



DIGITAL DISRUPTION  
OF INDUSTRY

# STRATIFY: Strategic Innovation Framework for Young Companies

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# What is Innovation?

Innovation is the “**multi-stage process** whereby organizations transform **ideas** into **new/improved products, service or processes**, in order to **advance, compete and differentiate** themselves successfully in their marketplace.”

(Baregheh et al., 2009)

# The Importance of Innovation

- **In 2015, 72 % of EU companies had introduced at least one innovation since January 2012 (up 6 percentage points since 2014 survey)<sup>1</sup>**
- **In 2014, 79 % of EU companies that introduced at least one innovation since 2011 experienced an increase in turnover of more than 25 percent<sup>2</sup>**
  - Only 63 % of micro enterprises (1–9 employees) introduced innovations
  - Compared to 85 % of companies with 500 employees or more
- **Companies that use design as a central element in their strategy are much more likely to innovate<sup>1</sup>**

# The Importance of the SME Sector

- **In Europe, small- and medium-sized enterprises (< 250 employees) account for:**
  - 99 % of all enterprises
  - Two thirds of all employment in the enterprise sector
  - Approximately 65 % of GDP
- **SMEs are an important source of flexibility:**
  - Absorbing cost pressures
  - Re-organizing work processes
  - Introducing new technologies more rapidly than large firms alone

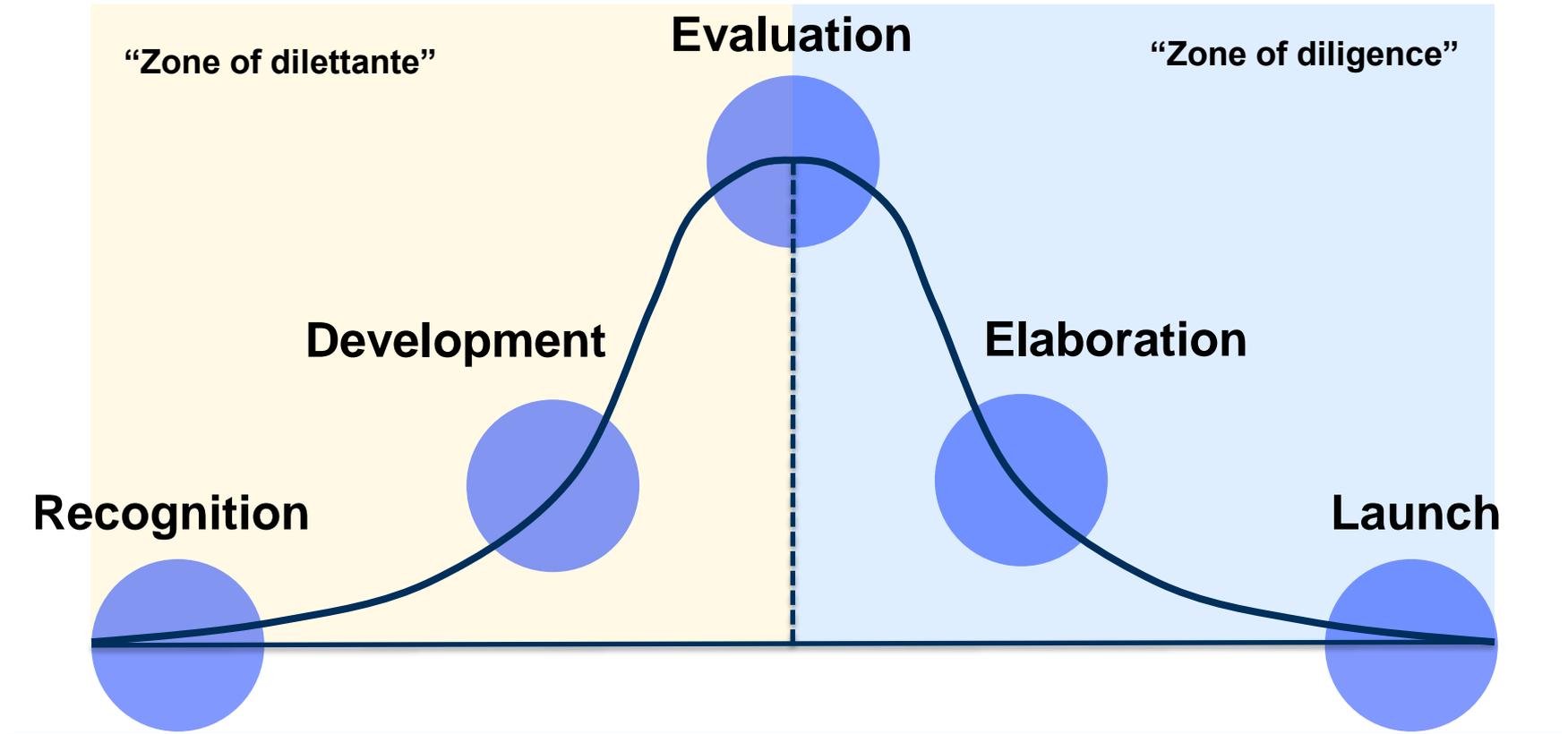
# Start-ups are Precarious

- **Liability of newness (Stinchcombe, 1965):**
  - Start-up companies are more likely to fail than the established ones, as their internal structure and external dependence relations are not yet well-developed
- **Innovation premium (Cefis and Marsili, 2005):**
  - Increases life expectancy of young companies

