



Innovation in a Post-Recession Environment

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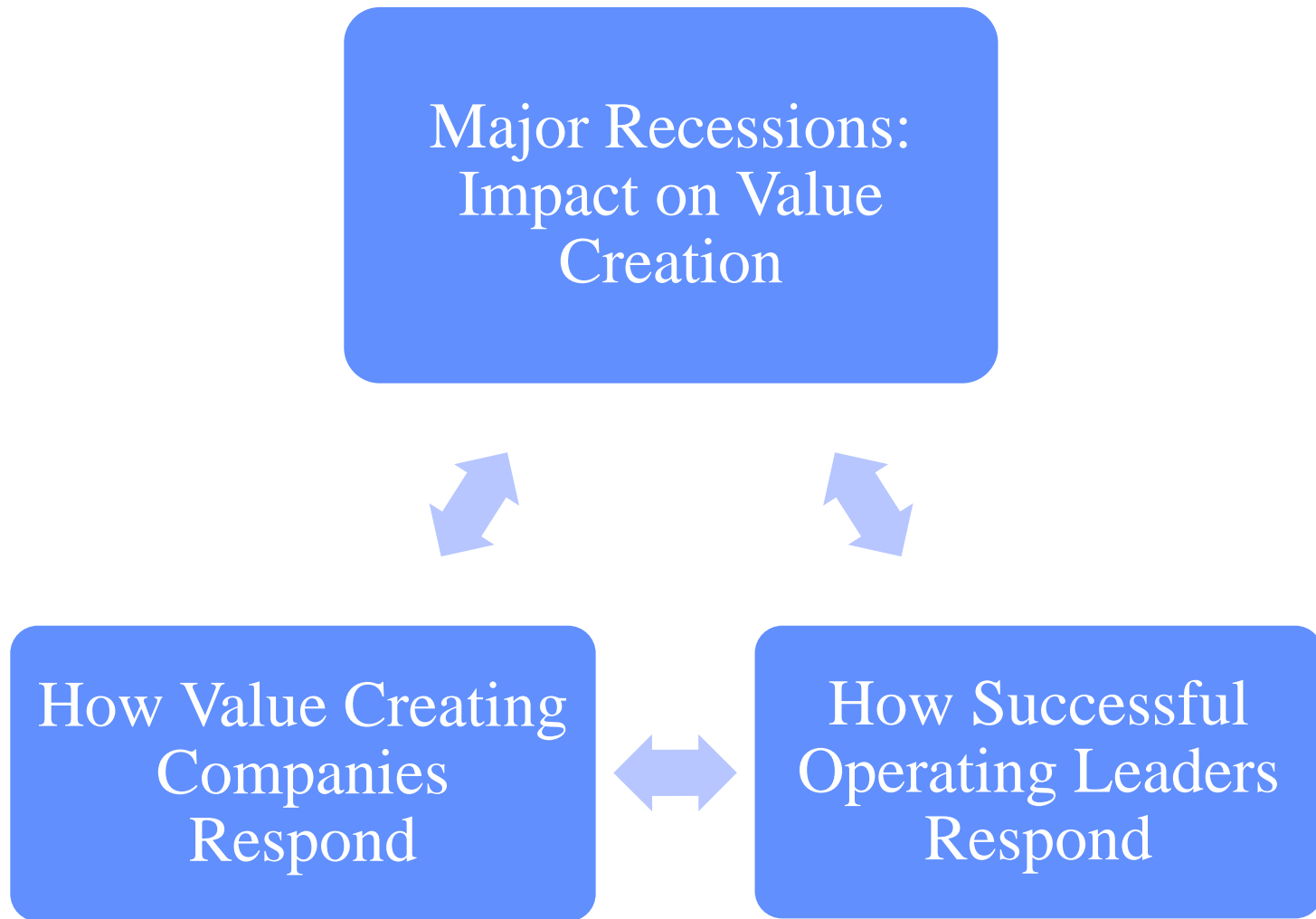
Darden School of Business

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Overview



Recent Innovations at Darden School

- Recent launch of Global EMBA Program.
- Success of MBA Program for Executives.
- Wave of innovations in our Full Time MBA Program.
- New Executive Education Programs: women, Wise, and turnarounds for K-12 educators.
- Technology experiments.
- Innovation Lab – new classroom setting.

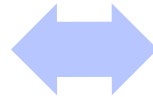
So.....

- Nice rankings results.
- Good direction and momentum.

