THE BENEFITS OF INNOVATION

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GENERAL OBJECTIVES OF THE SUBJECT
At the end of the course, Individuals will examine the principles of Creativity & Innovation apply them within the company's needs. You will critically reflect the Benefits of Innovation and their behavior within the company *and* their impact in the development of this course.

6. THE BENEFITS OF INNOVATION

6.1 The Benefits of Innovation

Enhancing the innovative ability in organizations is one of the most important levers to increasing profitability and growth in organizations. To illustrate this, three separate studies undertaken by top American consulting organizations, one done by Strategos (2004) and another two published by Arthur D. Little (1994, 2005) suggest that there is huge untapped potential to improve profit growth through innovation management. The 2005 Arthur D. Little study of over 800 organizations concluded that innovation excellence can boost EBIT by 4%, and that top innovators have 2.5 times higher sales of new products, and get more than 10 times higher returns from their innovation investments. These are significant numbers, and as a result, it is no surprise that innovation is high on corporate agendas.

The studies also revealed that top innovators have a well-balanced architecture. For example, these organizations have explicitly linked strategy to clear innovation objectives and addressed all elements of innovation capability including idea management, technology and resource management, the product/service development process, and market intelligence to name a few. In the end, both Strategos and Arthur D. Little concluded that in spite of the fact that most companies viewed innovation as extremely important (as high as 85% in one study), only 15% of organizations considered

themselves to be successful at creating an innovation environment. Still the quest for innovation continues, and for good reason.

Very simply, innovation matters. In addition to the performance outcomes already mentioned, innovative organizations have the following in common. First and foremost, they are value creators in that they continue to break through to the next level because they are constantly defining it. Second, they understand that it is the sum of the people who, through the way they think and act, allow the organization to be innovative. Employees in these organizations have essentially created networks and competencies that support innovative behaviors (Birkenshaw, Bessant, Delbridge, 2007). Third, they possess a certain culture, one that is proactive and market driving. This culture is palpable and employees all know why they are at the top of their game (Chatman and Jehn, 1994; Rich Harris, 1998; Tesluck, Farr and Klien, 1997). Fourth, these organizations have made decisions in the past to become innovative. Many of these proved to be difficult and required sacrifices - but they were decisions based upon a vision for innovation.

These platforms have afforded organizations the strategic logic to build and leverage competencies to support innovation. They compete on the basis of their innovation blueprint in that they are able to better define, engage and pursue uncharted market space. This is in contrast to the model of strategic fit still practiced by many which essentially promotes competitive imitation. This contrast is significant in a time when productive lives of strategies are getting shorter.

What is clear is that innovative firms are more successful over the long term. They have unique *DNA* in that they are more creative, have a desire to succeed, possess a common sense of purpose and constituency, and they are empowered (Dobni, 2006, 2008; Govindarajan and Trimble, 2005). They understand the relationship between strategy and innovation, and they have identified the configurations that are best suited to their environment. This positioning allows them to constantly realign with changes in the competitive context. They experience increased competitive differentiation, reduced price sensitivity, heightened focus on reducing limited value-added activities, and increased investment in innovation. The benefits of innovation are clear and this begs the fundamental question of how can organizations today develop an ongoing capability to innovate? The first step involves understanding the relationship between strategy and innovation.

6.2 The Pitfall of Strategy

> The tenets of strategy remain unchanged and are based upon management systems that are underwritten by adherence to goals and objectives, and a connection to a mission and vision. These systems include things like the timetables, capital and operating budgets, metrics for performance management, and progress reporting. These practices have provided organizations with paradigms that have lead to significant gains. However, there are tradeoffs. For example, the strategy process limits an organization‟s potential by establishing parameters that represent limitations or boundaries, essentially communicating what is not possible. This in turn affects employee culture, and the organization‟s innovation orientation (Jaswalla and Sashittal, 2003). More often than not, organizations seeking innovation revert to the strategy process instead of introducing a context to support innovation. Trying to introduce innovation as a strategic initiative to be channeled through the strategy process will prove to be a false start.

Eventually, competitive positioning elements, such as providing better service, product or service enhancements, and even new product and service introductions – will be relegated to a hygiene status. This promotes hyper-competition and eventually, strategy convergence. In reality, these organizations are not fortifying their strategic position by being innovative, they may in fact be diluting it by trying to be innovative.

