Batten Briefings

From the Darden Graduate School of Business Administration

WINTER 2003 · BATTEN BRIEFINGS
A quarterly discussion of innovation, entrepreneurship, and business change

Vital Centers: How Regions Are Transformed

by Sankaran Venkataraman

Why do some regions become vital centers of entrepreneurial activity while others languish? Why, for example, has Silicon Valley been more successful than Central Virginia? Why are Austin and Bangalore booming while Albany struggles?

An important part of the answer is that none of these regions was transformed suddenly, on the strength of a single breakthrough idea. Silicon Valley evolved over a period of 40 years, and the transformation was possible only because a heady mixture of intangibles—novel ideas, enterprising people, a culture of risk taking—came together in informal places with such tangibles as seed capital to produce transformative business ideas. Intangibles, and the ways in which they interact, are too often overlooked, but understanding them is crucial for nurturing entrepreneurial activity around the globe. And nowhere is it more crucial than in the world's developing regions.

The very notion of transformative entrepreneurial activity is countercultural in much of the developing world. Many emerging regions are characterized by cultures that celebrate and depend on tradition. The most talented people are directed into positions in which they are not rewarded for making bold bets. As a result, unconventional ideas, companies, projects, and products do not emerge.

People who become entrepreneurs under these circumstances do so as a last resort. They may be unemployed, underemployed, or handicapped, and their efforts generally result in low-growth enterprises. Because the wealthy favor traditional investments such as real estate and gold, funds for entrepreneurs are provided not by venture capitalists, or other risk capital investors, but by governments that shun bold ideas and the risks that accompany them. Consequently, the recipients of these funds enter into franchising, household services, retail or corner grocery stores, restaurants, and other imitative products and services. In such a business culture, talented people who do want to create something new emigrate to locations where it is easier to take chances. This problem is acute now because the barriers that restrict the mobility of capital, labor, and intellectual talent are crumbling.

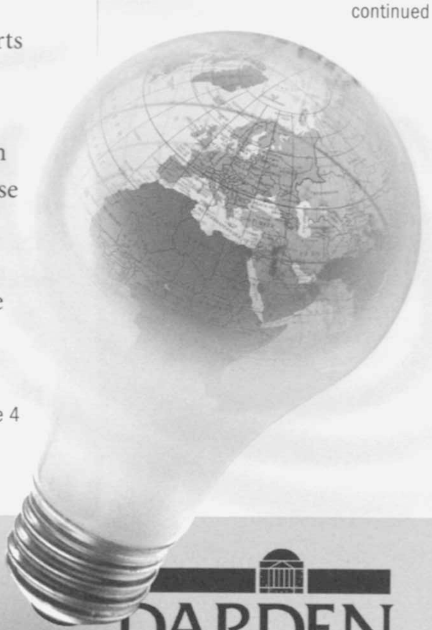
continued on page 4

Mapping Energy for Innovation

by Rob Cross, Wayne Baker, and Andrew Parker

Imagine that you're the CEO of a large organization in an increasingly competitive industry. You know that the company must become more innovative, and you suspect that there are a lot of good ideas floating around the business units. So you decide to map the organization's informal, or social, network to uncover how information and ideas flow throughout the company. If you identify who is privy to the most information and the most promising ideas, you will have located the parts of the organization ripe for innovation, right?

continued on page 6



INSIDE

DARDEN
UNIVERSITY *of* VIRGINIA
BATTEN INSTITUTE

Leveraging Difference for Organizational Excellence

by Martin N. Davidson

For two decades, human resource initiatives to manage diversity—to recruit, retain, and develop a heterogeneous group of employees—have been instrumental in introducing new perspectives to the workplace. Many managers, however, may be wondering why they are not seeing greater financial returns on their investment in such initiatives. The answer is that they have not been taking full advantage of the diversity they have achieved.

Cutting-edge organizations are realizing that instead of simply managing employees' differences, they can learn to leverage them. They can use people's distinctive competencies and approaches, whatever they may be, to transform business processes in a way that creates sustainable competitive advantage. Consider the Hispanic team leader who treats employees as though they are all part of her family, advising them on their personal as well as their professional lives. The high levels of loyalty and productivity she inspires reflect her ability to leverage an aspect of her own cultural identity: strong family relations. And the result is a team that adds value to the organization.

In my research, I have found that leaders who approach diversity as a source of competitive advantage live according to four basic assumptions:

Differences create opportunities. Leaders who only manage difference are stuck in a self-limiting mindset. To them, differences among employees create problems that must be solved. Leaders who leverage difference explore and exploit, rather than squelch, the conflicts that arise from diversity because they know that in discomfort and disagreement lie opportunities for innovation. For instance, the manager of a business unit in a mining company shuffled his leadership team to include a contentious and culturally diverse set of managers. He believed that their different perspectives, well managed, would drive success. The unit's record-setting performance over the next two years proved him right.

The important differences are not just the ones you can see. When diversity is managed, an organization usually focuses on the most conspicuous aspects: race, gender, sexual orientation, able-bodiedness. When difference is leveraged, the organization recognizes these important dimensions but also explores less apparent ones. For example, the best R&D teams comprise members with various approaches to processing information and solving problems. Some team members are brainstormers extraordinaire, highly skilled at generating ideas. Others are great at "editing" ideas, focusing and refining the unrestrained creative juices.

Diversity is an enterprise-wide concern. In many organizations, managing difference means launching initiatives through the human resources function, which has long been solely responsible for everything related to organizational diversity. These initiatives include hiring a good mix of people at all levels, keeping them there, and ensuring that they are treated fairly. In an organization in which employees' differences are leveraged, diversity is an operational and a strategic concern, integral to all activities that build competitive advantage. A manufacturing manager in such an organization, for example, gathers many perspectives on an operational design problem to find the most innovative solution. A marketing manager calls on people of diverse cultural backgrounds to enhance the management of customer interfaces. And a project manager assembles people with different emotional predispositions to form an effective team.

Traditional approaches to managing difference can help organizations learn to leverage it. Managers should not abandon their diversity-management programs. Established recruitment, training, and mentoring programs are often the best models available to help the organization move toward a leveraging approach. And the work that has been done to manage diversity prepares the organization to leverage differences that may emerge as strategically important. For instance, managers who grappled with race and gender issues in the 1970s and 1980s were prepared to deal with the cultural differences that gained importance when business became increasingly global. And their experience with cultural diversity will prepare them to leverage a new set of differences when the competitive environment shifts again.

Martin N. Davidson is an associate professor at The Darden School. He can be reached at davidsonm@darden.virginia.edu.