Performance Orientation: The Art of Managing Innovation

Muhammad Arafat Noordin
&
Dr. Shahimi Mohtar

College of Business, Universiti Utara Malaysia, 06010 Sintok, Kedah Darul Aman, Malaysia

Abstract

Innovation is recognized as a key success factor in an increasingly competitive, global economy. The better the capability of a firm to innovate, the greater a firm distinguishes its product and the greater the firm position itself amongst its competitors. Due to this, it has drawn widespread attention from scholars to explore the dimension of innovation to develop resilient and competitive firms. This article attempts to discuss on the art of managing innovation to discover its value which is beneficial to firm performance.

Keywords: Innovation, Managing innovation, Performance, Types of innovation.

Introduction

Business landscape continues to evolve with increasing competition both in the domestic and international market. A firm should be able to determine perception, wants and needs of the market in order to survive and be successful in a competitive market, so that it can innovate and create superior products which are different from others. The better the capability of a firm to innovate, the greater a firm distinguishes its product and the greater the firm position itself amongst its competitors.

According to Chaveerug and Ussahawanitchakit (2008) and Fruhling and Siau (2007) innovation has a positive and significant relationship with performance. Firm needs to rely on unique and innovative ideas in order to survive and compete in the fast changing and aggressive market. Battor and Battor (2010) added that 22 percent of profit and 28 percent of sales growth from 700 companies with 13,311 new products between year 1976 and year 1981 came from new product launches. On top of that, Coombs and Bierly (2006) stated that continuous innovation is paramount to create new advantages. It plays a significant role for the existence of a firm. Realizing this, firm needs to know how to manage innovation to become resilient and competitive. Thus, this article will unpack each aspect of managing innovation. Included in this article are the definition and types of innovation.

Definition of Innovation

Innovation has been defined in several different ways by scholars and practitioners. A Google search on the term using the keyword ‘innovation’ produced thousands of definitions. According to Drucker (2000), innovation is an outcome of an innovative process or to the innovation process itself where it involves a process of identifying opportunities and turning them into working ideas. Working ideas refers to new outcomes either incremental or radical generated from implementation of creative ideas.

Innovation must imply newness and is subject to the question of what is new, how new and new to whom (Galabova & Ahonen, 2011; Massa & Testa, 2011; Johannessen, Olsen, & Lumpkin, 2001). Newness refers to any idea, practice, or material artifact is perceived to be new by the economic unit that adopts an innovation, either a firm or an industry (Johannessen, Olsen, & Lumpkin, 2001). In other words, new to the firm implies innovation that was not produced by the firm before where as new to the industry implies innovation that offers new value and benefits to customers.
In addition, innovation implies invention plus exploitation which produces value. Innovation needs to be realized and possess the economic benefits to be perceived as innovation. In contrast, an invention without commercial value is not considered as innovation. Also, new ideas which are not useful are not considered as innovation; they are called mistakes (Van De Van, 1986).

Types of Innovation

Referring to the literature, scholars have different views on the types of innovation. Some researchers divided innovation into two types, namely product innovation and process innovation whilst some others divided innovation into three types adding organizational innovation as another type of innovation. OECD (2005) distinguishes innovation based on four types, namely product innovation, process innovation, marketing innovation and organizational innovation. For this article, innovation is distinguished into six, namely product innovation, process innovation, organizational innovation, marketing innovation, strategic innovation and behavioral innovation. The definition of each type of innovation is as follows:

i. Product innovation
Product innovation is defined as the market introduction of new goods or services or significantly improved goods or services with respect to its capabilities, such as quality and user friendliness (Malaysia Productivity Corporation, 2009). It is a means for generating revenue through safeguarding and improving quality as well as for saving cost (Ojasalo, 2008). Neely, Filippini, Forza, Vinelli, and Hii (2001) mentioned that product innovation includes changes to design, components and product architectures. It is also known as service innovation and represents the end product offered by a firm.

ii. Process innovation
Process innovation is defined as the use of new or significantly improved production process, distribution method or support activity for its goods and services (Malaysia Productivity Corporation, 2009). It refers to an improvement of process flow or the introduction of a new process flow from an original process into a usable technique and reflects changes in the way firms produce end products. Examples of process innovation are the introduction of a new system for handling payment or the implementation of new strategies to penetrate new markets.

iii. Organizational innovation
Organizational innovation refers to the implementation of a new organizational method in the firm’s business practices, workplace organization or external relations (Felekoglu, 2007). It involves application of new or significant changes in a firm’s structure or management method that are beneficial to a firm. Organizational innovations are likely to reduce administrative and transaction costs, improving workplace satisfaction, gaining access to non-tradable assets or reducing cost of supplies (OECD, 2005).

iv. Marketing innovation
Marketing innovation is also known as market innovation (Ibrahim, Zolait, & Subramanian, 2009; Wang & Ahmed, 2004). Felekoglu (2007) defines marketing innovation as the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Similarly, Malaysia Productivity Corporation (2009) defines marketing innovation as the implementation of new or significantly improved designs or sales method to increase the appeal of a firm’s good and services or to enter new markets. Johne (1999) added that it is concerned with accurately interpreting buying preference in a market place.

v. Strategic innovation
Strategic innovation is the creation of growth strategies, new product categories, services or business models that change the game and generate significant new value for consumers, customers and the corporation (Palmer & Kaplan, 2012). It takes place when firms identify gaps or opportunities in the marketplace and make plans to fill the gaps. It involves a comprehensive planning utilizing all available resources to create value. Wang and Ahmed (2004) added that strategic innovation focus on matching the organizational objectives with existing resources in order to leverage limited resources creatively.
vi. Behavioral innovation

Behavior refers to a response of an individual or group to an action, environment, person or stimulus (WebFinance Inc, 2013) whilst behavioral innovation refers to underlying construct that reflect the ‘sustained behavioral change’ of an organization towards innovation (Avlonitis, Kouremenos, & Tzokas, 1994). It involves a willingness to change of individuals, teams and managements that enable the formation of an innovative culture, the overall internal receptivity to new ideas and innovation (Wang & Ahmed, 2004). Abu Bakar (2011) concluded in her study that behavioral innovation will shape the innovative organizational behavior and culture and bring the firm towards new thoughts and ideas on its product.

