

## What is innovation?

An innovation is the implementation of a new or significantly improved product, good or service; a new marketing method; or a new organisational method in business practices, workplace organisation or external relations (OECD/Eurostat, 2005).

### Characteristics of innovation

Innovations can be distinguished by their degree of novelty depending on whether they are new to the firm, new to the market or new to the world. Changes that are not considered innovations include customization, regular seasonal and other cyclical changes (e.g. a new fashion collection by a clothing manufacturer), and trading of new or significantly improved products (e.g. in wholesale and retail distribution, transport and storage). Innovation can be characterized in the following ways:

- **The type of innovation** (see [Product and process innovation](#) [1]). The Oslo Manual defines four types of innovation: product innovations, process innovations, organisational innovations and marketing innovations (OECD/Eurostat, 2005). However, many innovations may have characteristics that span more than one type of innovation, and it can be both difficult and misleading, in terms of types of innovation activities undertaken by firms, to categorise these innovations as a single type.
- **The impact of innovation** (see [Radical and incremental innovation](#) [2]). A radical or disruptive innovation can be defined as an innovation that has a significant impact on markets and on the economic activity of firms in that market; while incremental innovation concerns an existing product, service, process, organization or method whose performance has been significantly enhanced or upgraded. Incremental innovation is the dominant form of innovation.
- **The source of innovation** (see [Technological and non-technological innovation](#) [3]). Technological innovations are usually associated with product and process innovation, whereas non-technological innovations are generally associated with organizational and marketing innovations. Technological and non-technological innovations are highly interconnected.
- **The social objective of innovation** (see [Social innovation](#) [4]). There is no single definition of social innovation, although most tend to emphasise its key objective—to meet social goals—and to a lesser extent the types of actors involved (e.g. non-profits, individuals, universities, government agencies, and enterprises). Social innovation seeks new answers to social problems by identifying and delivering new services that improve the quality of life of individuals and communities and by identifying and implementing new labour market integration processes, new competencies, new jobs, and new forms of participation, as diverse elements that each contribute to improving the position of individuals in the workforce.

### Not all change is innovation

The minimum requirement for a change in a firm's products or functions to be considered an innovation is that it is new or is a significant improvement to the firm. More generally, innovations can be distinguished by whether they are new to the firm, new to the market or new to the world. Not all changes can be considered innovations. For example, the following are not innovations:

- **Stopping something.** Ceasing to use a process, a marketing method or an organisation method, even if stopping it improves a firm's performance.
- **Simple capital replacement or extension.** The purchase of identical models of installed equipment, or minor extensions and updates to existing equipment or software, are not process innovations. New equipment or extensions must both be new to the firm and involve a significant improvement in specifications.
- **Changes caused by changes in factor prices.** A change in the price of a product or in the productivity of a process resulting exclusively from changes in the price of factors of production is not an innovation.
- **Customisation.** Firms engaged in custom production make single and often complex items according to customers' orders. Unless the one-off item displays significantly different attributes from products that the firm has previously made, it is not a product innovation.
- **Regular seasonal and other cyclical changes.** In certain industries, such as clothing and footwear, there are seasonal changes in the type of goods or services provided which may be accompanied by changes in the appearance of the products concerned. These types of routine changes in design are generally neither product nor marketing innovations; for example, there is no product innovation if a clothing manufacturer introduces the new season's anoraks unless they have, say, a lining with significantly improved characteristics. However, if the occasion of seasonal changes is used for a fundamental change in product design that is part of a new marketing approach used for the first time by the firm, this should be considered a marketing innovation.
- **Trading of new or significantly improved products.** The definition of innovation for new products is complicated in the goods-handling services and distributive trades (wholesale and retail distribution, transport and storage). Trading of new or improved products is generally not a product innovation for the wholesaler, retail outlet, or transport and storage firm. However, if such a firm begins to deal with a new line of goods (i.e. types of goods that the firm has not previously sold) then this activity can be considered a product innovation, as the firm is offering a new service or product.

## Reference

- OECD/Eurostat (2005), The Measurement of Scientific and Technological Activities—Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd ed., OECD Publishing. doi: 10.1787/9789264013100-en

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[1] <https://www.innovationpolicyplatform.org/content/product-and-process-innovation?topic-filters=12271>

[2] <https://www.innovationpolicyplatform.org/content/radical-and-incremental-innovation?topic-filters=12130>

[3] <https://www.innovationpolicyplatform.org/content/technological-and-non-technological-innovation?topic-filters=12143>

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