Cerebral Energetic Officer - Do Leaders Matter?

Professor Jaideep Prabhu

Summary
The recent election of Barack Obama raises the question: can a single individual make a difference to how a large group such as a nation thinks and acts in the long term? Or, in the more modest context of business: can a CEO drive the employees of a firm to become more innovative and perform better over time? If it is agreed that corporate culture plays a preeminent role in making firms more innovative, then a natural question to pose is: how is such a culture created and maintained? Specifically: does the individual at the head of the firm have a role to play in all this? Professor Jaideep Prabhu gives his views.

Article
Common sense would suggest that the people who lead companies have an important role in driving innovation within them. After all, CEOs are literally the heads of the firms they run: they think for their companies and they have the power to lead them in a particular direction. Anecdotal evidence would support such a view too. CEOs like Andy Grove at Intel and Steve Jobs at Apple have been widely acknowledged for promoting innovation in their firms.

Surprisingly, the academic literature presents a mixed view of the role that CEOs play in driving innovation in their firms. Some authors suggest that CEOs might actually be bad for innovation. They may be so steeped in the past, or so swamped by their day-to-day activities, that they fail to recognise how the technological or market situation has changed on them. Here too examples are easy to find. One need only think of Ken Olson, the CEO of Digital Equipment Corporation who, as late as 1977, decreed that "there is no reason anyone would want a computer in their home" and proceeded to forbid his employees from using the words "home computer" or "personal computer" within the firm.

Other authors have argued that CEOs are simply not very relevant in driving innovation within their firms. Or else, if they do have an effect on innovation, then this is only at the project level, via their support of individuals and teams working on individual projects within the firm. The legendary Andy Grove seems to hint at something like this at Intel: "Over time, more and more of our production resources were directed to the emerging microprocessor business, not as a result of any specific strategic direction by senior management but as a result of daily decisions by middle managers."

To better understand where the truth lies Professor Jaideep Prabhu conducted, along with his co-authors Manjit Yadav and Rajesh Chandy, a study of the US retail banking industry between 1990 and 2004. To measure the CEO's role, they analysed 876 letters to shareholders from 176 public banks between 1990 and 1995, the years that just preceded the advent of Internet banking. To assess the impact on innovation, they measured the time these banks took to 1) detect the new technological opportunity of the Internet by registering a domain name and 2) develop an initial transactional Internet banking service. They also measured how sophisticated the Internet banking service of these banks was by the end of 2001.

What they found surprised them and a number of others in their field. Banks with CEOs who focused on the future more were (a) faster at detecting the new technological opportunity of the Internet, (b) faster at developing an initial Internet banking service based on this opportunity, and (c) superior at deploying their initial banking service. This was true even when the target of CEO attention was not innovation per se, but simply future events in a generic sense, and even when the innovation outcomes occurred far in the future (sometimes several years later).

How did they measure CEOs' focus on the future? They did this by exploiting a quirk of the English language: future oriented sentences in English are very likely to include the word "will" in them. So they simply counted the number of such sentences in CEOs' letters to shareholder as a metric of their attention to the future.

Their findings have important implications for firms and CEOs. It may be tempting to think that the CEOs of most firms, recognising the significance of these issues, already make a concerted effort to look ahead. But do they? Long ago Gary Hamel and C.K. Prahalad warned that: "Senior management devotes less than 3% of its energy to building a corporate perspective of the future." In our data of letters by CEOs, only 9.21% of all thoughts (sentences) were future focused. Moreover, we found that the percentage of future-focused thoughts among CEOs varied from 0 to 20%. A significant implication of these findings is that CEOs can influence the process of innovation in their firms simply by spending more time attending to the future.

So: leadership matters, and can make all the difference to the innovativeness, success and longevity of a company or any big organisation. CEOs of companies small and large would do well to remember these lessons, as would Barack Obama as he struggles with the many challenges facing him and the USA in the weeks and months ahead.

This opinion piece by Professor Jaideep Prabhu was first printed in The Financial Express, India, 5 December 2008.