

THE COMPANIES' FOCUSES IN INNOVATIVE ACTIVITY

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Innovators implement new ideas that create value. Firms can innovate in many areas including new product and service development; new or better work processes like logistics and human resource management, marketing and customer management; and new tools and processes like production machinery and information systems, financing and capital management, and innovative business models. In short, companies can innovate in just about everything they do. Besides, innovation involves more than just ideation. It is an end-to-end process that stretches from discovery through commercialization. Continuous innovation is a competitive necessity in the industries we studied.

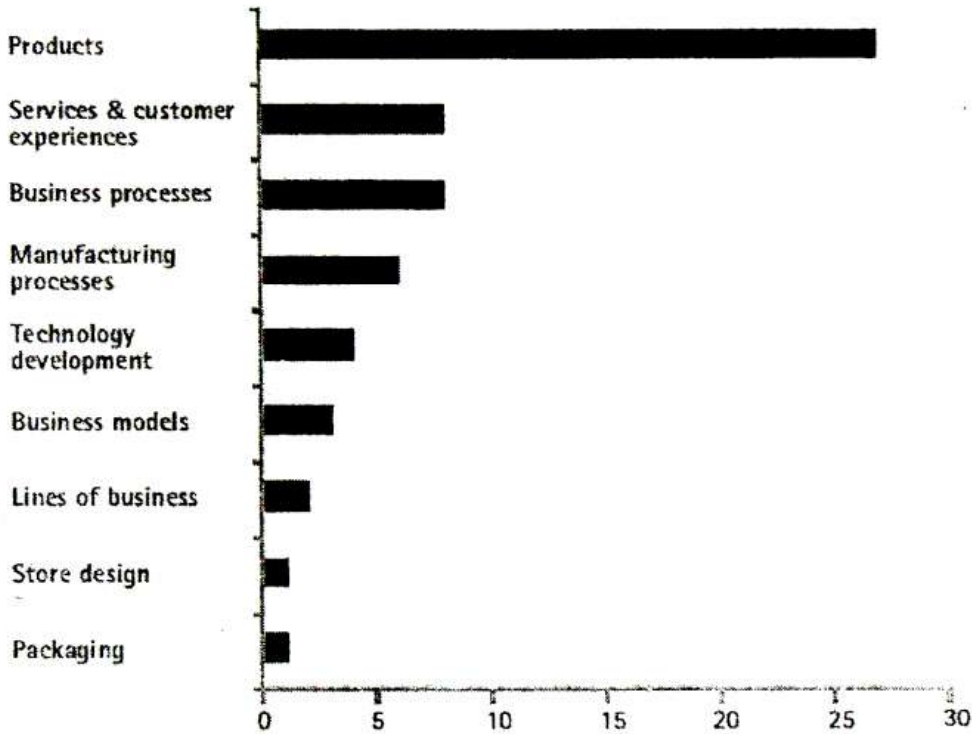
However, most firms tend to concentrate their innovative activities explicitly in a small number of areas. The most part common area was product innovation (Figure 1). Even executives who describe a broader innovation agenda for their firms frequently focus on product innovation when it comes to questions of sourcing.

The specific innovation focus might have more to do with the responsibility of the individuals we interviewed rather than any overarching corporate plan. At the very least, we can conclude that few companies had clearly stated a corporate focus for innovation. The firms rarely targeted business model innovation, and business process innovation tended to happen primarily during occasional "reengineering" initiatives.

One executive attributed his firm's innovation bias against these types of innovations to funding issues and incentives. Organizational ownership for these kinds of innovations is often unclear, and corporations provide little in the form of reward structures to motivate innovation in this area.

For most products, their approaches to sourcing range widely. On the average, the executives who could specify a percentage of external innovation estimate that their firms source 45 percent of their innovation from outside. This average hides a great deal of diversity. Some of the retail firms report that they get 90 percent of their innovation from outside sources—primarily in the form of the products they sell. In contrast, discovery intensive pharmaceutical and chemical organizations like Lilly and DuPont Crop Protection rely on internal sources for more than 70 percent of innovation.

Figure 1. The companies' focuses in innovative activity



With new types of innovation sources available, executives are expanding the purposes for which they consider external sources appropriate. In research-intensive companies, for example, the conventional wisdom holds that employees conduct research in the firm's core area of expertise, and outsiders provide less important support activities. Yet research powerhouses in the pharmaceutical industry are turning to small biotech firms for their next generation drug breakthroughs. Chemical companies with strong internal research traditions are lining up contract scientists in Russia and India to strengthen their staffs and stretch their R&D budgets. Firms that are edging into new product domains are looking to outside sources not for support capabilities, but for the critical skills these new arenas require.

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