Major Recessions: Impact on Innovation

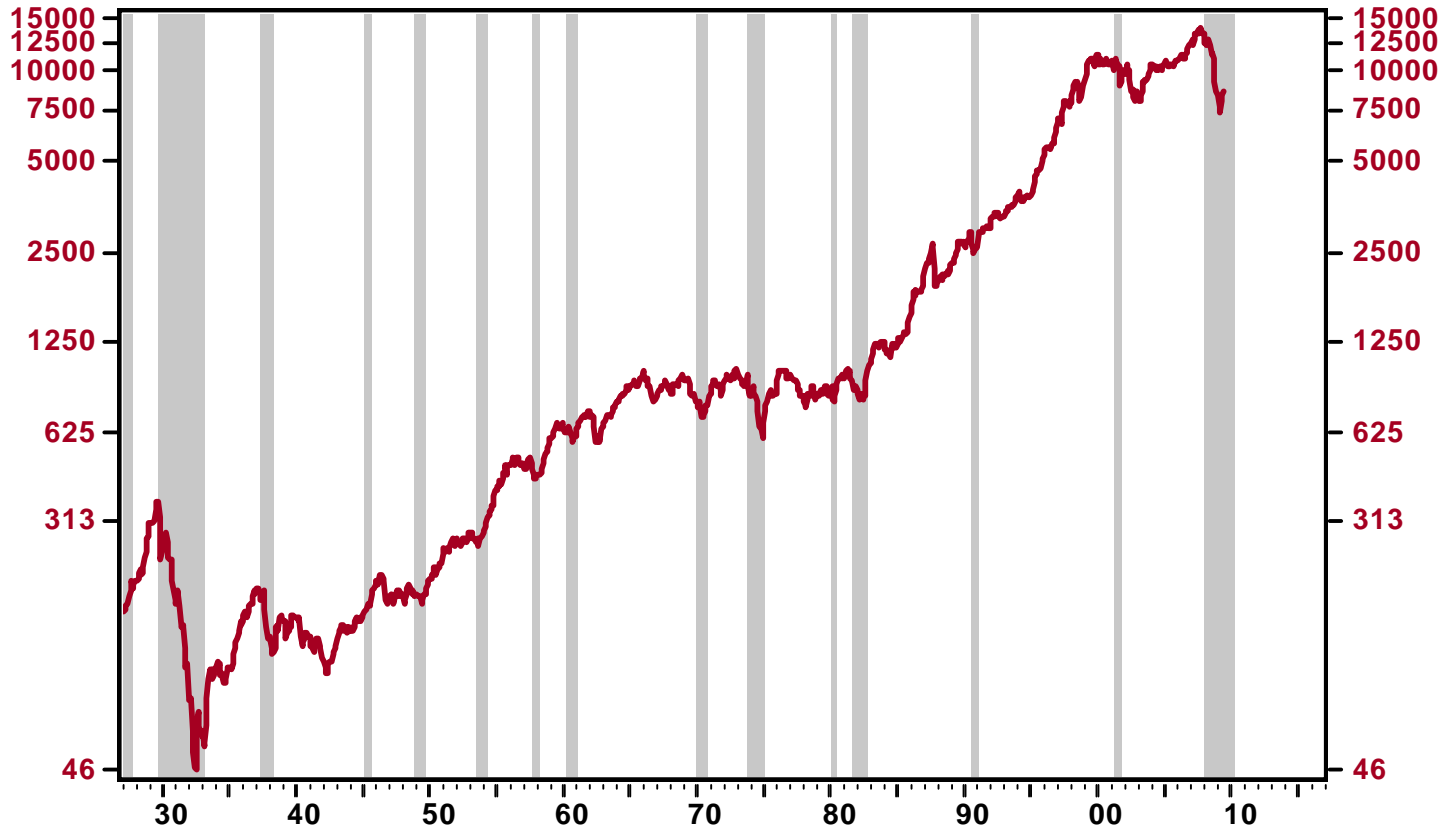


How Innovative
Companies
Respond



How Successful
Operating
Leaders Respond

Dow Jones: 30 Industrial Stocks: Average Price Close



Source: Wall Street Journal /Haver Analytics

Impact of Recessions

- Dampen growth, sometimes with lasting effects.
 - 2001, 1974, 1970, 1929-34.
- “Creative destruction” destabilizes industries and norms of competition. Sweeps away weak players. Accelerates the impact of innovations:
 - 1980-82: spread of desktop computing; demise of minicomputers and mainframes.
 - 2001: spread of “Web 2.0.” Demise of dial-up.

The New Pessimism: “Reset” “New Normal”

- September 2008, **Nicholas Sarkozy**: “Laissez-faire is dead...The all-powerful market that always knows best is dead.”
 - November 6, 2008, **Jeffrey Immelt**, this is not a recovery, this is an “emotional, social, and economic reset.”
 - January 20, 2009, **Barack Obama**, “...a nagging fear that America's decline is inevitable...the next generation must lower its sights.”
 - February 2009, **Steven Ballmer**, “The bubble has burst...this is a once-in-a-lifetime economic event...a fundamental economic reset.
 - May 2009, **Mohamed El-Erian**, “the new normal” and “potent cocktail – a self-reinforcing mix of De-leveraging, De-globalization, and Re-regulation...that disrupt the normal functioning of markets and the global economy.”
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“Reset” Compared to Recession

- “Recession”: at least two consecutive quarters of negative economic growth.
- “Reset”: *this time it really is “different.”* A downward step-change in welfare, outlook, and self-confidence.

