



Key differences in perceiving innovation between businesses that see the strategic importance of innovation and those that only claim to be innovative

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Abstract

Changes in the business environment, caused by the transition to a knowledge economy, highlight the importance of innovation in enterprises. Innovation is not considered solely in terms of technology and investment in research and development, but also in business processes, services and strategies. Development perspectives on innovation and its present shape best describe the transition from a closed to an open innovation model. Open innovation is mainly used in large enterprises, given their existing relationships with external entities. SMEs, on the other hand show distrust in sharing knowledge and know-how, because of the potential abuse by competitors. This paper focuses on the characteristics of innovative businesses, with a comparative analysis of innovative enterprises and those that only consider themselves as innovative. The study also indicates the different understanding of the notion of innovation between those that see the strategic importance of innovation and those that do not.

Keywords: Innovation, open innovation, determinants of innovation.

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1. Introduction

Promoting innovation is now a topic not only at the national level, but also at the European Union level. The Europe 2020 Strategy is one of the main stated objectives of smart growth based on knowledge and innovation. Horizon 2020 supports these goals through activities focused on excellent science and achieving industrial leadership through innovation (Ministry of Justice, SR).

However, many countries are still struggling with low innovativeness in some areas, sectors or in some types of businesses. Often, large companies reach better innovation performance and, thus, the focus of research is usually on SMEs. The evaluation of innovation of the European Commission in a report on innovation, 2014, points to the benefit of large businesses, which are reflected in their innovation activities. An analysis of the businesses within the EU28 shows that 26% of small businesses (1–9 employees) introduced new or significantly improved processes compared to 65% of large firms (500 or more employees). Similarly, outweighed were large companies in the category of new or improved services (52% vs. 37–46%) as well as marketing strategies (49% vs. 31–38%) (European Commission, 2014).

However, given the dynamism of the current environment and the trend of globalisation and internationalisation, innovation is now a necessity for the survival of all businesses. Innovation therefore cannot be seen as in the definition of voluntary enhancement of products, services, marketing, technology or processes, but as a necessary part of organisational dynamics (Bajzikova, Sajgalikova, Wojcak & Polakova, 2014; Gregus & Karovic, 2015; Gubiniova & Pajtinkova Bartakova, 2014; Stacho et al., 2013). Innovation is the improvement, enhancement and creation of something new, covering all parts of the existence of the organisation from employees to customers, to create an added value that allows an organisation to gain competitive advantage. Drucker perfectly describes the need for innovation for the company's survival, by stating: 'Innovation is the life blood of the organisation' (Vohra et al., 2009).

2. Literature Review and Hypotheses

2.1. Process of innovation

The key to creating successful innovation, which creates added value, is the effectiveness of the innovation process. Innovation processes can generally be described as a mix of activities, from technical, commercial, financial to organisational, which lead to innovation, whether in the form of something new, or improved. These activities may be derived from either research and development activities, or even those that are not of R&D character (Dvorak, 2006).

Models describing the innovation process have been analysed by many authors (Cooper, 2001; Goffin & Pfeiffer, 1999; Narvekar & Jain, 2006). However, most of them are based on the basic stages of collection and analysis of ideas, selection and development, and commercialisation and diffusion of innovation, while Koen focuses more on the early stage of the innovation process, which is called the fuzzy front end of innovation (Koen et al., 2002). The initial phase generally consists of primary activities such as acquisition and creation of ideas to decisions on their further use, development or termination. The aim of the first phase is to create enough space for creativity and gaining sources for ideas in the system of managed activities, which together lead to increased efficiency (Herstatt & Verworn, 2007). The model of the innovation process according to Koen is shown in Figure 1.

