Chapter 13: Operational Strategies: Innovation

What is innovation?
- The government department responsible for innovation is the Department for Innovation, Universities and Skills (DIUS).
- It defines a business as ‘innovation active’ if it is engaged in any of the following:
  - Introduction of a new or significantly improved product (good or service).
  - Introduction of a new process for making or supplying a product.
  - Expenditure in areas such as R&D, linked to innovation activities.
  - Training or the acquisition of external knowledge that is linked to innovation activities.
  - Introduction of new machinery and equipment for the purpose of innovation activities.
- R&D is an element of innovation. For this reason, benefits and problems associated with innovation will also apply to R&D and vice versa.
- The DIUS also recognises an additional form of innovation: strategic innovation.
  - This takes place when a business undertakes major changes in its management practices, business structure, organisational structure or marketing strategy in order to improve its competitiveness.

Benefits and purposes of innovation and R&D
- Improve quality
- Enter new markets
- Increase value added e.g. USP
- Increase product range
- Reduce costs
- Improve flexibility
- Meet regulations
- Reduce environmental impact
- Although it would not be a reason for innovation, a firm’s HRM may benefit.
  - The opportunity to create new products and ideas provides a stimulating working environment and therefore motivates employees.
  - This may improve labour productivity, reduce turnover and make it easier for a business to recruit workers.

Problems of innovation and R&D
- Uncertainty i.e. no guarantee it will lead to new products and processes.
- Operational difficulties
- Competition
- Generic products
- In the UK government’s most recent survey, the main factors limiting innovation were: innovation costs; economic risks; costs of finance; government regulations; availability of finance; market dominated by established businesses and uncertain demand.
  - However, no single factor was identified as a problem by more than 12% of the companies surveyed.

How to improve the chances of successful innovation
- Protection i.e. copyrights, trademarks, patents etc.
- Early planning
- Developing a supportive culture