# Start-ups and Innovation

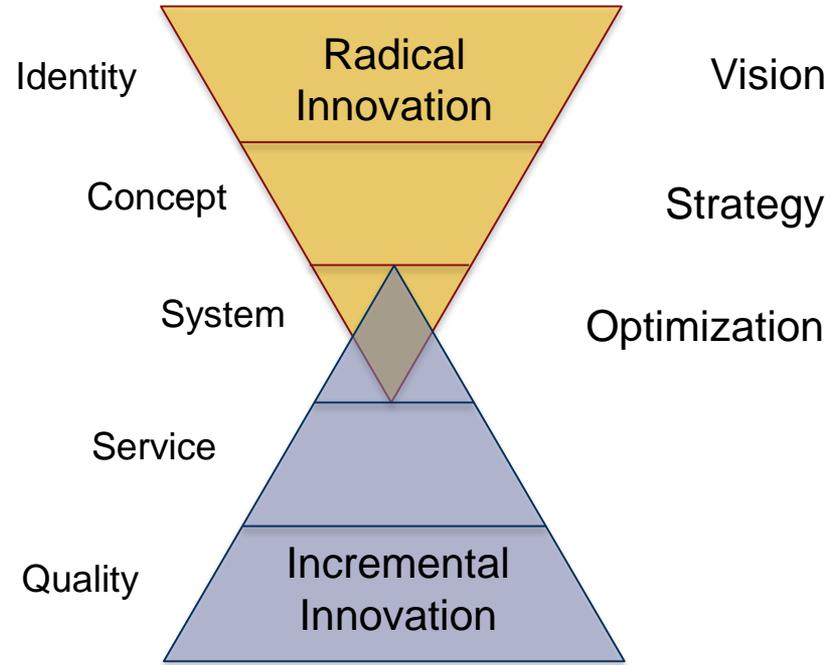
- According to European Research Advisory Board (2004):
  - ~70 percent of small businesses undertake little or no R&D
  - ~20 percent are low innovation businesses that adapt existing technologies
  - < 10 percent are developing or combining existing technologies
  - < 3 percent are technology pioneers involved in high-level research
- Innovation is predominantly incremental rather than radical
- The smaller the company, the more it faces constraints to innovation
  - Established competition, lack of financial resources, regulatory complexity

# Stages of Innovation



# Dimensions of Value

Dimension	Essence
Quality	Quality of the output
Service	Differentiation through quality parameters
System	Catering for a market segment
Concept	Value co-creation
Identity	Conscious shaping of a recognizable identity



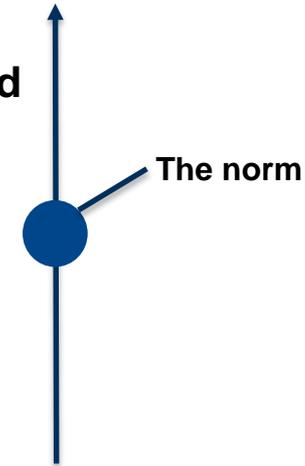
Adapted from van Vrekhem (2015)

# Quality – Permission to Play

- **Innovation:** unique output through a passionate dedication
- Quality of the output – basic requirement
- Subjective perception of quality, driven by experience and sensory observations
- Competition on quality works insofar demand exceeds supply

*“Quality is pride of workmanship.”*  
– W. Edwards Deming

**Subjective  
quality standard**



# Service – Minimal Critical Specifications

- **Innovation:** differentiation through quality parameters that address customer needs, e.g.
  - Packaging
  - Delivery time
  - Distance to the consumer
  - Variety of products
- From products to solutions
- Price premium based on intangibles

