

The Biggest Risk of All: Not Innovating

Gerard J. Tellis

The Syrian civil war, Greece default, US debt, and global recession are some of the big risks the world faces in 2013. But the biggest risk a company faces is not from external global events but the failure to adopt unrelenting innovation. This is because technology is constantly changing and obsoleting a firm's current products and services. Consider the following examples just from the year: the popularity of digital technology sent the leading photography company, Kodak, into bankruptcy; the continuing success of the iPhone has sent shares of the leading mobile phone maker, Nokia, tumbling; the popularity of the iPad has decimated the market cap of the leading computer maker, HP.

Technologies today are advancing at an ever more rapid pace. That progress means that the current position of any company is never secure. The most vulnerable are those that are also the leading firms in their markets: the likes of Kodak, Nokia, and HP. The strong entrenched positions of market leaders and the steady cash flow from their successful products and services give them a false sense of security and insurance against risk. They lead to what Rajesh Chandy and I call the Incumbents Curse.

The incumbent's curse is partly driven by an organization's asymmetric attitude to risk: market leaders shun risky innovations because of the profits from their current offerings: entrepreneurs and small firms have little to lose and eagerly embrace risky innovations.

To maintain market leadership, incumbent firms need to adopt a culture of unrelenting innovation. This culture requires them to embrace risk, focus on the future, and cannibalize successful products with risky innovations. Failure to innovate is the greatest risk a firm faces.

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