Faced with convergence, some organizations retreat up market to more profitable segments, others stake out positioning in the core market battlefield and hunker down, yet others exit or are forced out of business altogether. It is a zero-sum game that always results in fatalities. The ones that survive this spiral either have deep pockets or are simply better strategists and have figured out more effective short term positioning configurations. There is nothing unique about strategy and Hamel sums this up by saying ‘we all know a strategy when we see one.’ It is arguable that what has worked well for organizations in the past now proves to be a liability in business environments where value creation is the basis of competitive differentiation. Thus, relying on established paradigms often overwhelm longer term innovation initiatives.

6.3 Innovation & Strategy Are Not Related

It is important not to confuse strategy with innovation. Innovation has been broadly defined by both academics and practitioners, however it is nothing more than a state of being while strategy, also widely defined - is nothing more than a process of doing. By definition, the two are not related – not even second cousins. Unfortunately, managers try to piggy back the two only to discover that the

„process of doing‟ with all of its budgets, levels, and timelines stifles the „state of being.‟ Managers have to understand that innovation is achieved through an imperative internalized by employees, and not as a strategic planning goal.

The forces that embed innovation in an organization are quite different than those that guide strategy. Here are some differences. First, innovation is exploitative and unpredictable – premised on a market orientation (Day, 1990; Kohli and Jaworski, 1990) value creation and transference, and defining new opportunity space. The strategy process is focused on planning and control. Second, consistent with planning and control - strategy involves budgets, schedules, time frames and cycles, and reporting hierarchies that lead to desired outcomes. These lock step practices are the very things that stifle and even run counter to innovation. Third, strategy formulation is analytical and intuitive, and based on a platform of rational incrementalism – often forcing organizations to forecast the future based on past experiences. These configurations are often easy to decode and copy by competitors. Innovation on the other hand works quite differently. It sees organizations defining a desirable future state (not trying to predict it), and then working toward that state, irrespective of corporate history.

Innovation is not bounded by a schedule, or monopolized by a few, nor stifled by boundaries, structure and rules. It does not consider assumptions developed through past observations. In a sense, innovation is not institutionalized by tradition.
This is echoed by the Arthur D. Little survey. Survey respondents commented that practices resulting from strategic initiatives have served them well, but are not enough to sustain them in the future. These same companies were now placing a higher priority on innovation than they were 5 years ago. The study also revealed that few of the organizations felt they had yet to become effective innovators. One of the reasons for this is that they were still sufficiently anchored to the strategy process and they lacked an innovation context. It is easy to see why this has occurred, as the strategy process has brought them success with manageable levels of risk. However, it has effectively precluded many from accepting heightened levels of risk associated with emergent opportunities.

If Strategy Is Working, Why Innovate At All? Organizations will often say that their strategy is working, so why innovate? The best way to answer this is by example of two American business institutions – Wal-Mart and McDonalds. It is almost an irony that Wal-Mart really doesn’t seem to be innovative, yet they are the world’s top retailer – a position supported by a sustainable, integrated and innovative positioning. At face value,

it would look like Wal-Mart is anything but innovative and it begs the question - is it possible that Wal-Mart has reached their competitive position through an innovative context? Wal-Mart has been so successful that we forget its beginnings. They started out as a local family-based retailer. Sam Walton's decision to build a second, and a third and a fourth store, and so on resulted from an emergent strategy process – an opportunity to fill a need, but more so to take advantage of logistical and managerial efficiencies. He did not plan to pre-empt competitor in-roads into small U.S. centers, it just happened that the big players of the time were deliberately saturating the large suburban areas first, and blinding themselves to the opportunity that rural markets possessed.

The reality is that Wal-Mart could be considered to be both innovative and emergent opportunists long before these terms were being coined as the new management imperative. This innovation created value differences that lead to the sustainable competitive advantage they enjoy today - that primarily being their logistical network to support operations. It works so well that they dominant the marketplace. And make no mistake, they continue to innovate in this area, we as consumers just don't see it. We benefit from it. They are a price leader and a cost leader and they deliver what customers value – everyday low prices. It is the same focus on logistical and managerial efficiency that proves to be their competitive advantage today.

