# Strategic Innovation: Building and Sustaining Innovative Organizations

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**LEARNING OBJECTIVES**

After studying this chapter you should be able to:

- Reflect on the need for strategic innovation efforts in tourism
- Distinguish categories of innovations
- Understand managers' strategic choice concerning innovation processes
- Determine driving forces and the potentials they represent for tourism businesses
- Select information sources that can guide innovation processes

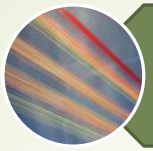
## STRATEGIC INNOVATION DEFINED

Strategic innovation is the determined, targeted, planned and measured pursuit of such changes in organizations that lead to the introduction of new products/services, new production processes, supply chain links, managerial revisions, communication changes and institutional paradigm shifts.

Strategic innovation is a dimension of the strategic management discipline, and thus innovation is included and embedded in comprehensive attempts of an organization to achieve and maintain a competitive advantage.

**Two approaches to strategic innovation in organizations**

**Types of innovations**



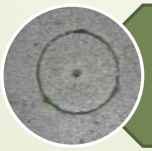
Product/service innovations

Process innovations

Supply chain innovations

Management innovations

Communications innovations



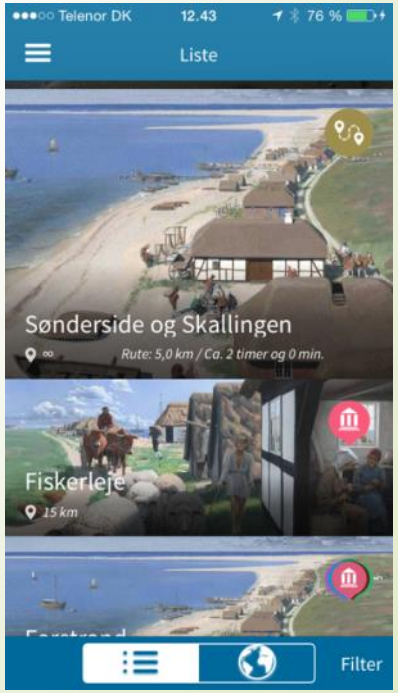
Institutional innovations

## DRIVING FORCES FOR INNOVATIONS

- Technology-driven innovations
- Research-driven innovations
- Supplier-driven innovations
- Price- and cost-driven innovations
- Employee-driven innovations
- Customer-driven innovations
- Legislation-driven innovations

## TECHNOLOGY-DRIVEN INNOVATIONS

Innovations in ICT and materials that affect tourism and create tourism related innovations of products, services, processes etc.




*Example: Mobile apps have had a big impact on tourism information, guiding and experience development*

## RESEARCH-DRIVEN INNOVATIONS

Scientific research delivers results that can enhance and change tourism products.

*Example: Forest idyll – important in national parks and part of touristic infrastructures.*
*Scientists deliver evidence to ensure the enviromental sustainability and contribute to the preservation of species.*
*Their evidence affects the interpretation that tourists consume.*

## SUPPLIER-DRIVEN INNOVATIONS

Many tourism enterprises do not put a great effort into innovation, but they may appear to be innovative because they understand to implement products and systems developed by their suppliers.

*Example: Fancy food items can contribute to restaurants' innovative image. Some restaurants work closely with their suppliers to co-create for mutual benefits.*

## PRICE- AND COST-DRIVEN INNOVATIONS

Productivity and profitability are the main challenges in the tourism industry. It is necessary to work innovatively with price mechanisms, yield management etc.


*Example: Loyalty programmes are well known from airlines and hotels, and the methods are constanctly evolving. Moreover, the ideas are floating to other tourism sectors as well, for example restaurants and cultural attractions.*
*Photo: National Art Pass  www. Artfund.org*

## EMPLOYEE-DRIVEN INNOVATIONS

Employees are in close contact with guests, and the insights they get, when properly retrieved and handled, can be of importance for innovations


*Example: This employee may go back to his boss and suggest that the set-up bores the customers, and he may also be encouraged by his manager to propose*

## CUSTOMER-DRIVEN INNOVATIONS

Customers deliver information for innovation all the time, but tourism enterprises need to tap and use the information in purposeful ways.

*Example: A group of expert 'lead users' testing the facilities in a wellness barefoot garden, afterwards discussing their findings and proposals with the proprietor over a cup of coffee.*

## LEGISLATION-DRIVEN INNOVATIONS

Laws and regulation accumulate much information of value in innovation processes. New regulation can, at best, stimulate innovation.