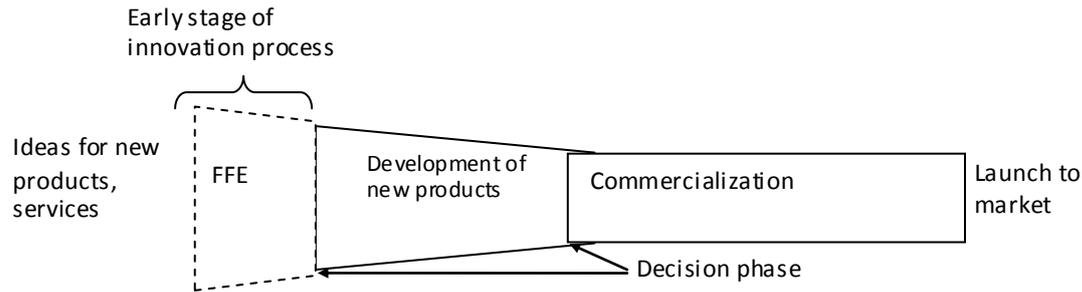


Figure 1. Innovation process according to Koen (Koen et al., 2002)

Authors lay great emphasis on this stage, because quantity, quality and effective idea management ideas affect all other phases of the innovation process. In the past, companies managed the innovation process on the basis of randomly emerging ideas. In fact, the effectiveness of the innovation process is growing rapidly, where ideas are adequately managed, and therefore the ideas do not come into the innovation process at random (Herstatt & Verworn, 2001).

2.2. Modern approach to innovation and openness

Historically, companies have used the closed approach to innovation, or the closed model. They used their own internal resources, material and human capital for innovation development, and presented the innovations themselves on the market. The idea was to protect their know-how, together with the innovations that were not released on the market. This approach, however, prevented a number of good ideas and technology to reach the market or come into the innovation process (Herzog, 2011).

Modern approaches to innovation are mainly based on openness of the innovation process (Chesbrough, 2003). In other words, a constantly changing environment, competitive pressure and rapid advances in technology caused the closed innovation model to become insufficient. Therefore, leaders in innovation cooperate with internal as well as external resources while exchanging and gaining ideas for innovation. Similarly, emphasis is on the quality of inputs into the innovation process, meaning that entries must not be based on a random factor. The entire innovation process is based on the premise that innovation should have a long-term effect. The last part, which is characterised by a modern approach to innovation, is called a learning organisation. In this case, it is understood in terms of sorting and storing ideas, and documentation of innovative processes, which collectively serve for use in other innovative projects or processes.

