

# Leadership in Recession: Fostering a Culture of Innovation

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# Tough Times Are Upon Us

- US, Japan, Germany, UK in recession
- China and India are not immune: growth forecasts down
- Even the Indian marriage market is taking a hit:

“Because there are no job guarantees for IT people, for the last six months brides' families have not been accepting grooms from this background,”

Jagadeesh Angadi, matchmaker in Bangalore\*

\*Jermy Kahn in the New York Times/Deccan Herald



# Tough Times Require Leadership

- A time of opportunities and challenges
- The opportunities provided by innovation
- The challenges posed by fostering a culture of innovation



# Fostering a Culture of Innovation

- What is innovation?
- The challenges of innovation
- What is an innovation culture?
- The role of leadership in fostering innovation



# What is Innovation?

“The successful commercial exploitation of new ideas”



Joseph Schumpeter  
(1883-1950)



# Types of Innovation

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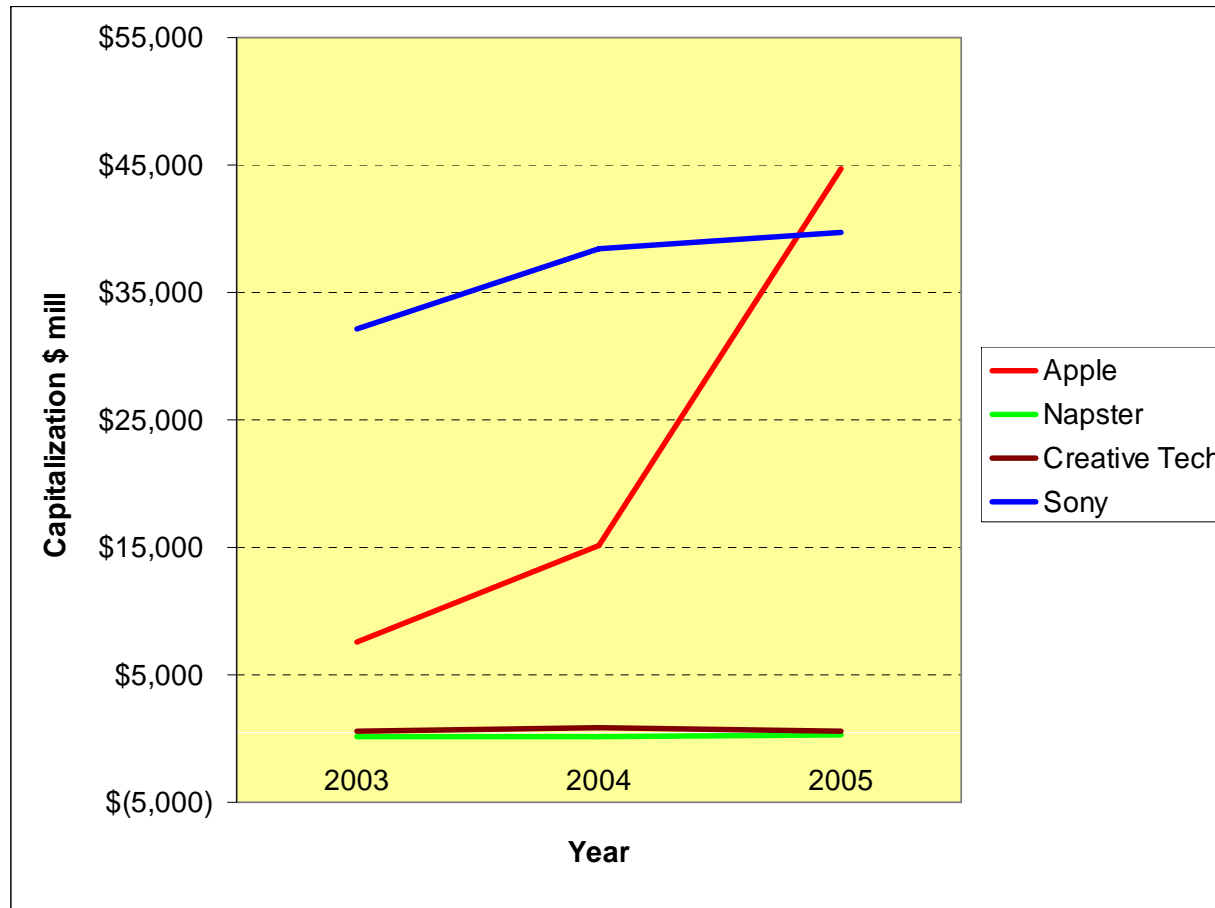
- New products or services
- New processes
- New business models



# Product/Service Innovation: The iPod



# Payoff from the iPod





# Product Innovation: The Nokia 1100

- Specifically for emerging markets:
  - Dustproof keypad and front face
  - Non-slip sides for humid weather
  - Built-in flashlight
- Over 200 million sold since late 2003
- World's best selling handset and consumer electronics device



