



Connecting the Dots between Innovation and Leadership

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At a recent Wharton roundtable discussion on leadership and innovation, Wharton management professor [Michael Useem](#), event moderator, initiated discussion by posing a general question: How are leadership and innovation linked? "How exactly do we put those two together? How do we lead in a way that generates innovation?" he asked, describing the synergy as "a kind of high-octane fuel we ought to get as much of as we can."

He then asked the panelists -- who had come to campus to participate in Wharton's 125th anniversary celebration -- to describe a single factor that they feel is most critical to innovation in their industry. C. Robert Henrikson, chairman and

CEO of global insurer MetLife, focused on marketing. "In our industry, the winners will be determined because of marketing. By that I mean true marketing, not sales support, which is what the insurance industry is about in the United States." Executives beyond the sales team, such as lawyers and financial officers, need to meet with customers regularly. All parts of the organization must have a sense of the customers' business to anticipate their needs and reach out with innovative ideas, he said.

Henrickson, who recently spoke on a panel with other insurance executives, noted that some participants appeared to have no marketing plan other than to be a fast follower of innovations developed by competing firms. That might work for small insurers, Henrikson said, but not for a major player like MetLife. "I can't wake up and say, 'It's good to be a fast follower.' You have to get out in front of consumer behavior. That is what will be the differentiator in our industry."

Alex Gorsky, head of Pharma North America and CEO of Novartis North America, raised the issue of size. The drug industry has gone through a series of cross-border mega-mergers aimed at cutting costs and improving weak product pipelines, but those mergers appear to have had limited success. "It's really important not to confuse size with true innovation," Gorsky said. "Research shows big is not necessarily better."

Adding scientists to a lab that is already going down the wrong path will not improve the results, he argued. Gorsky went on to note that much of the most innovative thinking in the pharmaceutical industry now comes from divisions of major drug firms or from smaller biotech companies.

Seth Waugh, CEO of Deutsche Bank Americas, cited culture as a critical factor in promoting innovation. Business leaders, he said, create this environment by offering incentives for workers who innovate and by making it clear that innovation is expected. "You must have people with that hunger to always learn, who are always open and who think about things in a different way. You always have to reinvent yourself tomorrow."

Technology also factors heavily into innovation, said Connie K. Duckworth, retired partner and managing director at Goldman Sachs, who now runs a non-profit organization creating economic development opportunities for women in Afghanistan. The advent of desktop information technology

transformed the financial services industry during her career on Wall Street in the 1980s and 1990s, she noted. New computer technology allowed companies to analyze the role of risk and to track risk in financial services, which changed the dynamics of the business.

Wharton professor of health care systems [Patricia Danzon](#), who has conducted extensive research on pharmaceutical industry mergers, identified passion as critical to innovation. She acknowledged that passion is difficult to quantify, but suggested it may be linked to workers who have a stake in the business, either financially or in small firms where there is clear authority and little bureaucracy. "So much innovation in the pharmaceutical industry is coming from the small firms ... and it seems to come from the passion and the involvement of being master of your own destiny."

New York City developer Jeffrey Katz, CEO of Sherwood Equities, a major investor in Times Square, said business leaders must remain open to what comes their way in order to capitalize on opportunities, especially in the fast-paced deal-oriented real estate development industry. "The marketplace, at least in New York, is extremely [fast-changing]. Unless you are sensitized and able to react right away, you will be reading about a deal next week rather than doing it."

Wharton finance professor [Peter Linneman](#), founding chairman of Wharton's real estate department, said there is no magic "Aha!" moment in most innovation. "It's just all hard work -- showing up everyday in the morning, studying plans, walking around seeing what other people are doing. If you wait for 'eureka,' you are never going to have innovation."

"Rifle-shot" Acquisitions

The panelists were also asked whether it is better to buy business innovation through mergers or acquisitions, or build it from the ground up.

According to Waugh, it's always preferable to create new businesses internally because a homegrown enterprise is likely to fit better in the existing corporate culture. New growth from within also helps keep the organization flat. However, he acknowledged that in order to stay ahead of the competition, there are times when it is best to do a highly targeted "rifle-shot" acquisition if an opportunity fits well into the parent company's overall portfolio.

Henrikson noted that his company has a long tradition of internal development as a mutual company. When the firm went public in 2000, MetLife opened the door to the possibility of more merger and acquisition activity but, Henrikson emphasized, it's talented managers -- not necessarily acquisitions -- that drive innovation.

For Katz, build or buy represent two very different business strategies in the real estate industry. Katz is in the build-from-within camp. In order to grow, he encourages contrarian thinking. If a developer waits to see what the crowd is doing, it's too late, he said. To balance that risk, however, he also takes a conservative approach to business operations. Meanwhile, he stressed the importance of agility to reshape development plans over the months and years it takes to bring them to completion.

Gorsky again noted his industry's sketchy record when it comes to massive acquisitions. "The area where it does make sense is in complementary technology with new technology partners." He pointed to Novartis's acquisition of Chiron Corp., a biotech firm with a specialty in vaccine development and production, as an example of an acquisition that fits well with Novartis's broader strengths.

Innovation in China, India

Useem next asked about the pace of innovation in India and China. Panel members said they have not seen much true innovation coming out of those developing economies, at least up until now. "In our area, we have not seen them as innovators but as pretty efficient copiers," said Linneman, adding that while Chinese developers are hiring well-known architectural firms to design the skin of their buildings, that is a relatively minor aspect of construction. "They have a lot of money floating around, but I don't see a lot of innovation."