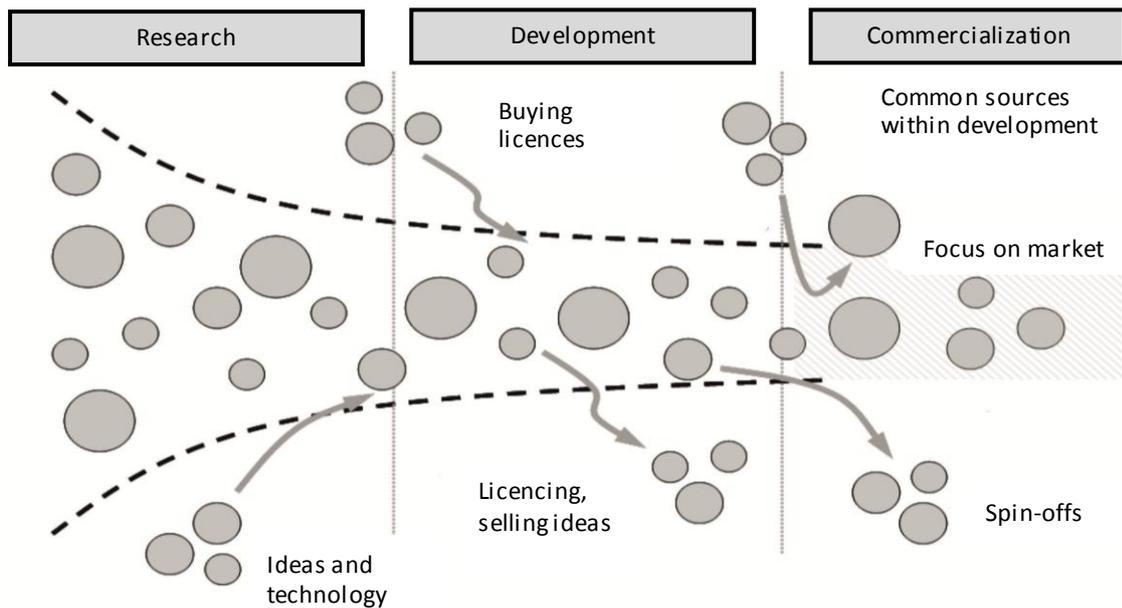


Figure 2. Open innovation process (Chesbrough, 2003)

The model of open innovation (Figure 2) is now regarded as a phenomenon, a novelty in the field of innovation management. The concept of 'open innovation' was first introduced by a Professor and Executive Director of the Centre of Open Innovation at the Haas University, California, Henry Chesbrough in 2003, in his book 'Open Innovation: The New Imperative for Creating & Profiting from Technology'. Open innovation is defined as the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively' (Chesbrough, 2003).

When focusing on the early stage of innovation, ideas and technology can be gathered from internal or external sources. Sources for ideas can be divided into six main groups, including other sub-groups (Alam, 2003; Baumgartner, 2009):

- Employees/internal resources
- Customers
- Organisational resources
- Suppliers
- Competition
- Other businesses

Other businesses may include many types of organisations with which businesses can interact. For example, non-profit organizations, research centres, universities, interest groups, society and consumers.

The low innovation performance may be caused by mistrust in the idea of sharing knowledge, while many companies believe that their know-how will be stolen and used by competitors. Also, ethical issues and the responsibility for negative consequences need to be taken into consideration, when we talk about cooperation in the innovation process. (Demeter & Szegedi, 2013; Hvizdova et al., 2014) Therefore, there are still organisations that believe in in-house innovation, the closed model or do not know how to engage in activities concerning external subjects. As Mortara and Minshall (Mortara & Minshall, 2011) claim, 'innovative processes are not fully closed or fully open and businesses tend to cooperate if they believe that the collaboration with the external environment will be beneficial for them'.

3. Methodology

3.1. Research goal

The aim of this research is to determine the main characteristics of innovative businesses, while distinguishing the truly innovative from those that only consider themselves as innovative. The analysis in this paper provides a closer look at the perception and understanding of the innovation concept by each category.

3.2. Sample and data collection

The research sample consists of 67 Slovak companies, sized from micro, small, medium to large businesses. Data were collected via an electronic questionnaire, where interviewees were asked to answer questions divided into three topics: organisation objectives, activities and strategic importance. Within each topic, the interviewees answered on a scale from 1 to 4:

- 1 – No importance; does not apply; insignificant
- 2 – Small importance; sometimes applies; not very significant
- 3 – Medium importance; usually applies; significant
- 4 – High importance; always applies; very significant

A separate question was focused on the organisation's perception of itself as innovative, where they could answer on the scale of 1–4 meaning, 4 – yes, 3 – quite yes, 2 – not too much or 1 – no.

For research purposes, the sample was divided into two groups based on their innovation perception and consideration of innovation to be of strategic importance. Separate groups were found in order to compare and determine the main characteristics of those that set high strategic importance to innovation compared to those that only saw themselves as innovative, but did not set high strategic importance.

In order to determine the main characteristics of truly innovative businesses, we used specific statistical methods. For each sample group, statistical correlation was used to find strong dependencies. For the purpose of this research, we focused on these types of organisation objectives:

- Quality of human resources
- Process optimisation and ICT
- Culture of sharing knowledge within organisation
- Innovation, change/improvements of products, processes
- Building brand name, image
- Relations with customers
- Relations with external subjects

The results in these objectives were correlated with the objective of innovation, change/improvements of products and processes in order to find important differences between truly innovative businesses and those that only considered themselves as innovative.

