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## **Subject Notes**

### **Open Elective CS803 (D) Managing Innovation and Entrepreneurship**

#### **UNIT III**

#### **Course contents:**

Project approach to innovation management, method Stage Gate, its essence, adaptation of access to selected business models, In-house business development of the innovation process in the company, Open Innovation as a modern concept, the limits of this method and its benefits for business development

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**Course Objective:** To develop an innovation management, methods, adaptation of access to selected business models.

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**Course Outcome (CO3):** Describe business development of the innovation process in the company.

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#### **Project approach to innovation management:**

Project management practitioners are aware that different types of projects need different project management approach. A systematic project management consists of methods, toolkits and models. It can be viewed as the sequential application of structured processes for the purpose of institutionalizing standardized practices and as the process of controlling the achievement of the project objectives. Utilizing the existing organizational structures and resources, it seeks to manage the project by applying a collection of tools and techniques, without adversely disturbing the routine operation of the company. Projects are the means by which all organizations accomplish business change, as well as the means by which some organizations deliver profit to their shareholders. Over the past few decades' project management offers a variety of methodologies, models, classifications, approaches which provides managers with different techniques and tools to use during project implementation. When it comes to innovation management, we cannot say the same thing. Innovation is mostly implemented through projects and the interplay between these two areas is obvious.

Innovation management approach is a fundamentally different way of thinking and it is obvious that innovation and project management as distinctive disciplines have been developing in a relative isolation from each other. However, the interplay between them exists and its importance rises triggering more academic research.

#### **Applying project management effectively on innovation projects includes:**

- Appreciating that innovation projects can emerge from many areas of the organization.
- Including preproduction, production, distribution, training, and organization.
- Understanding the unique elements of idea generation, marketing and logistic requirements, and diffusion.
- Incorporation of techniques from the disciplines of flexible project management and system engineering.
- Ensuring scope reflects theory and hypothesis, requirements define experiments and tests, and that are clear descriptions of decision points.
- Ensuring the complexity and interconnectedness are adequately addressed in plan.

### **Stage Gate Method:**

The Stage-Gate Method is a technique applied to new product development projects that serves to create more value. Its strength is that it genuinely improves an organization's ability to convert innovative ideas into practical applications and new products, using a roadmap comprising various deliverables ("stages"). When executed correctly, it enables a continuous flow of innovation and new product creation to be maintained.

### **The five phases of Stage Gate Method:**

The Stage-Gate technique breaks new product development projects into five phases:

1. **Scoping:** Where the relevance of the idea is assessed, its scope and feasibility are clarified and evaluated, and the market and competition evaluated.
2. **Business case creation:** Entailing more in-depth investigation so as to build a business simulation, including identifying customer and end-user requirements, determining product positioning, defining product specifications, and project scheduling.
3. **Development:** Focused on new product design with preliminary tests with potential customers, and preparation of a production plan and a launch plan.
4. **Testing and validation:** During which tests are conducted (in a lab, in the factory, with customers, etc.) and product launch scenarios are ratified.
5. **Launch phase:** When the product enters the market, with monitoring of production and quality.

### **The advantages of the Stage-Gate method:**

While primarily a management process designed for product innovation, the method can also be applied in many areas of your project portfolio management.

### **It offers many benefits:**

- It helps improve the structuring of project progress milestones and the production of a clear schedule.
- It often helps eliminate potential risks or errors in the project lifecycle.
- It contributes to better decision-making and maximized value creation on the basis of the organization's strategic objectives.
- It improves collaboration both internally (between cross-functional teams) and externally (with partners) and consequently creates equilibrium across all projects.

### **Business Model:**

A business model is a system whose various features interact, often in complex ways, to determine the company's success. In any given industry, a dominant business model tends to emerge over time. In the absence of market distortions, the model will reflect the most efficient way to allocate and organize resources. Most attempts to introduce a new model fail—but occasionally one succeeds in overturning the dominant model, usually by leveraging a new technology. If new entrants use the model to displace incumbents, or if competitors adopt it, then the industry has been transformed.

