

# INNOVATION

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From Invention to Innovation – Exploring value creation

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# Creativity Vs. Innovation

- Individual Effort
  - Diverging
  - Tacit
  - Creative thinking emphasized
- Group Effort
  - Concentrating
  - Explicit
  - Critical thinking emphasized

# Issues in innovation:

- Can be technical or equally it can be organizational or branding, marketing, etc.
- The impact of innovation, either:
  - Radical? Create new product categories, require new competencies, render existing ideas/techniques/companies obsolete
  - Or Incremental?
- The commercialization of innovation (translating knowledge into economic value)
- The diffusion of innovation (how new innovations are adopted by users and spread between people and firms)

# Five main areas determine an organization's overall Innovation

- **Product Innovation** - new products introduced to the market
- **Service innovation** – new services introduced to the market
- **Market Innovation** - new ways to enter & exploit targeted market.
- **Process Innovation** - new production methods, approaches, and technologies used to improve productivity.
- **Business Model Innovation** - a fundamental re- conceptualisation of what the business is all about. This leads to a dramatically different way of playing the game in an existing business.
- **Organizational Innovation** - an organization's overall innovative capability through combining strategic orientation with innovative behaviour and process.

# Sources of Business Opportunities (Peter Drucker, 1986)

- The Unexpected Success, Failure or Unexpected Events.
- Incongruities - discrepancies between —what is and —what was expected. They are a sign of change that has occurred, and therefore a sign of opportunity.
- Process Needs
- Changing Industry & Market Structure
- Demographics - changes in population size, age structure, composition, employment, educational status, and income.
- Changes in Perceptions:
- New Knowledge:

# Two Types of Organizations

- One for ***exploiting existing capabilities***, products through traditional means (efficiencies, processes)
- One for ***exploring new concepts and approaches***, and for finding new opportunities for growth through adaptable, flexible approach

# Innovation Drivers

## Internal

- **Structure** (e.g. little hierarchy)
- **Culture/climate** (e.g. trust, risk-taking)
- **Strategy** (e.g. vision, differentiation)
- **Work design** (e.g. teamworking, autonomy)
- **Management characteristics** (e.g. support for ideas)
- **HRM practices** (e.g. rewards, selection, training for creativity)
- **Technology**
- **Collaboration** (e.g. projects with suppliers)\*
- **Research and Development aspects**

## External

- **Customer expectations**
- **Competitor pressures**
- **Market structure**
- **Shareholder expectations**
- **Government legislation**

## **Structural Variables:**

- Organic Structural
- Abundant Resources
- High Interunit Communication

## **Cultural Variables:**

- Acceptance of Ambiguity
- Tolerance of the impractical
- Low External Control
- Tolerance of risk
- Tolerance of conflict
- Focus on ends
- Open system focus

## **Human Resource Variable:**

- High Commitment to training & Development
- High job security
- Creative people

**Stimulate  
Innovation**

# Evolution of Innovation Paradigms

- **Closed innovation paradigm**

- Stockpiling ideas
- Monopoly on talent
- Long-term employment relationships
- Long-term investments

- **Tension**

- Long-term investment & short-term results

# Evolution of Innovation Paradigms

- **Challenges of closed innovation**

- Fluid employee-employer relationship
- Short shelf life for ideas
- Difficult to monopolize knowledge

- **Solutions**

- Open to new ideas, alternatives, ambiguity & Uncertainty

- **New Questions:**

- Can you profitably use other's ideas in your own business?
- Can you profitably allow others to use your ideas in their businesses?

# Approaches to Open Innovation

- **Acquisition.**
- **Alliances with Firms**
- **Academia.**
- **Innovation Collaborative.** Innovative collaborative projects can replace or supplement a firm's R&D capability. These collaborations match problems with problem solvers.
- **In-licensing.** Many companies successfully license another firm's intellectual property.
- **Customers and Lead-users.** A great source of innovations is from customers, especially those who are lead users.

# Innovators' Dilemma

- Well-managed companies often fail because the very management practices that have allowed them to become industry leaders also make it extremely difficult for them to develop the disruptive technologies that ultimately steal away their markets.
- Traditional Organizations:
  - Are Designed to Produce Stable, Predictable Performance
  - Fight Unauthorized Behavior -- and Ambiguity
  - Use Specialization to Narrow Members' Focus
  - Emphasize Control and Managerial Intent, Ignoring Other Cognitive Resources

# Consequences of Innovations

## Sustaining

- Improve performance of established products
- Meet demands of mainstream customers in major markets
- Vary in difficulty, cost, time, etc.
- Established firms

## Disruptive

- Generally underperform established products in mainstream markets
- Have new features that fringe / new customers value
- Cheaper, simpler, smaller, more convenient to use
- Entrant firms

# Disruptive Innovation Theory (Christensen C. M, 2003)

- Points to situations in which new firms can use relatively simple, convenient, low-cost innovations to create growth and triumph over powerful incumbents.
- Holds that existing companies have a high probability of beating entrant attackers when the contest is about sustaining innovations. But established companies almost always lose to attackers armed with disruptive innovations.

# Asymmetries of Innovation

- **The Asymmetry of Motivation** - When new entrants produce a disruptive innovation, incumbents are initially motivated to ignore the disruption as it usually occurs in a market, or with a customer set, that is unattractive (or non-existent) to the incumbent.
- **The Asymmetry of Skills** - When new entrants produce a disruptive innovation, incumbents - over time - realize that they do not have the requisite skills to compete effectively with the new entrant.
- **The absence of motivation** or skills may suggest an opportunity for innovative products and services.

# Resources Processes Values

- The resources, processes, and values (RPV) theory explains why existing companies tend to have such difficulty dealing with disruptive innovations. The RPV theory holds that resources (what a firm has), processes (how a firm does its work), and values (what a firm wants to do) define an organization's strengths as well as its weaknesses and blind spots

# Consequences of Innovations

## Resources

- People (skills)
- Products
- Technology
- Equipment
- Cash
- Brand
- Information
- Channels

## Processes

- Hiring
- Training
- Manufacturing
- Market research
- Planning & budgeting
- Sales & distribution
- Finance

## Values

- Cost structure
- Profit + Loss
- Size of opportunities
- Customer orientations
- Priorities

# Resources Processes Values

- **Resources**

- Things an organization can buy or sell build or destroy:  
People, Technology, Products, Cash, Brands, Information
- Provided by customers and investors

- **Processes**

- Established ways organizations turn resources into products and services: - Hiring, training, Product development, Planning, budgeting, Market research, Resource allocation

- **Values**

- The criteria by which prioritization decisions are made