UNIVERSITY OF LEEDS
Leeds University Business School

Leeds University Business School

Policy Briefing #2: Enabling corporate innovation

This Policy Briefing is one of a series informing policy-makers and other interested parties of research undertaken at Leeds University Business School, which has achieved economic impact and has implications for the future. Specifically, the briefing is based on a four-year research project carried out within Ericsson AB in Sweden. The findings from this research inform the design and management of successful corporate innovation. However, the study's relevance extends beyond the boundaries of the specific organisational context at Ericsson. This note explores these linkages, demonstrating the relevance for and impact on the wider business base and academia, and the implications for the UK's innovation policy.

This note is based on findings from a research collaboration between Ericsson AB (Ericsson) and Krsto Pandza, Professor of Strategy and Innovation, Leeds University Business School, and Director of the Centre for Technology Innovation and Engagement (C-TIE). The research partnership between C-TIE and Ericsson was supported by the EU-funded project COINS (Complex Open Innovation for Network Society) awarded in 2015.[1] COINS itself was a continuation of another major EU-funded project ManETEI (Managing Emerging Technologies for Economic Impact)[i], awarded to C-TIE in 2010. Led by Professor Pandza, ManETEI investigated the organisational, strategic and institutional factors that shape innovation processes. This research provided a foundation for more applied research and corporate action. One of the project's postdoctoral researchers, Dr Saeed Khanagha, went on to work at Ericsson and became a key connection for COINS.

Background

Whilst the UK is recognised as a global leader in technological invention, British businesses in leading industries are less likely to innovate than their continental counterparts, and innovation is concentrated in a small proportion of businesses.[ii] The UK's productivity rate was an issue before the 2008 global financial crisis: it has been slow relative to competitor countries for at least two decades, and concern will only be intensified as the economy begins to emerge from the 2020 lockdown. Understanding what works in raising productivity, and enabling businesses to find new and better ways of delivering novel products and services, could potentially have a large impact on the UK economy.

This policy briefing summarises research findings on corporate innovation, relating to:

- developing complex new products
- facilitating corporate entrepreneurship and disruptive innovation
- designing and managing an effective Open Strategy.

How do established companies innovate?

Large corporations face fierce global competition, and successful innovation is essential for their survival, as well as their growth. Managers need to sustain their existing business through continuous increases in efficiency, while also exploring new opportunities, experimenting with radical alternatives, and developing, testing and then implementing promising solutions.

Figure 1: The innovation puzzle

Source: Leeds University Business School

Corporate innovation is a multi-faceted process, which can involve internal 'corporate

SQW

accelerators'[iii], collaborative innovation, lean innovation teams, and integration of strategic and innovation management activities to create new markets.

All of these approaches challenge the once dominant R&D-centric model of innovation where innovation is the responsibility of a separate R&D department. For managers, the key question is which strategic approaches to corporate innovation should be pursued, and when, based on their understanding of the benefits and challenges associated with each.

The project

Ericsson, a multinational telecommunication company headquartered in Sweden, is a classic example of a large corporate facing the potentially conflicting demands to create 'disruptive' new business offers while performing in the present and protecting the legacy of its core business.

As part of a restructuring programme to support corporate innovation, Ericsson established a dedicated business unit – Business Area Technologies and Emerging Businesses (BTEB). This unit was tasked with developing new businesses based on novel products and services for markets beyond the firm's core business of mobile networks. The focus included the Internet of Things, Connected Vehicle Platforms and Edge Computing.

In 2015, the Centre for Technology Innovation and Engagement (C-TIE) at Leeds University Business School partnered with Ericsson to support the firm's corporate innovation journey. This four-year research project, applied within a live corporate environment, helped the company to enhance capabilities, practices and strategies, and contributed to scholarly understanding of corporate innovation. The project was led by Professor Krsto Pandza.

For many years, Professor Pandza has focused his research on understanding the role of managers at large innovation-intensive firms in shaping organisational capabilities for innovation. His research highlights the importance of innovation managers, often underplayed relative to the roles of science/technology inventors, R&D groups and corporate entrepreneurs. This provided the body of knowledge on which he based the research collaboration with Ericsson, integrating the focus on innovation managers with other ingredients of successful corporate innovation, within and across the three workstreams summarised below.

Scope of the research and findings

1. Development of complex new products

- *How can a firm improve its organisational capability to develop complex new products?*
- *What is the role of innovation managers in a disruptive technological climate?*
- *Which organisational structure is best in order to be successful in a highly disruptive technological environment?*

The first workstreams investigated how established firms can develop innovative new products, and integrate these into the business. A key area of interest was the role of innovation managers, and how these might skilfully combine communication techniques and internal resources to help customers and other stakeholders better understand novel technologies.

It was recognised that Ericsson had to transition from its established product-centric business model to a more flexible model, with emerging innovations managed in a different and better way.