*Example: Cruising can be unsafe. Cruising companies are under strict legal control and supervision. Some of them use this as an opportunity to invent new technological systems, to implement staff training programmes and to remodel customer*

# Towards incrementalist models

- Trend towards incrementalism, experimentalism and learning (e.g. ”explore a range of possible trends”, ”ensure broad participation”, ”use multiple sources for innovation”, ”change strategies in the light of new knowledge” etc.
- Because... Formalization undercuts planning, managers’ beliefs about the company are often wrong, difficulties in forecasting over the long term; under conditions of fast and continuous change incrementalism is better than rationalism

# Porter's legacy

- The five forces:
  - Relations with suppliers
  - Relations with buyers
  - New entrants
  - Substitutes
  - Rivalry among established firms
- "the goal of competative strategy is to find a position where a company can best defend itself against these forces or influence them to its benefit"

# Porter's legacy

- Generic technology strategies:
  - Cost leadership (e.g. Lower/cheaper material input, logisitics)
  - Differentiation (e.g. Enhance features, deliverability)
  - Cost focus (minimum features)
  - Differentiation (niche markets)
- Don't get stuck in the middle!

# Example: TOWS

| | **Internal factors** | |
|---|---|---|
| | Strenghts (S) | Weaknesses (W) |
| Opportunities (O) | **SO Strategic Options**<br>Generate options that use strengths to take advantage of opportunities | **WO Stratregic options**<br>Generate options that take advantage of opportunites by overcoming weaknesses |
| **External factors**<br>Threats (T) | **ST Strategic options**<br>Generate options here that use strenghts to avoid threats | **WT Strategic options**<br>Generate options that minimise weaknesses and avoid threats |