3.3. Analyses and results

A research sample of 67 businesses was divided into two specific groups. Based on the focus of on organisation's perception of itself as innovative, we discovered that 83% consider themselves as innovative as shown in Figure 3.

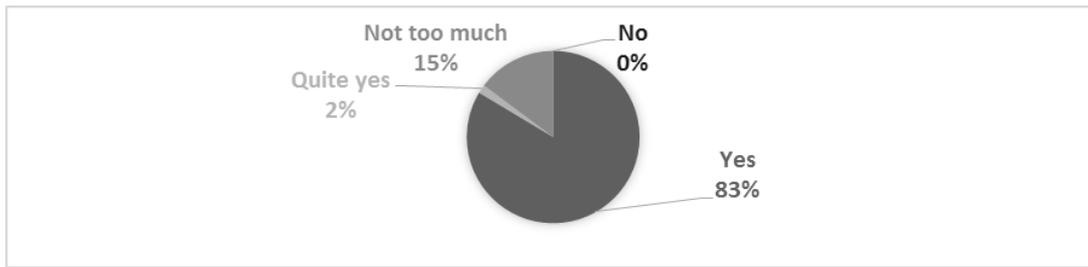


Figure 3. Division of organisations, based on perception of themselves as innovative

We need to take into account that innovativeness is considered as the new trend of the modern knowledge era. However, while it is important to be innovative in the current dynamic environment, a lot of companies may still consider themselves as innovative, while they are not truly innovative or see innovation activities from different perspectives. When looking at the question of innovation being of strategic importance, we see the division among the answers in Figure 4 changes rapidly compared to the previous question. Only 22% of businesses answered that they really saw innovation as important for long-term sustainability and financial goals, followed by 30% of those that saw its strategic importance.

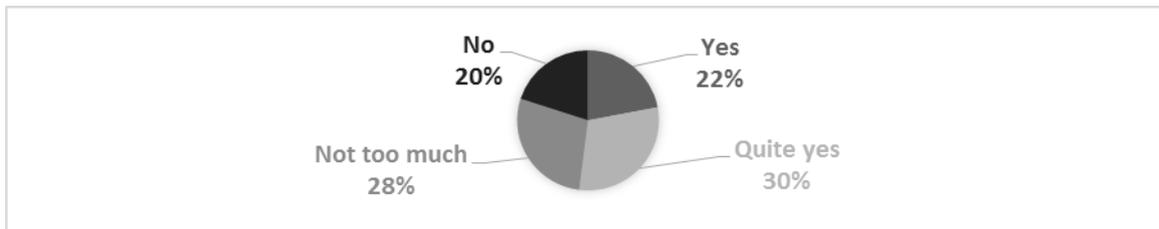


Figure 4. Division of organisations that perceive themselves as innovative, based on the fact: 'for long term sustainability and financial goals', it is important to 'invest in research and development and innovation processes'.

In order to determine the main characteristics of innovative businesses, we focus on businesses that consider or quite consider themselves as innovative (52 businesses). These are divided into two groups based on the previous graph: 48% does not see innovation to be of strategic importance and 52% see innovation as strategically important. The distribution of businesses based on their size can be seen in Figure 5. The category of businesses that does not see the strategic importance of innovation is shifted more to the smaller sized businesses or SMEs. The strategic importance of innovation is mainly seen by larger sized businesses.