According to Danzon, the situation is similar in the drug industry, although Indian companies have made some strides in the production of generics. She suggested the lack of a strong patent system protecting

profits derived from innovation has held India back. She added, however, that new Indian patent laws are evolving and talented Indian scientists now are returning home to build start-ups.

Henrikson sees no innovation in the Chinese life insurance industry because it is so young. But he warned that foreign firms hoping to grow in China must devote time to understanding the market and consumer behavior that is unique to China. "I think one of the worst things we can do is assume that whatever we did here, we should import that design to another culture."

Gorsky said Indian drug makers are beginning to make progress and are starting to formulate their own new products. At the moment, he added, the most important pharmaceutical opportunity in India is in clinical trials. "There are massive patient populations there that have not been tapped in any major way."

The panelists concluded with some suggestions for students hoping to meld leadership and innovation in their careers. Henrikson, who began his career as a salesman, again stressed that all managers need to remain fixed intently on customers to uncover clues to innovation. Waugh stressed the need for balance. Quantitative skills and people skills are both important, he said. "People who really win are people who put all those things together."

Execution remains critical, continued Linneman. "Great ideas are cheap. Ideas matter, but the execution matters more." Duckworth said successful leaders must possess emotional intelligence and sensitivity to multi-cultural and multi-generational issues. Awareness of social concerns, she said, keeps executives in tune with customers and open to new possibilities.

Strong business leaders can make an impact on society that reaches beyond returning profit to shareholders, Duckworth said, and economic growth can provide jobs and advancement for people who might otherwise turn to terrorism. "Business has the opportunity to lead the world into a better state. When people have at least a ray of hope for their children" -- even if they themselves won't have a better life -- "they do not put on bombs and get on a bus."

Gorsky, whose industry has been criticized for making outsized profits on life-saving medicines, said industry leaders must act responsibly themselves, but also build companies with integrity extending throughout the employment base. "As senior leaders, we must actively encourage our organizations to do things in the right way."

Danzon stressed the importance of persistence in sticking with a goal, but at the same time, remaining flexible, particularly in the high-risk drug development industry. "From what I see in the biotech/pharmaceutical world, the people who succeed are those who take failures and turn them around into the next step."

Reflections on Their Careers

Danzon began her career as a researcher at Rand when health economics was a new field. Later, she studied health care systems and was able to inform the debate on national healthcare during the Clinton administration and in other countries. More recently, she has been examining the controversial issue of international drug pricing. Leadership and innovation in her area is reflected in research and policy, she says, adding that research plays an important role in the health care debate and, "at the margins," can lead to important policy shifts.

Henrikson's career began in the marketing trenches. He earned a law degree but realized soon after graduation that he would not make a great lawyer. He had been selling insurance at MetLife to put himself through school and continued on, thinking the job would be a good way to make money until he discovered another calling. Instead, this "purgatory" turned into the career he was looking for because he found selling insurance exciting, from meeting with individuals at their kitchen table to working with major pension funds worth billions.

Gorsky, who graduated from West Point and served in the military before beginning a business career, said those years gave him leadership training as well as insights into innovation. "When your purpose is to save soldiers' lives, that leads you to be innovative," he said. "I also learned that you are always going to be asked to do more than you have the resources for."

Duckworth noted that her career has been characterized by ever-increasing risk. She joined Goldman after graduating from Wharton in 1979 and while she picked a large, stable corporation, the early years of her career were marked by rapid change and innovation taking place on Wall Street. "It was a period of constant innovation -- product innovation and client innovation."

She said she became drawn to entrepreneurship during her last assignment when she developed a new trading platform and spun it out of the firm. That led to her greatest career risk: Leaving Goldman in 2001 to work as an angel investor and serve on corporate boards. For most start-ups, she pointed out, there really is no option to go it alone and build from within. Alliances are critical for these companies. Cash is draining away on a daily basis. It's partner or die."

Katz's goal was always to lead his own company. When he came to Wharton and indicated to his interviewers that he wanted to develop real estate in New York, he was told he might have come to the wrong place: The school's main mission was to develop top managers for large corporations. Katz laughed as he recalled his response. He said he was relieved to learn he was applying to the right school because he planned to become the top manager of his own large corporation.

Linneman's career was shaped by an openness to accept off-beat assignments. As a finance professor he was asked to take on real estate and propelled himself into learning all he could about the business. Somehow, he said, he became a favorite consultant to the German real estate industry. "All of us have had career twists," he said. "Part of innovation is just being open to doing stuff when you have no idea what you're doing."

Waugh's career has gone through three distinct phases. The first was a learning stage as a bond trader at Salomon Brothers. Next came a transformation period at Merrill Lynch as the company was changing from a retail firm to an institutional player. "The third part, hopefully, has been leading." He cautioned against focusing on a long-term future at the expense of the present. "Everyone wants the golden path. How you get there at the end of the day is by doing a great job at what you're doing. Stay in the moment instead of worrying about the next job."

Finally, Katz stressed that achieving success through hard work is not possible without a passion for the work itself. "There are a lot of qualified people out there competing. You cannot really work hard at something you don't love, and you're not going to succeed if you don't work hard."