# Process Innovation: ICICI and Mobile Banking

- Migrated services onto mobile phone
- 5 people manage the 250,000 daily transactions processed by ICICI Direct (online share-trading arm)
- Cut transaction costs to far below competitors
- Cost of mobile phone banking in India = 1/3 of the US



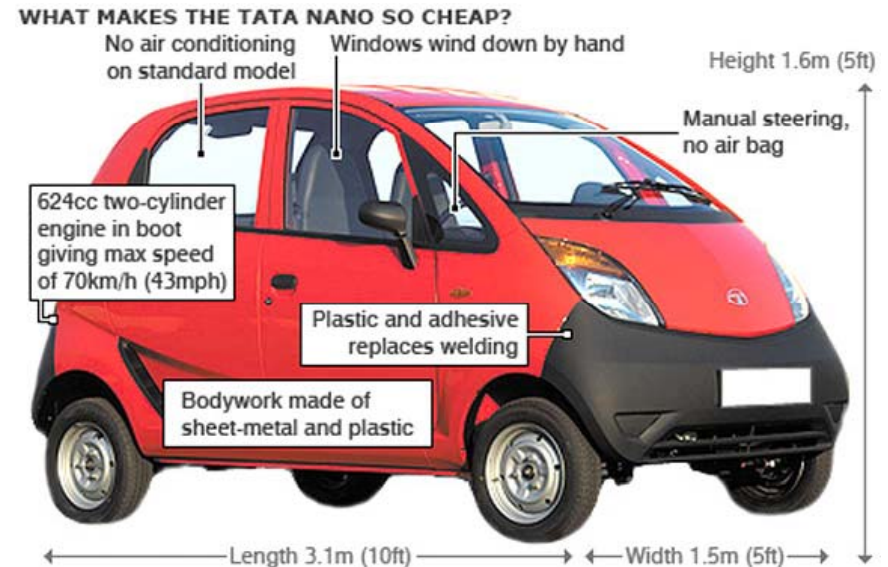
# Process Innovation: Larsen & Toubro

- Manual project management
  - Little collaboration between L&T units
  - Difficulty engaging external partners
- Electronic project management
  - Online knowledge-sharing across business units
  - Streamlined collaboration with external partners
- Faster turn-around cycles for infrastructure projects
  - Avoids costly paper trail (all electronic)
  - Avoids penalties for late project delivery



# Business Model Innovation: Tata Nano

- New value proposition
- Radically simplified production and design



- New form of distribution: kits assembled and serviced by local entrepreneurs



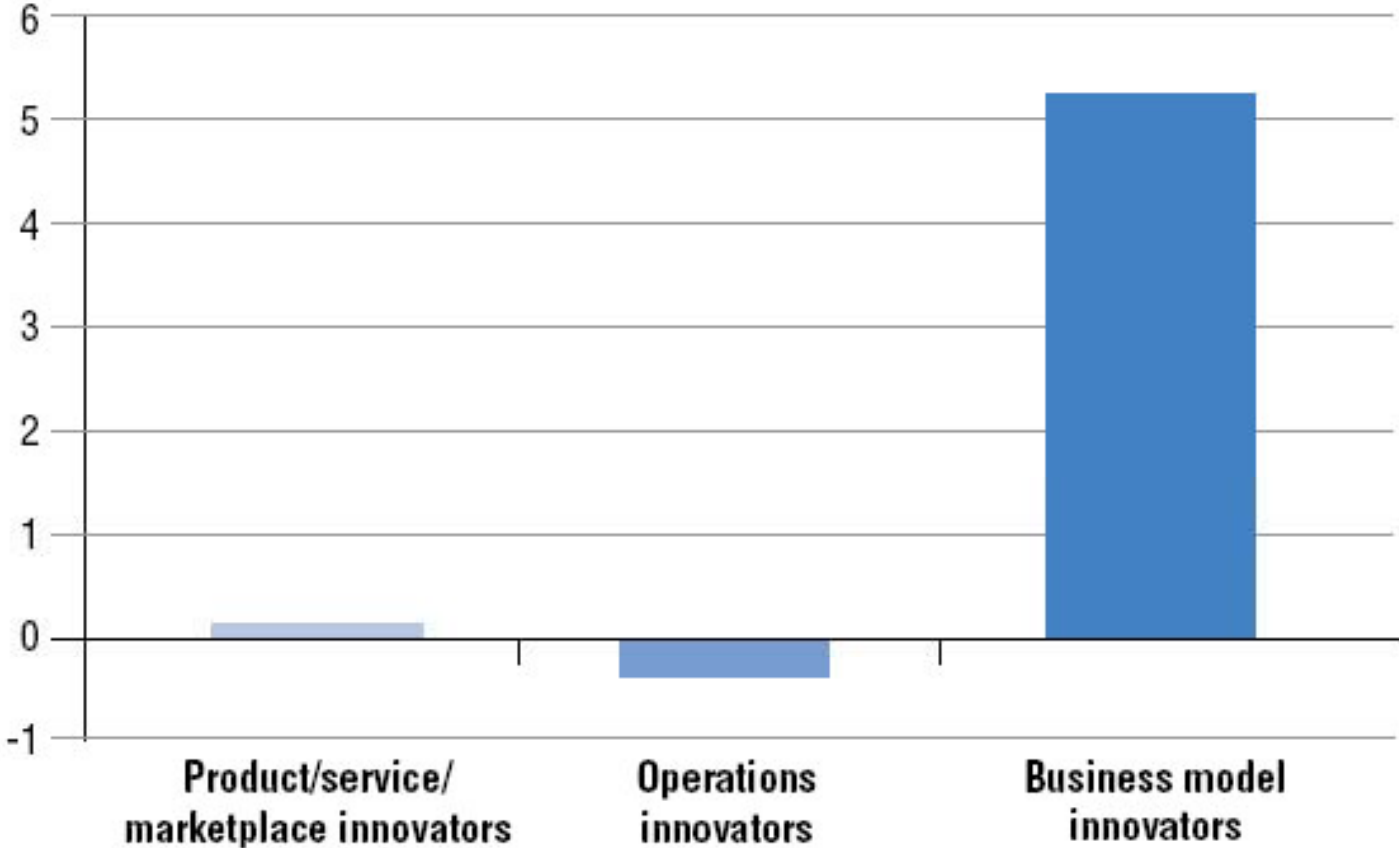
# Business Model Innovation: Castrol BikeZone