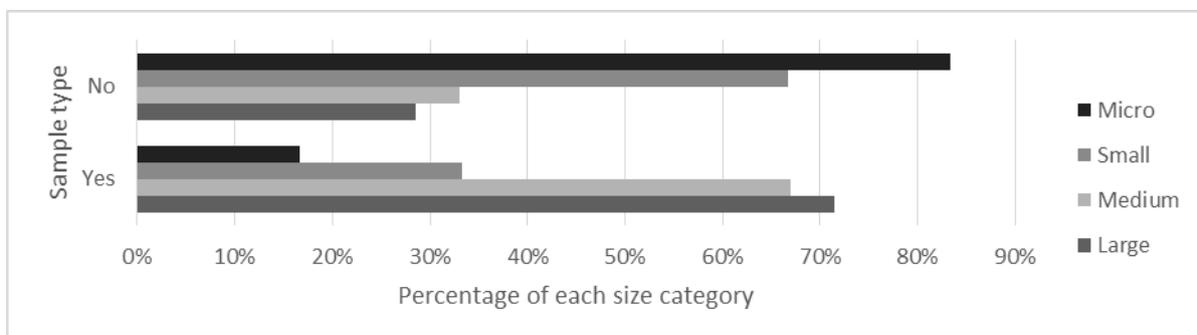


Figure 5. Division of each type of business size within the sample group of truly innovative organisations (Yes) and those that do not see the strategic importance of innovation (No)

For the purpose of this research, we focus on analysing the attributed significance to specific organisation objectives by each sample group. Comparison of the average responses for each group is shown in Figure 6. For both the sample groups, the highest average evaluation was achieved for relations with customers, meaning it was of highest overall importance for meeting an organisation's objectives. The next most important organisation objective was building the brand name and image. The main and most significant difference, however, occurs in the area of knowledge sharing within an organisation. Businesses that do not see the strategic importance of innovation (No-group) see here the lowest importance for organisation objectives with an average of 2.9 compared to 3.4 average answer of the Yes-group.

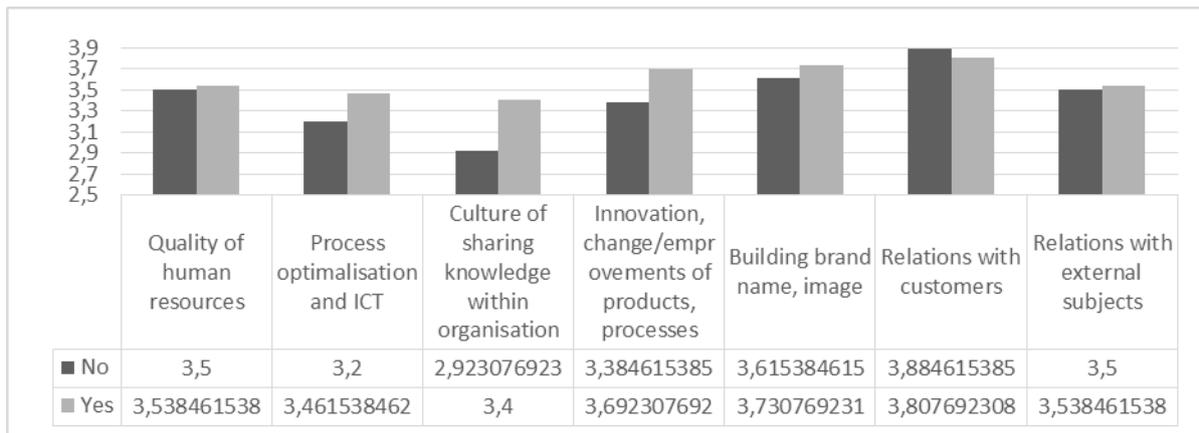


Figure 6. Average answers for both the sample groups, regarding types of organisation objectives

Interesting, however, is the perception of each type of activity in the process of meeting the organisation objectives, of an innovative organisation. Based on statistical correlation to find the dependencies of selected factors, Table 1 shows that companies that we see as truly innovative (Yes-group) see innovation as important for the organisation objectives together with the culture of sharing knowledge (correlation of 0.52), relations with customers (0.33) and relations with external subjects (0.39). On the other hand, not truly innovative organisations (No-group), as the second sample group combines different types together, such as process optimisation and ICT (0.43) together with relations with customers (0.31), when thinking about innovation as an objective.

