

# Towards Innovation

*Dr. E. Ted Prince asks whether executives in Chinese companies have what it takes to drive innovation-led growth.*

**A**S CHINA TRANSITIONS FROM A cost-leadership to an innovation-leadership economy, the obvious question arises: do its managers and executives have what it takes to achieve this transition? There are good reasons to believe that this transition will be a lot harder than the original successful move to become a global cost leader.

Cost leadership requires managers and executives who are laser-focused on the bottom line. However, that does not require particularly innovative leaders since they can easily execute on practices proven elsewhere. Thus, there is good reason to believe that Chinese companies hire and promote executives who are behaviourally oriented to cost rather than innovation leadership. China has completed this phase with flying colours. Now comes the hard part.

Executives who are behaviourally cost-focused build companies that are culturally cost-focused, whether in their hiring, promotion and development processes. That leaves most companies in China with financial cultures lacking an eye on innovation, squeezing out certain individuals, particularly those who are innovative.

How will these cost-focused cultures drive towards innovation? It is not enough to spend more money; this is highly unlikely to make executives and companies more innovative. We can expect that the cultures of most Chinese companies are going to tend to stay cost-focused because of the difficulty of bringing about intensive cultural and behavioural change within them. What's more, initiatives to make Chinese companies more innovative will meet substantial internal – and external – resistance, rooted in individual behaviour and corporate culture.

This difficulty in transitioning to an innovation focus will be exacerbated by the structure

of Chinese companies. Most are family owned, which tend to strongly perpetuate existing cultures. Furthermore, generally speaking, MNCs are essentially distributors rather than creators so that their hiring and development systems favour cost over innovation behaviours.

## Behavioural Drivers

Research performed by the Perth Leadership Institute demonstrates that we can identify and measure the financial traits of managers and their behavioural propensity to be either a cost or an innovation leader, or somewhere in-between. Most managers do not innovate, and most executives also are not frugal. Company expectations in both areas are then likely to result in disappointment.

In addition, our work predicts that most executives who are innovators will not make money for their companies; in fact, most will lose money. Furthermore, the really high-leverage innovators – those who are innovative and create capital – are rare, at about one to two per cent of all executives.

This explains the research finding that the percentage of expense spent on R&D by companies does not directly correspond to corporate innovation or growth. Our research also shows that most companies, when they are successful at hiring innovators (which is not usually the case) tend to hire precisely the types of innovators who will usually lose money, and a lot of it, for their companies.

These facts are just as true for Chinese as for US companies and others, no matter where they are located. One has only to think of the Japanese situation to see that the transition from being a cost leader in the 1950s and 1960s did not lead to it being an innovation leader in the 21<sup>st</sup> century, even though it has had triumphs in that area. For Japan, as for China and the US before them,

behavioural and cultural constraints were the real limitations on them achieving global innovation leadership.

## The Future of Chinese Innovation

That is not to say that Chinese companies cannot become innovation leaders – just that it is going to be a lot harder than they realise. Their very success at achieving global cost leadership will, paradoxically, make it harder for them to become innovation leaders, because corporate hiring, promotion and development systems have baked in cultural and behavioural impediments to innovation.

That being said, there are some things Chinese companies can do:

- Resist the belief that money or process on their own will lead to innovation;
- Focus on introducing talent processes that identify innovators both inside and outside the company;
- Redesign internal systems, hierarchies, processes and standards to remove or minimise cultural impediments to innovation;
- Particularly focus on hiring high-leverage innovators, the tiny proportion of innovators who make money; and,
- Develop programmes for innovators to ensure that they are sufficiently financially focused to ensure a positive financial outcome. **SBR**

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