

INNOVATION AND ENTREPRENEURSHIP IN A GLOBALIZING WORLD

Dr. Dipak C. Jain



FORUM
of Free Enterprise

INTRODUCTION

Dr. Dipak Jain's lecture on "Innovation and Entrepreneurship in a Globalizing World" carries a lot of conviction because of his fine credentials as a well recognized management thinker and corporate counsellor.

He has stressed that companies must regard globalization as a force of gravity to succeed in the current economic environment. Business model and management approach must fit the external environment. The business model that sustained highly successful businesses in the past have slowly deteriorated. He has given two telling examples of Ford Motor Company and Dell Computer which came up against the truth of globalizing world.

Challenges are now very intense in nature arising from huge shifts of population and underlying economic factors. Hence companies must embrace change and leverage it for future growth. This underscores the need for companies to constantly differentiate and innovate in view of the myriad options available to consumers and the very limited time companies have to respond to market forces.

There is a reference to developing a new mindset that incorporates growth, innovation and leadership. According to recent studies innovation stands out as the critical factor in accelerating pace of change in a global business environment.

Dr. Jain has rightly differentiated between rapid expansion and acquisitions. Product innovation is a costly affair, particularly for developing and smaller economies. In contrast process and business model innovation can be implemented

"Free Enterprise was born with man and shall survive as long as man survives".

- **A. D. Shroff**
1899-1965

Founder-President
Forum of Free Enterprise

in effectiveways by tapping native talent. For instance Indian companies well realized that outsourcing is a very attractive model, and this has changed the way the business is done.

He has emphasized that once a company is established, its people are a key asset. Leadership must endeavour to drive company's prospects by not only utilizing the skills of the employees but by upgrading them and recognizing people as the only source of value creation.

The digital revolution has created enormous opportunities for smaller companies, which helps them to navigate in a world affected by rapid change. This has brought about their closeness with the audience and their capability to quickly adapt. Hence Dr. Jain avers that in a globalizing world what is required is not to look for untapped opportunities but to think about what these opportunities might be before they are even evident. Changes are fast. Bureaucratic organizations are slow moving on empowering people to become change agents. Hence leadership with a passion for innovation and excellent execution is more important than ever.

This lecture has raised many relevant issues for company managements and students. I am sure it will evoke considerable interest.

This booklet has been sponsored by Shrenuj & Co Ltd. and we are beholden to them for their everwilling support.

Minoo R. Shroff
President

4th April, 2007

Forum of Free Enterprise

INNOVATION AND ENTREPRENEURSHIP IN A GLOBALIZING WORLD

Dr. Dipak C. Jain*

First off, I would like to thank the Forum of Free Enterprise for the opportunity to speak here today. My entire career has been spent in academia. I was a professor for many years before becoming Dean of the Kellogg School of Management at Northwestern University in the United States in 2001. Although I teach fewer classes now, my passion for teaching remains intense. In fact, I often tell my students that, to me, teaching is not merely a profession. Rather, it is something I worship and the classroom is like a temple. Being here provides me with the same sense of joy and deep fulfillment. As such it is an honor to give this address and share with you my views on *Innovation and Entrepreneurship in a Globalizing World*.

The discussion of globalization often raises an accompanying set of political, social and cultural concerns. As the world continues to get smaller and more intertwined, there will naturally be a sense of discomfort and even disorientation as we adapt to a free flow of ideas, capital and cultural norms. Significant public discussion has surrounded these topics, but my intention is not to enter directly into that debate. Instead I will focus on the more

* The author is Dean, Kellogg School of Management, Northwestern University, USA. The text is based on the 40th A.D. *Shroff Memorial Lecture delivered under the auspices of the Forum of Free Enterprise on 19th October 2006, in Mumbai.*

fundamental issues at stake for individuals and corporations. I am a professor of marketing, but I also a student of mathematics and physics. I truly believe that for companies to succeed in the current economic environment, they must regard globalization as a *force of gravity*. It is a fundamental reality of our new world, and it can't be altered or ignored. Rather, the business model and the management approach must fit the external forces.

Two recent examples have received significant coverage in the United States business press: Ford Motor Company and Dell Computer. Each of these has come up against the truth of the globalizing world: the old models that sustained highly successful businesses in the past have slowly deteriorated. Ford CEO Bill Ford directly addressed this topic in the October 2, 2006 issue of *Fortune Magazine*, where his email to employees was reprinted: "the business model that sustained us for decades is no longer sufficient to sustain profitability." In the case of Dell, direct selling, the very essence of their business, no longer offers a unique value proposition.

The problems experienced by these two corporate giants were similar in many ways. It should come as no surprise that in a globalizing world, the challenges we encounter are much more uniform given the greater degree of interconnectedness. That is, the pressures driving these challenges are very intense in nature, and the challenges themselves represent the effect of huge population shifts and underlying economic factors. In aggregate, these forces are tremendous, making the need to adapt even more pronounced. The stakes have been raised, and the costs reflect not only local economic, cultural and regulatory scenarios, but rather those from all over the world.

