

2006

Volume 4, Issue 4



# Innovativeness (part 3 of 3): The Importance of Innovation Management

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**Description:** Managers views on innovation management

**Methods:** Personal interviews

**Data Source:** Thirty-five managers from 16 companies in North America, Europe, and Oceania

**Key Findings:** Managers were not intimately familiar with metrics of innovativeness and most companies did not have metrics in place to monitor innovation or innovativeness. This suggests opportunities for improved competitiveness through effective innovation management.

## Introduction

In our previous two installments on innovativeness we provided overviews of how forest industry managers define “innovative” companies and what they see as primary hurdles to innovativeness. Here we cover the remaining findings regarding how managers might measure innovativeness and what they do to proactively increase innovativeness within their firms. Findings in this area may be particularly enlightening as they provide a stark indication of the level of investment that most companies employ toward managing innovation. In other words, improved innovation management in the forest sector could hold major competitive dividends.

## Results

Measuring innovativeness was not a topic in which most managers were intimately familiar and few had concrete answers depicting examples of company practices. The strongest theme emerging from the interviews was some form of return on investment or profitability. Other ways that were mentioned by more than one manager were the percentage of sales represented by new products, levels of investment required for a given innovation, market share over time (inferring growth higher than the market average), success in commercialization of products, number of patents received, and time to market. This does not imply, however, that these companies were actively measuring these items. Rather, respondents were reacting to what “could be” measures of innovativeness. A minority of the companies had a structured tracking mechanism to monitor their success in innovation.

Larger companies tended to have an internal process for collecting innovation ideas from employees. One company was actively running an internal competition for gathering creative or innovative ideas. Only one company had a

structured system for soliciting ideas directly from customers.

A variety of examples of proactively working to increase innovativeness came up in our interviews. Managers from one smaller company spoke of in-house reading groups where current business management topics are discussed. One manager mentioned an active outside group of CEOs with which he participated. The group explored a wide range of topics at their monthly meetings. Other topics mentioned were continuous improvement processes such as lean thinking, attending trade shows, and customer visits. For most of the companies interviewed there were no significant efforts targeting increased innovativeness, as such. However, managers typically did not make a connection between the question that was asked regarding “increasing innovativeness” and many of the ongoing efficiency efforts, or incremental improvements, that were taking place within their companies. For example, implementation of lean manufacturing principles were not necessarily mentioned when respondents answered this question.

Some managers expounded on the moves made in their companies to adapt to changing market realities or to better facilitate innovativeness in their operations. Moving toward a higher level of market orientation was a common theme. Several companies had shifted responsibility for R&D to the marketing function in an effort to make product development more customer-focused.

“I would say business model is one where we probably are quite innovative. We are willing to shed our skin every three to five years and reorganize around changing realities.” – **North America**

“This was a totally commodity-based company. So it needed a completely different strategy. It needed a new business model. It needed a totally new infrastructure.” – **North America**

“So the organization is very important. The organization design is supporting the innovativeness in the company.” – **Europe**

One way of attempting to mould culture is through altering organizational structure.

“One of our strategies has been that all new persons coming to the company

are coming to the R&D department to get that sort of R&D mind and then the next step is to go to market or production to learn real-life things as well.” – **Europe**

“our R&D facility also reports to marketing.” – **North America**

#### Findings from Other Research & Managerial Implications

Innovation and innovativeness have been studied extensively during the last century. The process of innovation is so complex that the knowledge base is often contradictory and difficult for managers to draw from. Innovation processes have been described as “contingent”. In other words, successful innovation depends on a number of factors such as the cognitive, organizational and economic factors specific to a firm. Accordingly, it is impossible to provide simple “best practices”<sup>5</sup>.

Given the complex and contingent nature of innovation, we cannot hope to prescribe cookie-cutter solutions for forest industry companies. However, there are general points that can be made. There is an old adage, you can’t manage what you don’t measure. None of our firms could be described as implementing a broad innovation management process with a holistic set of metrics. Instead, what exists in most forest industry companies is a strong focus on process efficiency with corresponding efficiency metrics. Ask a North American sawmill manager how s/he is evaluated, and overrun will be high on the list, even though the highest overrun may not result in optimal profitability. Companies should begin to develop a holistic approach to innovation management that incorporates a broad set of metrics that cover areas beyond process efficiency. However, we do NOT discount the importance of process innovation. Rather, we consider it to be a necessary but insufficient element to maintaining competitiveness.

