late, that is, when changing the organization’s resource configuration generates cascades of unanticipated, cross-competence problems because no one really understood their deep interdependencies.

• Third, HR systems and managerial attention are still largely geared towards appreciating specialist knowledge.

Back in 2006, researchers Stefano Brusoni and Andrea Prencipe wrote a case study for Organization Science called “Making Design Rules: A Multidomain Perspective.” In focus was the Italian multinational tire manufacturer Pirelli, who in the late 1990s introduced MIRS, the Modular Integrated Robotized System. At the time of that introduction, the tire industry was struggling with the dramatic potential of robotics in product development and manufacturing processes. Pirelli was in an especially difficult position, noted the researchers – caught between the high expectations of carmakers that required customized tires and its own low innovation trend. If Pirelli wanted to continue to meet the needs of customers in the medium to high-end market segments, however, innovation would be required.

After Pirelli’s bid to acquire a major competitor failed, MIRS was the company’s last hope to defend its reputation as a market supplier for high-quality tires. For Prof. Gianluca Carnabuci, associate professor of organization behavior at ESMT Berlin, the MIRS strategic choice illustrates how radical innovation paired with architectural knowledge can navigate a company through organizational change.

“Organizational agility tends to get slower as companies mature,” says Carnabuci. “This is not a phenomenon of just traditional manufacturing companies – all organizations, without exceptions, tend to such inertia. What top management is challenged to do, then, is to design organizational processes and human resource (HR) systems that can make an organization sustainably agile. Knowledge architects are wanted and needed.”

Tammi L. Coles
Digital Editor, ESMT Berlin

Insight
On the basis of the Digital Single Market Strategy adopted in 2015, Europe has taken a number of measures to enhance the digital single market, facilitate the supply of and access to digital services, and remove market barriers. This includes various regulatory measures, of which regulation on data protection and cybersecurity is of particular importance. Since 2013, the protection of digital markets from manipulation and spying has become a key political issue. Edward Snowden’s disclosures of the activities of the NSA, alleged cases of Chinese economic espionage, and the numerous data leaks in the electoral sphere, presumably by Russian actors, have considerably intensified the discussion. In recent years, many foreign companies from South America, Asia, and the Arab regions reacted to these revelations by moving their virtual services to Europe – a trend we can expect to accelerate. It is precisely because IT security and data protection are increasingly vital to today’s business models that EU regulations will have a positive impact on European digital innovation and competitiveness.


The GDPR replaces the previously nationally regulated data protection laws with new rules that apply throughout Europe. When the Regulation enters into force in May 2018, all companies that do business in the European single market are subject to uniform data protection standards. The market location principle provided for in the Regulation ensures that non-European service providers – especially global platforms such as Google, Apple, Facebook, and Amazon – must also comply with European law.

Data protection compliance

Many of the new rules are based on the well-known (and high) German standard. Of most significance, the GDPR tightens compliance pressure. Companies need to do much more...
to ensure and prove that the data protection rules are observed. The reporting obligation for data protection violations has been made considerably harder. Both the supervisory authority and, in serious cases, affected persons must be informed promptly if data breaches, hacker attacks, or malpractice have resulted in data protection violations. The rights of data protection officers are strengthened. Above all, however, sensitive fines are introduced. Up to 4% of the company’s global annual turnover must be paid in the event of a serious breach of the data protection law.

The GDPR also recognizes and strengthens the importance of technology for compliance with data protection. The requirements for the security of the systems used for the processing of personal data are increased, “privacy by design” is prescribed, and follow-up assessments must be carried out and submitted in certain cases.

**Infrastructure protection**

The NIS Directive follows a similar regulatory strategy. It was originally drafted primarily to protect critical infrastructure from digital attacks. Operators of such infrastructures – from energy supply to hospitals, from food wholesalers to banks and insurance companies – must meet considerable technical requirements. Here, too, there is a duty to report security incidents to the authorities, including the imposition of fines for insufficient security measures.

