

Our Concept of Business Innovation

«Innovation means doing something new or doing something known in a different way»

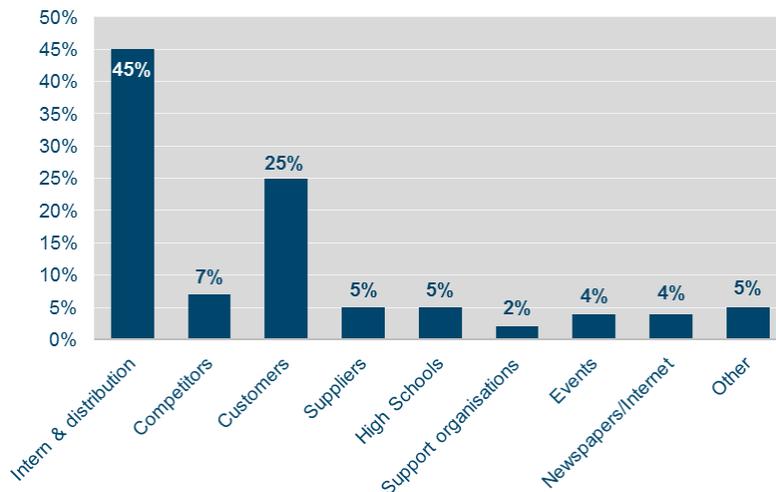
Rudolf Hug, entrepreneur

«**Innovation**» is a concept primarily discussed at the interface between science and the economy. This is why Knowledge and Technology Transfer often takes a central role in innovation support policies. This approach to innovation creates the misimpression that:

- a relatively linear mechanism exists transforming results of academic achievements into entrepreneurial activity and innovation;
- research and development are necessary preconditions for innovation.

Many companies and particularly small and medium sized enterprises cannot identify with this concept. Their innovation process is different: it is driven by the market and a multitude of interdependencies with internal and external partners [1].

This is highlighted in the emerging stage of innovation development:

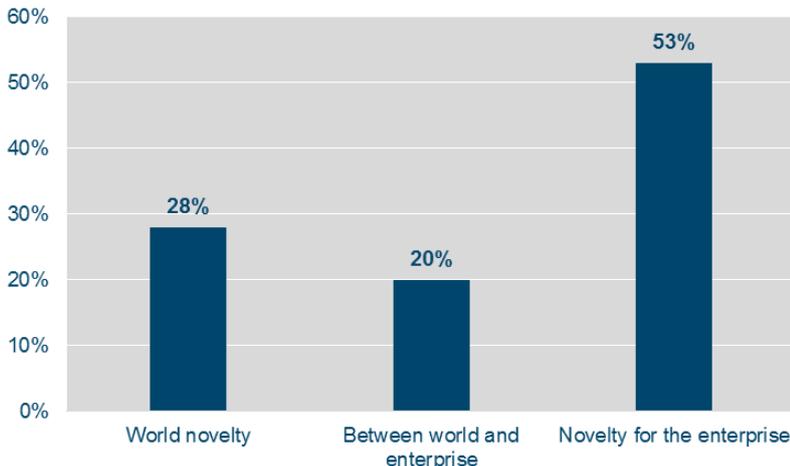


In the Swiss study RIS-WS [2] only 5% of innovation ideas that became commercialised originated in universities and research centres. Existing customers and suppliers, and internal staff, account for about 75% of innovation ideas that reach the commercialisation phase. This is clear evidence that the entrepreneurial process of commercialisable innovation starts with a market focus.

Innovation - Invention: The concept of «business innovation» was introduced by Joseph Schumpeter [3]. Viewing innovation as the centre of economic development he distinguishes invention from innovation. Invention means a novel idea including its development and prototyping or, respectively, concrete conceptualisation within the pre-marketing phase. To qualify as innovation, an invention must be successfully applied and established within the marketplace.