Transformational:

- Big.
- Costly.
- Enduring.
- Pervasive.
- Unanticipated.

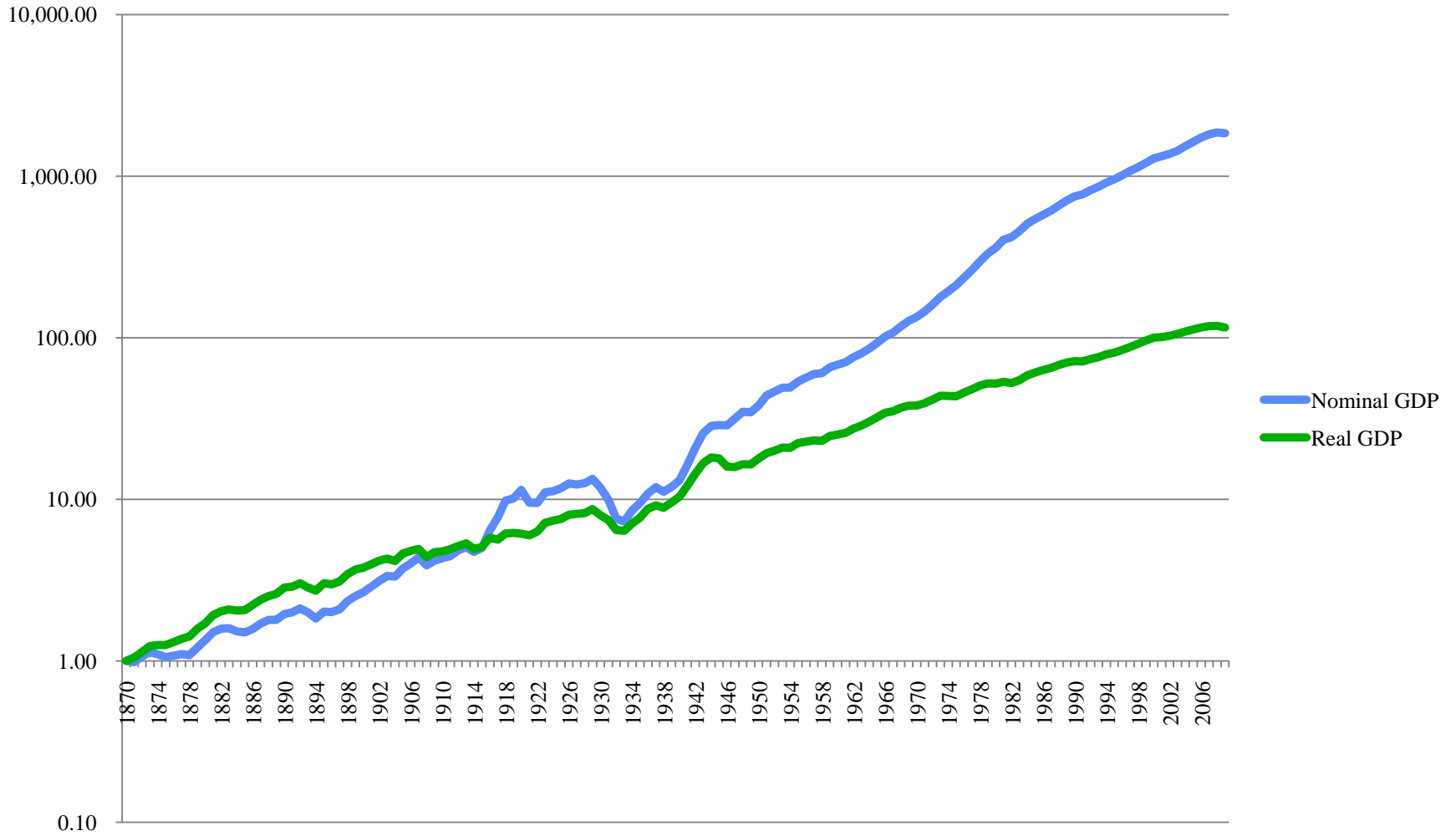
Research on Consequences of Financial Crises

- **Leverage:** an average of seven years for deleveraging to run its course.
 - (Carmen and Vincent Reinhart)
- **GDP:** economies can take up to 50 years to recover to a level of activity that prevailed before financial crises that featured bank panics, global scale, and adverse capital flows.
 - (Qian Rong, Carmen Reinhart, and Kenneth Rogoff)

Questions for Leaders

- How will we know a reset when it occurs?
- Are we in a reset now?
- Whatever it is, what's a sensible innovation thesis going forward?

