



The New Normal for Innovation

We're entering a deglobalised world where firms must ceaselessly innovate in order to survive.

Once a reliable route to competitive advantage, innovation has become a survival skill. This is partly due to the increasing pace of technological change. Each successive wave of digitalisation washes away part of what companies have already built. Another contributor is higher consumer empowerment stemming from the digital revolution. Demands and feedback from consumers can spread through social media at lightning speed, directly hitting companies' bottom line. Meanwhile, customers' baseline expectations for differentiated innovations are rising rapidly thanks to quasi-instantaneous online comparisons.

Deglobalisation will further strengthen this trend through decreasing scale. In the medium term, companies will have a harder time making money through large-scale me-too products as opposed to smaller-scale differentiated innovations.

Post-Covid, innovation will be a marathon, not a sprint. The companies that emerge victorious will be consistently and sustainably innovative. They will reinvent themselves and their offerings as part of the normal course of doing business, rather than in brief, expensive bursts followed by a prolonged victory lap. However, few companies are prepared for this more strenuous exercise. That's why INSEAD's **China Initiative** recently held a virtual conference titled "**Organisational Innovation in a Deglobalised World**". The event brought together

academics, consultants and executives who shared novel and useful insights about the changing nature of organisational innovation.

Innovation blockers

During the conference, INSEAD Senior Affiliate Professor **Annet Aris** discussed how the difficulties of digitalisation prevent large, established companies from developing the resources needed for sustainable innovation. Incumbents in industries such as finance must navigate a treacherous transition from vertical to horizontal IT architecture, with cloud-based infrastructure and APIs knitting together internal and external inputs. "It's like changing from a high-rise to a bungalow park, rebuilding your house while you are still living in it," Aris said.

For their part, SMEs and start-ups will experience scaling headwinds. **Daniel Mack** (of Lee Kong Chian School of Business) shared research on a Chinese laundry company whose online platform did well upon launch, but plateaued early before contracting dramatically. The company owed much of its initial success to strong stakeholder relationships based largely on unspoken agreements. When these agreements became more formalized and explicit to meet the demands of rapid scale-up, the ensuing conflicts halted the platform's ascent.

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Emotional capital

My research on strategic change consistently shows that stakeholders' divergent interests are one of the main impediments to organisational innovation. This is entirely in line with human nature. As much as we may celebrate creative destruction, most of us are not comfortable with major change even as we expect others to change. We perceive the threats inherent to volatile, uncertain, complex and ambiguous (VUCA) conditions more readily than the opportunities. When this happens, people's self-protective instincts come to the fore, and their willingness to collaborate with others recedes. Strategy execution – challenging at the best of times – goes decisively downhill when organisations are composed of isolated, frightened groups.

There are common elements to organisations that can keep various groups engaged in change efforts despite heightened instability around them. I group these elements under the heading of *emotional capital*, or the ability to induce collectives in and around an organisation to see the positive potential of change efforts instead of focusing on the threats.

Emotional capital comprises five levers:

- **Deserved pride** – *The feeling that we are appreciated for our differences and concrete contributions.* Such pride should extend to groups' affiliations with the organisation as a whole. When groups feel they are valued for their competences and their past contributions to the organisation, their covert inclination to sabotage the proposed change declines.
- **Respectful authenticity** – *Alignment between thought, action and feelings.* Fear-based corporate cultures – e.g. **Nokia in the 2000s** – train employees to keep bad news to themselves so as to stay out of the firing line. No coincidence, then, that Nokia's subsequent strategic turnaround was preceded by a concerted effort from the board and others to create a **recrimination-free space for truth-telling**. Respectful authenticity prevents herd mentality from crushing the organisational capacity to think out-of-the-box and innovate.
- **Realistic hope** – *A feeling that today's actions will improve the collective future.* Sustainable innovation requires an inspiring, optimistic vision. This starts at the top – with senior leadership who have ambitions beyond the next quarterly report to shareholders – but it must cascade down to frontline employees. There is the famous example of the janitor at NASA in the 1960s who, when asked what he was up to, replied "I'm putting a man on the moon."

- **Thoughtful passion** – *The feeling of deep, high-energy personal engagement.* This is related to the phenomenon of "flow" – the blissful state of total psychological immersion in a project or task. Flow does not occur when one is on auto-pilot. To access thoughtful passion, leaders must trust their teams enough to stretch their capabilities – while providing encouragement and support. **Netflix's culture** is an extreme example. By hiring the best people and giving them carte blanche whenever possible, co-CEO Reed Hastings cultivates a maximally engaged and invested workforce.
- **Aspirational discontent** – *The belief that it is possible to reach one's highest potential and achieve a much higher meaningful purpose.* Dissatisfaction is a good thing when it wards off complacency. The ideal complement to realistic hope is a collective restlessness that won't be satisfied until the long-term vision is reached. After all, in the winner-take-all world of the digital economy, second place often equates to failure. Those who rest on their laurels are in danger of ending up as someone else's lunch.

Three qualities of sustainably innovative firms

Presenters at the China Initiative conference helped connect the dots between emotional capital and sustainable innovation.

INSEAD Professor of Strategy **Guoli Chen** shared his research findings on how board diversity – across dimensions of gender, ethnicity, nationality, etc. – is replicated at all levels of management, and is positively correlated with innovation outcomes. Within a globalised context, leadership diversity is a reflection of deserved pride (i.e. providing a variety of role models and competences for employees to identify with and emulate) and respectful authenticity (i.e. ensuring diverse stakeholders are represented in meaningful positions). Deglobalisation raises the question of how firms will retain their diversity in a more inward-looking world – as the alternative may be diminished innovative capacity.

INSEAD Associate Professor of Organisational Behaviour **Spencer Harrison** proposed curiosity – defined as "the desire for new information that motivates exploration" – as a chief innovation driver. His research shows that while only one in five employees feel their roles welcome curiosity, CEOs who describe themselves as curious are more future-focused and resilient, and report a greater sense of thriving in their work. "Curious people bring new ideas to bear, sustaining the impact of the organisation over time," Harrison said. Curiosity may be a proxy for thoughtful passion, because only

deeply committed employees develop a thirst for meaningful knowledge and a habit of open-ended questioning.

Finally, **Michael Tushman** (of Harvard Business School) linked innovation to structural ambidexterity, or the capacity to explore and exploit simultaneously and in parallel. While this requires sophisticated organisational design work that looks different from firm to firm, Tushman believes the biggest challenge is cultural, not strategic. Leaders need to embrace a **both/and mindset** instead of an either/or one. They also need to form a more expansive identity that imaginatively builds upon current competencies. He cites how the Ball Corporation evolved from manufacturing canning jars to entering the aerospace industry, a strategic direction that only makes sense in light of Ball's stated mission of becoming "the world's greatest container company". Put another way, structural ambidexterity allows organisations to balance deserved pride and aspirational discontent. It uses the organisational present as a pedestal from which to chart a bold course into the future. That sense of radical possibility is essential to sustainable innovation.

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