- New value proposition
- Vehicle servicing franchise
- Network across 96 sites and 18 cities
- 220 stores by the end of 2008



# Business Model Innovation and Growth

compound annual growth rate over five years



[Source: IBM, CEOs are expanding the innovation horizon: important implications for CIOs]



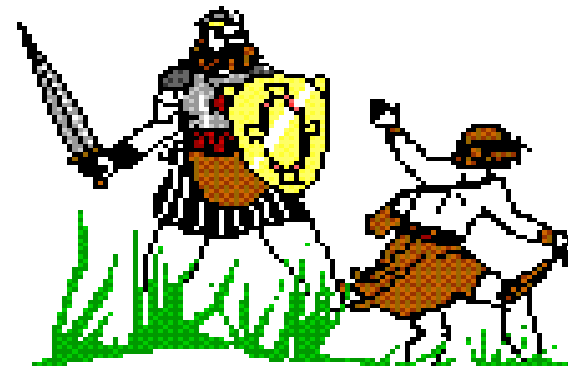
# Fostering a Culture of Innovation

- What is innovation?
- **The challenges of innovation**
- What is an innovation culture?
- The role of leadership in driving innovation



# The Incumbent's Curse

- Radical innovations often seem to come from small entrepreneurs
- Incumbents seem to stall, ignore or fight radical innovations





# Dominant Firm Quotes...



- “Who the hell wants to hear actors talk?”
  - Harry M. Warner, Warner Brothers, 1927
- “Television won’t be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.”
  - Darryl Zanuck, head of 20th Century Fox, 1946



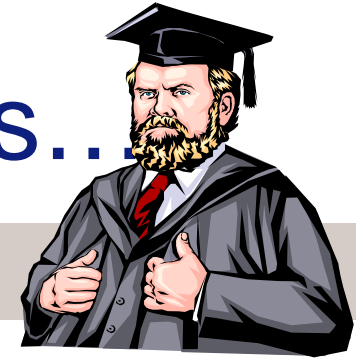
# More Dominant Firm Quotes



- “What use could this company make of an electrical toy?”
  - Western Union president William Orton, rejecting Bell’s offer to sell his struggling telephone company for \$100,000
- “There is no reason for any individual to have a computer in their home”
  - Ken Olsen, President and Founder of DEC, 1977



# Researcher Quotes: “Incumbents...



- “underinvest” in radical product innovation, and are “incompetent” at it (Henderson 1993, p. 248)
- are prone to “technological inertia” (Ghemawat 1991, p. 161)
- fail to innovate because they “listen too carefully” to current customers (Christensen and Bower 1996)



# Are Dominant Firms Doomed to Fail?

- Are dominant firms:
  - Inert?
  - Arrogant?
  - Incompetent?
  - Stuck in the past?



# My Research Shows

- Dominant incumbents
  - Introduce more radical product innovations
  - Gain more from their innovations
- Resources matter
- Nevertheless, dominant firms face significant challenges to remain innovative over time



# Innovation: A Garden of Paradoxes

- Pre-empting the **future**, yet profiting in the **present**
- Developing core **competencies**, but preventing core **rigidities**
- Maintaining organizational **continuity**, yet adapting and **changing**
- Maintaining **standard** processes, yet fostering creative **chaos**
- Becoming **cross-functional**, yet deepening functional **expertise**
- Diversifying and **growing**, but yet staying **focused** and lean



# Fostering a Culture of Innovation

- What is innovation?
- The challenges of innovation
- **What is an innovation culture?**
- The role of leadership in driving innovation



- Which firm had the most computer inventions in the 1970s?