In addition to critical infrastructures, European legislators have also decided to regulate certain particularly important digital services. This addresses the “critical infrastructure of the digital space”: online search engines such as Google, online marketplaces such as eBay or Amazon, and the cloud services that all the major platforms offer. These services must also adopt technical measures that are “state of the art,” report incidents and, if in doubt, expect high fines. Unlike the GDPR, the NIS Directive is not directly applicable, but must be transposed into national law by the Member States by May 2018. Because of its forthcoming Bundestag elections, Germany was the first country to do so. Its IT security law, adopted in 2015, had already been changed to meet the requirements of European law, so that companies operating in Germany will fall under the tightened law as early as the summer of 2017.

**Averting disaster, welcoming opportunity**

Issues of data protection and IT security are often central issues for infrastructure digitalization and for digital business models. This applies, for example, to the digitalization of payment transactions and the handling of customer data therein.

Take, for example, the digitalization of energy supply. At the core of planning for a more decentralized and flexible energy supply with a much higher share of renewable energies is the installation of digital meters (“smart meters”) in private households. Whether these devices could be hacked and who has rights to access their generated data are issues that play a significant role in the social and regulatory debate.

A comparable situation has emerged with the digitalization of the health care sector, in which a multitude of highly sensitive data is generated and collected. How this can positively contribute to the delivery of health care services is undeniable. Yet the possibility of externally manipulated medical devices – from pacemakers to insulin pumps – is nevertheless a terrifying scenario. Unsurprisingly, eHealth initiatives and health care startups are facing particularly stringent security requirements under European legislators.

Much has been said about the value of Big Data and the major innovations made possible by digital networks. And Europe is undoubtedly the market leader for secure and trustworthy digital services. Yet uniform data protection and IT security rules will ensure that network operators become even more resilient. Despite higher compliance requirements and related implementation costs for companies, the new rules open up opportunities for the single market. An overall significantly increased level of security and data protection strengthens Europe’s importance as a digital market in the competition of global markets.

**Martin Schallbruch**
Deputy Director and Senior Researcher of Cyber Innovation and Cyber Regulation, Digital Society Institute (DSI), ESMT Berlin

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11
“Joiners” Are Vital to Innovation

A discussion with Henry Sauermann

The POK Pühringer PS Chair in Entrepreneurship has been filled by Henry Sauermann, who joined ESMT Berlin as associate professor of strategy in May. Prior to coming to Berlin, Dr. Sauermann was an associate professor of strategy and innovation at the Scheller College of Business at the Georgia Institute of Technology (USA) and he is currently a research associate at the US National Bureau of Economic Research (NBER).

Joiner types care much more about factors such as autonomy than employees in established firms.

His research in innovation and entrepreneurship has been published in a wide range of academic journals including *Management Science*, *Organization Science*, *Research Policy*, *Proceedings of the National Academy of Sciences*, and *Science*.

We spoke with Dr. Sauermann about his research on “joiners,” and why they are important members of every entrepreneurial effort.

Tell us more about “joiners” and what makes them special.

Joiners are individuals who work in entrepreneurial startups but who did not found these firms – they “joined” founders in new ventures. Especially in technology based startups, joiners often provide essential capabilities, be it in technology, marketing, finance, or other critical functions. But many founders face challenges in building their startup teams – after all, it is important to not just find people who can do certain types of jobs, but employees who are a good fit with the startup environment.

In work with my colleague Mike Roach at Cornell, I have studied a large cohort of science and engineering PhD students to understand their career goals and job market transitions. One question was how exactly “joiner types” – individuals who prefer to work in startups – differ from individuals who want to be founders or employees in established firms. Among others, we find that joiner types care much more about factors such as autonomy than employees in established firms, and they are more willing to bear the risk that comes with working for a young and small firm. But joiners also differ from founders – among others, they are less interested in management.