Table 1. Classification of factors influencing environmental reporting

Attributed significance in order to meet organisation objectives	Innovation change/improvements of products, processes	
	No	Yes
Quality of human resources	0.184907	0.249676
Process optimisation and ICT	0.435088	0.212959
Culture of sharing knowledge within organisation	0.035512	0.521383
Innovation, change/improvements of products, processes	1	1
Building brand name, image	0.135978	0.24154
Relations with customers	0.310308	0.33265
Relations with external subjects	0.184115	0.390621

These dependences indicate that there is a different understanding of the notion innovation between those that see the strategic importance of innovation and those that do not. Following the model of open innovation, it is clear that the Yes-group understands and uses the principles of openness more, such as sharing knowledge or external relations, in order to enhance the generation of quality ideas for innovation. In other words, these companies see the link between external relation and the culture of sharing knowledge for innovation, which however does not apply for the No-group.

4. Conclusion

Today, the importance of promoting innovation plays an important role in the overall policy of the European Union and in individual countries. Innovation is the key to achieving competitiveness, and is of great necessity for the survival of a company. Nowadays, innovation is widely discussed, but the question is whether companies properly understand what innovativeness is, along with what constitutes an effective innovation process. In order to support innovative companies, it is necessary to identify whether they properly understand innovation or how companies that perceive themselves as innovative really approach innovation. Thus, the aim of this paper is to determine the main characteristic of innovative organisations, while distinguishing those that are truly innovative from those that only consider themselves as innovative businesses.

The fact that companies like to perceive themselves as innovative is not surprising. In a sample of 67 firms, 83% identified themselves as innovative. The timeliness of the topic as well as the awareness of the need for innovation for the survival of a company is why companies do not like to be labelled as non-innovative. Striking, however, is that the actual strategic importance of innovation sees only 22% of those that perceive themselves as innovative. Another 30% quite see this as of strategic importance. It confirms the assumption that companies do not like to be referred to as non-innovative, while in fact they do not see the main benefits of innovation activities for the company. Interesting is the distribution of these groups on the basis of size. The sample we call No-group, meaning it does not see innovation in terms of strategic importance, is rather small businesses; on the other hand, the sample of the innovative Yes-group is closer to large-sized businesses. This can be justified by better access to information about larger companies, as well as their involvement in the larger amount of business relations that force or motivate these companies to be innovative.

Drawing from the theory of innovation management and open innovation, it is clear that the innovation process consists not only of specific phases, but also specific inputs and subjects that interact with this process. Thus, it is interesting to see the differences in perceiving innovation as an objective by each sample group. The sample group of the so-called innovators that do not see innovation as of strategic importance, think of innovation as an objective linked to mostly process optimisation and ICT, followed by relations with customers. On the other hand, innovators that see innovation as strategically important link innovation as an objective together with the culture of sharing knowledge within organisation, relations with customers and relations with external subjects. Interestingly, Kearney (2008) indicates that leaders in innovation devote about 40% of the time in the innovation process to activities of the first phase of the innovation process, thus obtaining and assessing ideas; however, their followers engage in this phase only 13% of the total time devoted to the process of innovation.

The discovered dependencies between innovation and the culture of sharing knowledge, relations with customers and relations with external subjects for the Yes-group indicate that seeing the strategic importance of innovation brings companies to a more open innovation process, where it is necessary to ensure a sufficient number of quality ideas that are the basis for successful innovations. The fact that the No-group links process optimisation and ICT to innovation may divert the activities toward collecting ideas to create better processes; however, this slows down the innovation process and may not be essential for successful innovations. It also indicates that companies that do not see the strategic importance of innovation, but see themselves as innovative, may indulge more in dosed innovation activities, which is definitely not suitable and sufficient for the current dynamic environment, and may cause low innovation performance.

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