# Inventions of Xerox in the 1970s

- Laser copier
- PC
- Printer
- Laptop
- Mouse
- Windows
- Word processing
- Ethernet
- PC networking
- Email



# Xerox 9700 Laser Printer (1977)



# Xerox Personal Computer 1973: Alto



# Kids Playing with Xerox Alto



- By 1980s all that was history?
- Why?



# Innovation in Firms Across Nations

Gerard J. Tellis

*Marshall School of Business, University of Southern California*

Jaideep Prabhu

*Judge Business School, University of Cambridge*

Rajesh Chandy

*Carlson School of Management, University of Minnesota*

*Journal of Marketing*

*January, 2009*



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# What Drives Sustained Innovation Across Nations?

- Popular belief: *Ethnicity*
- Sociologists: *Religion*
- Social-psychologists: *National culture*
- Geographers: *(Distance from equator)<sup>2</sup>*
- Legal scholars: *Intellectual property*
- Economists: *Inputs*
- Our thesis: *Internal culture of firms*



# Surveyed 4000 Firms in 17 Countries

Australia	123	Japan	409
Canada	154	Korea	333
UK	383		
USA	843	China	183
		Singapore	176
Germany	315	Hong Kong	167
Switzerland	80	Taiwan	243
Netherlands	62		
Sweden	113	India	130
France	242		
Italy	99	Total	4074





# Pooled Database

- Primary Survey Data
- Secondary Firm Data
  - Financials
  - Patents
- Secondary Country Data
  - OECD and World Bank
  - World Economic Forum