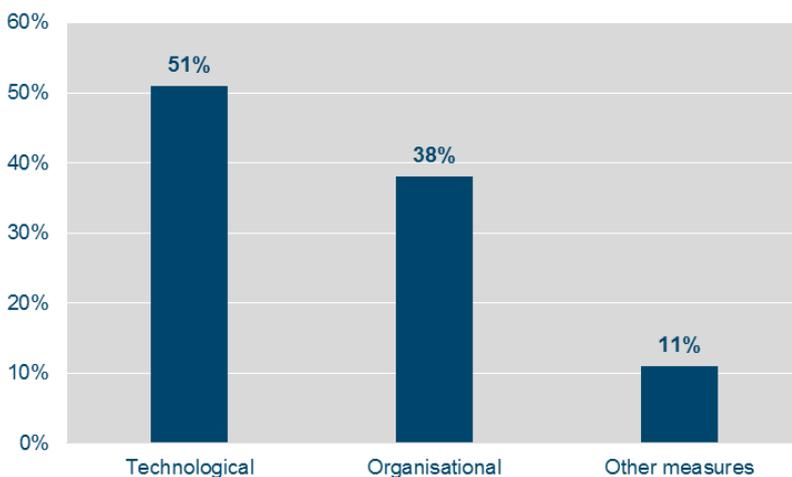
The OECD explicitly supports this holistic perspective and dissociates itself from an innovation concept focused on technology or R&D [4].

Degree of novelty: Innovation ideas do not need to be world novelties. One common example of innovation without invention is the process of diffusion and adoption of existing knowledge. The European Community Surveys (CIS) draw attention to the importance of this diffusion process: «using existing knowledge in new ways, rather than creating new knowledge» [5].



The RIS-WS study in Western Switzerland [2] estimates that more than half of the “new” innovation ideas within the region had already been implemented somewhere else.

Technological and non-technological innovation: Innovations do not even need to be technology based, let alone new technologies. Organisational innovation, e.g. the alignment of key competencies with business structures, is a very important form of non-technological innovation.



The RIS-WS study in Western Switzerland [2] shows that technological orientation is dominating for micro-companies (1-9 employees). It also shows that they are extremely focused on innovative solutions for their customers. Organisational measures gain higher importance with increase of company size.

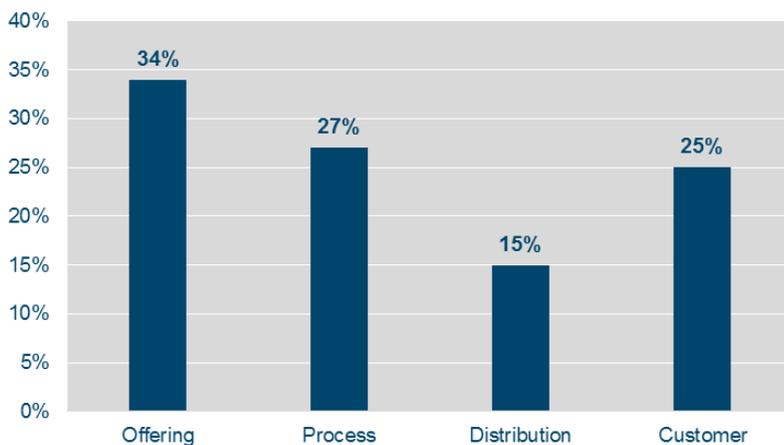
Concept of Business Innovation: In conversation with small and medium sized enterprises the term «business innovation» is helpful. It dissociates from a simplistic research centred concept of innovation and explicitly embraces the business and market side. Business innovation is defined as the creation of substantial new value for customers and the firm. Innovation from this perspective is fundamentally about new value creation for customers, however achieved.

Innovation vectors: Innovations take place by way of a creative change of one or more of the four dimensions of the business system [6]:

- **Offering**
- **Process**
- **Distribution**
- **Customer**

Offering	Products & services	Develop innovative new products or services.
	Platform	Use common components or building blocks to create derivative offerings.
	Solutions	Create integrated and customized offerings that solve end-to-end customer problems.
Process	Redesign	Redesign core operating processes to improve efficiency and effectiveness.
	Organisation & resources	Change form, function or activity scope of the firm.
	Supply chain	Think differently about sourcing and fulfilment.
Distribution	New distribution channels	Create new distribution channels or innovative points of presence, including the places where offerings can be bought or used by customers.
	Networking	Create network-centric intelligent and integrated offerings.
	Extension of a brand	Leverage a brand into new domains.
Customer	New customers (segment)	Discover unmet customer needs or identify underserved customer segments.
	Experience (new interface)	Redesign customer interactions across all touch points and all moments of contact.
	Value capture	Redefine how company gets paid or create innovative new revenue streams.

The concept of business innovation starts with these vectors. The question of prioritization and combination of vectors in innovation ventures is decided on the strategic level. A demand-led innovation strategy must encompass each of these elements in order to succeed.