Similar differences emerge in related work I have done using a large sample of scientists and engineers working in US firms. Most notably, employees working in startups are less concerned about job security than those working in established firms (even though job security is lower in startups!).

How will joiners change the startup scene (in Berlin and elsewhere) and affect older, more established firms?

Joiners have always been around, and many startups would not be able to function without them. However, the public discussion has failed to recognize that joiners differ from other types of employees, and we don’t really know yet what roles they play in startups. One question we are currently studying is...
what benefits startups get from hiring “joiner types,” that is, individuals who have a strong preference for working in a startup rather than in other types of firms. We conjecture that joiner types may be willing to join startups for less compensation than other individuals, and that they are also less likely to quit and search for jobs in established firms.

Another important question is whether joiner types are more productive than others. In forthcoming work using data from the US, I find that scientists and engineers working in startups are more innovative than those in established firms, and some of this advantage is explained by their greater willingness to take risks.

But research on joiners also matters for large corporations. Most obviously, it is important for established firms to understand how startups “tick” since startups are often the competitors who disrupt existing business models or introduce radical innovations into the market. At the same time, many established firms benefit from working with startups as collaborators, and these partnerships can be more effective if both sides understand differences in culture and in employees’ motives. Perhaps most interestingly, our study of science and engineering PhDs shows that a large share of “joiner types” – individuals who would prefer to work in startups – end up working for large firms. While we are still in the process of understanding why, it may well be that these joiner types are a critical resource that large firms can tap into when trying to become more innovative and to foster “corporate entrepreneurship.”

What about your recent work on crowd science and innovation contests?

I am fascinated by the question of how organizations – whether startups, established firms, or universities – can become more innovative. One approach is to draw on human capital from outside the organization’s boundaries, such as the larger “crowd” of people. Reaching out to the crowd can yield valuable inputs such as ideas and knowledge but also effort. Some professional scientists try to use help from the crowd to make scientific research more efficient. Using data from a large platform of such “crowd science” projects, we find that the crowd contributes hundreds of thousands of hours of work, and many projects would not have been feasible without the help of the crowd.

However, there are also distinct challenges: Many individuals contribute only for a few minutes and do not return, and crowd science projects can easily run out of help if they fail to constantly attract new participants through word of mouth or media attention.

Joiners are a critical resource that large firms can tap into when trying to become more innovative.

As such, “free help” from the crowd sounds exciting, but organizers need to be aware of the significant work that is required to manage such projects and need to be smart about recruiting and retaining participants.

In a new project in the context of medicine, my collaborators and I study how organizers can push the boundaries even further. Most existing crowd science projects use the crowd to collect data, process information, or solve problems that have already been defined by the organizers. Our new research asks: How can the crowd help identify what problems we should be tackling in the first place?
Success is not gender neutral.

There are many studies that show that when working women are seen to be ambitious they suffer a backlash. My own research with Margaret Mayo of IE Business School and Natalia Karelaia of INSEAD confirmed that in addition to confidence, women must show that they care about others if they want to succeed. When women display these pro-social behaviors, they are liked again and offered opportunities to progress. Men, on the other hand, are getting a different message: “Don’t worry about being pro-social. If you perform, you will get ahead anyway.”

If we want to create diverse organizations, we have to make an explicit decision as to whether being social should be a job requirement, and punish or reward men and women equally accordingly.

Laura Guillén
Assistant Professor of Organizational Behavior, ESMT Berlin
Innovation, Technology, and Growth

ESMT Open Lecture with Christine Lagarde, Managing Director, International Monetary Fund
Tuesday, April 11, 2017
I agree that the technological transformations that we’re seeing at the moment pose a real challenge, especially for those that were accustomed to the old way of doing things. But as economists we also see the opportunity to grow global income in a way that allows everyone to benefit, securing a more peaceful future for the next generation.
Can Germany’s Mittelstand Solve China’s Economic Challenge?

Germany’s manufacturing model poses a sustainable alternative to Chinese foreign direct investment strategies in the US and Europe.

