1 Characteristics and types of innovation

1.3 Innovation as a way out of the crisis

Keywords
Economic crisis, corporate entrepreneurship, opportunity discovery strategy, proactive searching, competitive scanning, knowledge acquisition, collective action

Learning objective
In this chapter you will learn how to consider the problem of the economic crises as an opportunity – maybe you have already started to exploit them? After reading this module you will see what strategies exist to discover these opportunities in your local area arising from the changed needs in the market. You will learn what resources could be assessed and possibly reorganized. Finally, you will learn how the new answers (including different forms of innovation) could be born for the changed needs. You will understand how innovation in the local area could be based on the resources measured in your SME or organization.

It will take approx 30 minutes to read this module and 40-60 minutes to discuss it with a group of people.

Introduction
All periods of time induces new possibilities on the market for those who are willing to take notice of them. How we think about these situations describes often the outcome as well. If we are able to see the changes as an opportunity, it will be possible to exploit them. If we see those as a tragedy or what is worse, a punishment on us, it will cause us suffer till a raggedly survival – this would be the target. However, it is important to remember: the negative effects of the economic crisis are not valid for every for-profit organisation.

What an enterprise realises during a time of recession depends on the way it perceives the situation and the effort it makes to realize the most out of them. Among these upcoming opportunities innovation is the best to exploit.

Although economic crises peeked in 2009, we should notice that in every company and economic environment smaller or bigger recessions are following each other in a period of time. It is better to be prepared, and thus be able to manage during harsh times as well - or what is more, turn it to our own advantage.

There has been an economic crisis from 2007 till 2010 with a long-lasting effect due to the liquidity shortfall in the United States banking system. These problems of liquidity were caused by the overvaluation of assets¹.

¹ Financial Crises of 2007-2010, Wikipedia
There have been effects that twisted into the European markets rapidly as well. On a global scale it contributed to the bankruptcy of businesses, declines in consumer wealth and a remarkable fall in economic activity\(^2\). Even in the period of 2010–2011, economists expect significant risks effecting global economy\(^3\).

As you can experience, despite of the tendencies some enterprises not only managed to survive, but to multiply their profit, attract new customers and develop new products or services. Some enterprises do grow by creating new value. You could ask: Why would it be important at all to set up something new during a period of crisis?

1.3.1 The importance of innovating in crisis

During the time of recession it has a greater significance to create something new and collect new information appropriately, rather than just to manage and keep the existing level of the present situation. The current rules in an existing market are already well-known for the main actors of that market. Thus:

> When the circumstances are changing, we will gain significant advantage over our competitors if we are the ones recreating the rules of the market by exploiting the upcoming new opportunities.

As a consequence, instead of accommodating to the existing situation, we need to develop skills like creativity, motivation, social interaction and the capability to discover. By now, successful organisational learning means to gain knowledge in changing the “game” ourselves\(^4\).

Does it worth it to use a provident strategy in significantly insecure situations? Those companies that are subject to great environmental uncertainty become more open to changes. These changes are realised successfully if the management of the enterprise is flexible enough to re-evaluate the resources\(^5\) and develop them in order to create something new\(^6\). Obviously, in a turbulently changing environment, this requires greater investment of energy\(^7\). On the other hand, if the pace of the market slows down, some of the resources of the company become disengaged. Those enterprises can be successful at the time of the crises that are willing to take this investment not only adjusting to the economic changes but to proactively outpace them.\(^8\)

Why is innovation still important? Innovation creates advantages that could be easily exploited during the time of a recession as a resource for survival. During the

\(^{2}\) Brookings-Financial Crisis (PDF).

\(^{3}\) "Roubini-10 Risks to Global Growth". Forbes.

\(^{4}\) J. Bergstrom: Thoughts on creating a learning organization.

\(^{5}\) For more details see Chapter 2.2 SWOT analysis of this Innovation Guide


\(^{7}\) Zahra (2009) : Developing the selection and valuation capabilities through learning

\(^{8}\) Volberda, Henk W. (1996), "Toward the Flexible Form: How to Remain Vital in Hypercompetitive Environments
economic crises customer needs and expectations are changing rapidly, there are quickly changing competitors while there is a slowly changing technology and external regulatory environment. The pace of the global and dynamic market slows down at the time of recession\(^9\).

This all together brings greater opportunities for innovation than the regular circumstances. Thus, the crises can enhance innovation. What is more, as you could see in chapter 1.1.2, innovation can lower the costs of production, build new markets and increase competitiveness. In addition, innovation can also enhance profitability or stopping the drop in profit. It helps generating employment or keeping it on a constant level while increase market share and growth. This is why innovation is important for the way out of the crisis.

\[\text{Figure 1: Benefits from innovation}\]

**Please stop and think:** Can you recall the benefits of innovation from Chapter 1.1.2? Can you recognise the changes in your own market? Can you realise what are the changing needs and expectations of your customers? Which ones can you exploit by innovating? Which benefits would be your target?