Find the "Resets" and Recessions



Comparison: “Great Recession” to Other “Resets”

	Great Depression	1893-7	Long Depression 1873-79	2007- Present
% Nadir of GDP Contraction	-29%	-11%	-3%	-3%
Years to Recovery of GDP at Outset	10	4.5	2	N/A
% Nadir of Stock Market Contraction	-84%	-26%	-43%	-54%
Years to Recovery of Stock Prices at Outset	24.8	6.3	8.3	N/A
% Unemployment at Nadir	25%	N/A	N/A	10%
Length of Official Recession (months)	56*	35*	65	18
* Includes months of contraction during period.				

Perhaps “Resets” are too special to generalize.

“All happy families resemble one another. Each unhappy family is unhappy in its own way.”

Leo Tolstoy

Are we in a “reset”?

Yes

- Started with a bank panic.
- Global in scope.
- Housing and finance.
- Job destruction. Sticky unemployment.
- Slow de-leveraging.
- Big transformation.
- Pundits say so.

No

- Many panics, few resets.
- Some regions buoyant.
- Buoyant industries: Oil & Gas, health care, agribusiness.
- Unemployment: structural?
- De-leveraging usually after bubbles.
- When *hasn't* the US been transforming?

If we *are* in a “reset,” when did it start?

- September 2008? Bank panic.
- August 2006? Mortgage defaults start to rise.
- 2001? Internet bubble pops, Enron, 9/11.
- 1989? Collapse of Soviet sphere; “end of history.”
- 1973? First oil shock.
- 1971? Abandonment of Bretton Woods system.

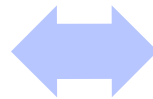
My view: this is a “*preset*”

- Free markets and financial institutions will always have an element of instability.
- Impossible to prevent future financial crises.
- The global economy is vulnerable:
 - High leverage.
 - Fiscal deficits.
 - High uncertainty depresses consumption and investment.
 - Domestic and Geo-politics.
- Subprime Crisis and Great Recession are the *precursor* to a possible true reset in the future.

