



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)¹**
- **In 2014, 79 % of EU companies that introduced at least one innovation since 2011 experienced an increase in turnover of more than 25 percent²**
 - 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 innovate¹**

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

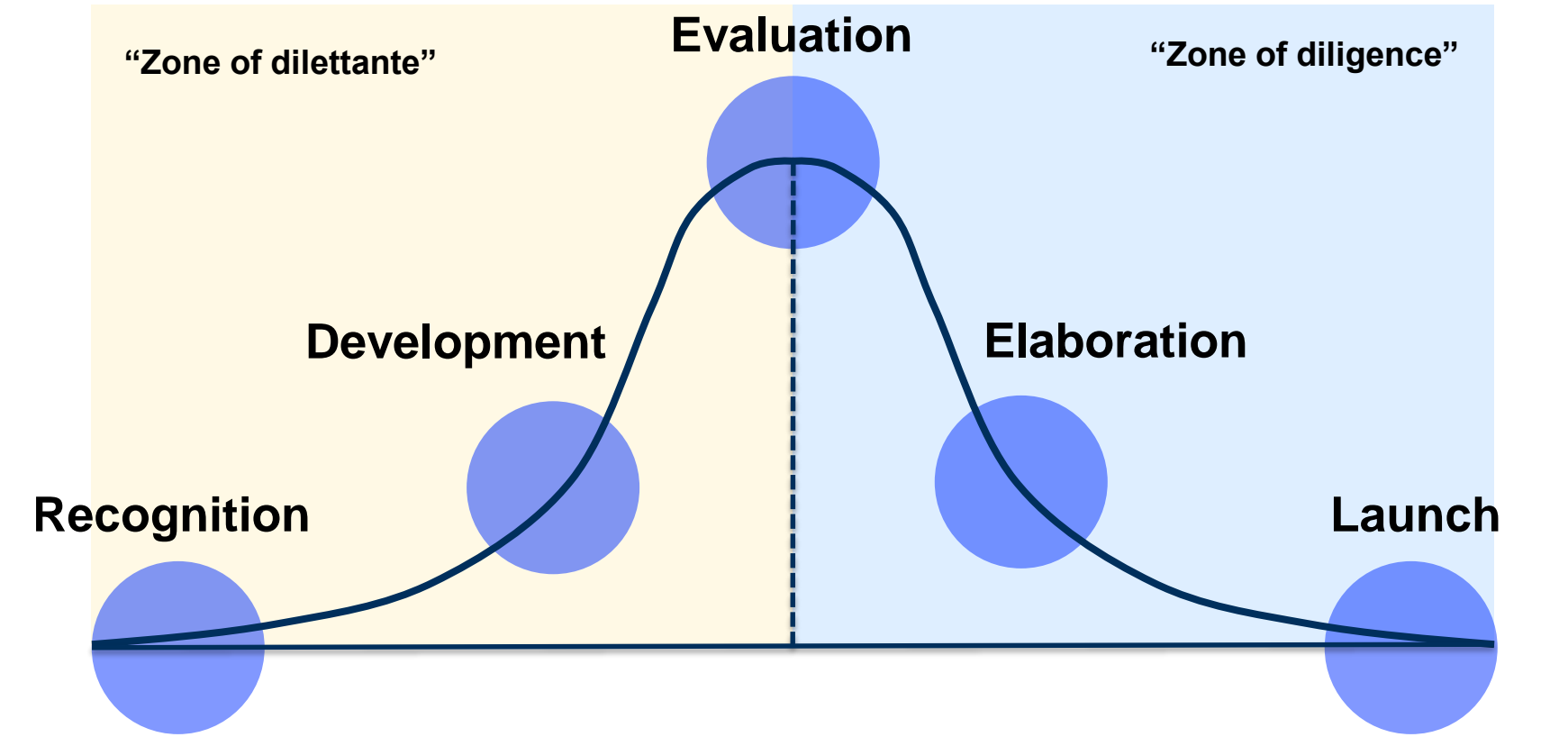
Start-ups are Precarious

- **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

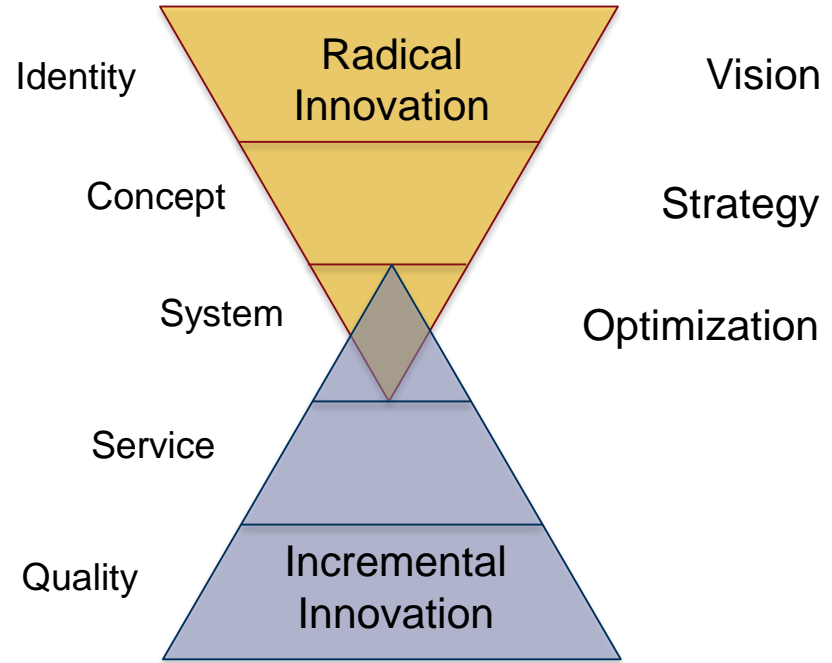
- According to European Research Advisory Board (2004):
