



Seven Attributes of the Most Innovative Cultures

The roots of innovation lie in the most basic cultural values.

As he looks ahead to his second five-year term, President Xi Jinping surely knows that innovation must be an economic priority if China is to escape the **middle-income trap** that awaits it in about ten years. Even amid slowing economic growth, there are signals that China may be starting to come into its own as a **global innovator**. However, even if these trends prove sustainable, will it be too little, too late? Furthermore, can commitment to innovation be reconciled with Xi's **increasingly authoritarian leanings**? To many of us at INSEAD – an institution whose history of Asia business research dates from the 1970s – the balance of power in the region, if not the world, seems largely to depend on the answers.

Starting with my first book, *The Spirit of Chinese Capitalism* (1990), I have researched the specific capabilities that fuel modernisation within societies, particularly as they pertain to the Chinese context. I've found that as the world's great cultures developed over the centuries, innovation ecosystems such as Silicon Valley have never come into being with simple spontaneity; they are the product of a confluence of social and political forces specific to a certain time and place, yet deeply rooted in history.

Hence, innovation is culturally agnostic in one sense and highly culture-sensitive in another. While in theory, nothing prevents every country in the world

from having its own Silicon Valley (although it would look different from place to place), there are seven cultural “universals” shared by every truly innovative society – Japan and South Korea as much as the United States. As described in my recent paper in *Journal of Interdisciplinary Economics* (co-written by Antony Drew of University of Newcastle Business School), the absence of these seven features helps explain China's enduring innovation handicap.

Seven features

First, economic units, regardless of ownership, must be capable of scaling up efficiently. Despite offering much higher return on capital than state-owned enterprises, private sector firms in China are rarely allowed to grow unchecked by Party co-optation. Government intervention – or the threat of same – sows caution in Chinese entrepreneurs, especially when they are within reach of cementing their success and influence in a way that could unsettle the balance of power.

Second, in the process of scaling up, organisations must keep highly creative and skilled individuals engaged. China's business culture concentrates initiative at the top, giving subordinates little leeway to question or even interpret their boss's directives. This all but guarantees a paucity of new ideas that only worsens as organisational growth weakens

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senior leaders' connection to the marketplace.

Third, creative individuals need room to be adventurous. To put it another way, they need permission to fail, which is at odds with the stringently enforced discipline and conformity that figure heavily in Chinese social psychology. The Chinese have, in the main, been led to expect that non-compliance and failure may result in harsh punishment.

Fourth, innovators need to share in the profits generated by their creative labour. Though China has produced a crop of wealthy entrepreneurs in recent years, capital and its use are still politicised. Unregulated economic activity is rampant – according to state media, a recent police crackdown turned up **underground financial transactions** totalling US\$30 billion.

Fifth, information must freely flow through the society in a way that fosters learning and collaboration. In China, access to empowering information is determined by where one stands in the hierarchy. The general public receives a redacted version of reality, courtesy of a robust censorship regime. This certainly helps the existing power structure keep potentially destabilising influences in the dark, hence at bay – but it also stifles exchange, cooperation, and ultimately innovation.

Sixth, the ruling order must be relied upon to safeguard the wider social good, according to consistent and clearly understood interpretations of the law. A flourishing business culture requires a disinterested rule of law. China's historical tolerance for corruption is well-known – Transparency International ranked China 27th out of 28 industrialised countries included in the 2011 **Bribe Payers Index**. Xi's unusually spirited anti-corruption campaign – 336,000 government officials were reprimanded or punished in 2015 alone – has served to underscore the scale and depth of the problem; rooting it out is another matter.

Seventh, neutrality and fairness should prevail in decision-making about risk. Interpersonal relationships marked by ties of obligation and fealty – China's priceless *guanxi* – should yield to evidence-based judgment and rational self-interest. No region of the world is immune: Citing bloated public-sector employment, political scientist Francis Fukuyama argues that entrenched systems of political patronage contribute to southern Europe's economic woes, relative to its northern neighbours. Dispensing with patronage is seen by many as essential to the transition to the modern condition, and even more so to the postmodern.

China's innovativeness

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Xi's campaign to **make China re-embrace Confucianism** represents a return of repressed ideals for the nation. But unlike South Korea and Japan, where profound Confucian influences coexist with the cultural demands of modernity, China has never thoroughly re-examined its reverence for law and order at all costs. Surely this is down to the enormous challenges of governing 1.3 billion people. The possibility of social and political upheaval is very real, should the Party indulge in too much change too quickly. Yet, Xi's apparent moves to re-establish a Mao-like cult of personality signal an end to the era in which gradual decentralisation of power was even for debate in Beijing.

Along with dashing the hopes of China's democrats, Xi's authoritarian turn may bring a premature close to the nation's economic miracle story. If anti-globalisation sentiment continues to intensify among its trade partners, China may no longer have foreign markets to keep its economy buoyant. The nation would then be thrown back upon its own as-yet-nascent innovative capacities, accelerating the decline of its economic momentum. A speculative scenario, to be sure, but one which seems at this point more likely than the best-case scenario for China's future: The Communist Party loosening its grip on power, thereby releasing pent-up potential for innovation.

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