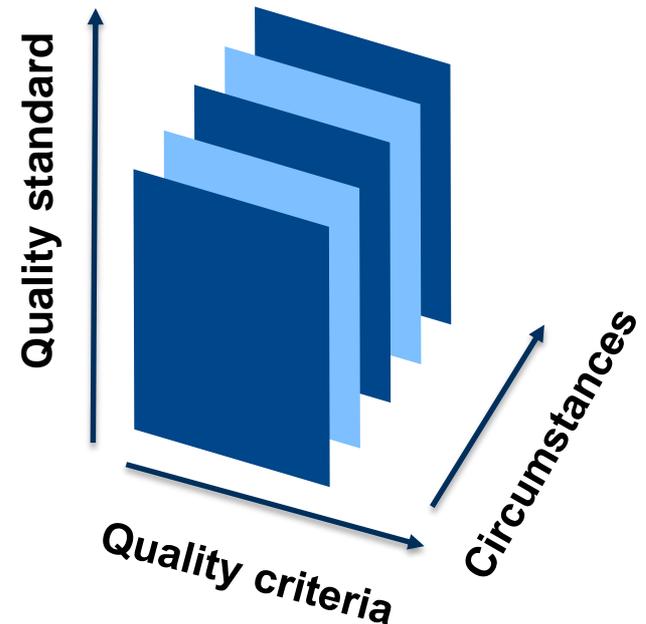
*“It is not enough that we do our best; sometimes we must do what is required.” – Winston Churchill*



# System – Systematic Response

*“We cannot choose our external circumstances, but we can always choose how we respond to them.” – Epictetus*

- **Innovation:** applying models to find a systematic approach to optimize quality and service in a given context
- Quality parameters and perceptions are subject to circumstances
- Products and services designed to accommodate a range of situations
- Fulfilling the needs of a certain market segment
- Generalists vs. niche players
- Profit maximization the most important driver

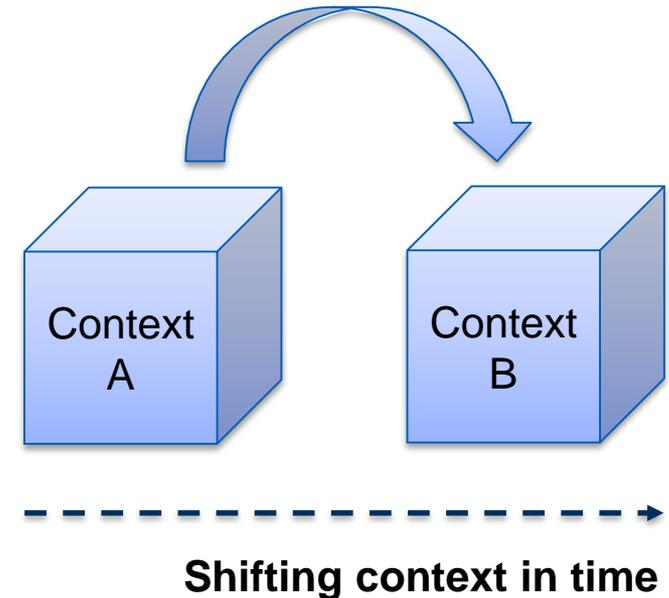


# Concept – New Experience or Perception

- **Innovation:** connecting hitherto unconnected elements across contexts in novel ways to create new experiences and perceptions
- Conceptual thinking: anticipation of contexts and linking phenomena across contexts
- From perception of quality to perception of value
- Value co-creation
- Experiencification
- Moments of truth

*“Avoid context and specifics; generalize and keep repeating the generalization.”*

*– Jack Schwartz, scientist*

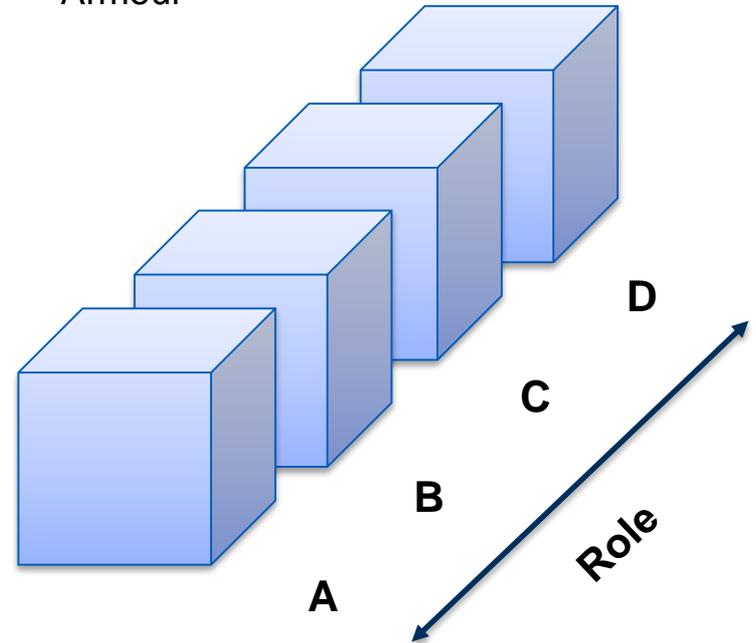


# Identity – Unique Story

- **Innovation:** reconceptualizing the context from the perspective of a new role
- “Who we want to be for whom”
- Story-telling
- Decoupling of the role, or intention, from the physical activity
- Identity informs the way in which quality, service, practice, and concept are formed

“Brand is not a product, that's for sure; it's not one item. It's an idea, it's a theory, it's a meaning, it's how you carry yourself. It's aspirational, it's inspirational.”