We selected the new business models we analyzed on the basis of how many mentions they received in the high-quality, high-circulation business press. All of them seemed to have the potential to transform their industries, but only a subset had succeeded in doing so. We looked for recurring features in the models and found six. No company displayed all of them, but as we shall see, a higher number of these features usually correlated with a higher chance of success at transformation.

**1. A more personalized product or service.**

Many new models offer products or services that are better tailored than the dominant models to customers' individual and immediate needs. Companies often leverage technology to achieve this at competitive prices.

**2. A closed-loop process.**

Many models replace a linear consumption process (in which products are made, used, and then disposed of) with a closed loop, in which used products are recycled. This shift reduces overall resource costs.

**3. Asset sharing.**

Some innovations succeed because they enable the sharing of costly assets—Airbnb allows home owners to share them with travelers, and Uber shares assets with car owners. Sometimes assets may be shared across a supply chain. The sharing typically happens by means of two-sided online marketplaces that unlock value for both sides: I get money from renting my spare room, and you get a cheaper and perhaps nicer place to stay. Sharing also reduces entry barriers to many industries, because an entrant need not own the assets in question, it can merely act as an intermediary.

**4. Usage-based pricing.**

Some models charge customers when they use the product or service, rather than requiring them to buy something outright. The customers benefit because they incur costs only as offerings generate value; the company benefits because the number of customers is likely to grow.

**5. A more collaborative ecosystem.**

Some innovations are successful because a new technology improves collaboration with supply chain partners and helps allocate business risks more appropriately, making cost reductions possible.

**6. An agile and adaptive organization.**

Innovators sometimes use technology to move away from traditional hierarchical models of decision making in order to make decisions that better reflect market needs and allow real-time adaptation to changes in those needs. The result is often greater value for the customer at less cost to the company.