1.3.2 Supporting the innovative behaviour: finding and exploiting opportunities

Managers of any enterprise can identify new opportunities and develop new markets in the local area they compete in. By that, they can add value to their organisational effectiveness and growth. Thus an opportunity discovery strategy (finding opportunities) followed by a corporate entrepreneurship behaviour (exploiting these opportunities) is essential for realising the potential success. They enable any companies to analyse possibilities and take advantage of them in the rapidly changing circumstances for realising future success\(^10\)\(^11\) \((\text{Figure 2})\).

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\(^9\) Roubini-10 Risks to Global Growth. *Forbes*

\(^10\) June: Effects of Self-concept Traits and Entrepreneurial Orientation on Firm Performance.

1.3.3 Exploring the situation: Opportunity discovery strategies

**Opportunity discovery strategy** enables firms to find the best opportunities in the market by noticing future development tendencies. It enhances growth and increase in newness value that ventures show. It involves 5 aspects: **proactive searching, competitive scanning, knowledge acquisition, collective action** and **innovative behaviour**.12

Opportunity discovery strategies all together support innovation in normal conditions as well, but the importance of exploiting them grows during the time of recession. They require extra resources and motivation, but the slower pace of the market also enables greater opportunities to focus on them the following way:

- **Knowledge acquisition** involves the perception and interpretation of business information. We need to collect information about the already existing technologies and methods, the products of the market, the current financial circumstances and the situation of the potential customers. After that, we are able to interpret the gathered information and organise it into business knowledge. We might realise the holes evolved in the market due to our competitors that went bankrupt. This brings us closer to the second strategy:

- **Competitive scanning** enables us to detect the missing links in our competitive area by measuring the number and size of our competitors, their key points of success, empty territories on the market and the needs of the

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12 Roubini-10 Risks to Global Growth. Forbes
potential clients. Some of our closest competitors might have had advantages in one or two aspects but had to close their doors since. If we are able to detect the reason why their clients went back to them frequently, we can add value to our services as well\textsuperscript{13}.

- **Proactive searching** is responsible for trying to understand the tendencies of changes and developments in the near or later future to prepare for them. If we recognise these probable ways of changes, we can exploit the potential business opportunity that we discover before others would also realise the trend. Entrepreneurs can act according to what is going to happen in the future rather than what has already happened. They are mentally on the alert about the future development tendencies instead of calculating the different factors of the past.

- **Collective action** is based on the discretion that we are wiser together than alone. It suggests that the learning process happens in a social context and there is an active dialogue between the people within the network\textsuperscript{14}.

1.3.4 Where can I find opportunities in the local environment?
Surprisingly, a company does not have to be big or break into the global market in order to find a way out of the crises. The changes of the local environment provide opportunities for small and micro-enterprises as well. It is possible to take advantage of the changing circumstances – just as well as for large enterprises - regardless of the characteristics like size, location of that environment and timing. Changes are opportunities to be exploited everywhere.

Please stop and think: Have you experienced changes in the needs of the local market? Have you thought about taking advantage of recently emerging spaces on the market?

PizzaCorner was experiencing a drop-back of their customers by 50% due to the financial crises. Their main competitor, Il Italiano, located on the same street also experienced an 50% drop-back of their customers. The difference between Pizza Corner and Il Italiano was the way they managed the decline. Il Italiano went bankrupt. PizzaCorner examined the reason why frequenters chose the neighbouring restaurant instead of them, and found out that their pastas were richer in their ingredients. Thus, they decided to renew their menu on the selection and ingredients of their pastas. As a result, in 3 months they achieved a 30% increase in their income due to attracting 60% of the customers of the former Il Italiano.

\textsuperscript{13} for more details see 5.3 benchmarking module of this Guide

\textsuperscript{14} for more details see 4.2 brainstorming module of this Guide
Due to the effect of the economic crises there always are companies which go to ruin. The reason for that can be the decreasing market and the loss of one part of their customers. Think about this: these companies that went bankrupt had lost one part of their customers, but the other part became unsatisfied at the same time. Try to fill up the hole which arose on the market!

1.3.5 New answers are emerging: corporate entrepreneurship and innovation

**Corporate entrepreneurship** is responsible for those activities by which we exploit the discovered opportunities. It involves the company's ability to innovate, take risk, and seize opportunities in its markets. It centres on creating new business by **penetrating new markets**, **pursuing new business**, or both. We define the term as the process by which teams within an established company conceive, foster, launch and manage a new business.\(^{15}\)

Corporate entrepreneurship is more than just new product development, it involves all types of innovation: process innovation, marketing innovation and organizational innovation as well. Innovation in technologies or products might actually be just a small part of creating business value.\(^{16}\) Starbucks Corp., for example, chose to innovate in customer experience. Companies can introduce innovation on any aspect of how they do business as long as it fits together as a coherent system.\(^{17}\)

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\(^{15}\) Robert C. Wolcott and Michael J. Lippitz: The Four Models of Corporate Entrepreneurship.