What is the foundation of Wal-Mart's success? Pure strategy? Luck? Innovation? Vision? An innate characteristic possessed by the founders? To answer these questions, consider yet another big player of similar market presence, this time in fast food. McDonalds has been afforded the same contextual environment as Wal-Mart, more or less. They started small, had first-mover advantage, had excellent leadership, vision, marketing and locational advantages like Wal-Mart, and they are iconic in American culture, again, like Wal-Mart. Yet today, although they are still competitive, they do not hold the same market power and concentration ratio as Wal-Mart does. Does McDonalds have the same brand identification in the eyes of consumers as Wal-Mart – definitely; do they have the same market dominance as Wal-Mart – no. Why is this the case? McDonalds let the industry define them – they practiced textbook strategy and evolved with the industry. And now, the fast food industry displays all the symptoms of strategy spiral. McDonalds is all strategy and little innovation. The industry has changed and the customer has changed and McDonalds has struggled to keep abreast. Had McDonalds adopted an innovation orientation years ago, they might not have found themselves in a convergence attitude.

Conversely, Wal-Mart continues to define and consequently drive the industry, while McDonalds is in a dog fight for market share. Yes, there are some elemental forces of the respective industries that are different, but the principles are the same. Where the two organizations part company now is in value differentiation in the eyes of consumers. This advantage has been afforded to Wal-Mart through innovation. There is transference of this value worldwide where the lowest price is the law no matter where you are. Alternatively, McDonald‟s is lagging behind in its previous abilities to closely follow consumer taste preferences by offering customers new menu choices – therefore not delivering the sustained levels of value. It can likely be argued that its last notable successful product introduction was the Chicken McNugget launched in 1983. Even though McDonald‟s owns one of the most recognized corporate brands and their international operations remain successful, they are having trouble introducing a new lunch sandwich. They are in for a tough ride because they have no innovation context, thus no innovation gain.

6.4 The Innovation Gain: The Benefits Of Co-Existence

Productive lives of strategies are in fact getting shorter, and it is a growing imperative for management to find new avenues for growth and sustainability. A vast majority of leading senior executives around the world indicate that fresh approaches to value creation will win the day and force many industry leaders to seriously re-jig their business models in efforts to survive. Successful value creation will require organizations to invest in undervalued business platforms, consider untapped customer insights, or aggressively pursue an underexploited capability or positioning advantage. It is a certainty that someone is going to capture the industry potential that is available.

When it is time for deep strategic change, strategy in itself will simply not be enough. Rather, game-changing ideas will emerge from an architecture that encourages ideas across the organization, and allows business units to execute them with some degree of risk-adjusted enthusiasm. The business model employed to support innovation is ultimately forged by this architecture, however most organizations are unlikely to drastically alter it over the short term in favor of one that introduces more risk-related behaviors. Many are simply not wired that way.

There is only so much slack to support value creation, and organizations have to consider ways to best utilize it. Since organizations are predominantly guided by the strategy process, to affect value creation and experience an innovation gain, they will need to play

in the „grey zone." This zone represents opportunity space, and to take advantage of it, organizations need to slowly introduce a context that promotes a more market-oriented and value-focused approach. This also needs to be complemented with an implementation environment that encourages some degree of venture experimentation. Specifically, employees need to be able to try new things which invariably involve higher levels of risk without the fear of failure.

Deliberate Strategy, Growth Curve, Industry Value Creation, Potential Emergent, Strategy, Growth, Curve Innovation, & Gain Opportunity Space.

Henry Mintzberg's question of 'how do strategies form in an organization' focuses on the processes through which organizations devise strategies. He suggested that strategies 'emerge' from different types of underlying processes, and that these processes will create a set of actions that are often different than intended. In his book, *The Rise and Fall of Strategic Planning,* he suggests that deliberate or planned strategy could represent only 50% of an organization's value-base or growth business. This implies that that up to half of an organization's strategic capacity is likely being underutilized on marginal value growth initiatives. Potentially, marginal strategy could be converted to higher value business. If one considers that the total value creation potential in an industry is defined from multiple courses of action, including known opportunities, unanticipated opportunities, and problems in search of solutions - this is a potentially large chunk of space that somebody will occupy.