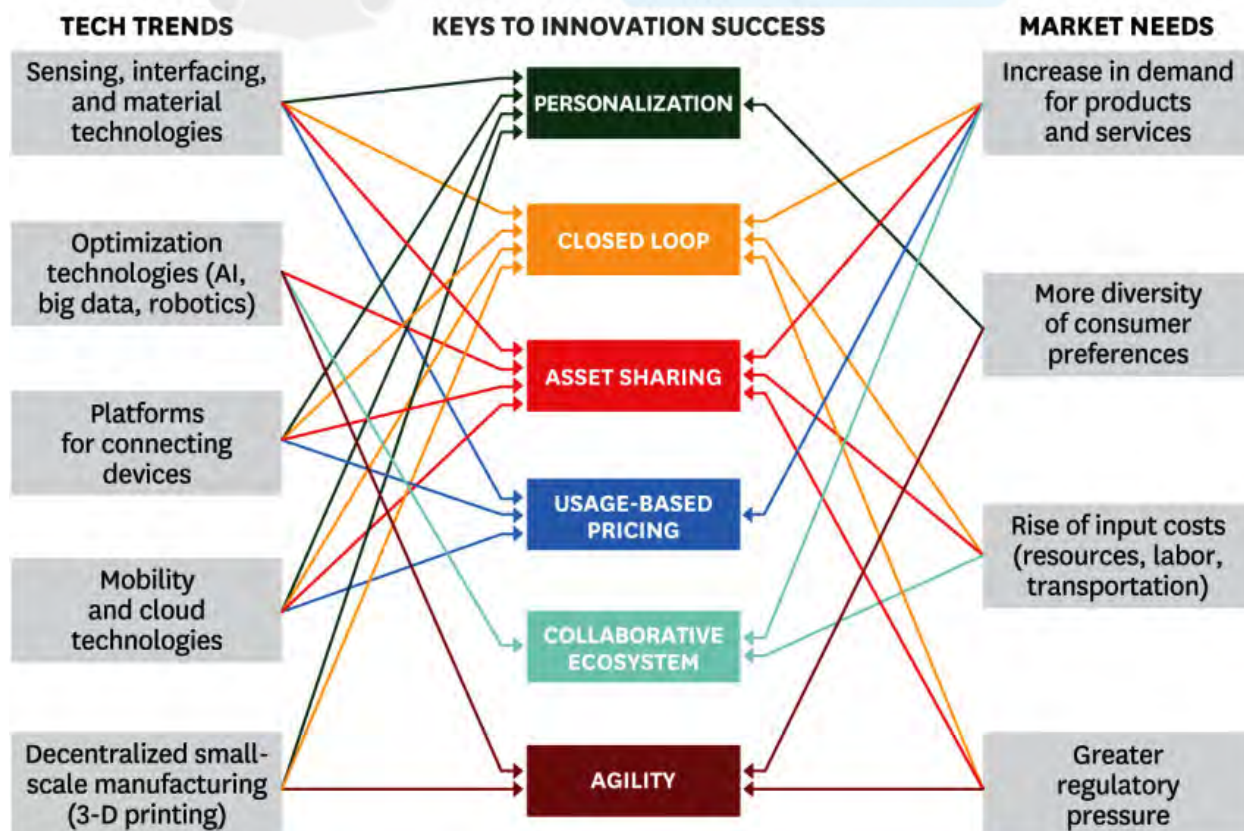


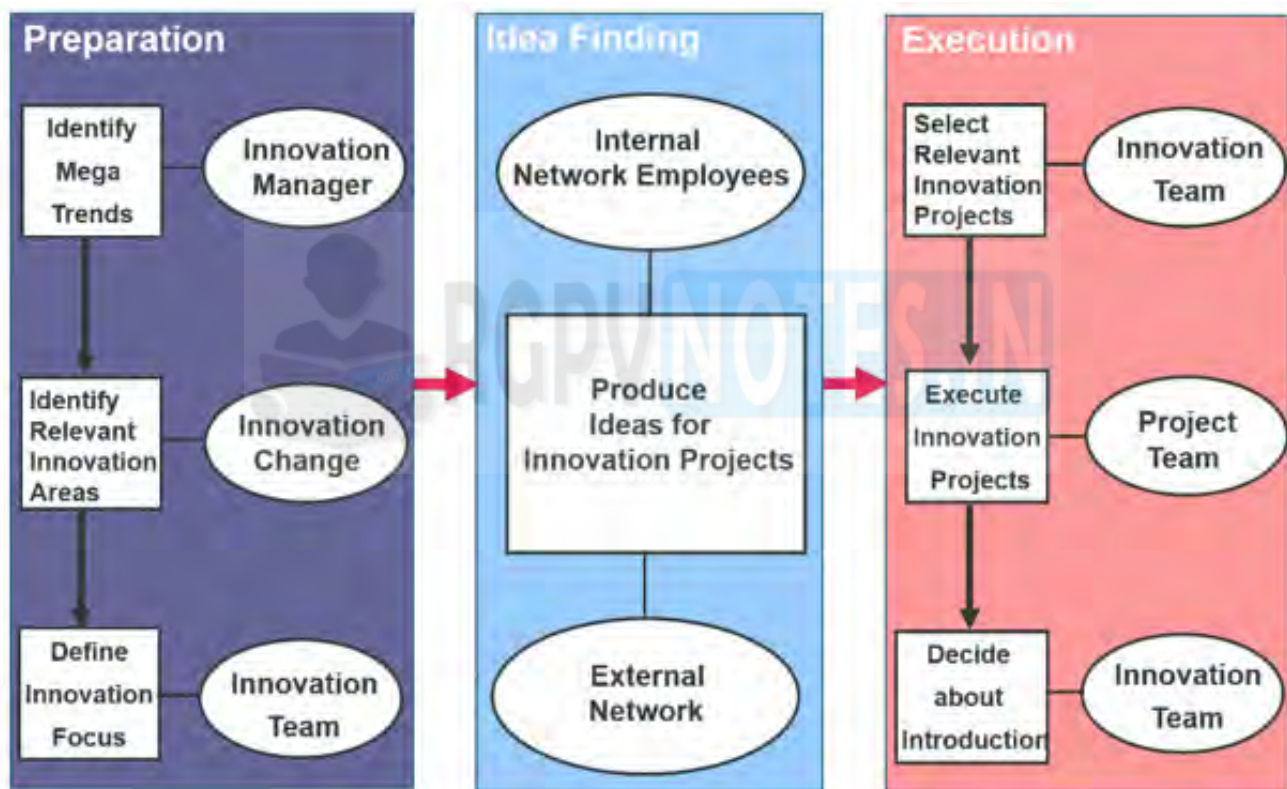
Figure 3.1: Business Model



### Innovation Process in the company:

The management of innovation within an enterprise is a business process in and of itself. This process must be defined, implemented, executed, and controlled just like any other business process. It goes through the same process life cycle and can be managed using the discipline of value-driven BPM. The “innovation process” is a key process to be managed by BPM.

A generic example of one such innovation process is shown in below figure, the process develops from the preparation of an innovation initiative, to the “idea finding” activities, and finally to the execution of the innovation idea. The innovation manager identifies relevant mega trends and, on the basis of those, the relevant innovation fields. These innovation fields guide the definition of the company-specific innovation focus. This focus directs the “idea finding,” using internal and external resources. The innovation ideas are evaluated, and the most interesting ones become innovation projects. These projects develop prototypes and business cases on the basis of the innovation idea. Then, the innovation team can decide which innovation ideas will be brought to market, or the ideas that will actually become innovations.



**Figure 3.2: Example of An Innovation Process**

During the idea-finding process, it is key to anticipate the customers’ future interests and needs. It is about planning the customer journey. Finger claims that you should even know customer interests and needs before the customers themselves are aware of them just like Steve Jobs at Apple did. It generally makes sense to include external partners in the innovation process to broaden the input.

### Examples of such partners include:

- Key customers