Major disruptions:
Impact on
Innovation

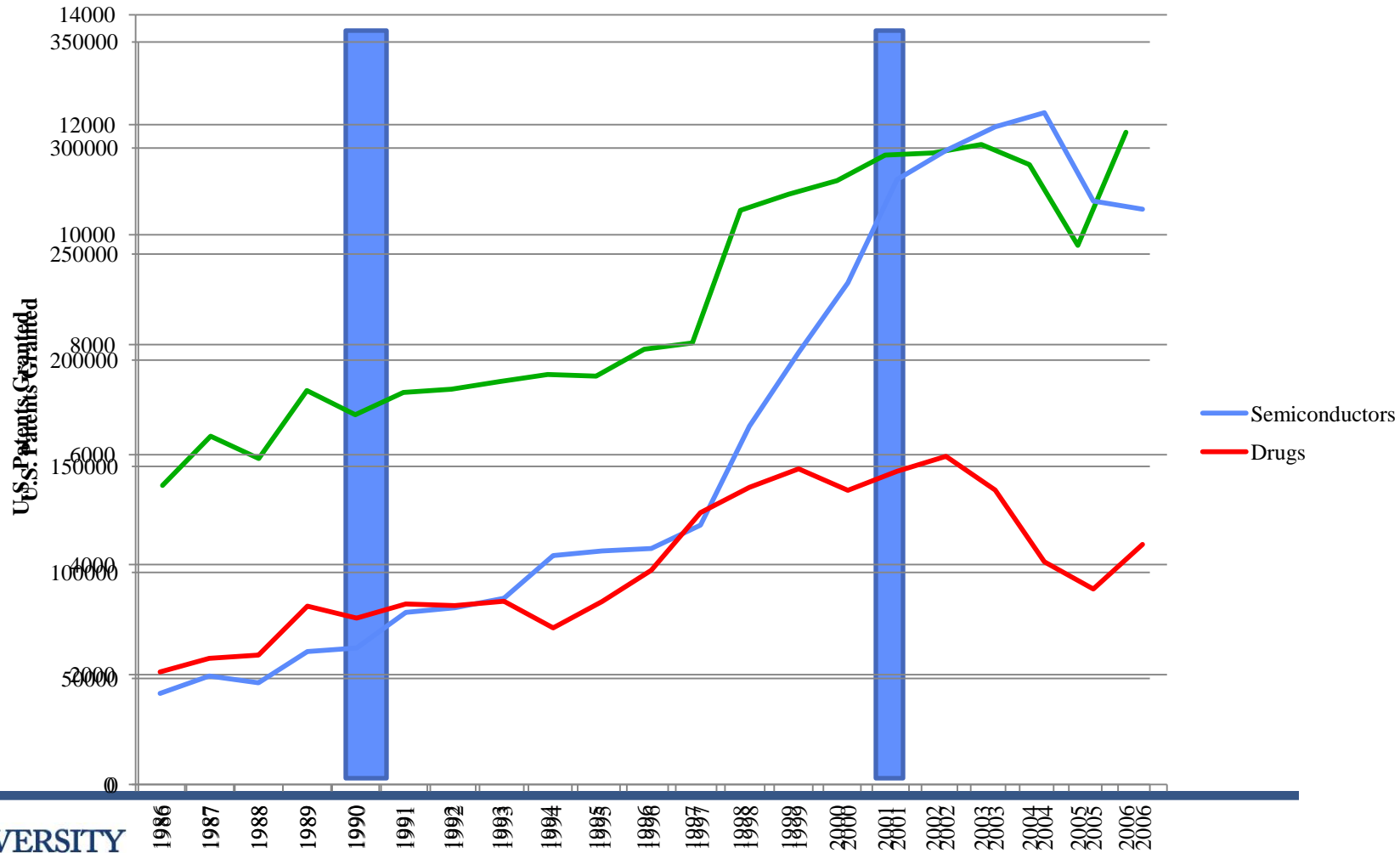


How Innovative
Companies
Respond

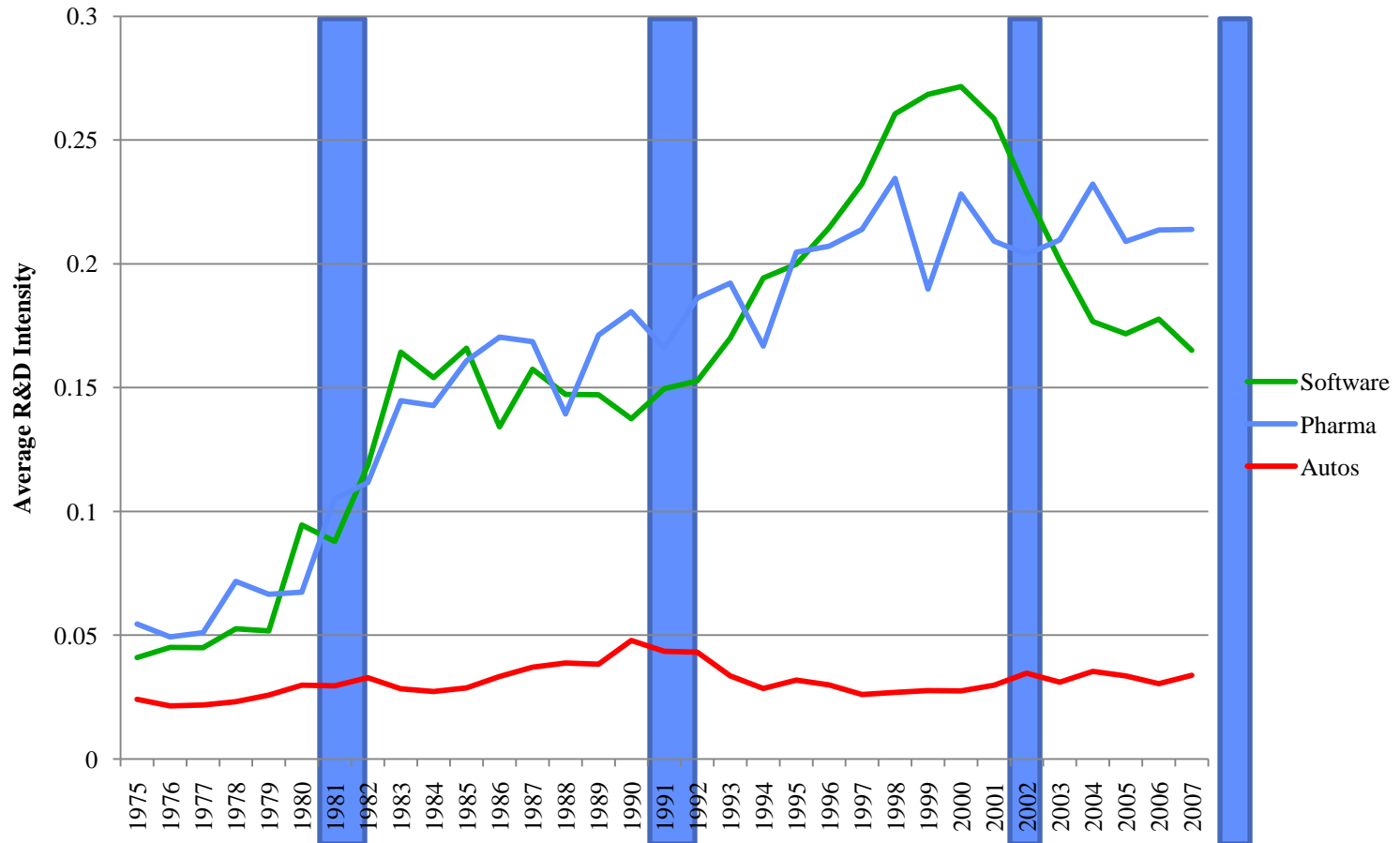


How Successful
Operating
Leaders Respond

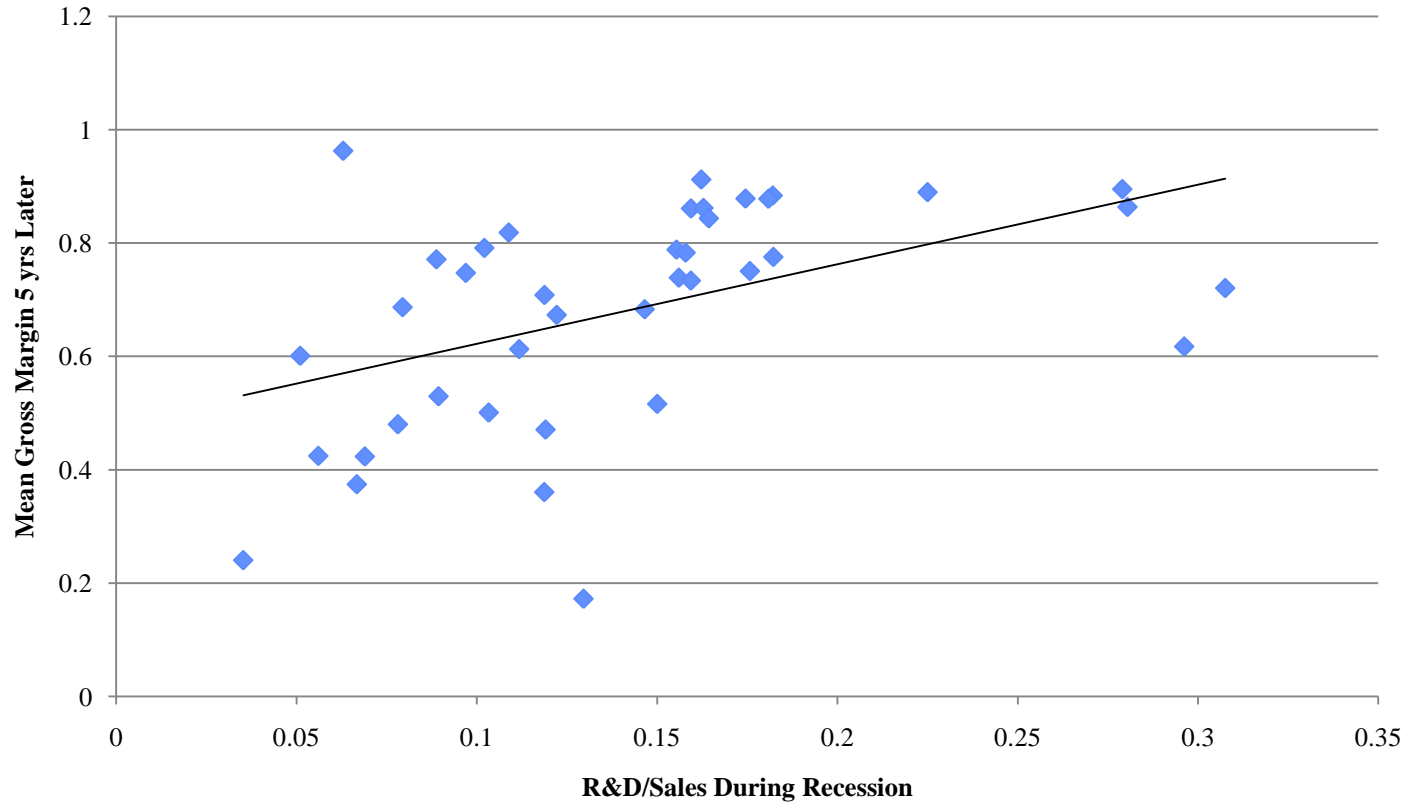
Innovative Output: Patents



Innovative Input: R&D Expenditures



Innovative Success

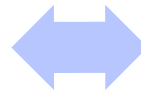


Source: Analysis by Darden Professor Raul Chao. Data for software industry.

Major Recessions: Impact on Innovation



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Leadership is the Critical Constraint on Corporate Growth in the Post-Recession Economy

Research@Darden: Attributes of Growth and Innovation Leaders

Who (faculty):

- Jeanne Liedtka
- Ed Hess
- Michael Lenox
- Raul Chao
- Jim Clawson
- Scott Snell
- Alec Horniman
- Bob Landel
- Sarasa Subramony
- Sankaran Venkataraman

What:

- Major research programs.
- Numerous articles, books, case studies.
- New programs.
- Leading edge and Darden point of view.