\(^{16}\) J. Kitching: Business strategies and performance during difficult economic conditions

\(^{17}\) M. Sawhney "The 12 Different Ways for Companies to Innovate,"
Apply and take into account all sorts of innovation in your local area during a recession with the following considerations\textsuperscript{18}:

- **product innovation**
  Analyse the market detecting holes in it. Are there products and services in higher quality or for a lower price as well? Think with the head of your customer. What could be missing for them out there?
  Developing a new product seems risky in many cases. But the crises does not last forever. When there will finally be an increase in the tendency to purchase products and use services, one can make a significant advantage by coming out with a new product compared to the older products of the competitors.

- **process innovation**
  The process often takes resources - like time, human capacity, electricity - and they all worth money. Think about making the process more efficient or save money by making the process shorter or a higher quality.

- **marketing innovation**
  There is a growing significance to find new ways to the customers. Find out their needs and advertise your solutions in new ways. Use the language and cultural competence of immigrants to address new clients in an adequate way. This enables your potential customers to pay attention when they see a unique message.

- **organizational innovation**
  In the crises there is a convenient opportunity for organizational innovation. The time has come to spend the emerging extra time on analyzing the structure, intellectual capital, expertise and exploitable resources. If you want to survive, you cannot postpone anymore to get rid of the unnecessary bits, the possible quality change of your colleagues.

1.3.6 How to start exploiting innovation possibilities in a local scale for small enterprises?

💡 Here is a list of advices from which you can select the useful ones for yourself:

- **Use sources of creativity.** Use the creativity and ideas of your colleagues and family-members. Use the creativity-booster and brainstorming techniques for achieving innovation\textsuperscript{19}.

\footnote{18 For more details see module 1 Characteristics and types of innovation}
\footnote{19 For more details about enhancing creativity, see module 4 of this Guide}
- **Share ideas.** It worth it to look for networks to share ideas and collaborate. Enterprises operating in local markets far away from your potential customers do not threaten your income\(^\text{20}\).

- **Analyze resources.** You also can use the time you gain because of the slower pace of the market to analyse your existing resources. If you make a self-evaluation based on the cash-flow, fluctuation, number of sick days, personal experiences of the employees through individual or focus-group interviews, you can redesign your resources knowing what exactly you can build on in order come up with something new, to develop your products or services.

- **Save them money.** Point out how your target clients will save money for their company or their pocket. In economic crises, people will spend on those products they understand they are actually saving money with at the same time. Either because the price is reduced, they receive something extra, or the quality is guaranteed for a longer time. Keep in mind that less people are willing to risk, but they are open for solutions that worth it more.

- **Find new fields.** Analyse the circumstances and take risks proactively in brand new fields where you don’t find existing competitors

- **Prepare a new service/product.** You can use the time and resources for preparing an innovation. Think about the advantage in case of a positive economic wave, if you come over your competitors by launching a new service or product immediately when the willingness to purchase comes back.

- **Save.** Analyze thoroughly the financial processes, credit and tax situation. Try to grab every opportunity to save money. Always consider how much extra you need to produce and sell for gaining 1 euro by tax- and interest-savings. Also consider how much time does it take you to realise or receive this extra sum, and what is the possibility at all of receiving it.

### 1.3.7 Summary of key points

When the circumstances are changing, we will gain significant advantage over our competitors if we consider the problem of the economic crises as an opportunity. We can profit better if we are the ones recreating the rules of the market by exploiting the upcoming new opportunities: During the economic crises customer needs and expectations are changing rapidly, there are quickly changing competitors while there is a slowly changing technology and external regulatory environment. There are emerging holes in the market.

An opportunity discovery strategy enables firms to find these best opportunities in the market by noticing future development tendencies. It enhances growth and increase in newness value that ventures show. It involves 5 aspects: proactive searching,

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\(^{20}\) For more details see module 11. Types of Innovation Networks of this Guide
Innovation training needs of small and micro enterprises in local environments

Innovation, training needs of small and micro enterprises in local environments

competitive scanning, knowledge acquisition, collective action and innovative behaviour.

Corporate entrepreneurship is responsible for those activities by which we exploit the discovered opportunities. It involves the company's ability to innovate, take risk, and seize opportunities in its markets. It centres on creating new business by penetrating new markets, pursuing new business, or both.

In particular, in a crisis we can try exploiting opportunities by using creative sources, sharing ideas, analysing our resources, saving money for the customer and within the business processes. We can as well find new business fields and use the time for preparing a new service or product.

In this chapter you could already gain knowledge about the importance of considering all changes in the global or local environment as an opportunity – even at the times of an economic crisis. You could understand that the changing conditions in the crisis are valid for everyone, and by discovering opportunities among these changes your SME can find holes in the market. You learnt the importance and strategies for assessing your resources, which add value to finding the best opportunities which fits your competencies and possibilities. At the end of the chapter you could find tips and advices on creating new, innovative solutions for exploiting the opportunities within your local area.

1.3.8 Bibliography

J. Bergstrom: Thoughts on creating a learning organization.

"Brookings-Financial Crisis" (PDF).


Further reading