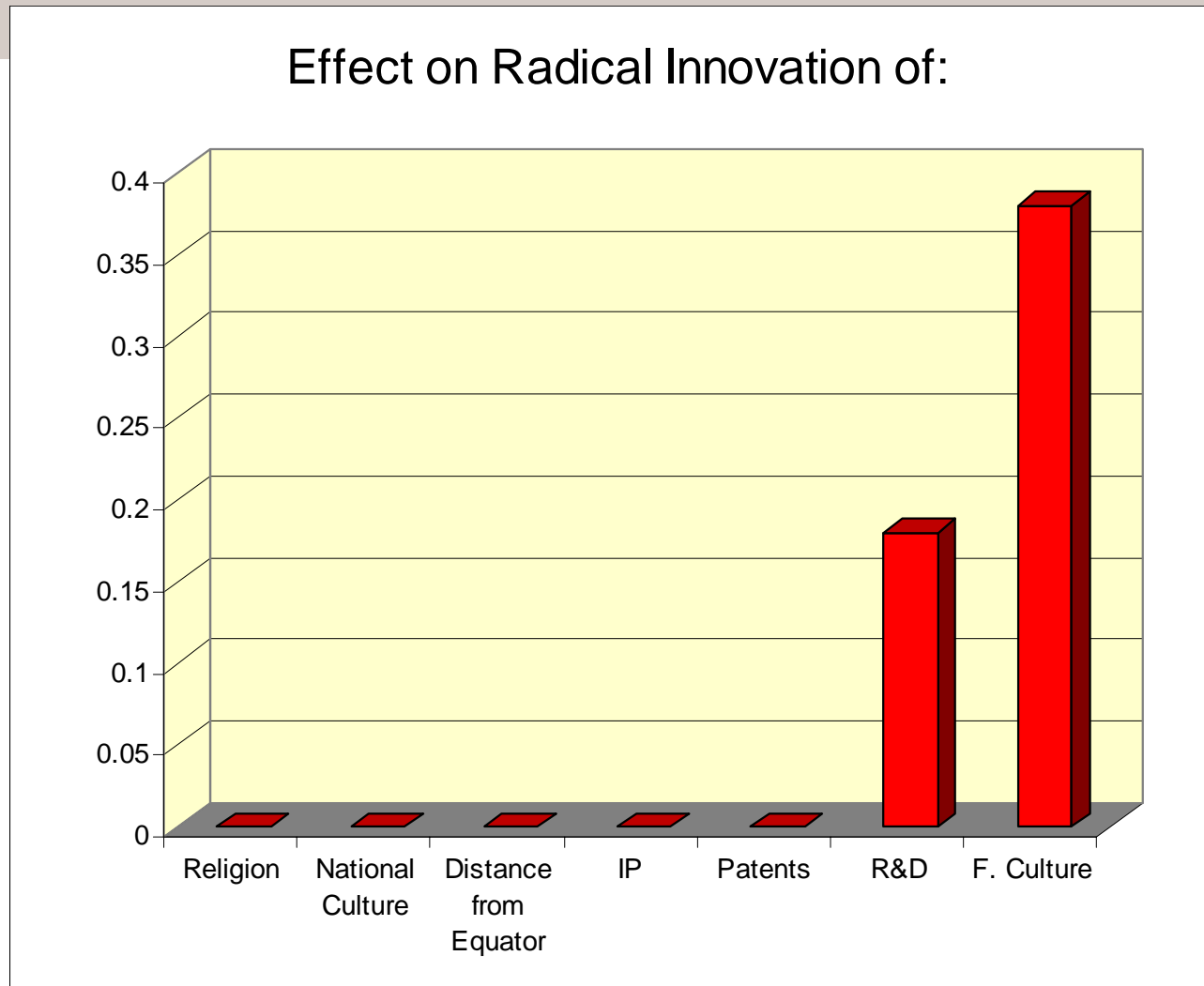
# Main Finding

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- Firms' cultural traits drive innovation across nations



# Firms' Cultural Traits Drive Innovation



# What Do We Mean by Firm Culture?

- Three attitudes
  - Future market focus
  - Willingness to cannibalize
  - Tolerance for risk
- Three practices
  - Product champions
  - Asymmetric incentives
  - Internal markets



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- What happened at Xerox?



# Force Behind Xerox Innovations

**Product Champion  
CEO Joe Wilson**



# Why Xerox did not Leap Forward in 1970s?

- Product champion (Wilson) died
- Two silos: scientists versus managers
- Managers afraid of obsoleting current products
- Did not see future wealth in electronic office
- Refused to commercialize innovations



# Willingness to Cannibalize?

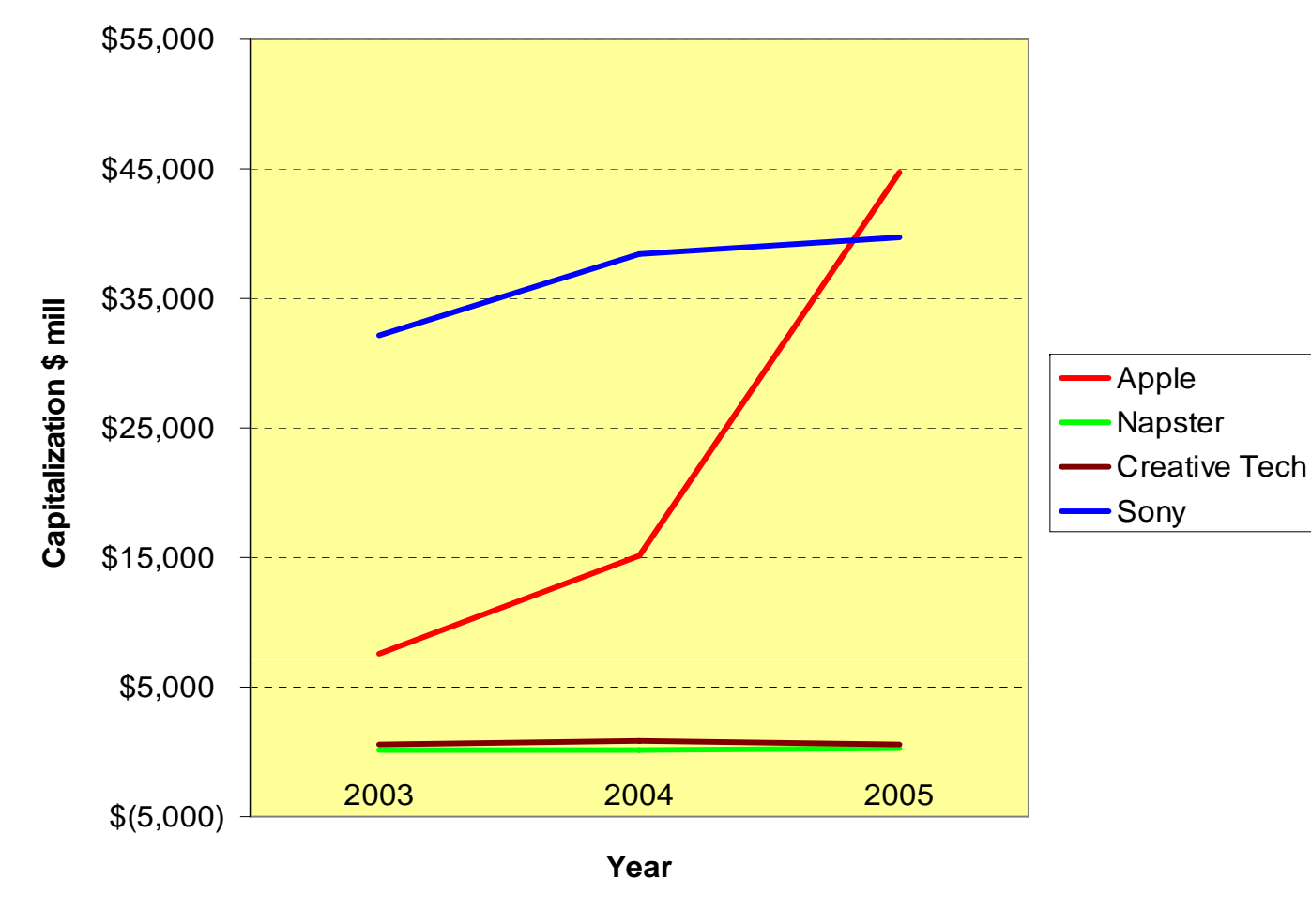
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- Who introduced the Walkman?
- Who introduced the iPod?