The ballpoint pen. While a seemingly unremarkable product, its manufacture was being hailed as a “breakthrough,” because it is everything but unremarkable for the Chinese marketplace. One of China’s premier manufacturers of steel had finally succeeded – after five long years – to domestically produce the kind of high-grade steel that it has been importing for ballpoint pens from Germany, Switzerland, and Japan.

In China, that steel has been a 120-million-yuan annual blow to the nation’s sense of self. How can the quality and innovation of something as simple as a ballpoint pen have evaded Chinese manufacturing for so long? And what does that say about the future of Chinese investment in businesses at home and abroad?

“Go out” policy gone wild

Much has been said in the last year about China’s fall from double-digit growth to its current single-digit slump. The popular media picture is misleading, however. For while China’s gross domestic product (GDP) growth is now at 6.7%, the nation’s economy remains among the world’s strongest — in absolute figures, Chinese GDP growth is twice as big as the GDP of a country like Austria.

There is no denying that this decrease in growth reflects an economic revolution, however. Having committed decades to attracting Western manufacturers to the country’s low-cost producers, China has had to abandon “cheap” for “better.” Labor costs (especially in manufacturing) have tripled in the last 10 years, driving business interest to cheaper producers in Vietnam and India. Production costs have also increased — due in part to increasing public dissatisfaction with low air quality and manufacturing’s subsequent real costs under better environmental governance.

That is to say that, yes, China’s key competitive advantage — cheap costs — have been fading away for a number of years. The Chinese government and many companies are therefore pursuing a new course. The strongest evidence of this — the country’s switch to quality and innovation in manufacturing — is the Communist Party of China’s latest Five-Year Plan (the thirteenth), in which the slogan “Made in China 2025” takes center stage.

Troubling, however, is how China has entered the quality and innovation marketplace. While not the only strategy, heavy foreign direct investment (FDI) in the US and Europe has become a key element.

Chinese investment in Germany alone has been notable. In 2012, the Weichai Power unit of Shandong Heavy Industry Group invested a whopping €738 million to take a controlling stake in Kion, Germany’s premier manufacturer of forklifts. That was the biggest foreign investment deal in Germany until just last year, when another Chinese manufacturer — appliance maker Midea — paid a record €1.2 billion for a controlling stake in Kuka, a German robotics company. According to a study by the Mercator Institute for China Studies and the Rhodium Group, in 2016 Germany alone drew in €11 billion of the €180 billion that China invested abroad — more than any other single country.

While the “go out” policy has flipped the table, such that China makes more FDI than it takes, it remains to be seen whether buying quality and innovation abroad can yield the same results for Chinese manufacturing as creating it directly.

Made in China via Germany?

Perhaps that is why the story of Taiyuan Iron and Steel’s ballpoint pen success has resonated so strongly with the Chinese public. Indeed, if “Made in China 2025” will be suc-
To be successful, it may have to take the “Made in Germany” approach – a national commitment to the “Mittelstand” (German; small and medium manufacturing enterprises) that has driven quality, innovation, and economic growth for generations.

As a professor at ESMT Berlin, I have witnessed an influx of Chinese executives who are interested in learning the characteristics and strategies that have made the German Mittelstand so successful. These include certain traits that seem wholly contradictory to the “go out” mandate. These often family-owned and unrenowned Mittelstand companies prioritize quality over all else. They typically forego big mergers and acquisitions to instead invest heavily in research and development. They do not focus on short-term financial wins, but instead enjoy a leadership culture that wins employee loyalty. Indeed, many employees remain with Mittelstand companies for decades and are as committed to quality outcomes as their employers. The result is that Germany’s Mittelstand brands – the so called “hidden champions” – are worldwide leaders in their market segments.

Chinese students at ESMT come to learn that what Germany counts on is that such a quality- and loyalty-driven manufacturing strategy serves as the ever-burning engine of true economic sustainability.