 - ~70 percent of small businesses undertake little or no R&D
 - ~20 percent are low innovation businesses that adapt existing technologies
 - < 10 percent are developing or combining existing technologies
 - < 3 percent are technology pioneers 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



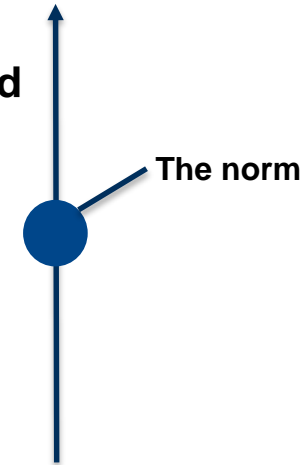
Adapted from van Vrekhem (2015)

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

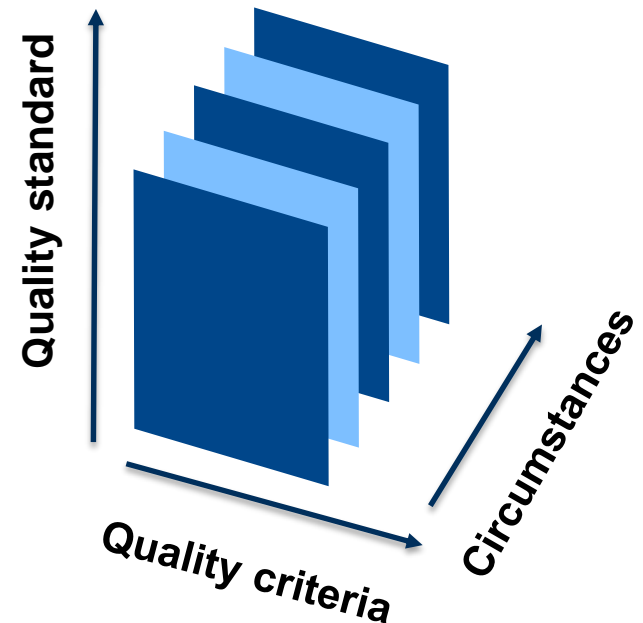
“It is not enough that we do our best; sometimes we must do what is required.” – Winston Churchill



