

INNOVATION CONFERENCE NOTES AND TRAVEL OBSERVATIONS

Normally I write up my conference notes, distill them and then circulate them, but my most recent conference was not conducive to a summary. The conference focused on inter-institutional cooperation and tax policy, not on innovation itself. The second half of this report concerns random observations I made while in Germany for two weeks.

Two non-innovation points from the (German-Canadian) conference:

- The Canada-European Comprehensive Economic and Trade Agreement (CETA) negotiations drag on. They are more important than the volume of Canadian-German trade might indicate. The treaty, if signed, could be a model for a US-EU treaty.
- Germany and Canada both are federal systems, with strong, independent provinces. Of course Germany is only one voice in the EU. These facts makes treaty-making more difficult.

Spurred by the title of the conference, while watching power point presentations, I made a list of observations about innovation.

1. An open market and competition need consistency and comparability to function efficiently. Innovation differentiates products from each other and makes comparing them more difficult. Some innovation is real and substantive and some is simply a difference created to make it difficult to compare two products.
2. Innovation leads to commoditization, lower prices and off-shoring. The process is on-going. It applies to legal services as well, and to the thoughtless application of the work of innovators by followers to situations which may or may not be appropriate.
3. Most developed countries can build an automobile. Difficult parts of doing this successfully include passing safety tests and complying with government regulations.
4. An entrepreneurial society requires not only clever, innovative people but also a system of investors, accountants, lawyers and stock markets. It requires a society which tolerates failure and which permits the productive parts of that chain to enjoy the fruits of their labor and of their risk taking. Germany lacks some of these factors. Despite how Americans object to regulations, Germans face many more. Yet the German economy does very well.
5. A society's tolerance for risk affects the atmosphere for innovation. Americans want the freedom to carry guns everywhere and accept the resultant deaths but punish a company that innovates and causes deaths in the process. The French are willing to tolerate experimentation - the collapse of an innovative airport terminal, for instance. <http://news.bbc.co.uk/2/hi/europe/3739715.stm>
6. Not all innovation is welcome or positive. Germans do not like gene manipulated food. The Boeing Dreamliner has been a nightmare. Contergan/Thalidomide's consequences are well known. New Yorkers

do not like fracking (but want cheap energy). Societies are happy to accept old risks they are used to but not to accept new, unknown ones, even though they may be less dangerous than the old ones.

7. Innovation which eliminates jobs or moves them offshore cannot expect government support. "Labor saving" devices are a double-edged proposition, increasing productivity but reducing the capacity of the society to purchase the devices.

8. Forcing all members of an international team to use English can prevent those who do not speak as well as others from participating fully. This stifles innovation.

9. If Germany does not permit any fracking for natural gas, it is less likely to be able to use its engineers and companies to participate in the technical aspects of the process.

10. While innovation is important, ramping up production is a different, very difficult part of the creative process. The MP3 player brought Germany money but no jobs. (I recall a picture of two beavers looking up at the Hoover Dam. One says to the other, "Yes, but it was MY idea.")

11. Ultimately societies are interested in innovation primarily as a source of the jobs they create. While money plays an ever greater role in [US] politics, ultimately it is ballots in the boxes which win elections. If the innovation does not create jobs, for politicians the process has been a failure.

12. Distributors who have a strong relationship with their customers can block implementation of innovation. The end user will not buy what the distributor does not recommend. The distributor has to be given incentives to promote adoption of something new.

13. Innovation means change. Some changes are not worth accommodating. The process requires the user to make a judgment whether the benefits of adapting the innovation justify learning new habits. As the population ages, adoption declines, if only because old people have less time to amortize the costs of adaption. It is difficult to make and break habits.

14. Middle management blocks innovation. It has the most to lose and is most afraid of change and creativity. Never underestimate the willingness of another to take credit for your idea. Getting colleagues to "buy in" is a difficult, essential part of the process.

15. Innovation can apply to every aspect of the production chain, not just product design and production - distribution and financing, for example.

16. In 1975 a big Pittsburgh engineering company drew up plans for a Soviet steel plant. The Soviets rejected the plans because the plant would not employ enough Russians. This seemed funny to us at the time.

17. Go for a walk through a forest. Measure what you see. Count the points on a leaf. Determine the circumference of a tree. The results of measuring are not important but the *process* of measuring requires a closer look and makes one see the forest differently.