Will the FDI strategy of buying quality and innovation be too high a cost for China, especially given public pushback? Foreign political resistance to Chinese FDI may be less threatening in the long-run than the implication of a heavy FDI strategy itself – namely, the idea that quality and innovation can be merely gobbled up abroad.

The alternative insights to be derived from the German Mittelstand are there. China’s leadership may be challenged to reconsider the impact of its FDI strategy and to embrace a model where domestic champions – Taiyuan Iron and Steel, among others – are called to move the economy forward. China’s push for quality and innovation may find real and sustainable value therein.
To me, Berlin’s major asset is its ecosystem of founders, entrepreneurs, startups and investors.

www.berlin-sciences.com
 conversions

Industry insiders make much of innovation. A word of caution is nevertheless warranted. Working with Freek Vermeulen, an associate professor at the London Business School, I investigated the impact of drug innovation on the profitability of firms in the Chinese pharmaceutical industry over a period of 10 years. What we found is that, on average, non-innovators actually significantly outperformed innovators.

The observation bias – our desire to assign success to all innovators because of the successes of some – runs counter to what we teach of business strategy. The bottom line: Not all strategies are right for all outcomes. Not in all industries and not at all times.

Xu Li
Assistant Professor of Strategy, ESMT Berlin
Now what? More frictions and daunting challenges from rising nationalism and populism, but still a global economy with huge opportunities. The Global Network for Advanced Management leverages the expertise from 29 business schools in 26 countries to navigate the new global economy. Connect with us at globalnetwork.io.
Global business education is the best antidote to economic nationalism

ESMT Berlin, as a member of the Global Network for Advanced Management, has joined 28 other international business schools in the release of a statement advocating international exchange and protesting economic nationalism.

Other participating business schools include Yale School of Management (USA), Haas School of Business, University of California Berkeley (USA), and Said Business School, University of Oxford (United Kingdom).

The Global Network for Advanced Management, a network of 29 leading international business schools dedicated to driving innovation and creating value through exchange and engagement, will celebrate its fifth anniversary in April. Today, the principles on which the network was founded are more important than ever.

The world is currently experiencing an upsurge in populism, economic nationalism, and anti-globalization rhetoric. Despite such sentiment, we recognize that the global economy is more interconnected than ever before. Business operations are increasingly global, with ideas, products, capital, and teams moving across borders. At the same time, big challenges – from climate change to financial stability and the fight against debilitating diseases – are global in nature and cannot be addressed without the private sector. Business cannot deliver for all its stakeholders if borders are closed or certain groups are prevented from crossing them because of their country of origin or religious beliefs. Ongoing global engagement and exchange are paramount.

Today, Global Network member schools join in a commitment to:
• understand the manifest challenges that market economies face given the changes in political sentiment;
• deliver on our responsibility to develop principled leaders who create value and access to opportunities;
• support the rights of our students, faculty, alumni, and knowledge partners to freely engage in our programs and work; and
• advocate for the positive impacts that global exchange, in education and in business, have on society.

The power of the Global Network lies in its ability to harness diverse insights to address important global issues. The Global Network connects students, faculty, and alumni from around the world, allowing them to increase their effectiveness by understanding differences and commonalities in their economies and societies.

In its brief history, more than 5,000 master-level students and faculty have participated in Global Network courses, exchanges, and cross-school virtual team projects. The network has conducted global inquiries into major issues including sustainability and the obstacles facing women in management roles.

Faculty have collaborated on international entrepreneurship, urban resilience, and social enterprise. Member schools have co-authored case studies on palm oil in Indonesia, banking in Ireland, manufacturing in China, agriculture in Mexico, and impact consulting in Ghana. We do this because of our unwavering commitment to developing leaders who can work successfully across boundaries, who are prepared to address pressing global issues, and who can perform at the highest levels in diverse and complex contexts.