In practice, pure forms of deliberate or emergent strategies rarely occur, and in most cases, the realized strategy will result from a mix of the two. Organizations, through their architecture, can control this mix. However, the problem that organizations have with emergent strategy is that it is not defined or planned, so more often than not, they just don't go there. Organizations are also goal oriented, like to tie strategy to objectives, and like to allocate resources and budgets to something concrete and identifiable. These are not habits that support emergent strategy. Emergent strategy is unclear, and to take advantage of it, organizations have to take chances and pursue hunches. In some cases there are no plans, resources, or data to support decisions, no time lines, and no future-based models. To capitalize on emergent strategy requires an organization to be confident, nimble and quick. It invariably involves heightened levels of risk. Eventually, ideas have to be brought forward and executed; how strategy as a process and innovation as an orientation intersect will determine the innovation gain in an organization.

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One of the best ways to illustrate the impact of the innovation gain is to consider examples where strategy and innovation effectively co-exist. The first involves one of the oldest and most endeared industries known – the brewing industry. In an industry where innovation might be least expected, the micro-brewery and craft beer invasion in North America is an interesting example of the potential for innovation gain. Micro-brewing is a method of beer production on a small scale, with products targeted toward niche and specialty markets. Currently, even though Anheuser-Busch and Miller dominate American brewing (over 50% of all beer consumed in the USA), small and regional brewers are making inroads. This is evidenced in the 1,400 micro-breweries in the United States that now command up to 10% of the beer market, and it continues to grow.

The microbrew movement is comprised of brewers with ambition and ideas poised to capitalize on the potential for value creation. Pony Express Brewery, located in the heartland of the USA, is an example of a micro-brewer who has achieved an innovation gain. Their annual growth is now registered in double digits in a beer consumption market that is mature and displays all of the characteristics of market share pull back and industry convergence. How have they done it? How is it possible? And why have the mega-brewers not retaliated?

Pony Express has done a number of things which are paying off. First, they have challenged the industry's strategic logic – emphasizing that good things come in small packages. Those good things include taste, quality, and consumer experience. This is not to say that the quality of a Budweiser, or a Miller or a Coors is lacking. Quite the contrary as the entire industry has the same access to raw ingredients and brewing technology. The difference is that while the mega-brewers are hunkered down in mergers and takeovers to achieve enviable concentration ratios and scale, micro-brewers have concentrated on creating entirely new experiences for consumers – including the establishment of cult and regional beers, as well as a unique environment to consume beer now aptly known as the „brewpub culture."

Pony Express have also innovated in both production processes and marketing, and in the process have educated the consumer about beer. They have successfully enhanced the important benefits of their products by focusing on the type, taste, appearance, and drinking experience of the products. The niche they have defined and successfully developed is premised on creating value to a segment who desires it. They have developed a competence and created an experience that for the most part, mega-brewers due to their size, myopia, and inflexibility are unable to duplicate.

Similar opportunity space was also recognized by Casella Wines, as Australian winery that challenged existing logic and business models in the wine industry. Deliberate strategy practiced by wineries of the day included positioning on the basis of quality and prestige at a price point. Fortifying this positioning often required competitors to build complexity into the strategic tenets in pursuit of the best wine in class. Then along came Casella who turned on the mass of American adults by doing quite the opposite. They uncomplicated wine, effectively making it less pretentious. Through the introduction of a jargonless wine labeled 'yellow tail,' they created a social drink that was now accessible to everyone. Their positioning logic was straightforward – de-emphasize soils, regions, oak and aging processes in favor of making it easy to select (and remember), easy to drink, and fun and adventurous. This three pronged approach successfully de-mystified wine and introduced it to the burgeoning middle class of Americans who desired to be knowledgeable wine connoisseurs in their own right. The opportunity space afforded to both the brewing and wine industry by the innovation gain resulted from challenging long standing industry standards, introducing new options premised on untapped customer insights, and focusing on under developed and emerging opportunities. Not only did Casella gain market share from competitors, they converted over 6 million non-wine drinkers – many of whom were quite simply, intimidated.

6.5 Synergy: Striking the Proper Balance Between Innovation And Strategy

Innovation, more than any other pursuit, requires the organization to make commitments to do things fundamentally different and sometimes altogether new. However, in making these changes, it will be important to strike the proper balance. Initially, the responsibility for creating this environment falls squarely on management. Top innovators have broken through the strategy paradigm and have transformed their organizations into an innovation movement that empowers employees to seek out opportunity, and deliver value (Moller, Rajala, and Westerlund, 2008).