– Kevin Plank, CEO and founder of Under Armour



<b>Identity</b>	A unique story that conveys passion	Reflection on the identity; storytelling	Safe-to-fail probes	Design new rules of the game between the constituent work systems	Conscious shaping of the identity
<b>Concept</b>	Novel customer experience and/or perception; entirely new concept	Co-production of the service together with the customer; experimenting	Value co-creation	Hone the new concept, or experience, by using elements across contexts	Anticipate shifts in context and pivot as necessary to remain relevant
<b>System</b>	Recognition of a specific “space” in a competitive environment	Positioning of a product or service in its ecological context in terms of a set of situation specific quality criteria	Viability of market segment or niche	Development of a production or service delivery system that accommodates a range of contingencies	Fulfill the needs of a market segment and adapt as necessary
<b>Service</b>	Differentiated service geared to customer demands and wishes	Translation of customer requirements to quality criteria and workable specifications	Judgment of viability vis-à-vis specified quality criteria	Development of service that consistently delivers to customer requirements	Validation of market
<b>Quality</b>	Unique output	Specification of input, process and output	Subjective judgment	Minimization of cost, efficiency of operation, and quality of output	Passionate dedication
	<b>Recognition</b>	<b>Development</b>	<b>Evaluation</b>	<b>Elaboration</b>	<b>Launch</b>

# Conclusions

- **Sound strategic thinking is vital for a start-up's success and survival**
- **Radical, market-opening innovation can be midwived**
- **STRATIFY is a sense-making framework that helps structure the innovation process and include requisite dimensions in all phases**
- **The more dimensions are involved in innovation, the more “competitive leverage” the innovator has**
- **Innovation is path-dependent on the initial vantage point**
- **Greatest opportunity for transformational innovation is in the development phase of innovation (cf. Caltworthy, 2011)**

# What is your vantage point?

On the Peak

Identity

Above the Clouds

Concept

In the Clouds

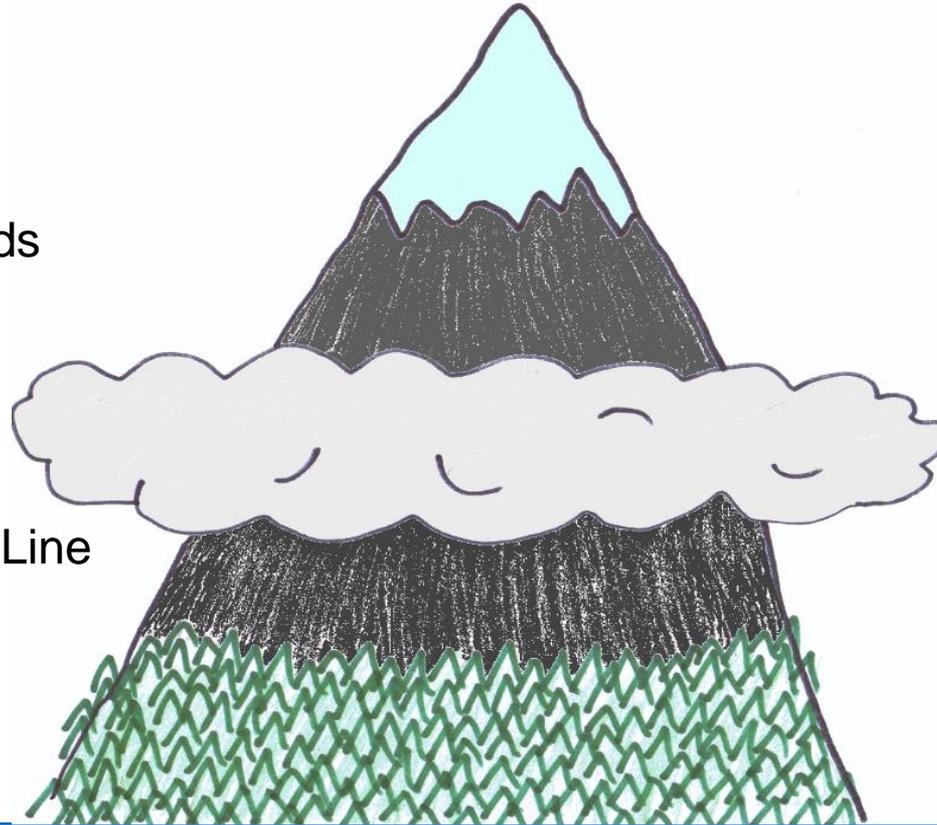
System

Above the Tree Line

Service

In the Forest

Quality



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