- Important suppliers
- Additional market partners (e.g., banks)
- Research institutions
- Academic institutions

### **Some rules to support and manage the innovation process:**

- Implement strong leadership regarding innovation strategy and innovation portfolio
- Align amount and type of innovation with the specific business situation
- Manage tension between creativity and daily business requirements.
- Control the resistance to innovation and change
- Form an innovation network consisting of internal and external members
- Define and manage the appropriate metrics and rewards

### **Key factors successful innovation process:**

- Business process focus, from the beginning of an innovation initiative
- Definition of process owners, including a senior executive who can make change happen
- Full-time design team
- Managerial engagement, ensuring the implementation of the innovation
- Building buy-in
- Bias for action

### **In-house business development of the innovation process in the company:**

The modern world is constantly moving forward, and at an ever-increasing pace. The rate of change is highly influenced by the rate of technological development.

Whereas in the past it took 75 years for Alexander Graham Bell's telephone to reach 50 million users, it took Facebook only 3.5 years to reach the same number. It can take just 30 days for a game or app to reach 50 million users. Today's technology makes possible what was impossible in the past. To be precise – today's technology makes possible what was impossible just a few years ago.

Corporations in every field must constantly monitor technological advancements which affect their business. If a manager thinks his R&D department can keep up with the constant changes in technology taking place around him and remain relevant, he's mistaken.