In these organizations, strategy and innovation effectively co-exist. There are more ideas, a desire to try things, and failure is no longer as feared. The entire organization senses a new wave of opportunity and optimism as a result of an ascending focus on emergent opportunities. The key point here is that value creation is implemented through people, by people, on behalf of the organization. This is where many managers stumble – they simply have not struck a culture that allows employees to think and act in ways necessary to innovate.

And sometimes value creation is best achieved in tough situations as evidenced by Smith and Wesson. The venerable American pistol maker, founded in 1852 provides an excellent example of realigning with the new realities of the market. This iconic organization has faced a number of challenges over the past 155 years, such as the one which occurred in 2001 when they signed a deal with the Clinton Administration to limit the sales and distribution of their products. This move lead to a surprise backlash from gun clubs and gun rights groups which included large scale boycotts of Smith and Wesson guns, and the flooding of the market with used Smith and Wesson firearms – thereby cutting into their market share. The organization – through its employees - has been able to align with this new reality by expanding into other products that benefit from the Smith and Wesson reputation for quality and endurance, yet fall outside of the core product portfolio affected by the boycott. Their new market and segment focus included high end bicycles for police forces, home security safes, heavy duty flashlights, wood pellet grills and smokers named after various pistol cartridges, leather jackets, automotive accessories and even men's cologne.

Organizations, like Smith and Wesson and others will experience a number of challenges on the path to innovation, many of which are operational and related to their comfort with strategy, but others will include cognitive, motivational, and political hurdles. All of these challenges are incubated in the organization's culture and they often create barriers in the minds of management and employees. Organizations have to first address these hurdles before anything else. These hurdles are evidenced in a recent survey of over 300 Canadian organizations as it concerns innovation (Innovation Logik, 2007). Among other things, this survey revealed that they generally lack the architecture, infrastructure (in terms of financial and technical support), and knowledge in respect to innovation learning.

There are a number of inherent implications of these findings. First, it would appear that the mindset of organizations is very much focused on operations (a shorter term focus) than on becoming innovative which invariably is a longer term perspective. Second, although organizations are pursuing innovation goals, they are not affording the time, resources and staff necessary to achieve them. This relates to a third observation, that being the lack of a systematic process to support innovation. This architecture inherently includes the business model employed to support the integration of innovation and strategy, including intentions, organizational learning, structured incentives to reward innovative behavior and metrics to assess innovation effectiveness to name a few. Thus,

for these organizations, it is not clear whether resources expended by the organization are delivering the desired results, nor it is clear on what employee rewards and incentives are based upon. Specifically, there is no clear plan and accountability for innovation.

Alternatively, study conclusions also revealed that the greatest barriers to innovation are related to internal company issues such as lack of resources, lack of market intelligence, unsuitable corporate culture, poor incentives, and badly defined innovation strategy to name a few. However, it would appear that the biggest barriers to innovation are resident in the operational level. Related to internal company issues, lack of resources, market intelligence, unclear responsibilities or badly defined innovation strategy are often culprits. As it concerns employees, implementation context is often at issue. Employees generally feel they lack market knowledge and innovation learning. And for those that are empowered to be innovative, this enthusiasm is often dampened by the lack of rewards, the absence of metrics, and the fear of being reprimanded if risky undertakings go bad. Certainly, the challenge for management is to balance the rigorous examination of ideas while not dampening the motivation for the generation and implementation of these ideas.

The challenge for organizations lies in the following question - how is innovative introduced into the business model without having it overrun the organization? Certainly, organizations need to align its properties - namely skills, architecture, and infrastructure – effectively in order to create value. For starters, a well-balanced innovation approach is key to success. The literature suggests that organizations possessing innovation orientations have struck a balance between a management centric environment and an employee centric focus (Dobni, 2006). The innovation environment – being management centric - describes the context in terms of intentions and infrastructure that must be created by management to support innovation. Behaviors on the other hand are employee centric, and identify the skill, attitude, temperaments and characteristics necessary to drive the market orientation of employees and guide the implementation of innovation. The former is to create an environment to engage and guide innovation initiatives, while the employee centric focus is concerned with employee behaviors, and to some degree their psyche, that supports the creation and implementation of value to the market.

For this to occur, managers and employees first have to consider the impact that an innovation orientation can have behavior, and ultimately, organization performance (Hult, Hurley, and Knight, 2004; Subramanian and Nilakanta, 1996; Dobni and Luffman, 2003; Marinova, 2004; Narver and Slater, 1990, Cascio, 2006). Behavior refers to the

collective thoughts and actions of employees, or the way things are generally done; right from how the building is cleaned and the assets are maintained, how communications are managed, how employees are developed and treated, and how the strategy process is managed, through to the collective culture of both employees and executives.