Research@Darden: Growth Leaders



Jeanne Liedtka,

- Book: *The Catalyst*.
- In-depth study of 50 extraordinary growth leaders.
- Three-year project.
- Focus: the role of operating managers in achieving sustained organic growth.
- Established large companies (not hi-tech startups.)

Liedtka: Why Growth Initiatives Stall

- Overwhelming focus on data and analysis: “analysis paralysis.”
- Love of the familiar.
- Headquarters’ desire to monitor, prioritize, and sustain a clear focus.
- Let’s do it ourselves. Partners are a problem.
- Let’s keep it a secret; even from customers.
- We want big payoffs only.
 - But if an opportunity is big and obvious, chances are somebody else has already seen it.
 - If you insist on home runs, you won’t get many singles (or home runs.)

Lessons from Darden's Study of Growth Leaders

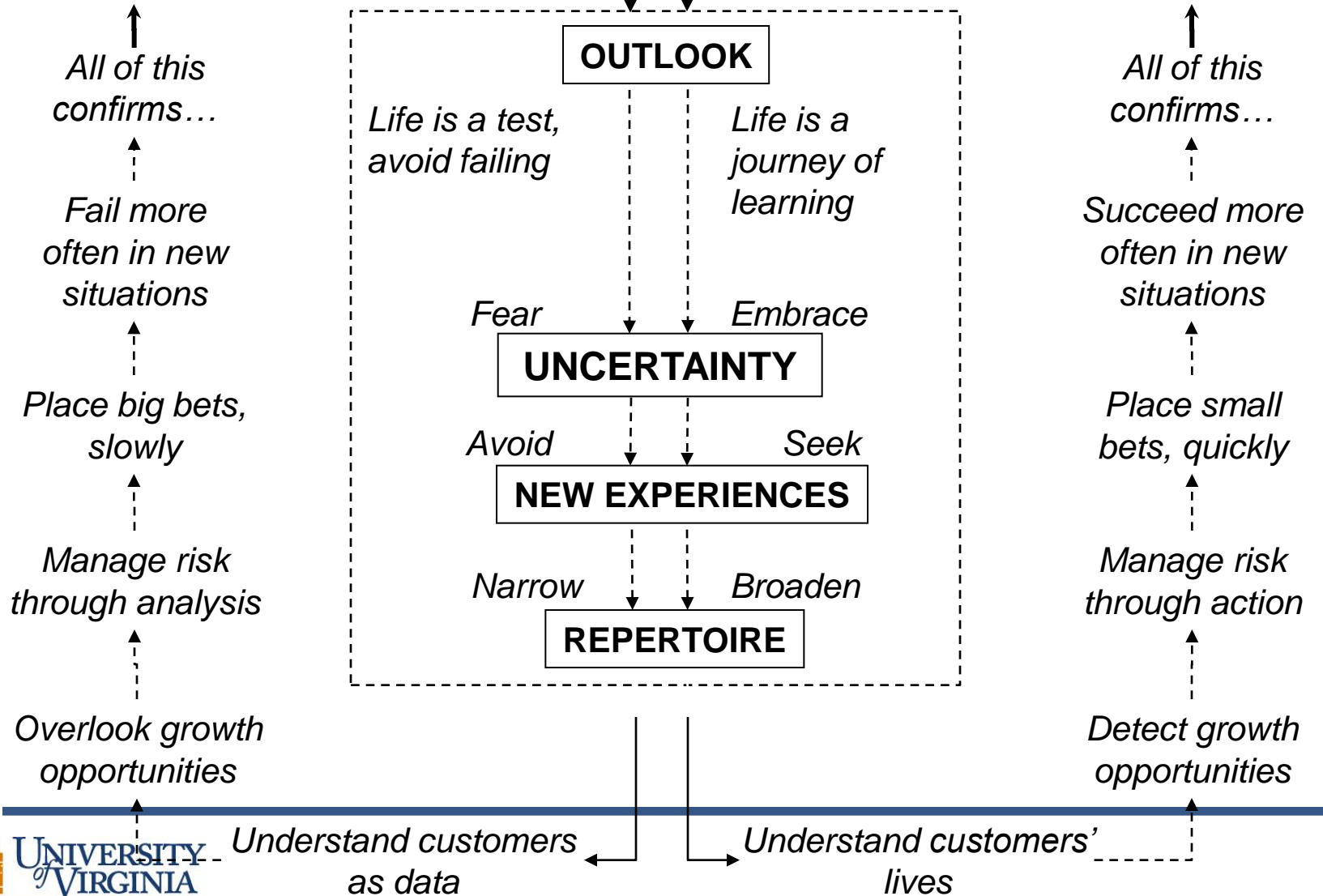
- Growth begins with the mindset of the leader. They think like lean, mean entrepreneurs.
- Focus on “turbocharging” the existing businesses rather than on large, disruptive change. “What can I accomplish with what I have?”
- Small is beautiful: place many small bets.
- Pragmatic idealism: take risks with business ideas, but not with people.
- Sense of urgency.