18. Get a dog and see / smell the world through its eyes / nose. What interests the dog? What does it sense that you don't? How does the dog manipulate you, teach you?

19. Take a common task and accomplish it without some key element. Live without a refrigerator for a week. (We did this for a month in Passau – not by choice. We also lived without hot water in the kitchen for a year in Frankfurt. Storms in the northeast have caused us to live without lights or heat for a week.)

20. Innovation in legal matters can be dangerous. Writing contracts differently from the tried and true standard or documenting corporate action in a non-traditional way give an opponent the opportunity to misinterpret to a judge/arbitrator what you have done, what you intended. If you do something different, be very careful that it cannot be misconstrued but expect to have it be misconstrued anyway. Trying to achieve consistency within an international organization regardless of local laws and customs can lead to disasters. Note Wal-Mart's anti-office romance policy.

21. Innovation can take the form of reframing an issue, getting people to think about it differently.

22. For decades, German cars were sold in North America without cup holders. One simply does not drink coffee while driving at 150 mph (or even 100). As the Germans finally understood the North American market, they added cup-holders and Germans models got them too. Soon North American cars will get whatever the Chinese want.

23. Yes, listen to the customer, but also try to lead and educate the customer to accept innovative products and services.

24. Innovation means a hotel guest no longer gets to speak to the hotel switchboard to ask for a wake-up call. Or to hear a human voice at 6 am. Ear phones mean you can no longer start a casual conversation with the person next to you.

25. Innovation occurs also in illegal aspects of society, including corruption and bribery. Every new set of regulations is a challenge to innovate and find a way around them.

Some of these ideas came from reading a weekly newsletter from the Harvard Business School. www.hbswk.hbs.edu. It's free.

TRIP NOTES

Since 1966 (before most Germans living today were born) I have been traveling in Germany and trying to spot changes. Here are some recent observations.

Travel -

Despite its 1st rate infrastructure, Germany still has traffic jams. One would think Germans would have solved this problem by now. These jams are very inefficient and waste lots of energy. With all cars connected electronically, various real time warnings could be given and different alternatives (not just one) could be offered.

Some long-haul train routes do not have uninterrupted cell connections.

I took 3 trains from Berlin to my ultimate destination in Schleswig Holstein and they all interconnected beautifully. I also took a train from Dusseldorf to Berlin which crossed the Elba in the twilight. It was memorable.

People complain about Heathrow, but flying on BA, which uses only Terminal 5, is not bad. The processing through security was extremely fast. The BA service was good and the in-flight entertainment was excellent.

The inside of the Munich train station is quite nice. The outside looks like 1960.

For an adventure, ride with a German in his building's parking garage.

Society and Language -

I noted (as usual) the use of Du and Sie in German society. In one instance, the members of the group decided among themselves whether to offer the Du form to a newcomer. In another, a young woman (a former trainee of ours) noted that Sie permitted her to keep unwanted co-workers at arm's length. She wanted to just do her job at work, not make close friends.

Mature, titled women address younger titled women with Du, but the younger women stay with Sie.

Some people (I noticed women) on trains are every bit as loud as Americans. A "sing song" style of speech becomes very apparent on the train.

International firms which use English as their working language create a mish-mash of language capabilities. Some employees speak well but write poorly and others vice-versa. The styles of written English vary widely. (A Harvard study questions whether requiring English use permits adequate participation of less language skilled workers.)

I ran into a German know-it-all, Oberlehrer, for which Germany is famous but whom I had somehow avoided. I thought they were a caricature, but no. Some do exist.

A Kurdish taxi driver in Duesseldorf told me that my German is very good. His sister lives in Tennessee with her (also Kurdish) husband. The sister had worked for the Americans as an interpreter. He said that things are slow in Duesseldorf. He also said Turkish Kurds want war but the Iraqi Kurds do not.

English continues to be used differently outside the US – "flatlining" means staying the same to some people but in the US it means brain dead; "going downhill" means going easily (as on a bike) to some but in the US it means going badly. Body bag, open viewing and handy are well-known examples of different meanings.

Two cultural icons observed involved language – the hand-written, phonetic spelling of German by JFK (ich bin ein Berliner) and Elvis (the lyrics to his hit song Muss I denn).