Let's state exactly what these challenges are: a "*nanosecond culture, and hyper-competition*" - I'll take a moment to describe each of these, after which I think it will become clear the way in which these issues are, again, not merely local in nature but rather magnified by the realities of a global marketplace. By nanosecond culture, I mean that change is extraordinarily rapid and diffuse. Companies ought to embrace change and leverage it for future growth. This is because the cost of failing to see these changes and adapt accordingly means that a company will not only face a disadvantage in its native market, but will face difficulties in the global context as well. Anticipation is better than prediction.

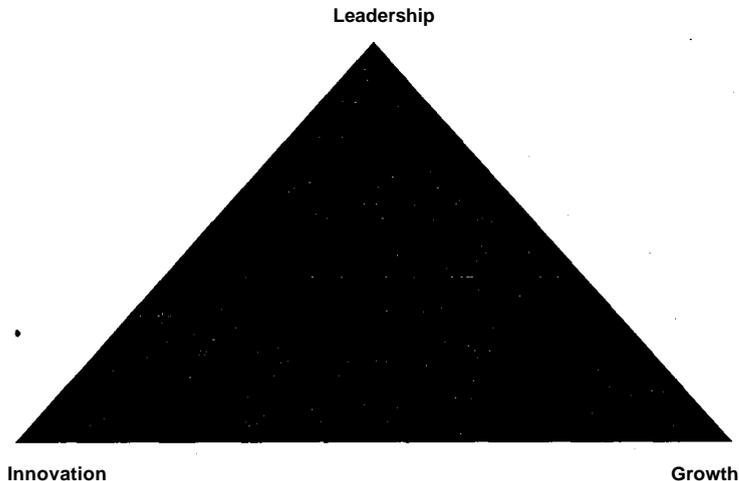
Hyper-competition refers to the fact that a company may not be going directly against another company in their industry, but also players from other industries. A good example comes from the airline industry, which faces videoconferencing as a real threat. This example is also salient because it points out the subtleties involved with hyper-competition. A business traveler may fly from Chicago to Shanghai to first establish a new relationship and build a team, but the subsequent meetings could take place via videoconference with thousands of miles between the players.

In the end, the nanosecond culture and hyper-competition are really two sides of the same coin. They both underscore the need for companies to constantly differentiate and innovate, since there is an increasing number of options available to consumers and the relatively little time that companies have to make an impression on them.

The good news is that like all challenges, the forces presented above provide profound opportunities, if only

that force can be channeled into an energy that helps redefine the way that businesses function. Each of the challenges brings with it an opening to develop a more anticipatory and proactive mindset.

In order to develop this new *mindset*, companies need to create a framework that incorporates growth, innovation and leadership. These three pieces work in conjunction with one another, and so the absence of innovation can signal both limited opportunities for growth and leadership problems. Similarly, an absence of disciplined and values-driven leadership will often stunt the pursuit of growth and innovation. As one example, McKinsey & Co. recently conducted a study that asked: "What single factor contributes most to the accelerating pace of change in the global business environment today?" Innovation in products, services, business models came in first at 24%.



In terms of growth, I am speaking particularly of "disciplined profitable" growth, which is different from rapid expansion and acquisitions. The concept entails looking from within – what we'll call organic growth – to leverage existing competitive advantages. This is distinct from inorganic growth which, depending on the industry, we could consider as mergers and acquisitions to generate new products or processes.

This notion of organic versus inorganic growth is directly related to the concept of innovation. It typically occurs along three dimensions: *product/service* innovation, process innovation and business model innovation. The first idea is captured by the Apple IPOD, while the second is best exemplified by online banking and e-commerce. And of course the third dimension is famously represented at the moment by Google's business model innovation. India is a brilliant example of how smaller countries with less well-developed industries can have an enormous influence by investing their resources in process and business model innovations. Product innovation is a costly proposition, one that in a smaller economy would require enormous resources relative to its size. In contrast process and business model innovation can be implemented in effective ways without as much of the development costs, while tapping into native talent. Indian companies realized that their people made outsourcing a very attractive model, and the process innovation on back end has changed the way business is done. Developing countries can seize this moment to move in this direction.

Finally, we come to leadership. To think about this concept fully, it is worthwhile to adopt a visual representation, which I put in the form of the leadership diamond. At each corner

of the diamond we have four complementary competencies: thought leadership, team leadership, civic leadership and market leadership. At the core is the need for a global mindset.



What each of these items reveals separately is that competing in a globalizing world requires companies to think from every angle about how they develop people. It's not enough just to have thought leadership; we must also create a stronger organization capable of bringing these cutting-edge ideas to market, which in turn requires a market leadership position that gives a company enough standing with consumers to bring new products and services to them. How do we achieve market leadership? In large part by promoting team leadership, which allows the skills of individuals to create a sum that is greater than the individual parts.

When we think again about the challenges that I originally mentioned, the importance of an integrated concept of leadership should be clear: it puts a company in a position of strength in an environment in which margins for success are extraordinarily slim. In a business landscape dominated by the nanosecond culture, hyper-competition, changing demographics and a crisis of leadership, letting even a small source of strength slip away can prove fatal.

