INNOVATION AND ORGANISATIONAL PERFORMANCE

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Abstract
In today's business environment, organisations keep evolving ways of outwitting one another in the marketplace in order to remain compeitive and achieve strategic goals. One of such strategies is innovation. This paper looks at how performance outcomes of organisations have been influenced by their innovation strategies, drawing from evidence in literatures. It is concluded that innovation has been proven to strongly influence competitivenss, profitablility, productivity etc. Thus organisations are advised to innovate in order to achieve their organisational goals.

Keywords: Innovation, organisational performance, strategic management, competitiveness

Introduction

The increasingly competitive business environment has made imperative for organisations to put in place systems and processes that will guarantee appreciable organisational performance in the interest of its stakeholders. To this end, several solutions have been developed to ensure that desired organisational outcomes are achieved despite the dynamics of competition. Innovation is one concept that has gained enormous popularity in both business research and practice. This paper takes a look at how the nature of innovation and how its application has affected key organisational outcomes.

The Concept of Innovation

Robbins and Coulter (2006) defined Innovation as the process of taking creative ideas and turning them into useful products or work methods. This is in contrast to invention which was defined by these authors as the process of developing new ideas. Parashar and Singh (2005) defined innovation as the ability to combine two or more knowledge. Tran (2008) on the other hand viewed innovation as the creative and commercial embodiment of organisational learning. Quoting Lundvall, Lim et al (2010) defined innovation as a potential new combination that results in radical breaks with the past, making a substantial part of accumulated knowledge obsolete. They viewed innovation within the context of manufacturing industries as a means of developing and sustaining core competencies through development of internal capabilities, set ups of research and development R&D departments and strategized research scopes and investments. According to Wirtz (2010), innovation is the development and successful establishment of a technical, organisational, business related, institutional or social solution of a problem, which is perceived as groundbreaking and new, accepted by pertinent users and pursued by innovators in anticipation of an achievement. He differentiated innovation from invention using Thomas Edison's statement: "... the real challenge in innovation was not invention – coming up with good ideas – but in making them work technically and commercially". Houser et al (2006) stated that for success in innovation, organisations must take the needs of customers as paramount, and get them satisfied through innovative products/services. They therefore defined innovation as the process of bringing new products and services to a target market. Innovative activities introduce new products, create new demand and substitute for old products (UNIDO, 2002).

Divergent opinion exists on the various types of innovation. Joseph Schumpeter, a famous economist on the twentieth century identified five types of innovation: Introduction of a new product or qualitative change in an existing one (product innovation); process innovation; the opening of a new market (market innovation); development of a new source of supply of raw materials or other inputs; and change in industrial organisation (OECD, 1997). However, further evidence in literature indicated the existence of at least eight types of innovation: Process Innovation, Product Innovation, Incremental Innovation, Radical Innovation, Administrative Innovation, Technology Innovation, Market Innovation and Value Innovation (Seng et al, 2011).

Product Innovation is the development of new products, changes in design of established products, or use of new materials or components in the manufacture of established products (Policy Study Institute, 2010). Product Innovation reflects a change in the quality of products for the benefit of its consumers (Barlow, 1999). Process innovation on the other hand represents changes in the way firms produce the end product for the benefit of its customers (Seng et al, 2011). It is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software (Guillaume, 2010). Administrative innovation is the adaptation of a new administrative system for the business practices, workplace or to the external relations to improve the performance of an organization (Oslo Manual, 2005). It is the creation of a new organisational design that supports better the creation, production and delivery of products and services (Teece, 1980)

Incremental Innovation is about continuous change in products and services to better meet the needs and expectation of consumers (Mishra & Srinivasan, 2005). Radical innovation on the other hand is a complete change in the outcome of which is new to the organisation, industry or market resulting in a transformation of the economics of a business (Seng et al, 2011). Technology innovation on the other hand is the application of ideas related to applied science to make changes to production processes (Seng et al, 2011). Some researchers believe that a better strategy for the organisation is to focus more on customers' satisfaction and market segmentation than on its products or processes. Market innovation is the process of exploring and exploiting new businesses through improvements in marketing activities (Johne, 1999). Finally, value innovation is the simultaneous pursuit of differentiation and low cost strategies. Also known as Blue Ocean Strategy, it focuses on making competition irrelevant by creating a leap of value for buys and the producers, thereby opining up new and uncontested market space (Duncan, 2012).

