Chapter 1
Integrated Innovation: The Necessary Route to Profitability

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ABSTRACT

In a high cost environment a firm’s ability to create value and hence survive and prosper is dependent on its ability to innovate. This chapter discusses the two principle dimensions of innovation: value creating innovations and value appropriating innovations—what their components are and how they should be integrated. The chapter also covers important frameworks to address the different components. Towards the end the discussion is contrasted against what is known about success criteria for firms in high cost operating environments to illustrate the specific aspects that have been covered in the chapter.

INTRODUCTION

The global landscape for firms is changing more rapidly than ever. In order to stay competitive firms must manage two continuous challenges: How to create value and how to appropriate the value created. These challenges correspond to the two types of innovations that firms must manage and in order to enable these innovations the firm must have access to suitable resources (Monetary, Physical, Relational, Organisational and Competences). Managing these in an integrated way is known as integrated innovation and is outlined in Figure 1.

All too frequently firms focus on efficiency (in the value creating group of innovation activities) and all too rarely do they focus on effectiveness (in the value appropriating group of innovation activities), and as a result, they end up losing their share of the profit pool to firms with a better focused portfolio of innovation activities including effective new business models. A good example is the meteoric rise in profit pool share of Apple (with a superiorly designed product-service-system complemented by a very effective business model) compared to Nokia (with a superiorly engineered product), where over 3 years Apple increased their appropriation from 0% to 45% of
the mobile handset associated profit pool whereas Nokia went from 80% to 25% over the same period.

VALUE CREATING INNOVATION

Technology Based Innovation

The ever increasing speed of technological advancement means we must be more vigilant and proactive than ever when it comes to technology based innovation. Most companies have been working with technology for a long time, and therefore, feel relatively comfortable in this area. However, this can often lead to a false sense of security as it is the convergence of existing technologies and the emergence of new technologies which will form the basis for breakthrough innovations in value creation (Roos, 2011).

Hacklin (2008) has formulated four stages of an evolutionary convergence process illustrated in Figure 2.

The knowledge convergence stage denotes the emergence of spillovers between previously unassociated and distinct knowledge bases giving rise