As deans of Global Network member schools, we recognize that the fundamental drivers of global business are not changing. Technology will continue to advance and disrupt markets and societies, and the transfer of innovations and expertise across borders will continue. We believe that countries that retrench will harm themselves and their citizens. Therefore, we redouble our commitment to collaborative learning across countries and cultures, and to gain and leverage the insights of the best and brightest throughout the world. In this way, we continue to improve educational outcomes and professional development of our students, deliver innovations that benefit business and society, and contribute to a better world.

February 7, 2017
Russia in Europe: Yesterday, Today, Tomorrow

ESMT Open Lecture with Mikhail Khodorkovsky, Founder, Open Russia
Monday, March 20, 2017
We are the people who are convinced that Russia is Europe, even if it might be another Europe. Russian culture is a part of European culture; Russian history is an integral part of European history. Russia has no other way to go than together with the rest of Europe.
Inside ESMT Berlin

School, faculty, and research announcements of note

ESMT is now among the global Top 10
ESMT Berlin placed 8th globally in the 2017 Financial Times Executive Education combined ranking of open enrollment and customized programs (2016: 12th). ESMT has been the highest ranked business school in Germany since entering the rankings in 2010.

Annual figures demonstrate positive growth
ESMT’s annual figures for 2016 document the continued successful development of the international business school. Earnings in 2016 increased to €29.3 million. A total of 361 students were enrolled in degree programs throughout 2016, and 3,114 participants took part in executive education programs. ESMT has recorded a positive net income for seven consecutive years.

Scholarships available for women in IT leadership
To address the underrepresentation of women in IT leadership, ESMT is offering two partial scholarships for the business school’s IT Leadership Program (ITL), each valued at EUR 4,450. One of the scholarships is provided in cooperation with the 30% Club, a worldwide initiative for gender equality aiming to increase the number of women in management positions.

ESMT welcomes digitalization with bitcoin and VR
ESMT remains committed to integrating digitalization initiatives throughout the school system. Evidencing this commitment, in December ESMT became the first German university to accept bitcoin as a payment method. The school also launched a new Virtual Reality (VR) program to offer prospective students virtual lectures and 360-degree videos of the Berlin campus.
AACSB re-accredits ESMT Berlin
The international accrediting body for business schools AACSB (Association to Advance Collegiate Schools of Business) has extended ESMT’s accreditation for five years, recognizing ESMT contributions to the interests of global management education. Only nine schools in Germany have ever been awarded AACSB accreditation.

ECGI appoints President Rocholl as member
The European Corporate Governance Institute (ECGI), an international non-profit association focusing on corporate governance, has appointed ESMT Berlin President Jörg Rocholl as a research member. The ECGI works to reinforce corporate governance by creating an interdisciplinary network of experts and by presenting the latest research.

Linus Dahlander ranks among Best 40 Under 40 Professors
In March, the graduate business education online journal Poets&Quants named Linus Dahlander, associate professor of strategy at ESMT Berlin, to its 2017 Best 40 Under 40 Professors list. The journal acknowledged, among others, Dahlander’s contribution to distributed innovation as a new field of academic inquiry and his award-winning scholarly work on the future of open innovation.

Henry Sauermann joins ESMT
The POK Pühringer PS Chair in Entrepreneurship has been filled by Henry Sauermann, who joined ESMT Berlin as associate professor of strategy in May. Prior to coming to Berlin, Dr. Sauermann was an associate professor of strategy and innovation at the Scheller College of Business at the Georgia Institute of Technology (USA) and he is currently a Research Associate at the US National Bureau of Economic Research (NBER). His research in innovation and entrepreneurship has been published in a wide range of academic journals including Management Science, Organization Science, Research Policy, Proceedings of the National Academy of Sciences, and Science.