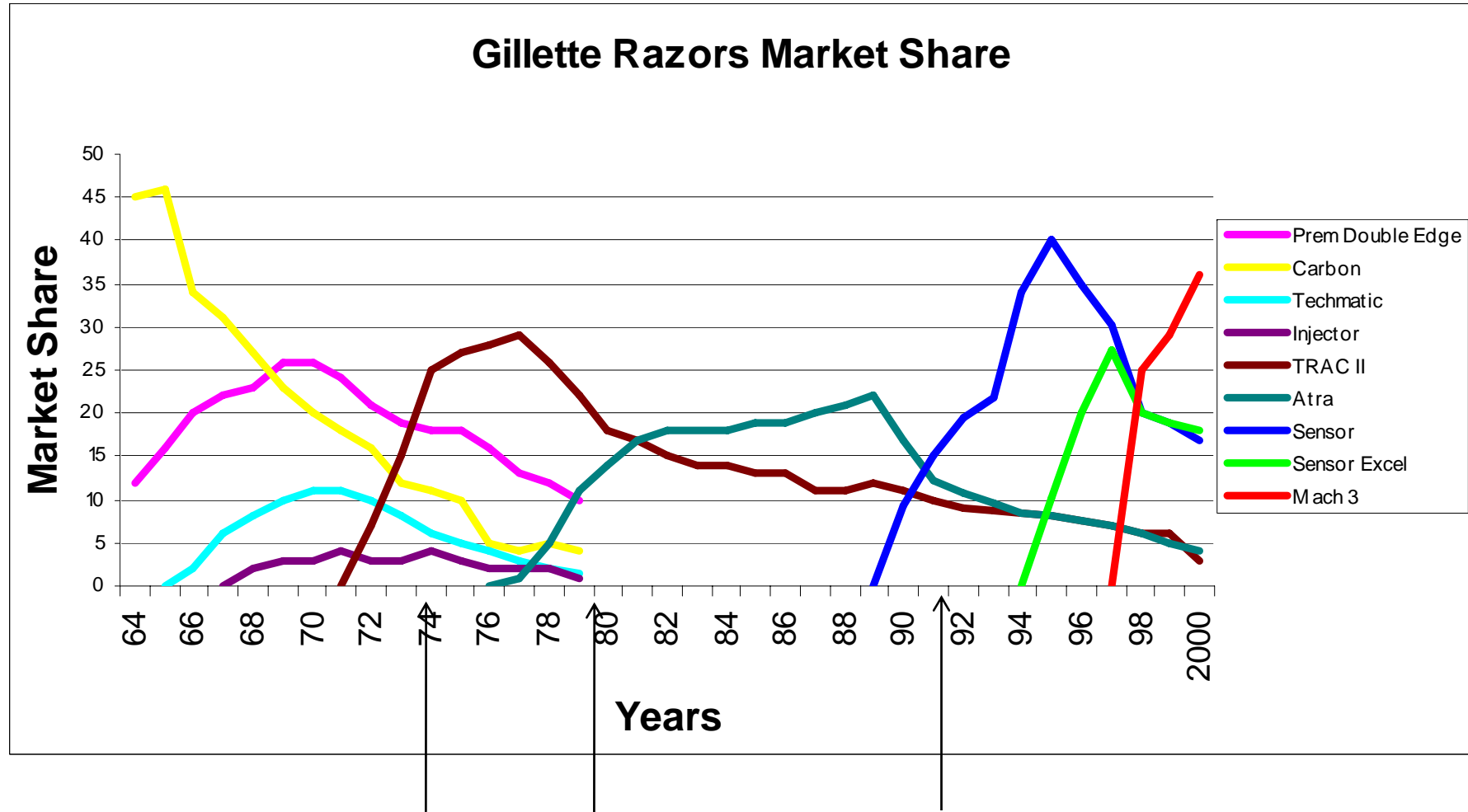




# Payoff from iPod



# Gillette and Wet Shaving (1964-2000)



# Tolerance for Risk

“For us innovation means willingness to bet hundreds of millions of dollars on a new drug, labor to bring it out over a decade, fail, and then be willing to try all over again”