The success of this pursuit will also depend on how organizations are able to connect with the emergent side of the strategy process all the while managing the deliberate side to its advantage. To achieve this new balance, it will be necessary to defect from stagnant practices and processes, and allocate resources to create a context to nurture and sustain new growth. This is affected through the market orientation held by employees and the confidence they have concerning execution. Factors that prove to be the tipping point include creative and market-oriented employees, systematic processes to generate new ideas, and an environment that supports a *'freedom of failure'* mindset toward implementation.

6.6 Insuring the Proper Innovation Infrastructure

Pursuing innovation is a long term commitment that requires financial, human, and structural (in terms of technology and physical) resources. At the very minimum, there has to be an emphasis on the employee as it relates to skills and learning, technological and financial support, and rewards and incentives. These are invariably cited in innovation surveys as lacking. The combinations of these - that are available, committed, or potentially convertible – have to be aligned to support innovation efforts. For many organizations, these decisions will involve major changes in focus, including the reconsideration of priorities.

Changing the organization's emphasis toward innovation will force a showdown on how financial resources are distributed. Innovation initiatives are costly and initial metrics to determine impacts are slow to get off the mark. Organizations have to prepare to wait it out and even plan for some slack resources outside of that required to fund mainstream activities. And the same goes for technology. If organizations want to be industry driving, then they have to consider the combinations of technology configurations required to support these offensives, and also be prepared to invest in them for the long term.
Employees have to be educated about innovation and organizational learning is the process to support this. Properly tooling employees involves committed education and training programs that focus on developing processes that facilitate the learning and reinforcement of new behaviors. To stay on course, organizations have to determine what they are attempting to achieve, and then move to fill these gaps. At the very least,

organizational learning has to become more strategic and be linked to innovation objectives, and new knowledge has to be actionable.

6.7 Sustaining a Market Orientation

There is a very strong correlation between the market orientation of employees on business performance, as well as innovation (Desarbo et al, 2005; Kirca et al, 2005; Verhees and Meulenberg, 2004). One reason for this is that value creating opportunities are best identified by observing and understanding the relevant business cluster – the industry, competitors and customers, emerging technology, channels, and knowledge flows. A market orientation presents a portfolio of innovation ideas based upon an employee's understanding of the marketplace and the competitive context. Employees can offer perspectives and define opportunity space that will drive product/service modifications and new offerings. A market orientation describes the extent to which employees understand the relevant business environment, but also in turn, convert this understanding into value.

Key knowledge areas include market sensing (customer product and service preferences), contextual awareness (competitors‟ positioning efforts), and cluster knowledge (forces affecting the business environment) (Kohli and Jaworski, 1990). This form of knowledge is broad-based and should include all employees, enabling them to more effectively anticipate customer needs, build and maintain relationships, and consider the impact of changing competitive landscapes. The premise of a market orientation is grounded in two areas. First, organizations are comprised of employees who are sources of knowledge. This knowledge is fuelled by interactions with customers and value chain members in the competitive cluster. Second, knowledge is power, and for organizations, knowledge only becomes powerful if it is disseminated amongst those who possess common goals.

The degree to which this knowledge is shared (the organization's knowledge dissemination capacity) will propel innovation as it affords an organization both offensive and defensive positioning options. The core principles of a market orientation are an integral part of every corporate culture supporting innovation. Daily we perform all types of tasks and functions without realizing the source, benefits, or fully understanding the underlying processes. One thing we do know for certain is that when an organization's total market shared knowledge increases, the effect of innovation efforts on performance also increase (Marinova, 2004; Rodan and Galunic, 2004). By linking nuggets of market-based knowledge from multiple sources into a cohesive and

workable innovation enterprise, organizations create differentiable value. The end result is that their innovation model is simply better.

Respecting market orientation and execution – or employee specific behaviors - the results indicate that across-the-board, employees are at a deficit as it concerns the appropriate level of market and industry knowledge to make proactive decisions. Probably most revealing is the notion that employees find the implementation of innovation related activities difficult in spite of the fact that they felt psychologically empowered to be innovative. Results of this survey are consistent with the findings of both surveys previously cited in this article – indicating that little has changed in the past 15 years.