Reading Room
Selected reading from published ESMT research

Adverse incentives in crowdfunding
Thomas Hildebrand, Manju Puri, Jörg Rocholl
Management Science 63(3): 587–608

Bitstream Fault Injections (BiFI) – Automated fault attacks against SRAM-based FPGAs
Pawel Swierczynski, Georg Becker, Amir Moradi, Christof Paar

How do brokers broker?
Tertius gaudens, tertius iungens, and the temporality of structural holes
Eric Quintane, Gianluca Carnabuci
Organization Science 27(6): 1343–1360

Evaluating novelty: The role of panels in the selection of R&D projects
Paola Criscuolo, Linus Dahlander, Thorsten Grohsjean, Ammon Salter
Academy of Management Journal 60(2): 433–460

LeChatelier-Samuelson principle in games and pass-through of shocks
Alexei Alexandrov, Özlem Bedre-Defolie
Journal of Economic Theory 168(March): 44–54

Replication data collection highlights value in diversity of replication attempts
K. Andrew DeSoto, Martin Schweinsberg
Scientific Data 4(170028)

Information security of highly critical wireless networks
Maurizio Martellini, Stanislav Abaimov, Sandro Gaycken, Clay Wilson
Cham: Springer International Publishing

Sustainability lessons from the front lines
CB Bhattacharya, Paul Polman
Sloan Management Review 58(2): 71–78
Franziska Neugebauer started her full-time position as junior alumni relations manager in April. Here, she speaks with alumna Melissa Hara, who shares her story of the journey that carried her from a career in Brazil, to school and career in Germany, and back again.

Tell us about yourself and your role at Bayer.

My name is Melissa Hara. I am Brazilian, but I have lived almost 14 years outside of the country. Before moving to Berlin to study at ESMT, I lived for six years in Mexico. I am married to a very nice Mexican gentleman that I met during the time that I was living there, and he was very courageous to move with me here to Berlin. We have been here for six years now, with a dog that is precious to our hearts.

I started at Schering in Brazil. When Bayer AG bought Schering I continued in the company, working now in the corporate strategy department in the headquarters in Leverkusen as a senior strategist. Currently, I am working 100% in the Monsanto Integration Planning Project. As you may know, Bayer has confirmed the offer to buy Monsanto for $66 billion, which would be the largest acquisition ever undertaken by a German company. It is quite a challenge to take on a very large American company, so I am working as the
PMO (Project Management Office) lead for two parts of that: one part is culture and change management, the other part is communication and public and government affairs. Soon, however, I will change roles again. I am moving to Brazil, where I will become the PMO lead for the local integration of Monsanto. It is the second largest country for Monsanto, with almost $2 billion in sales and 2,400 employees. This integration will double the size of Bayer in Brazil.

I will return to Berlin soon, however – even here for the alumni meeting – because another initiative is also in the works at Bayer. The company is implementing an innovation agenda, and one of the activities is to create an informal innovation network of innovation coaches and innovation ambassadors – a grassroots community that is spread throughout the whole company. I am an innovation ambassador for the strategy group, and our global ambassador innovation meeting will be held in Berlin in late June.

What drew you to the Executive MBA program at ESMT Berlin? How did it later affect your work at Bayer?

In the past, Bayer had a program that recruited, tracked, and trained people who have worked and were working in emerging markets, placing them in the headquarters in Berlin. Because Schering was one of ESMT Berlin’s founding companies, it was a natural fit for Bayer to choose ESMT as a partner for the program. I was among the first employees selected to participate in 2010, the year it started. Each following year, they selected an additional two people to go through the program. I moved from Mexico, where I was working at that time, to Berlin to do the program for the Executive MBA while also working in headquarters.

My background is marketing. In the job I was doing in Berlin, I had to do a lot of commercial valuation of potential in-license products, work that was mostly based on business cases. Before studying at ESMT, I had no idea how to run an NPV [net present value] model. ESMT courses helped me to understand what I was seeing in these humongous Excel sheets. Before, I was always more on the qualitative side – I knew why it had to be a certain percentage and knew what numbers were there. But I did not understand the mechanism of the model. After doing the finance model and learning how finance calculations worked, I could really understand the numbers and then talk at eye level with the financial staff and the controllers.