... CEO Amgen

➤ *Innovation involves tolerance for risk*



# Top-Down vs. Bottom-Up Championing



# Asymmetric Incentives

- Reward employees for success
- Tolerate failure up to a point
- Frito Lay and PepsiCo in Guangzhou



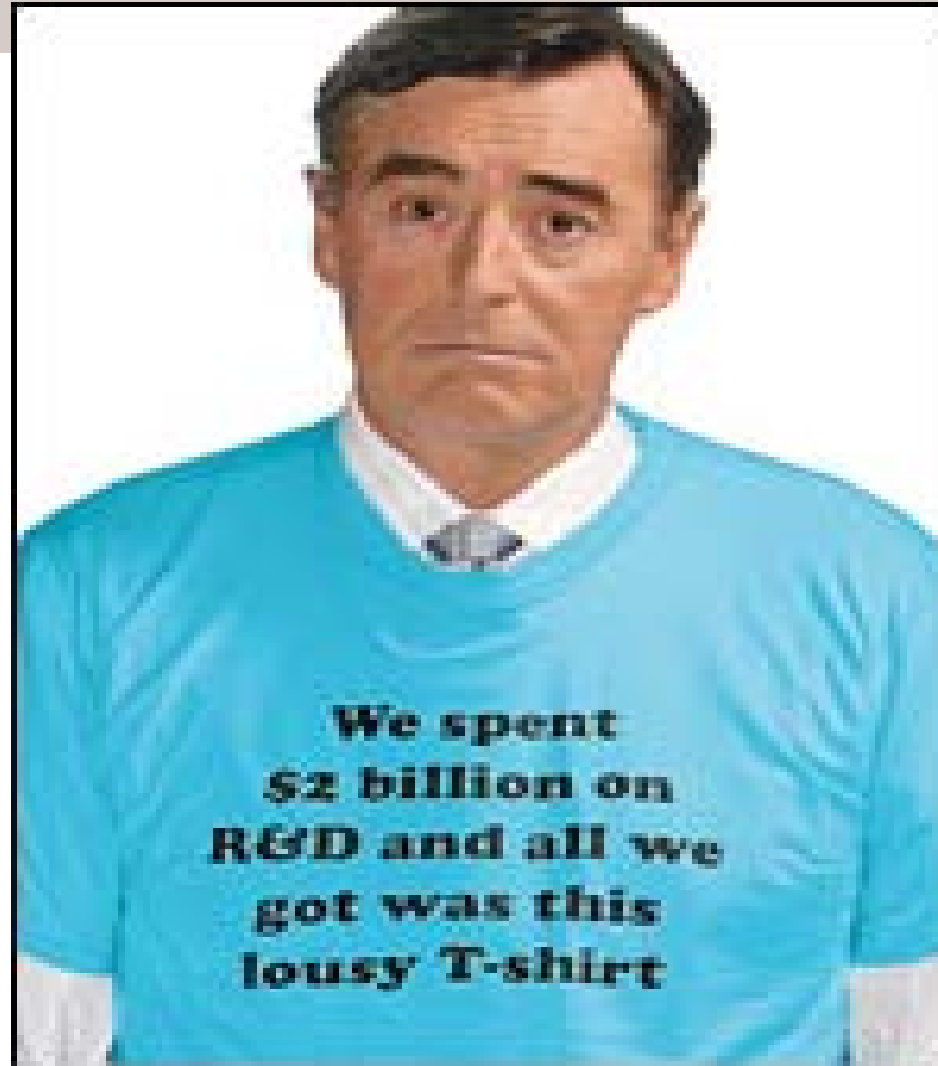
# Fostering a Culture of Innovation: A Summary

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- Inputs (resources) are not enough!
- Converting inputs into products is crucial
  - Not merely investing in R&D



# The Lousy T-Shirt



Source: Booz Allen Hamilton 2005



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# How to be More Innovative

- Emphasize an innovation culture, not just R&D
- Think differently: focus on the future
- Act differently: cannibalize current success and take on risk
- Organise differently: use product champions, incentives, and internal markets