That brings into focus the importance of values-driven leadership, which I define as humanizing business by recognizing that people are the only source of sustainable differentiation and value creation. Given this definition, the previous example of India's role in outsourcing should now be that much more meaningful for you. The brand of India today is its "talent pool."

Under the umbrella of civic leadership comes sound corporate governance, which has obviously come into focus during the last decade. Without the necessary ethical mindset at the start and a strong sense of values discipline, corporations will find themselves backsliding against the familiar pressures to pad earnings and meet shareholder expectations in unscrupulous ways. Leadership must guard against temptations like these, which easily destroys the morale of the people who are so important to the spirit of innovation and entrepreneurship.

Once a company has established that its people are a key asset, the logical next step is to consider not only how strong leadership affects them, but how in fact it can transform them. Leadership is thus not only about driving the company's prospects by utilizing the skills of your employees; it's about bringing them up at the same time.

As you build their talents, you in turn build their characters and shape the nature of your company.

What do these forces, taken collectively, tell us about developing an entrepreneurial spirit in a globalizing world? They tell us that organizations with a strong center and balance in each of these areas has the opportunity to transform itself from within; it has the necessary understanding of disciplined growth that will allow it to look for new ways to develop its business, it has the ability to take the risks necessary to innovate; it has strong leadership that encourages and fosters the sort of inspiration in employees that can result in major breakthroughs. In short, the entrepreneurial spirit is the output that develops from the three key inputs.

Think about this from another perspective. As companies get larger they also tend to get more bureaucratic, since they have established reputations that a variety of individuals within the company are charged with "protecting." Risk-taking is usually avoided because the costs of failure become greater in a company that has achieved success; as such, managers and officers have incentives to avoid strategies outside the norm that carry with it great upside but also enormous downside. The opposite scenario is that of a startup or a small company, which thrives on innovation but often lacks the capital necessary to executing high-stakes projects. Their absence of a defined reputation gives them great mobility, but can also hurt them as they try to gain recognition and market share. The tradeoffs in the business world are thus clear: between having an established identity with enormous financial resources and little entrepreneurial drive, or having a deeply creative

entrepreneurial spirit with limited advantage in size or capital.

At the beginning of this speech I mentioned two key challenges that could be translated into positive forces. But there is a third one as well that is quietly lurking behind this discussion of the entrepreneurial spirit and which is also inherently part of the nanosecond culture: the *digital revolution*. Historically, we have seen this revolution occur along the C-B-A front. That is, we moved from Computing to Bandwidth to Audience. The result is that companies like MySpace and YouTube have become heavy players in our economy, because they are in fact defined by their audience. They have an enormous subscriber base and have therefore, made it attractive to their eventual purchasers, Fox News Corp. and Google.

The digital revolution should therefore provide us a deep understanding of how innovation can come from smaller players, of how newer companies can nimbly navigate in a world affected by constant and rapid change. What smaller companies can bring to the market is a sense of innovation and entrepreneurship that derives from their closeness with their audience and from their capability to quickly adapt. In the United States, smaller local banks have begun competing with much larger ones because of the personal touch-points and sense of community they create, and because they can respond in a much more direct and intimate way to their customers.

But once again, I think it's important to step back and ask: what is the payoff of developing an entrepreneurial spirit, even in a mature company? What are the underlying conditions and factors – above and beyond the previously cited challenges – that necessitate that companies of all

sizes develop the creative outlook of a new, thriving firm? Are the tradeoffs between reputation and creativity worthwhile? I believe the answer to this question lies in the numbers driving the global trends in developed and developing countries.

Ultimately, the idea of maintaining an innovative mindset and an entrepreneurial spirit is illuminated by global trends and how industries might tap into them. What I hope you have taken away from this lecture is a sense of how doing business in this globalizing world requires us not to look for untapped opportunities, but to think about what these opportunities might be before they are even evident. Change is fast in this world, and a company must have the capability to think about customers' unarticulated needs and the resources to meet those needs. Bureaucratic organizations will have difficulty in moving quick: that's why empowering your people to become the change agents is essential, and why leadership with a passion for innovation and excellent execution is more important than ever.

*This booklet is sponsored by
SHRENW & CO. LTD.*

The views expressed in the booklet are not necessarily those of the Forum of Free Enterprise

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black

FORUM

of Free Enterprise

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets, meetings, and other means as befit a democratic society.

Membership of the Forum : Annual Membership fee is Rs. 1001- (entrance fee Rs. 1001-). Associate Membership fee Rs. 60/- (entrance fee Rs. 40/-). Students (Graduate and Master's degree course students, full-time Management students, students pursuing Chartered Accountancy, Company Secretaries, Cost and Works Accountants and Banking courses) may enrol as Student Associates on payment of Rs. 101- per year. Please write for details to : Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400 001. E-mail: ffe@vsnl.net

Published by S S Bhandare for the Forum of Free Enterprise Peninsula House 2nd Floor 235 Dr D N Road. Mumbai 400001 and Printed by S V Lrmaye at India Printing Works India Printing House 42 G D Ambekar Marg Wadala Mumbai 400 031

8/April/2007