6.8 Managerial Implications

There are a couple of key implications for managers. First, as managers develop a better understanding of the relationship between strategy and innovation, they will be better able to establish an innovation agenda that is palpable. For example, the greatest barriers to innovation are related to internal company issues such as lack of resources, lack of market intelligence, unsuitable corporate culture, poor incentives, and badly defined innovation strategy to name a few. Much of this has to do with the problem of not understanding this relationship and essentially getting off on the wrong track right out of the gate.

Second, the results of this research beg two related questions for managers. For instance, is it possible to manage strategy through an innovation orientation? And if so, what is the optimal level of innovation orientation? When it is referred to as a behavioral concept, then an innovation orientation is synonymous with the capabilities approach to strategy, thus circumscribing the degree of orientation possessed by an organization would be displayed through its capabilities to support and sustain behavior conducive to the development of this orientation. Capabilities emanate from individual employees and include complex bundles of skills and accumulated knowledge that enable firms to coordinate activities and make use of their assets. On an aggregate level, an organization's core competencies support positions of advantage. If we relate to this school of thought, then the real challenge for management is to identify and develop these behaviors or capabilities, and subsequently harness them so that they are deployed in a manner that will foster the development of a sustainable competitive advantage. Understanding the relationship between strategy and innovation will go a long way to determine which levers to emphasize in respect to desired strategy positioning and external challenges faced by the organization.

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Clearly, there are optimal degrees of innovation.

The degree of (and ultimate success experienced by organizations) will be tempered by competitive dynamics, managerial values and goals, organizational resources, and the ability to align or reconcile the demands of deploying strategy through culture. Because of this, it may not be possible for all organizations to attain desired or ideal levels. Accordingly, managers need to think long and hard about the level of innovation they should pursue, and to understand the factors of such an orientation that can be most impacting for them.

If the decision is made to pursue enhanced levels of innovation, then the process of implementation becomes the focus, including an understanding of the barriers currently being imposed as a result of the strategy model employed. We have identified many of these pitfalls already. The choice of which capabilities/behaviors to nurture and which investment commitments to make must be guided by a shared understanding of the competitive context, the needs of the customers, the current organizational culture, the current strategy model employed, managerial values, the competitive positioning sought, any trends that may be occurring or upcoming, and the organization's ability to support and sustain change. To varying degrees, it is likely that each organization may require it own unique configuration of behaviors and standards. Fine tuning will be inevitable.

On this point, managers may need to re-consider how they manage, changing their focus from a „strategy-outcome" to a „behavior-strategy" focus. Organizational systems supporting compensation and evaluation may likewise have to be revisited. It is also significant to note that deliberate engendering of an innovation orientation is also possible, and in some cases even necessary. There are two considerations here. First, managers can attempt to adjust or change their innovation culture to suit the context if indeed there is a perceived gap between actual and desired orientations. Alternatively, it may be possible to engage competitive contexts that suit the organization's current innovation-strategy balance. The presumption here is that managers are aware of the fit between innovation and strategy, and that they have a pulse on their current orientation. For example, consider an organization that possesses an orientation that supports proficient segmentation of the marketplace, and customizing products or services for these segments. Such organizations, when considering growth alternatives might pursue markets, acquisitions or alliances in competitive contexts where such an orientation has proven to be successful even though it might be unrelated to their principally served market segments.

6.9 Future Research Considerations

Although this research addressed a major limitation of past studies, that being the lack of research explicating the relationship between innovation and strategy, it does not consider these factors in a empirical contextual or co-alignment perspective. Specifically, the results add to the body of theory in that it delineates the relationship between innovation and strategy. However, it does not draw any conclusions respecting the relationship between innovation and performance, nor whether innovation/strategy relationship is moderated by the environmental context. Essentially, this research provides a critical link as it contributes a piece to the puzzle, but does not complete the puzzle. This is an excellent base from which to undertake subsequent research on the co-alignment between innovation, strategy and performance in diverse environmental contexts.

It is also recommended that follow-up studies be conducted on specific industries that are known for innovation, and where the intersection of innovation and strategy are absolutely necessary for the survival of the organization (i.e. high technology and science, biotechnology and pharmaceutical industries). The goal for this research would be to expand the examination of the innovation-strategy relationship. It would also be beneficial to test these relationships in a co-alignment perspective, considering performance implications.