Corporate R&D departments are inundated with every day, routine matters and don't have the time to stay up-to-date. This is precisely how innovation, which is meant to improve corporate performance, slips through managers' fingers, leaving the corporation in the dust. Corporations must wise up and realize that no matter how big and talented their R&D departments are, there are several times as many entrepreneurs outside the company walls who will come up with more and more varied ideas than the corporation's employees will. In many cases R&D managers have sabotaged their own corporations by persuading their higher-ups that if they only get the budget, they need they can develop what a startup develops. In most cases the result has been that the corporation invested 5 to 10 times as much as a startup requires – and didn't reach the technological goal it aimed for. As a result, the corporation lost a fortune, and even worse, even if it managed to put some technology or other on the market, it did so long after its competitors.

In order to remain relevant and on the technological cutting edge, corporations must abandon old paradigms and create organizational structures that are able to spot and adopt innovations from the external ecosystem – innovations that will help them survive (in the worst case) and move ahead of their competitors (in the best case).

In the past, corporations relied on an internal innovation division whose aim was to come up with innovative solutions within the corporation through the initiative of its employees. In most cases this model of in-house innovation didn't achieve the desired results. One reason for this was that for many employees, innovating was an extra task to do for which they weren't rewarded. In-house seminars and other organizational initiatives aren't sufficient to make employees realize the importance of innovation to the organization, and as a result, the employees aren't truly committed to innovation. In many cases the management's support of in-house innovation is nothing but talk, and setting goals and assessing achievements proves difficult.

Over the past fifteen years we've witnessed a dramatic shift toward a new model by Henry Chesbrough – open innovation. This model is based on the corporation making use of its surrounding ecosystem and collaborating with other corporations, startups, entrepreneurs, academic institutions, customers, or any other relevant entities that can provide the tools that will take the corporation to the cutting edge and keep it there. This is an integrative approach which combines needs that come up within the corporation with out-of-the-box solutions that come from outside of the corporation.

According to the LEAD Institute the factors that lead to the growth of this new approach include: the increasing availability and mobility of experts in the field of innovation; the increasing availability of capital; more opportunities for realizing the potential of innovation; and a growing number of clients, suppliers and other entities which become relevant to collaborative efforts.

According to a comprehensive, professional study by Creators published recently, the riper for innovation the corporation is, the more it tends to adopt open innovation programs. In their report they mention that open innovation programs run for an average of four months and in many cases, they're funded by external innovation experts who assist the process.

Experience shows that the process of open innovation motivates strong employee involvement in innovation, even encouraging in-house innovation as a side effect. In order to initiate a process of open innovation, managers must first leave behind their traditional way of thinking – that all answers are to be found among company employees – and open up to the idea that external factors bear a strong influence on the company's future, power to innovate and value.

In other words, the important insight that managers should learn from this is that innovation won't come from within. It will come from without. An insular organization must open up to its corporate environment.

This means being attentive and open-minded toward technological innovations developed by entities external to the corporation. The corporation must make sure that relevant startups come to it before they go to a competitor, otherwise the corporation will end up with startups that aren't as good or suitable to its needs. The corporation must be proactive in finding compatible startups and not wait for startups to contact the corporation arbitrarily.

The managers' commitment is crucial to this process. Without it, the middle management echelon will stand in the way of innovation. Managers must make sure the organization is proactive in finding initiatives which are valuable to the company's corporate and technological challenges and that once the right startup is found the corporate acts effectively and quickly to establish a basis for effective collaboration between the two sides while removing bureaucratic obstacles, allocating the necessary budget and designating high-quality, appropriate human resources. The proper treatment of startups by the corporation will attract more quality startups to the corporation.

One of the most common and detrimental flaws among corporations is that instead of a single senior manager in charge of innovation for the organization, responsibility is spread among several different entities. This causes chaos both internally and vis-a-vis startup partners.

In the past, the relationship between corporations and startups was such that the corporation had the upper hand. This has changed in recent years and today a quality startup with a unique, advanced technological solution chooses the corporation it wishes to work with. Such a startup will choose a corporation that takes open innovation seriously over a corporation for which “innovation” is nothing but a marketing slogan.