Organisational Performance.

Measuring organisational performance is difficult (Hubbard, 2009). Numerous literatures exist on organisational performance. The earliest research on this topic developed what was known as the shareholders theory. They viewed firms as belonging to shareholders and as such, they concluded that organisational performance can be measured only in terms of shareholders' returns. This theory agrees with the belief of Prof Milton Friedman who stated that 'the business of firms is to make profit' (Porter, 1980; Owen, 2006; Brown & Fraser, 2006).

Owen (2006), in agreeing with the shareholders' theory believes that organisational performance encompasses three specific areas of firm outcome: (a) Financial

Performance (profits, return on assets, return on investment etc), (b) Product Market Performance (sales, market share etc) and (c) Shareholders Returns (total shareholders return, economic value added etc)

The 1990s saw the emergence of the Stakeholders theory (Hobbard, 2009). This theory sees the firm as responsible not only to shareholders, but also to a wider group which includes employees, representatives, customers, suppliers, government, industries, bodies, local communities etc. As such, its performance must be measured by how much it is able to satisfy these stakeholders (Freeman, 1984; Reich, 1998; Post et al, 2002; Brown & Fraser, 2006; Steuer, 2006). The stakeholder theory assesses organisation performance against the expectation of a variety of stakeholder groups that have particular interest in the effects of the organisation's activities. Its perspective of organisational performance incorporates stakeholder value, but recognises that shareholders are just one group of stakeholder and only relevant to those organisations that issue shares (Hubbard, 2009).

Another concept of organisational performance based on the stakeholders' perspective is the Balanced Score Card (BSC). This incorporates financial, customer/market, short-term efficiency and long-term learning and development factors into the measurement of organisational performance (Kaplan & Norton, 1992). According to Kaplan and Norton, the BSC should have a total of 14 to 16 performance measures with no more than 6 in each quadrant.

Innovation and Organisational Performance

Empirical evidence which connects innovation with organisational outcomes such as financial performance abounds in literature. In the study of a business operating in Istanbul, Turkey, Gokmen and Hamsioglu (2011) discovered the existence of a relationship between innovation and organisational performance. Costa and Cabrel (2010) studied the effect of differentiated knowledge source and learning process on technology capacity to innovate and competitive performance using selected Brazilian export companies. The study found the existence of a positive relationship between knowledge, innovative capabilities and competitive performance. Lim et at (2010) studied the effect of innovation on performance of construction firms using data statistical data across 18 Organisation for Economic Cooperation and Development (OECD) countries and expert interviews in Singapore. They discovered that due to the fact that construction projects are awarded by clients based on lowest cost, innovation appears to be an unfeasible competitive strategy. However, their study revealed that construction firms can develop their competitive advantage through manipulating innovations that consumers are willing to pay for and innovations that would reduce construction costs. They also recommended that construction firms first utilise quality improvements to exploit consumers' willingness to pay for innovative products. This initiative would enable construction firms to improve their finances for innovation and develop their "brand" in construction products. Sustainable competitive advantage could then be firmly established when construction firms engage in productivity improvements that lead to lower construction costs and/or faster completion times. This study concludes that innovation can be a useful competitive tool if construction firms aptly strategise it in according to its competitive environment. Using DHL as a case study, Wirtz (2011) found the existence of a positive relationship between network innovation, competitiveness and financial performance. Budros (2000) discovered that

techno economic factors account for a major reason why organisations innovate. Other reasons include social and cultural forces.

Conclusion

Innovation is a strategy that is widely accepted by most organisations in contemporary economies. This paper looked at the effectiveness of innovation as a tool to enhance competitive advantage and improve organisational performance. It concludes that innovation is a key determinant of organisational performance, also the type and degree varies across industries. Therefore, every company seeking competitiveness and improved performance should consider the inclusion of appropriate innovation strategies for the realisation of desired outcomes.

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