Failing Under Uncertainty

Succeeding Under Uncertainty

FIXED MINDSET

GROWTH MINDSET

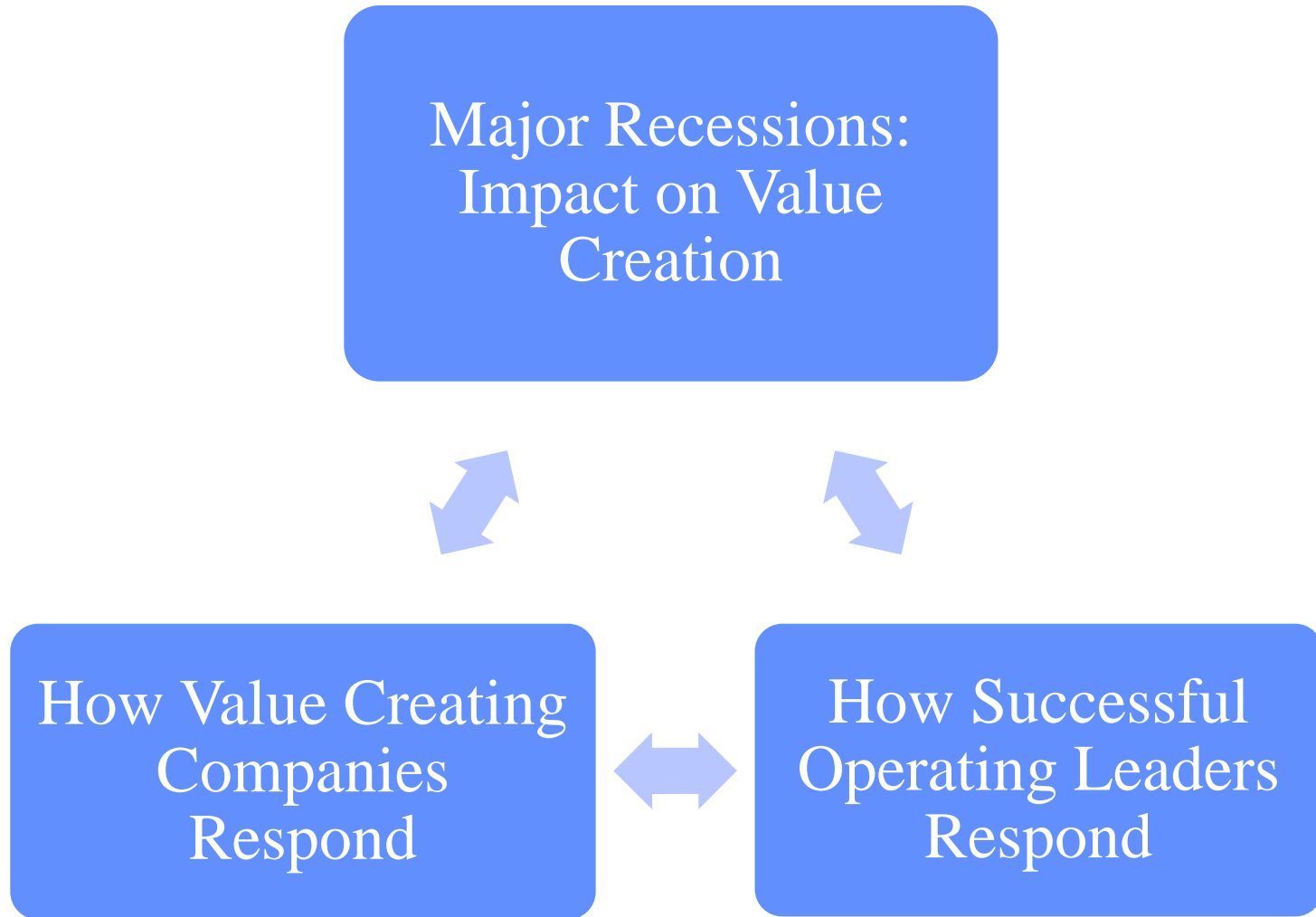


Mindset is Crucial

- Knowledge is now commoditized by information systems and the Web.*
 - Advantage will accrue to those firms that excel at creativity and design.
 - This requires new ways of managing, listening to customers, transforming firms.
- Requires new kinds of leadership, of the kind outlined here.

*See Daniel Pink, *A Whole New Mind*.

Conclusion



Implications for Innovation in Executive Education

- Great uncertainty about how Executive Education will adapt to the host of pressures it faces:
 - Demographics.
 - Technology.
 - Economics.
 - Globalization.
 - Executive Education must innovate.
 - Innovation mindset is a *learning* mindset:
 - Embrace uncertainty.
 - Seek new experiences.
 - Broaden the repertoire.
 - Understand customer's lives.
 - Innovation mindset starts at the top.
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