**Active Innovation Management:** Oftentimes, managers did not mention innovative activities within their firms that the researchers had identified independently. While this may have been a result of limited time and memory, another likely explanation is that innovation or innovativeness has not been defined by their companies. As a result, innovation may be perceived differently even among the top management team. This suggests that part of any attempt to develop innovation management within a firm should start by defining innovation and then moving towards a plan for managing that innovation, including a strong set of metrics. An example of a definition is, **“Innovation is creation and/or adoption of new processes, products/services, or business systems intended to increase value to our customers and thereby improve our performance.”**

**An Appropriate Business Structure:** In recent work on the forest industry, Korhonen<sup>3</sup> outlined the challenge of maintaining the dual purposes of exploitation and exploration. Exploitation is akin to increased efficiency while exploration refers to finding or creating new approaches and new capabilities (e.g., new products). Firms successful in simultaneously pursuing exploration and exploitation have become known as ambidextrous organizations<sup>4</sup>. Past research has generally found that mecha-

nistic organizational structures are most effective for firms focused on exploitation while organic structures are best suited for exploration. Companies can simultaneously nurture the dual talents of exploration and exploitation. The main mechanism is structural separation of “exploitation” units that are still integrated into the management hierarchy<sup>4</sup>. In other words, a top manager is responsible for both ongoing operations in a particular area as well as an emerging business.

**Organizational Learning:** Learning and knowledge management are strongly associated with successful innovation. Korhonen<sup>3</sup> describes two ways of developing the resource base of a firm. Exploration includes activities such as experimentation, trial, and free discovery. Success in this area is built upon acquiring new knowledge and creating new capabilities. Exploitation is associated with efficiency, implementation, and focused attention. Successful exploitation is built upon sharing and utilization of knowledge that already exists to entrench existing capabilities. Acquiring, sharing, and effectively utilizing knowledge across the firm is closely tied to communication and networking, a topic discussed below.

**Communication and Networking:** As the business environment and knowledge bases increase in complexity, the ability to network and interact with the outside world in order to enhance innovation is increasing in importance for both large and small firms<sup>1</sup>. In past research within our group we have found that forest industry companies rely extensively on their customers and machinery manufacturers for innovative ideas<sup>2</sup>. Also, as firms become ever larger, this principle is equally applicable within firms. For example, we found nearly no consistent, planned interaction between R&D operations on the solid wood and pulp and paper sides of large, integrated companies. This is an area where large, integrated firms should capitalize.

#### Conclusions

We see innovation management as an opportunity for the industry, yet there is still much to be learned about practical implementation. Accordingly, we are planning a project to investigate current industry practices. Please contact [Eric Hansen](#) if your company wishes to participate.

#### Literature

<sup>1</sup>Fagerberg, J. 2005. Innovation, a guide to the literature. In, *The Oxford Handbook of Innovation*. Eds. J. Fegerberg, D.C. Mowery, and R.R. Nelson. Oxford University Press. Oxford, England. 656 pp.

<sup>2</sup>Hansen, E. 2006. The state of the art innovation and new product development in the north american lumber and panel industry. *Wood and Fiber Science*. 38(2):325-333.

<sup>3</sup>Korhonen, S. 2006. A Capability-Based View on Organizational Renewal: Maintaining Long- and Short-Term Potential for Growth in Large, Established Companies. *Journal of Forest Products Business Research*. 3(3):21.

<sup>4</sup>O’Reilly, C.A., III and M.L. Tushman. 2004. The ambidextrous organization. *Harvard Business Review*.

<sup>5</sup>Pavitt, K. 2005. Innovation Processes. In, *The Oxford Handbook of Innovation*. Eds. J. Fegerberg, D.C. Mowery, and R.R. Nelson. Oxford University Press. Oxford, England. 656 pp.



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