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**