

# Leadership through Innovation

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We as humans are condemned to the paradox of movement. We continuously search for a quiet stability through change. We set ourselves long and short term objectives. It is a desired quality to be able to envision yourself in a definite position in the future. This is the irony; even the most risk adverse, self centered, stubborn person in the world must achieve his or her objectives (the desired stability) through change.

It is clear why change is not desired. It is more often than not associated with uncertainty and instability. We need to know what to expect of things. We have come to develop complete scientific disciplines and practices around this need. So, is change ever a desirable feature? The answer is evident when things are bad, but when they are not, can it ever be desirable? Yes, through innovation. Innovation is a desired quality, yet, it implies change.

Leadership is the ability to bring people (however organized) into a desired state. Human's social nature forces our organizations to be driven by a minority which normally represents the majority.<sup>1</sup> This desired state implies, yet again, stability. This stability (by definition) must be achieved through change.

How, then, can we think about a successful leadership (desired) and change (not desired)?

First, we must define correctly the scope of change. As explained before, change by itself is not desired. Innovation is. We must have leadership that includes innovation. As it has been explained before the desired stability must be achieved a by a desired change (innovation); and this state is achieved through leaders.

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<sup>1</sup> This essay will not enter a normativist discussion of the reality of leadership, thus delimiting only to a theoretical approach. This means that this essay will only consider successful or unsuccessful leadership, not good or bad leadership

Having said that leadership is the process of bringing an organization to a desired state, and that this state can only be achieved through a desirable change it is only possible to infer that successful leadership may only be achievable through innovation.

Innovation differs from change in that it implies intention. Innovation cannot be a random process. It must be an intentional change, looking to add value to the existing situation. It also differs in that it is not change per se. It is not change for the sake of change, it is change because a new higher position is desired, and through innovation, a path is set.

Leaders have to cope with opposition all the time. This opposition may be originated by different reasons. It may just be because of the desire to become leaders themselves. But also, it may be broken down to fear. Status quo brings a level of certainty that is comfortable, and leadership (again, by definition), intends to break that status quo to achieve a higher level of certainty and comfort. Then leadership intends again to break that achieved level and reach a higher one in a never ending quest. This is true because leaders should not be conformists. This nature of leadership (which, by nature, antagonizes with status quo) can scare people off. Status quo is, even if not the best, a situation where the level of comfort is sufficient to settle. The possibility of breaking it and improving it necessarily implies the possibility of not improving it. Risk adverse individuals will not want to gamble with this possibility.

In finance terms we can understand innovation as the act of gaining a higher return with the same amount of risk. Intuition tells us that seeking for a higher return implies engaging into higher risk. We know that is not necessarily true, yet it can be understood that an individual may not feel comfortable changing any decision that may look contra intuitive.

In sports world innovation can be understood not only as the development of a new strategy, but also as a new way to understand the game (even for the same strategy). In 1978 Holland's national soccer team innovated the way to play the game. They still tried to score more goals than the ones they

let in (did not try to change the game). But they developed a system where every player defended and attacked, against the traditional system of a few defenders and a few attackers. This innovation has been adapted by most teams now and has developed into further strategies.

We hear everywhere about how organizations worldwide are practicing new managerial skills including, of course, leadership and innovation. Is this true? Are organizations really doing so?

We must think of the answer from two approaches; an industry, and within the organization. We think of leadership only in organizations that lead their respective industries. As such, we only have a few leaders in the world. Organizations are much more than just the leaders of the industry. Leadership in an organization has to do with leadership within the organization, even if this is not the leader of the industry (and has no intention of being so).

In such a competitive world, where competition is so fierce, organizations have to develop a comparative and competitive advantage to survive. Almost every product and service has a substitution. And even though this is a desirable treat for consumers, it gives most organizations a big headache. Leadership is about understanding what your market desires, and how you can achieve this desire. A successful leader understands the limits of its organizations and tries to achieve its goals within its limits.<sup>2</sup> Finding these limits is what innovation is about. How to reach these limits, through innovation, is a leader's job.