How does this year’s Annual Forum topic, agility, play a role in your everyday work?

Sometimes, our buzzwords mean different things. For example, the terms “agile organization” or “agile project management” will mean something different to our IT community than to the rest of the organization. Yet Bayer has corporate values that are the basis of the organization and that all of the employees know and share. The acronym for it is LIFE, which stands for leadership, integrity, flexibility, and efficiency. We consider flexibility to be part of being an innovative company.

Within that, we are currently focusing on four behaviors: collaboration, experimentation, customer focus, and trust. With so many different businesses within the company, these are important to an agile organization. We have Pharmaceuticals, we have Crop Science, we have Consumer Health, Animal Health and – because of our history of working as a holding – we still have all the silos. So collaboration is very important. But so is experimentation – we want people to take a lot more risks and to dare a little bit more in the company.

How are you engaging with ESMT as an alumna? How would you advise current students to stay connected to the school?

There are 13 ESMT alumni that work for Bayer around the world. I regularly bring together the company alumni group via video confer-
Leaders of PayPal, Goldman Sachs visit Berlin campus
ESMT Clubs are jointly organized and hosted by current students and alumni. In February, the Entrepreneurship Club hosted Frank Keller, general manager for DACH at PayPal, who provided insights into the company and innovations in the payment market. In June, the Investment Club will host Alexander Dibelius, former global co-chairman of investment banking and German CEO of Goldman Sachs.

A new mandate for Alumni Council
The former Alumni Council represented by Anne Drope, Oliver Hasse, and Philipp Dennis Niederhagen again won the 2017 election. Following a call for nominations, the Council, running as one entity, won by a majority of 54%. The Alumni Council will continue to focus on existing initiatives, most importantly leveraging and connecting the alumni network and acting as a bridge between ESMT Berlin and its growing and increasingly diverse alumni community.

ESMT alumni found new businesses
In March, Philipp Dennis Niederhagen (EMBA 2010–2012) introduced the Frankfurt Chapter to his venture Queens & Bees, describing how technology can connect creative spirits. Queens & Bees is the world’s first ever digital incubator for startups, offering all the benefits of a physical incubator in the digital space. Also in March, Master’s in Management students Ruben Portz and Lisa Makarova (MIM 2015–2017) were selected for the prestigious acceleration program of Startupbootcamp Smart Transportation & Energy for their startup JetEight, a private air travel club. In April, James Barnes (MBA 2016) wrote for the ESMT Berlin Student Blog on the founding of BERLIN slim, a boutique design shop for wallets made from sustainable and animal-free materials.

Staff changes in the alumni relations office
After two years as alumni relations manager, Andrea Oleksyn-Brandes went on parental leave in April. Until her return in June 2018, Franziska Neugebauer, the junior alumni relations manager, will serve in her place and coordinate an eventful year including various alumni chapter meetings and the Alumni Annual Meeting, held right after the Annual Forum.

Upcoming webinars for alumni
The ESMT Alumni Webinar Series covers a range of topics in one-hour afternoon sessions, featuring school faculty on their respective areas of expertise. Participants may submit questions at registration or during the webinar. All sessions are recorded for distribution in the network.

• Sep 14, 2017: Delivering real business value from digital investments with Joe Peppard, Professor.
• Nov 9, 2017: Customer recovery strategies with Benjamin Quaiser, Program Director, Executive Education.
• Mar 29, 2018: New trends in sales force incentivization with Johannes Habel, Associate Professor and Program Director.
These ESMT scholarships have been established to encourage and support outstanding women who have demonstrated excellent management and leadership potential and possess the relevant skill set required in a general management position.

Scholarships are available for the IT Leadership program, the Executive Transition Program, the General Management Seminar and the program Bringing Technology to Market.

Join us in Berlin or Schloss Gracht (near Cologne).