Over 350 mega-corporations run important operations in Israel through which they utilize the brainpower the startup nation has to offer and learn about applicable, creative solutions. They do this in order to incorporate the “next big thing” before their competitors. Israeli corporations such as Strauss, Elbit, Teva, banks and insurance companies have also instituted open innovation programs which utilize external entities to keep up with the changing world and reduce the risk of being rendered irrelevant by their competitors. One of the main reasons why the people in control of corporations encourage their managers to adopt open innovation programs is that they’re afraid their competitor will beat them to a technology that will make a serious dent in the corporation’s performance.

One action taken by Strauss, for example, was the My Strauss campaign in which the company opened the discussion regarding new products to the public, allowing the customer to decide which new products the company would be offering in the future.

Another one of the company’s projects is the Alpha Strauss project – a community of inventors, entrepreneurs, nutrition experts and food scientists brainstorming together on how to overcome the challenges of the food industry while leveraging a local ecosystem with creative ideas and quality initiatives with the aim of bringing about a significant change in the foods we consume. Strauss is an excellent example of successful open innovation.

Besides creating a community, there’s a variety of other means for fostering open innovation and opening corporate doors to startups: making the corporation the startup’s customer; covering the cost of the prototype developed by the startup; funding technological think-tanks; opening accelerators; establishing investment funds; investing directly in new companies; even purchasing a startup.

The open innovation model is only effective when there’s true partnership between the corporation and the other entity, usually a startup. If the corporation feels superior to the startup it will sabotage the process. The corporation must see the startup as a partner, not a supplier. Such a culture recognizes the importance of the human factor in the corporation and the idea of knowledge-sharing and cooperation between internal and external entities. For this reason, company managers must encourage this kind of culture in the workplace.

To sum up, the current trends in open innovation can be expected to remain with us in coming decades. Companies must learn to cultivate partnerships with startups so they can continue to develop their technologies and cope with corporate and technological challenges.



Open innovation has emerged recently as a new innovation model. It encourages companies to use the existing external knowledge rather than reinvent the wheel. This way, it is considered positive to establish links with other companies, universities, tech centers, and other knowledge sources. This type of innovation was born at the beginning of the century due to the arrival of the Internet which enabled an easy connection with available knowledge anywhere in the world.

- The company collaborates with external knowledge generators.
- The main focus of the innovation department is to connect and integrate in-house teams with external knowledge sources.
- Internal innovation still remains but it focuses on the creation of knowledge that cannot be found outside, as long as this is marketable.

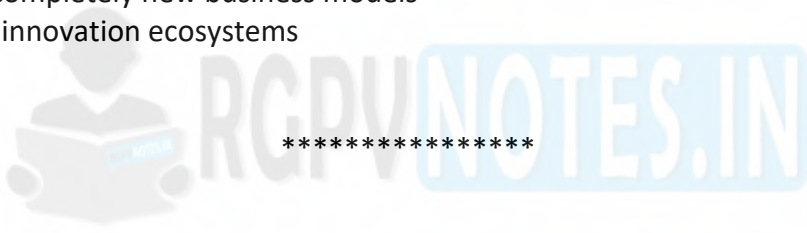
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**Implementing a model of open innovation is naturally associated with a number of limitations:**

- Possibility of revealing information not intended for sharing
- Potential for the hosting organization to lose their competitive advantage as a consequence of revealing intellectual property
- Increased complexity of controlling innovation and regulating how contributors affect a project
- Devising a means to properly identify and incorporate external innovation
- Realigning innovation strategies to extend beyond the firm in order to maximize the return from external innovation

**Open innovation offers several benefits to companies operating on a program of global collaboration:**

- Reduced cost of conducting research and development
- Potential for improvement in development productivity
- Incorporation of customers early in the development process
- Increase in accuracy for market research and customer targeting
- Improve the performance in planning and delivering projects
- Potential for synergism between internal and external innovations
- Potential for viral marketing
- Enhanced digital transformation
- Potential for completely new business models
- Leveraging of innovation ecosystems



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