Managing Innovation

The capacity of a firm to innovate depends on the quality of intellectual capital its possess. Laforet (2011) shared the same view and mentioned that innovation prevails only when there is a capacity of a firm to innovate. Subramaniam and Youndt, (2005); Nonaka and Takeuchi (1995); Menor, Kristal, and Rosenzweig (2007); and Ngah and Ibrahim (2009) added that innovation capability of a firm is closely depends on its intellectual capital or ability to utilize its knowledge resource. Thus, firms have to manage intellectual capital to manage innovation. Intellectual capital is a combination of human, structural and relational capital that creates value. There are few ways of managing intellectual capital. Among them are learning and training, securing non-disclosure agreements or secrecy agreements with the employees, registration of patent, documentation of the work process, and establishment of norms that facilitate interaction, relationship and collaboration with external parties (Noordin & Mohtar, 2012).

Proceeding further, rates of innovation will continue to increase due to social change, competitive challenges and technological development. As competition became increasingly intense, firms need to create an environment that allows innovation to flourish. In other words, firms need to establish innovation culture. Innovation culture stresses on having the relevant knowledge and rewards system that can motivate employees to participate in the innovation activity (Alsaaty, 2011).

For instance, a well-known theory of human motivation, Theory X and Theory Y developed by Douglas McGregor could be used to motivate employees to innovate, consequently promotes innovation culture. According to Theory X, if employees dislike work they must be forced to do their job (Ferrell, Hirt, & Ferrell, 2006). It suggests that employer have to punish them to make them perform in their work. Punishment may be in the form of salary reductions, giving no annual bonus or taking away fringe benefits.

Unlike Theory X, Theory Y assumes that employees will seek out responsibility in an attempt to satisfy their social, esteem, and self-actualization if they like to work (Ferrell, Hirt, & Ferrell, 2006). It suggests employers to give equitable rewards to the them based on their performance. Equitable rewards will create job satisfaction and then encourages them to work towards achieving the firms’ goals because they become more interested in their work and felt proud to be a part of the firm. Mohamed (2002) shared the same view as he concluded in his study that job satisfaction has a relationship with innovation.

In addition, firms should avoid a work culture that consists of formalized rules and procedures which may hinder the performance of innovation. It is because innovation tends to flourish if employees are given free communication to ask questions, seek feedbacks, or propose new ideas. Innovation also will occur when the employees have the freedom to communicate with each other at any time where the tendency to obtain and integrate tacit knowledge amongst them is high. Penalties for rule violations or being judged negatively for proposing an opinion will make employees become more averse to risk, thereby giving up searching for new ideas, being creative or trying new approaches. In this case,
research evidence by Mosey, Clare and Woodcock (2002) proved that an employee suggestion scheme and a new product development team facilitate new product development project which consequently determine the innovativeness of a firm.

Furthermore, Schiling and Phelps (2007) found that the greater the number of organizations with different backgrounds involved in an innovative project, the more variance in ideas and more amount of knowledge those organizations generate. Firms must therefore build a work culture that promotes sharing of ideas not only with employees in the firm but also with the outsiders. This is because any effort that enhances connectedness in the work culture is perceived to have impacts on innovation.

Connectedness refers to strong ties. High level of connectedness promotes openness (Jansen, Den Bosch, & Volberda, 2006) and result in better ideas and feedbacks. In order to increase the level of connectedness, firms may organize workshops as they allow individuals and teams to experience new ways for innovative team works promoting new collaborations in cross functional area. It is also an effective way to identify areas of innovation opportunities, facilitate the sharing of knowledge and turn it into visible outcomes.

Moreover, establishing good networking with external sources is paramount. The rationale is that networking provides sharing of useful information concerning existing and potential opportunities that push firms to innovate (Alsaaty, 2011). Firms which are part of a network is likely to have access to resources than firms operating outside the network. Wincent, Anohkin and Biter (2009) and Subramaniam and Youndt (2005) shared the same view when they reported that networking with outsiders such as customers and suppliers is found to have a positive impact on firm’s innovation activities through the exchanging resources and ideas.

Finally, having a proper R&D facilitates innovation activities in a firm. Al-Kazemi (2009) coined that R&D and patent demonstrate an input/output relationship. Hall, Thoma and Torrisi (2007) and Al-Kazemi (2009) added that patent is the successful outcome of R&D that determines firm performance. In relation, Osma and Young (2009) revealed that firms spend on R&D to meet their earnings expectations. They concluded that firms will increase R&D spending when they expect it will result high earnings.

Conclusion

As innovativeness is generally considered a prerequisite for a firm's success and survival, and being the key drivers of firm’s long term success in today's competitive market, firms are seen searching ways to enhance their ability to innovate. Nevertheless, the most crucial part in managing innovation is to have a strong management support to perform a holistic approach to flourish innovation. It is the process of managing innovation that the firm defines its future capabilities and values.

References