The relative importance of the four vectors of business innovation is revealed in the example of innovation support in Western Switzerland [7]. Offering is central in about one third of the supported innovation intentions. Two thirds of all intentions are positioned within one or more of the three other vectors.

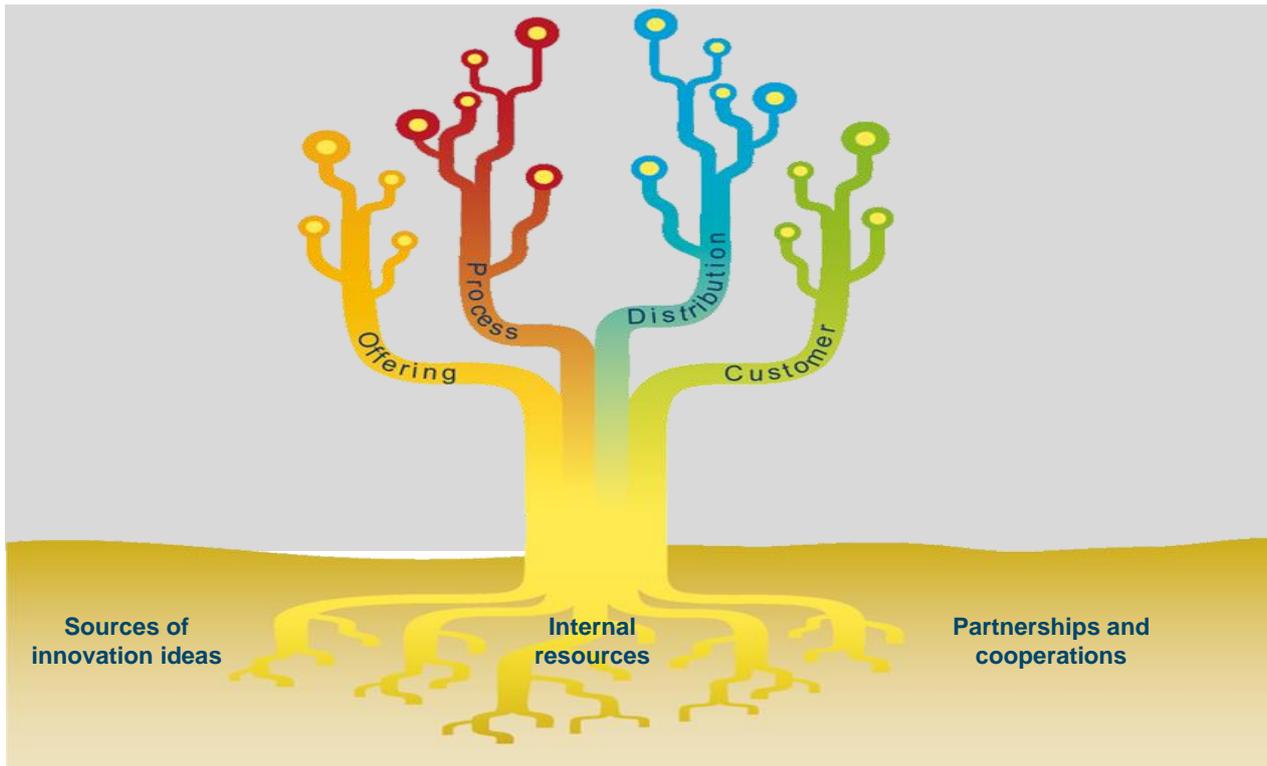
Business innovation goes hand in hand with resource development. About 50% of these cases concern a company's internal resources such as organisation or IP rights. The other half arises within the area described below as sources of innovation ideas and/or partnerships [7].

Resources: A powerful innovation system needs adequate resources. These three categories of resources have proven critical to success:

- **Sources of innovation ideas:** Company internal, distribution, customers, competition, science etc.
- **Company internal resources:** Strategy, organisation, qualification, finances, intellectual property rights etc. [8]
- **Partnerships and co-operations:** Pilot customers, suppliers, research centres etc. [9]

Innovation tree

A company's business innovation system can be visualised as a tree model [7]. The four branches represent the four vectors of business innovation; the roots the three critical categories of resources. In practice, this model can aid the analysis of the business innovation system, and support mutual understanding in the development of action.



Sources:

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- [5] **Arundel A. and Hollanders H. (2006):** Searching the forest for the trees: "Missing" indicators of innovation. Trend Chart Methodology Report, European Commission.
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