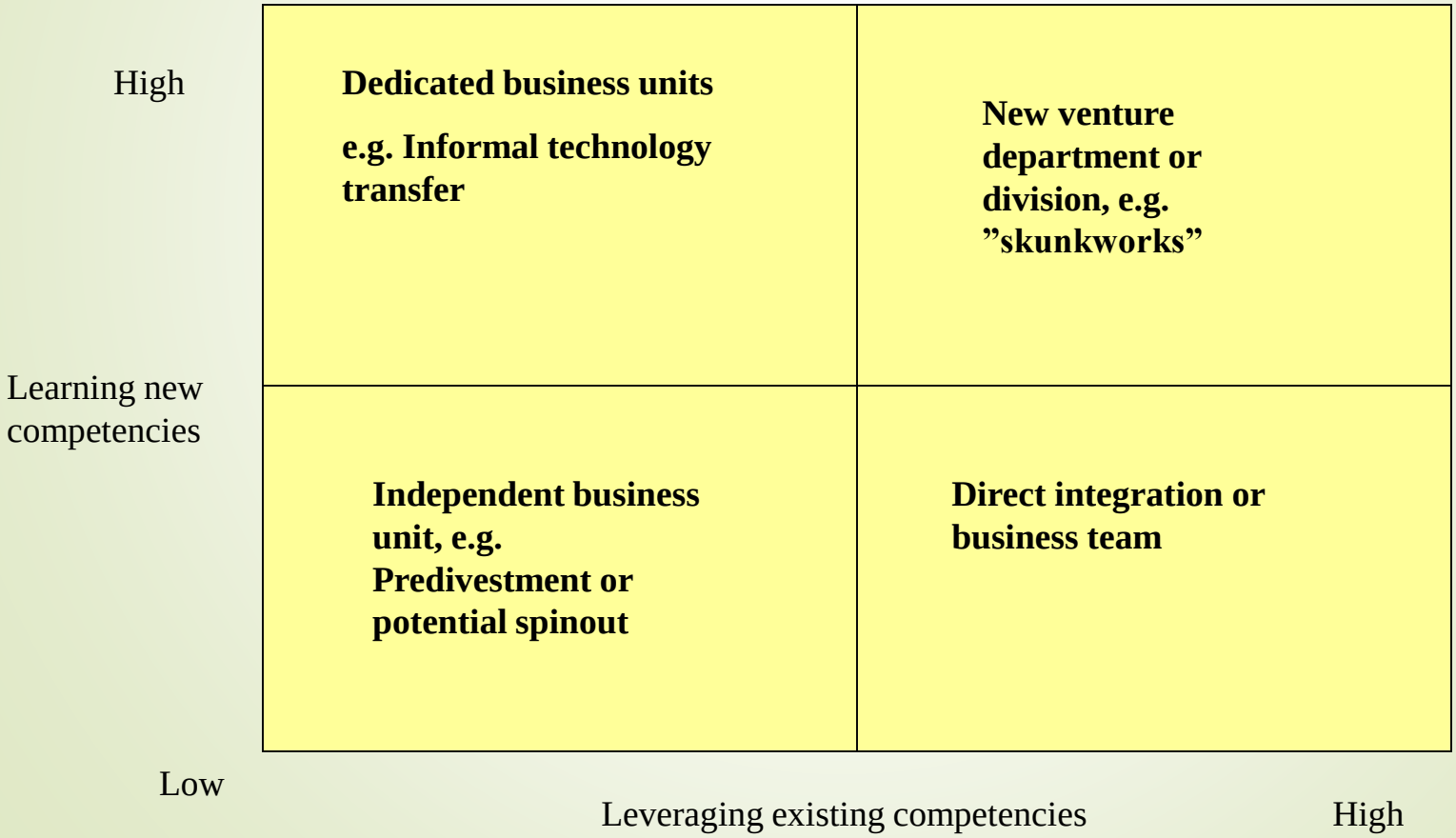
# Example: The familiarity matrix

| Market Factors | Base | New Familiar | New Unfamiliar |
|---|---|---|---|
| New Unfamiliar | Joint ventures | Venture capital Venture nurturing Educational acquisitions | Venture capital Venture nurturing Educational acquisitions |
| New Familiar | Internal market developments Acquisitions (Joint ventures) | Internal ventures Acquisitions Licencing | Venture capital Venture nurturing Educational acquisitions |
| Base | Internal base developments (Acquisitions) | Internal product developments Acquisition Licensing | Joint venture |

**Technologies or Services Embodied in the Product**

*Figure 2. The familiarity matrix. Technologies or services embodied in the product. The grayscale indicate the changing corporate involvement, as in figure 1 (Roberts & Berry, 1985)*

# Example: learning and leveraging matrix



# The innovator's dilemma

The farther that any company seeks to innovate, as measured by the degrees of change from its base markets and technologies, the greater the likelyhood that its innovation efforts will fail. And yet, the less that a firm seeks to innovate, across the board, the greater the likelyhood that the corporation itself will fail.

# The dynamic capabilities approach

- Emphasizes the two aspects:
  - The shifting character of the environment
  - Adapting, integrating, and re-configuring internal and external organizational skills, resources and functional competencies towards a changing environment.
- Three key variables:
- Positions (e.g. systems of innovation and rivalry)
- paths (e.g. core competencies and tech trajectories)
- processes (e.g. control and organization)

# Five major tech trajectories

| | **Supplier dominated** | **Scale intensive** | **Science-based** | **Information intensive** | **Specialized suppliers** |
|---|---|---|---|---|---|
| **Type of core products** | ▪ Agriculture<br>▪ Services<br>▪ Traditional manufacture | ▪ Bulk materials<br>▪ Consumer durables<br>▪ Cars<br>▪ Civil engineering | ▪ Electronics<br>▪ Chemicals<br>▪ Biotech | ▪ Finance<br>▪ Retailing<br>▪ Publishing<br>▪ Travel | ▪ Machinery<br>▪ Instruments<br>▪ Software |
| **Main sources of technology** | ▪ Suppliers<br>▪ Production learning | ▪ Production engineering<br>▪ Production learning<br>▪ Suppliers<br>▪ Design offices | ▪ R&D<br>▪ Basic research | ▪ Software and systems departments<br>▪ Suppliers | ▪ Design<br>▪ Advanced users |

# Five major tech strategies

| | **Supplier dominated** | **Scale intensive** | **Science-based** | **Information intensive** | **Specialized suppliers** |
|---|---|---|---|---|---|
| **Positions** | Based on non-technological advances | Cost-effective and safe complex products and processes | Develop technically related products | New products and services | Monitor and respond to user needs |
| **Paths** | Use of IT in finance and distribution | Incremental integration of new knowledge | Exploit basic science | Design and operation of complex information processing systems | Matching changing technologies to user needs |
| **Processes** | Flexible response to user | Diffusion of best-practice in design, production and distribution | Obtain complementary assets, redefine divisional boundaries | To matcj IT-based opportunities with user needs | Strong links with lead users |

## CONCLUDING REFLECTIONS

- Do all tourism enterprises need to be innovative? Why/why not?
- What are the fundamental tasks of a innovation manager in a small- and medium-sized tourism enterprise?
- What types of external alliances are relevant for tourism enterprises that do not, in-house, possess a sufficient innovation capacity?
- Will customers demand  more innovative products, and how do tourism enterprises prioritize their innovation endeavour?

