Innovation Index Coalition

Why leaders must innovate in challenging times, too!

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In challenging times, when money is scarce, businesses must innovate in areas that cost the least but mean the most to key customers.

Warning signs for businesses in Europe and the USA are flashing, signaling unrest. Recession, layoffs, inflation, higher interest rates, and increased commodity prices force many leaders to freeze innovation projects. We would advise the opposite. The Covid-19 pandemic taught us that businesses that fared best in the crisis were the ones that continued to innovate. The simple truth is that businesses that fail to renew themselves gradually die.

When customers must choose between real alternatives, with tight budgets, they are most likely to choose the business, product, or service that is perceived as the most attractive. Today, we know that innovations perceived as valuable to customers provide lasting competitive advantages and profitability for businesses. We don't deny that in challenging times, leaders must be critical in their choice of investment projects. But to make good choices, leaders must have insight into the effects of various investments - quality and innovations - on key customer variables.

The Norwegian and the Spanish Innovation Indices (NII and ÍEI) at the Norwegian School of Economics (NHH) and Universidad Carlos III de Madrid (UC3M), have measured customers' perceived innovation capability for companies that are important to households. We are left with two lessons: (i) overall, businesses are perceived as not very innovative and not very attractive, (ii) businesses that score high on perceived innovativeness are seen as more attractive and have more loyal customers.

According to research done within the Innovation Index Coalition (IIC), innovative businesses have significantly higher stock price performance. But this only applies when businesses can boast high-quality products and services and satisfied customers. No innovation can compensate for poor quality.

The good news is that Norwegian and Spanish companies have satisfied customers according to NII and ÍEI. Data from Norway show that there is a difference of about 20 points in the level of customer satisfaction (74 on a scale of 0 to 100) and perceived innovation capability (53). In Spain the difference is smaller but in the same line: customer satisfaction scores higher (66) than perceived innovation capability (59).

Our suggestion is that in challenging times, leaders must freeze investments in quality and instead invest in innovation projects that elevate perceived innovation capability and attractiveness. Good leadership is about finding the right balance of resource input in relation to short- and long-term effectiveness and benefit. For businesses with high customer satisfaction, we would say that customer satisfaction is a necessary but not sufficient condition to compete. At the risk of being tabloid, we would say that quality in delivered goods and services is a "ticket to play in the market," while innovations are a "ticket to stay in the market."

Innovation projects do not have to be large, expensive, and uncertain. They can be created in many fields, including areas that require smaller investments and have a significant impact on different segments. In challenging times, this may be the most important lesson: innovate where it costs the least but means the most to important customer segments.