Leaders in the industry today are so because of two reasons. First they have added value to a desired good or service. Second, they have kept their good or service with an added value on top of the competition.

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<sup>2</sup> This essay does not intent to enhance conformism. This implies that every organization has a limit and cannot grow apart from it (or it would not be a limit). Leadership is about finding this limit, which is normally still very far from the actual state of the organization, thus leaving room for innovation.

Apple is the leader of digital personal music players. First, because (even though it was not the first in the market) they added value to existing music players. Before the ipod music players were hard to use, and very limited in capability. Apple understood the need of the client and offered a music player with the added value of an easy to use interface. Apple is still the leader because it keeps on adding value to its player, and this way they are always above the competition even though we can find now players that are easy to use.

Toyota has now become the world's largest automotive producer. They have surpassed U.S. giant General Motors. They have done so through innovation as well. Their largest market is the United State, thus producing cars for the American customer. This customer looks for a car with a great price/value relationship, reliability, and size. Toyota has no tried to change this pattern, however they have innovated. First they understood this pattern and provided U.S. with cars with a more proven reliability at a lower price than local brands. Second, they have kept that added value by developing the finest quality procedures in manufacturing keeping these advantages over competition.

It is clear that the examples above oversimplify and eliminate some of the processes and variables that lead to the rise of the companies mentioned above. Still, it is undeniable that innovation was a keen component of the success of these companies, and that they comply with the criteria stated before.

Having said this, a question arises, why, if it is so obvious, not all organizations innovate? The answer is very complex and is it beyond the possibilities of this essay. However I can intend to give a hint based on what I have explained before. In addition to the reasons explained above, such as fear, innovation is expensive. Trying to bring a desired change into an organization has implicit and explicit costs. Whether it is a new product, a new strategy, or a new model there is always a cost that must be payed even if the innovation turned out to be a failure. Many organizations can get along without

innovating. These organizations are comfortable as the leaders and have no intention of investing in the possibility of growing faster (or anything at all). It is believe that the expected value of the innovation does not compensate the risk involved in the process. It is a true leader's role to show the rest of the organization (not only the people under the leader, but even decision takers) that the expected value of this investment is profitable.

The value of innovation is recognized in most of the growth models. Nobel laureate Robert Solow proposed a growth theory that implies innovation. Solow's model establishes that growth is a function of capital (K) and labor (L):  $y = F(K, L)$ . Since the growth of labor cannot be determined (it depends on the growth of the population) all we can do is change the amount of capital.<sup>3</sup> The marginal productivity depends then on the technological change.<sup>4</sup> This means that economic growth depends on innovation (as well as other factors that affect technological change such as specialization and education). Solow's model concludes by stating that technological change (innovation) is the only thing that explains constant growth in quality of life.

Innovation is not a magic formula that instantly leads to a higher standard. It is a long hard process. Leaders throughout history have been forced to innovate (induce desired positive changes) in order for their organizations to survive. We have learned that being leaders of the industry (or wherever the organization lies) is not a sufficient condition of permanence. It is important to achieve and sustain that leadership (achieved by giving added value) through innovation.

The examples of companies that innovated in order to achieve their current position are inspiring. Every organization, no matter its size, must innovate to survive. Innovation, even if it is a copy of a previously innovated model, must be applied. The risk related to innovation grows as time passes because of the cost of opportunity.

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<sup>3</sup> Since the purpose of this essay is not to discuss Solow's theory, I will jump directly to conclusions related to innovation.

<sup>4</sup> In accordance to our prior definition of innovation, we can understand this technological change as innovation (this change, achieved through research, is intentional).

Leaders have to understand people. It is easy for leaders to envision the results of innovation, yet they have failed in transmitting this vision to its subordinates. True, successful leadership has to understand the fear related to innovation (fear of change, cost related issues, etc.) in order to implement it.

It is only through innovation that organizations may achieve the growth and sustainability its members desire. It is only through a successful understanding leadership that these changes can take place. Thus, leadership through innovation is the only way both, organizations and individuals, may achieve the goals set before, the desired stability.