What if all companies were innovative?

Professor Rajesh Chandy imagines a world where innovative companies are the norm, explaining how to achieve it and whether or not it would be good for society.

Imagine if business could solve the world's biggest problems. If more companies had innovation in their DNA, they'd have the power to do just that.

The companies that innovate radically, the ones that remain agile year after year, the ones that fulfil their customers' needs (and their competitors' customers' needs) are the ones that'll succeed and make a difference to society.

So, what would it take for all companies to be innovative?

Cross out your beliefs – start again

I'll relay the usual and wrong assumptions first.

People's assumptions about companies that innovate stem from their area of expertise. For example, many economists believe that R&D expenditure is the primary driver of radical innovation. Legal scholars think intellectual property's key, while geographers believe countries and regions have a role to play. "Physioeconomists" argue that distance from the equator makes the biggest difference in explaining innovation: according to this argument, the farther companies are located from the equator; the more innovative they tend to be. Ask sociologists and they'll tell you that national culture and religion make a big difference.

My co-authors Gerry Tellis (University of Southern California), Jaideep Prabhu (University of Cambridge) and I systematically put these competing explanations to the test. Using data from 759 companies in 17 countries in various industries, we examined the extent to which each of these factors explains radical innovation.

Cultural universals

Our research shows that among the factors that drive innovation in companies, none of the usual suspects make a big difference. The most powerful driver of innovation by far is a factor that exists within each company: its corporate culture.

“Happy families are all alike; every unhappy family is unhappy in its own way” goes the first sentence in Leo Tolstoy’s classic *Anna Karenina*. If we had to summarize our research in one line, it would be: Innovative companies are all alike; every laggard is a laggard in its own way. Indeed, innovative firms are much more alike in their culture than we tend to think – and it’s got little to do with geography or national culture. For example, innovative American companies are quite similar to innovative British or German or Indian or Chinese companies, despite the differences in their respective national cultures.

The phrase “corporate culture” can conjure up a fuzzy or amorphous thing. In fact, it is something quite specific and measurable. We’ve identified ‘cultural universals’ - a set of attitudes and practices that define the culture of innovative firms, and that appear to exist among Innovative firms no matter which industry or which geography they belong to. We’ve also developed an Innovation Culture Audit that you could use to compare yourself to other companies.

Three attitudes and three practices seem to make the biggest difference in driving innovation.

Attitudes: The power of the mind

These traits all exist under the mind-set and attitude umbrella in companies.

1. **Future market focus.** This refers to the extent to which senior decision makers in a company focus on the customers and competitors of the future, relative to the customers and competitors of today. Our research suggests that this trait is the most important of all the cultural traits in driving innovation – if you have any takeaway, let this be it. And this trait seems rather depressingly (indeed worryingly) rare in many companies. By some estimates, the average CEO in an established firm spends only three per cent of his or her time focused on activities to do with future. Leaders should spend less time focusing on the past and present and more time focusing on the future.
2. **Willingness to cannibalise.** Innovative companies are more willing to eat their own lunch: they are willing to reduce the value of investments that they themselves have built. Who killed the Apple iPod? Apple did. More generally, cannibalizing could involve reducing the value of one’s own products, manufacturing, distribution channels, or skills.
3. **Tolerance for risk.** Managers in innovative companies are more tolerant of risks. Sounds simple enough, but how do these companies guard against catastrophic risks? In at least two ways. First, they develop portfolios of products: some products in their portfolios are radical and risky; most are incremental and relatively safe bets. Second, they don’t take on all risky bets themselves. Procter and Gamble, for example, gets over 50% of its products from external sources (e.g., through licensing and targeted acquisitions) – and thus lets others take on part of the risk of innovation.

Practices: The power of systems and processes

The next sets of traits are practices associated with the day-to-day activities of the firm.

1. **Incentives for enterprise.** Innovative companies tend to offer more rewards for innovation. Rewards don't just involve money: sometimes the most effective rewards involve recognition, autonomy, and greater career progress. Moreover, incentives in innovative companies are asymmetric in nature: the rewards for success tend to be substantially higher than the punishment for failure.
2. **Influential champions.** In firms that innovate, product and process champions flourish. These individuals are typically good communicators and gregarious in nature, with wide networks, and broad interests. And they are doggedly persistent. As it happens, individuals who fit the personality profiles of innovation champions exist in many companies – and not just in the innovative companies. The difference in the innovative companies is that champions of innovation wield power – either individually or collectively.
3. **Internal markets.** Ask how much internal autonomy your company offers. We extoll the virtues of democracy in nations, but our companies tend to be dictatorships. True, some dictatorships can succeed. But in general, innovative companies – especially large ones - tend to promote internal autonomy and internal competition. They resemble marketplaces for ideas. Internal competition ensures that if a manager with a vested interest doesn't pursue a radical idea, someone else within the company may well do so, thus making the company as a whole more innovative.

Innovation – saving the world?

If companies shared these traits and the world's innovation output went up, would that be a good thing? Yes, but with a caveat. Some of the most dangerous terrorist groups in the world have scarily effective cultures of innovation. And just think back to the financial crisis; some would argue there was too much innovation in banks – innovation of the wrong kind.

Caveats aside, I believe in the power of human ingenuity in creating good. Throughout human history, good innovation has eventually prevailed over bad innovation. If all companies were innovative, the world would be a much better place.

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