# Fostering a Culture of Innovation

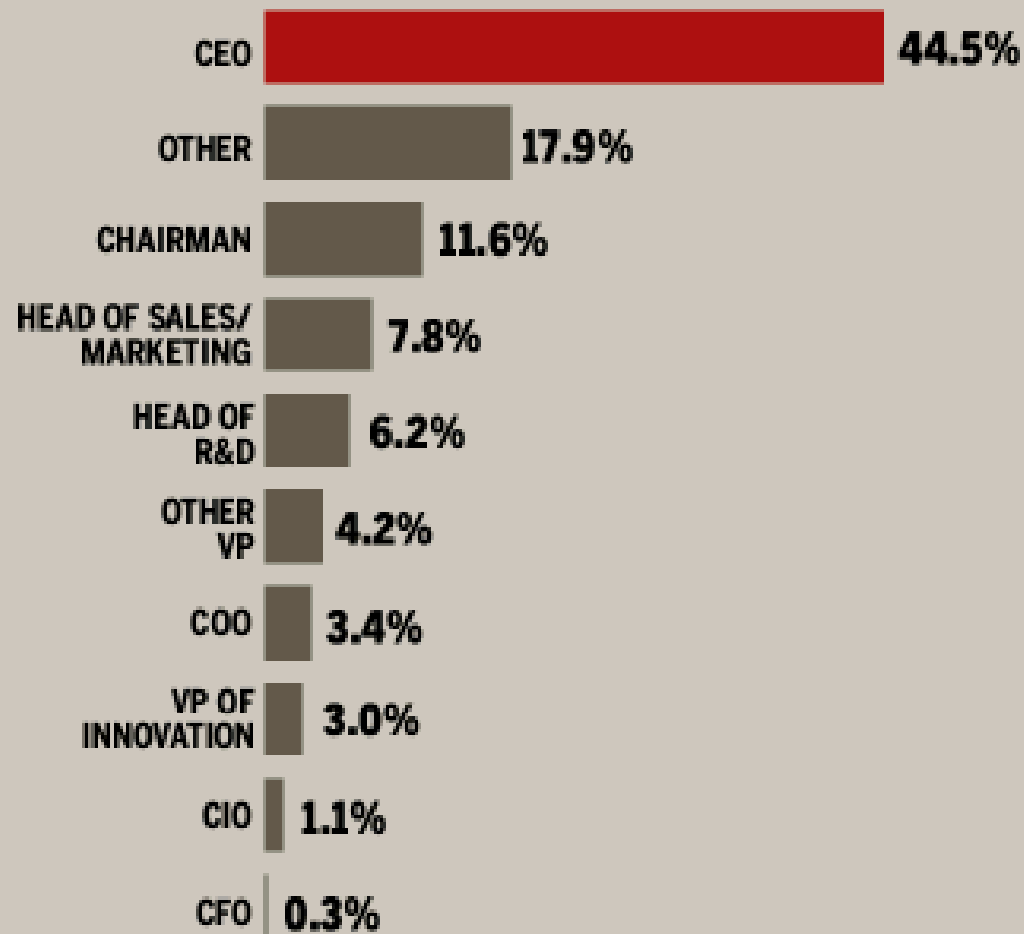
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# Innovation Starts at the Top

**“Who is the biggest force driving innovation at your company?”**

Data: Boston Consulting Group



# What Were They Thinking?

- “The PC is the stupidest thing I ever heard of”  
An Wang, CEO of word processor maker Wang Labs



# What Were They Thinking?

- Ken Olsen, CEO of minicomputer maker Digital Equipment Corporation
  - "There is no reason anyone would want a computer in their home"
  - Forbade his employees from using the words "home computer" or "personal computer" in the firm



# Future Focus

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Emphasis on **future** customers and competitors, relative to **current** customers and competitors



# Thinking About the Future

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- “Senior management is devoting less than 3% of its energy to building a corporate perspective of the future”

Hamel and Prahalad (1994)



# Bill Gates: Think Week

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To Executive Staff and direct reports  
From Bill Gates  
Date May 26, 1995

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## The Internet Tidal Wave

Our vision for the last 20 years can be summarized in a succinct way. We saw that exponential improvements in computer capabilities would make great software quite valuable. Our response was to build an organization to deliver the best software products. In the next 20 years the improvement in computer power will be outpaced by the exponential improvements in communications networks. The combination of these elements will have a fundamental impact on work, learning and play. Great software products will be crucial to delivering the benefits of these advances. Both the variety and volume of software will increase.



# Summing Up

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- What is innovation?
- The challenges of innovation
- What is an innovation culture?
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# Take Aways

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- Tough times require leadership
- Innovation can help
- Resources matter, but an innovation culture matters more
- Leadership is crucial to fostering an innovation culture



# A Culture of Innovation

- Think Differently
  - Adopt a future market focus
- Act differently
  - Be willing to cannibalize current success
  - Take on risk
- Organise Differently
  - Use product champions
  - Use asymmetric incentives
  - Use internal markets



# Your Role: Leaders of Innovation

- Visionaries
  - Future focused
- Risk Takers
  - Experimenters
- Architects
  - Community builders
- Champions
  - Technical, market, and organizational



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Thank you for innovating!



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[Learn more about Sourindra's research ▶](#)



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#### **Innovation in India and China: How to Create Value from Emerging Markets**

18-20 May 2009, Judge Business School, University of Cambridge

The Centre for India & Global Business is proud to partner with MSI to host a seminar that explores the rise of India and China as both fast-growing global markets and world-class sources of innovation.

[Read the event agenda and registration details ▶](#)