Django Unchained (the Quentin Tarantino movie) portrays a German as a hero, southern, white Americans as stupid, cowardly, violent and conceited and the German language as beautiful. I do not find any comment about this in Germany on the Internet. Normally Hollywood uses Germans only as the convenient incarnation of evil and German language as a joke. Django was a refreshing change, despite the comic book violence.

Museums and Culture -

The Kolumba Museum in Cologne is remarkable on several levels and should be seen. Also Schleissheim Palace north of Munich. The airport museum/historical site close by is good, with a nice collection of aircraft.

Haus der Geschichte (Museum of History) in Bonn is excellent as is the special exhibit on US influence is worth seeing. I read the explanations and could not find fault. History from the East German perspective is included as is a long clip from the Bruce Springsteen concert in East Berlin, 1988. A US blogger suggested "the Boss" deserves as much credit as President Reagan for the fall of the Wall. After all, Bruce gave his speech (in German) IN East Germany, to 180,000 people plus a TV audience. Here are some links. <http://www.youtube.com/watch?v=7sSe9-Z3pnE>

http://einestages.spiegel.de/static/topicalbumbackground/2374/stars_and_stripes_ueber_ost_berlin.html

A friend who works at a Bonn museum is charged with developing a curriculum to introduce immigrants of all types and ages to art. Not a simple project, but one that could help integrate immigrants.

Law and Business -

US legal fees were a constant complaint. Some of this is the fault of clients. I met many refugees from Anglo-Saxon firms.

The reputation of large, international law firms can be hurt by weakness of an affiliated firm a particular country.

Prices for companies offered for sale are higher in the US - 6xEBIT vs 8xEBITDA. Germans do tend to buy stock, not assets.

A horror story made worse – a woman friend my age confronted a burglar in her apartment. With help of neighbors and lots of screaming (she could not talk for a week) the burglar was arrested. At the court hearing, she had to wait in the same room as the burglar. When before the judge, he lectured her on "social circumstances." (The woman taught grade school in a poor part of Hamburg all her career.) The burglar was let go on bail because he was too drunk to answer the judge's questions.

Young lawyers shy away from Frankfurt because the practice there is seen as too cutthroat.

Society and Fashion -

A Danish contact in Germany (long time German resident and executive) spoke openly about problems with militant Islamists. He feels "normal" Germans cannot say much critical because of German history.

Lots of sneakers were to be seen, especially on young women, but not as many tattoos as in the US.

I saw more cell phones and people playing games and listening to music, mainly on trains and subways.

One sees more disabled people in public in Germany (compared with the US), possibly due to general use of public transportation.

Pre-kindergarten childcare is growing, but still expensive and difficult to find.

Topics –

Germans talk about fracking, the intelligent grid and energy policy in general. The internet uses about 1% of the world's energy. Countries with excess electrical reserves will set up server farms close to the electrical sources, such as hydroelectric power in Finland. Hydroelectricity could power the "green web."

Germans wanted to talk about the US love of guns (I have no explanation for this obsession) and what the US is doing in Syria. But I did not hear much talk about the Euro or the fall elections.

We cannot expect any real, substantive, public political discussion until after the elections in the fall.

Praise -

The new harbor centers in Hamburg, Cologne and Duesseldorf are very impressive and seem to work.

Manufactum continues to offer amazing gizmos, tools and clothing.

Some big box supermarkets sell remarkably good rolls. (I learned today from Dr. Ruettgers, the politician, that these bakeries are independently owned. The government tried to tax the electronic messaging from these bakeries – reporting bread sales – and it found out how really powerful the bakers are in German politics!)

Prices in general seem reasonable, at least to a New Yorker. Restaurants and hotels are bargains, compared to the US.

Complaints -

My favorite cafe in Munich, behind the Feldherrnhalle, has closed. Very sad.

More and more Germans are looking at non-US graduate schools because of the cost of application, tuition and visa formalities. The US loses out to schools in the UK and other English-speaking countries.

There are not nearly enough electrical plugs, even in good hotels.

Germans complain, but the level of service in all stores, by all service providers was good, friendly and competent.

I (belatedly) learned about corruption in Cologne and the collapse of the U-Bahn tunnel, with such damage to the city archives. This was a double shock.

Just when you think German weather cannot get any worse.... At least there are no tornados.

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