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

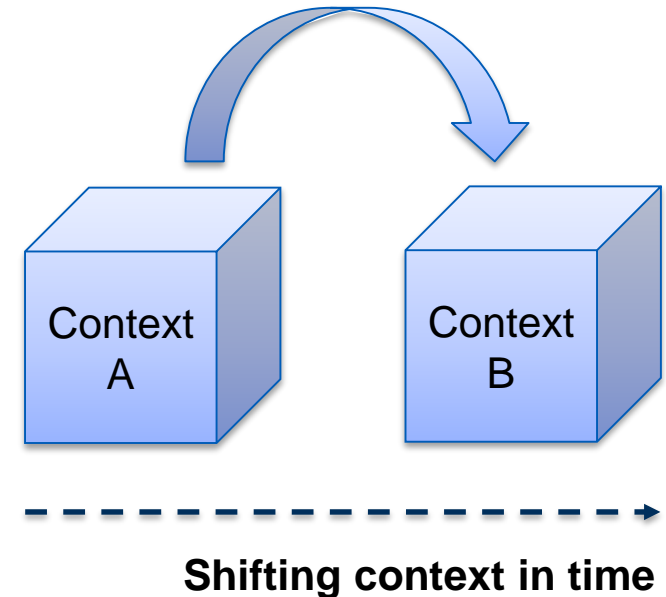


Concept – New Experience or Perception

- **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

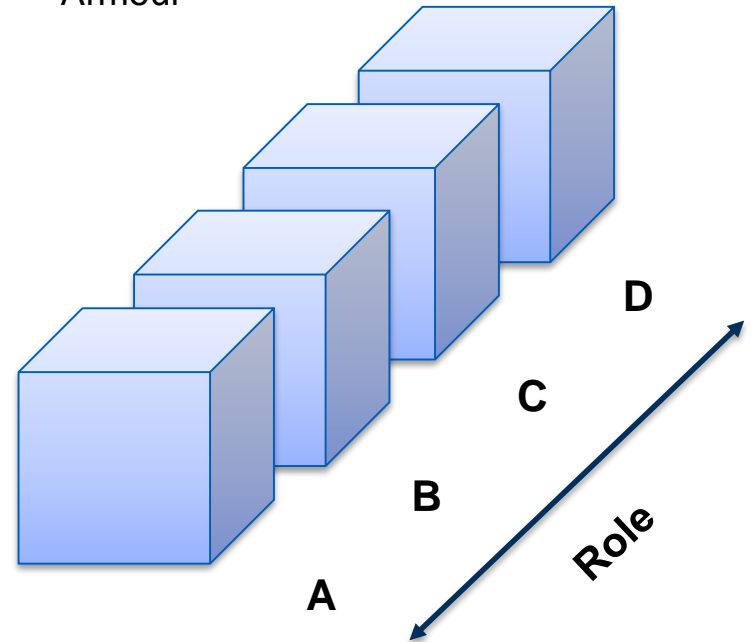


Identity – Unique Story

- **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



Identity	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
Concept	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
System	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
Service	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
Quality	Unique output	Specification of input, process and output	Subjective judgment	Minimization of cost, efficiency of operation, and quality of output	Passionate dedication
	Recognition	Development	Evaluation	Elaboration	Launch

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

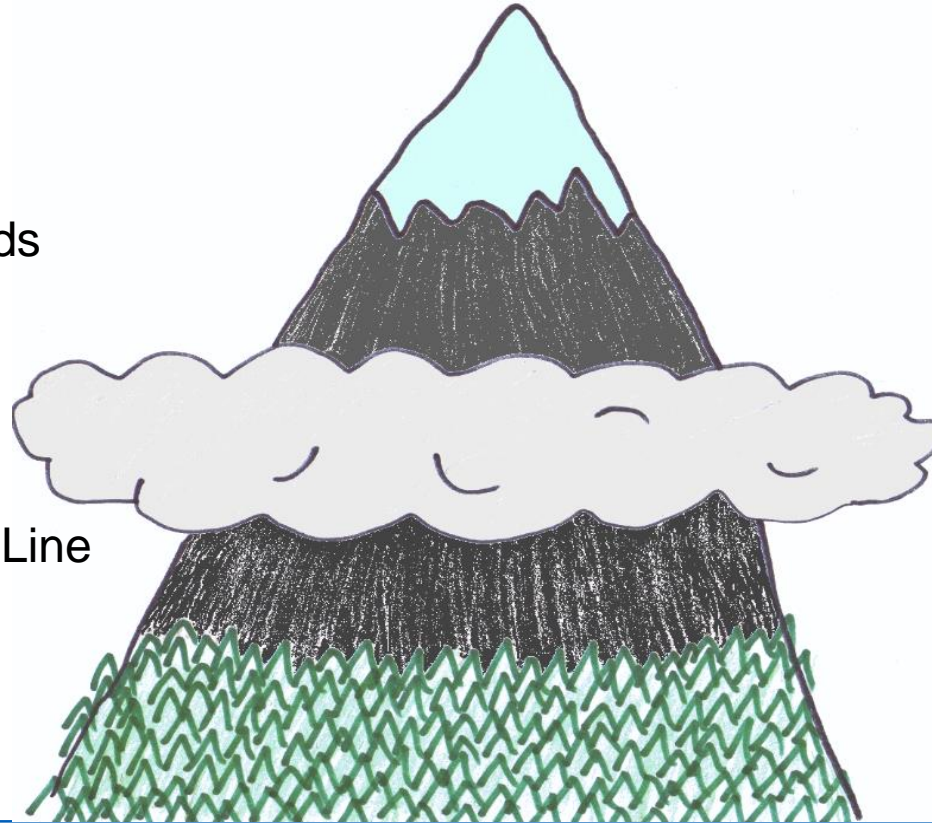
System

Above the Tree Line

Service

In the Forest

Quality



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