# BRIC: Becoming Really Internationally Competitive

- The BRIC countries (Brazil, Russia, India, and China) are likely to play a much larger role on the global stage than they did even a few years ago.
  - At their first Economic Summit, in 2009, the BRIC leaders said a need exists for "a stable, predictable and more diversified international monetary system" and that they have a greater representation in it than they have had previously.
  - The 2009 BP Statistical Review of World Energy points out that the developing world now consumes more energy than the OECD nations do and that this will greatly affect prices and will pose new challenges for energy security and climate change.
  - BRIC countries are collaborating as equal partners in important science and technology projects, such as Japan and India's joint space-research projects. Chinese companies are forming joint ventures with or acquiring companies in developed countries, including Japan and the United States.
  - BRIC nations are becoming attractive places to work for immigrants after gaining education and work experience in developed countries, which enables many of them to obtain executive management positions when they return to their native countries.

# BRIC: Becoming Really Internationally Competitive

- BRIC nations will demand greater influence on global government policy issues, which could transform the international business landscape, including in science and technology focus, competition for natural resources, competition for work talent, and the multinational treaties and agreements that affect business relies on intellectual property rights, patents, trade, and security.

# Crowdsourcing's Rules of Engagement

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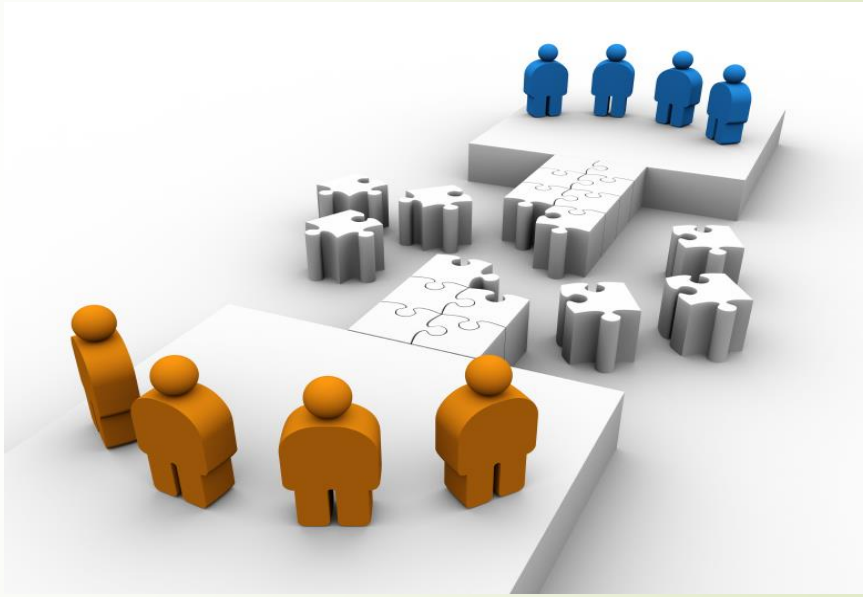
- Crowdsourcing allows companies to capture information about the needs and problems of customers, but undue emphasis on outside input can leave companies with an overwhelming amount of irrelevant, misleading, and conflicting ideas.
  - Jaron Lanier, University of California, Berkeley, claims crowdsourcing easily leads to design by committee, which just adds features without keeping the complexity of the overall product and business concept in mind.
  - Nokia acknowledges that in order to avoid having its online Design by Community project turn into "some kind of unwieldy beast," it changes the variables it puts to the public vote each week.
  - Helmut Traitler, head of Innovation Partnerships at Nestec, says he practices a form of "targeted" open innovation by selecting specific contractors and design firms that his company learns to trust.
  - Harvard and MIT researchers conclude that radical innovation requires a detailed knowledge of an individual company's organizational structures, process equipment, and so forth, for which crowdsourcing is uninformed and, thus, is best left to small companies or groups.

# Crowdsourcing's Rules of Engagement

- While crowdsourcing is probably here to stay, a company using it needs to establish firm rules and guidelines as to when it is appropriate. Researchers from Esade Business School and Harvard Business School have developed a mathematical model of the limitations of cocreation: Companies should not collaborate when complexity is very high (too many design tradeoffs; disagreements among partners) or very low (overkill), which may apply to crowdsourcing as well.



# Scanning the Road Ahead

- Technology will change how people create, innovate and compete.
- Globalization will bring new competitors and new partners.
- Competitors will try every approach, explore every opportunity, exploit every weakness.
- No single approach to innovation will guarantee success.
- Each change reminds us that the future is uncertain; Scan provides early alerts to potential change.
- Opportunity Discovery, Scenarios, and Roadmapping help each competitive challenge to have an optimum approach and a strategic fit.

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