

# Using new external ideas to make innovation work

By THOMAS MENKHOFF

HERE is widespread belief that firms can outperform others by utilising the power of innovation. What's unclear, however, is how innovation can be effectively generated and managed. Innovation managers are confronted with numerous concepts, frameworks and techniques. Examples include the *Business Model Canvas* by Alexander Osterwalder which helps managers to visualise and create new growth opportunities in search of the "right" business model; executable roadmaps for "disruptive" innovation like the *Ten Types of Innovation* framework by Larry Keeley and team; or specific managerial techniques such as the *Stage-Gate Process of Innovation* by Robert G Cooper designed to weed out potentially unsuccessful innovations and to get more new products to market more quickly.

One key to successful innovation inherent in all of these approaches is the criticality of absorptive capacity which is concerned with "the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends", according to its conceptual creators, US management professors Wesley M Cohen (Duke University) and Daniel A Levinthal (The Wharton School, University of Pennsylvania). A key takeaway of their seminal article entitled "Absorptive capacity: a new perspective on learning and innovation" published decades ago in the reputable journal *Administrative Science Quarterly* (1990) is the importance of recognising (good and valuable) external ideas, assimilating them within the organisation across silos and applying them in order to generate truly innovative outputs.

Key enablers to do so include exposure to relevant knowledge via relentless networking, the presence of prior related knowledge so as to recognise the value of new knowledge, and diversity of experience (the latter increases the scope for acknowledging external ideas and stimuli).

Most if not all innovation frameworks propagated by innovation experts have integrated research insights with regard to the power of absorptive capacity into their conceptual structure. Nevertheless, there are still hundreds of firms who forgo innovation advantages, because many fail to absorb and make use of knowledge, learning opportunities and value networks.

If one translates the theory of absorptive capacity into practical recommendations for managers tasked to make innovation work, for example, via innovative business models, the following recommendations emerge: Rethink the ways you deliver and capture value as well as how you deliver and monetise it. Leverage on your value networks and (re-)assess how you connect your organisation with others (and their knowhow) to create more value. If you do spot innovation gaps, modify your value networks, for example, by changing and innovating your supply chain as practised by Samsung – which developed a digital, more efficient operating model in order to better integrate its large and diverse number of logistic service providers (including carriers) globally – or P&G famous for its continuous replenishment approach. Other "older" supply chain innovations include the ocean shipping container (1956), the universal product

code (1974), Toyota's integrated production system or FedEx's computerised tracking system developed from the mid-1980s which provided near real-time information about package delivery.

Managers who find that creating new value through the digital transformation of supply chains (for example, like Amazon) is too difficult may want to check whether the organisation can benefit by changing its revenue, cost or margin model. This strategy was initially pursued by Irish low-cost airline Ryanair with its "no frills" business model by serving mainly smaller airports outside major cities rather than primary airports which resulted in reduced costs due to lower landing fees and quick turnaround times.

Airtel (Bharti Airtel Ltd), an Indian multinational telecommunications services company with over 250 million subscribers in more than 15 countries, also rewired its value network. By outsourcing certain business operations such as the management and maintenance of technical equipment to Ericsson as well as back-office requirements management to IBM, it took advantage of the services offered by others in its own business network and kept costs low. A related case is car-sharing company Zipcar, which managed to woo new customer segments such as under-served university students as early adopters of its tech-enabled services.

## Complementary providers

While contingent upon market trends and externalities, alliances with complementary providers of products and services are great ways to refresh one's business model and to create new revenues. Take, for example, the Pepsi Lipton Partnership between PepsiCo (with its vast distribution and bottling network) and Unilever – none of them could have achieved this success alone. A more recent example is the new "exclusive" partnership between Apple and IBM aimed at transforming enterprise mobility through new business apps so that customers can enjoy both IBM's Big Data and analytics capabilities and Apple's iPhones and iPads.

Appreciating the importance of building up absorptive capabilities and new value networks requires systematic (e.g. case-based) learning, robust (descriptive, analytical and predictive) theories and specific, actionable approaches to drive innovation at all levels of the organisation.

Besides the need to create organisational routines and processes aimed at analysing, processing, and successfully interpreting newly obtained (external) information and knowledge, managers must be able to apply, exploit and commercialise innovative inputs in the form of novel business models, better supply chains, products or services.

Innovation consultants, tertiary educational institutions as well as Spring Singapore's innovation framework provide many helping hands for Singapore-based firms to acquire innovation management knowhow which is crucial for improving an organisation's innovation performance.

---

*The writer is professor of organisational behaviour and human resources at the Lee Kong Chian School of Business, Singapore Management University (SMU), and academic director of SMU's Master of Science in Innovation programme*