Findings

This research demonstrated the importance of a holistic approach to developing complex new products, which integrate new services and require a new type of business model to be delivered effectively. Specific recommendations included:

- **engaging with a wide range of stakeholders** in the innovation ecosystem not only focusing on customers
- **innovation managers using a combination of large-scale prototyping tools** (such as product demonstrators), **and different communication techniques** to better communicate the (potential) value of new technologies
- **establishing a dedicated unit** focused on a particular area to explore business opportunities.

2. Corporate entrepreneurship & disruptive innovation

- *What is a corporate accelerator and how does it enable intrapreneurship?*
- *Which processes, practices and managerial capabilities are required for successful corporate entrepreneurship?*

The second area of research looked at improving the processes and practices within Ericsson's internal corporate accelerator – Ericsson ONE (formerly Ericsson Garage)[iv] – which was created to foster 'intrapreneurship'[v] and create disruptive innovation beyond the firm's existing core markets.

This provided a unique insight into the managerial capabilities needed to develop an effective corporate accelerator, utilising technological and market expertise from both internal and external sources. The evaluation criteria used by innovation managers when making decisions about highly uncertain innovation projects were assessed as part of this workstream.

Findings

The research produced valuable findings for developing an effective corporate entrepreneurship strategy, identifying actions to:

- **develop managerial capabilities** in order to build successful innovation teams
- **establish more open processes and practices,** focused on engagement and relationship management (notably with small, innovative firms)
- **improve the appraisal and selection of entrepreneurial ideas,** recognising that the most innovative projects may require more time before they generate a return. This can reduce the bias against disruptive and radical innovation.

3. Open Strategy for emerging businesses

- *How to develop an effective Open Strategy approach?*

The third workstream examined how a bespoke IT platform might increase participation in strategy development. In 2014, Ericsson had created the Strategy Perspectives initiative, which sought to create an active community of thought leaders and trusted advisors. However, progress was hampered by a lack of knowledge about Open Strategy[vi] as an emerging organisational phenomenon, and awareness of available tools and benchmarks. Working closely with Ericsson's Strategy & Partnership Group – central to strategy development and fulfilling internal stakeholder expectations – the researchers provided on-site support to accelerate the company's Open Strategy objectives.

Findings

The researchers developed a bespoke evidence-based framework to make Ericsson's strategy processes more efficient, **increasing participation and inclusivity in strategic engagement activities**. Specific recommendations included collaborative workshops with domain experts, and better integration of insights obtained from the online platform into the formal strategy process.

Wider impacts

The study's relevance extends beyond the boundaries of the specific organisational context at Ericsson, to include the wider business base and academia, and insights to help guide public policy-makers.

… for the business community and the wider economy

The research provides a solid framework for businesses to explore and make effective changes in the management of innovation. Further, it demonstrates the effort and time needed for designing and sustaining innovation.

Many other large corporates and medium sized businesses are looking to innovate, facing challenges from digitalisation, new technologies and changing markets. These changing conditions require some level of disruptive innovation to re-align businesses with new definitions of product and service, and new markets and customers – all with changing requirements and expectations. Such opportunities span all sectors, not only manufacturing, with retail and banking particularly prominent.

The study also offers learnings for start-ups, which typically rely on large companies as customers, collaborators and potential acquirers. The findings enable smaller companies to better understand how corporates operate and the types of challenges they face – both in the immediate future and as they move through subsequent stages of growth.

Improvements in individual businesses have the potential to bring wider benefits to the economies in which they operate. The business-led Productivity Leadership Group has described how **innovation tends to be greater than the sum of its parts**:[vii]

> *"Innovation is a collaborative activity: the power of ideas multiplies as it spreads between businesses with the capability to share and make use of them. More innovative businesses doesn't only mean more innovation individually, but more powerful innovation together."*

… for academia

Professor Pandza's research is helping to develop managerial talent by providing a better understanding of why corporate innovation is required, and how it can be best delivered. The findings from this research have already been utilised in teaching at the University of Leeds:

- the MSc Global Strategy and Innovation Management integrates strategy and innovation, and has a module open to engineering students
- Executive Education includes corporate innovation and innovation management, including approaching disruptive innovation
- in partnership with IBM, Leeds University Business School has developed Massively Open Online Courses (MOOCs) which have run five times with a total of 7,000 participants.

More broadly, the collaborative nature of this research represents a more fluid approach to knowledge development, establishing links between the industry and academia – both representing vital parts of the innovation ecosystem.

Policy implications

The research by Leeds University Business School provides longitudinal learnings on corporate innovation. It is clear that successful corporate innovation typically involves long timeframes, implying a need for sustained engagement through supportive, and patient, public policy instruments.

Further, the project highlights that the "winning formula" for innovation in emerging businesses requires well-designed *management innovation* (e.g. new practices, processes and structures) alongside technology invention and new business models. In this sense, **innovation can be viewed as a management challenge**.

The importance of management is echoed by the Productivity Leadership Group, which has highlighted the role of a firm's 'absorptive capacity'[viii], cutting across culture, skills and working practices. This report identified improving management and leadership capability as key to enabling innovation and, in turn, productivity growth, with benefits expected to trickle down from large corporates to SMEs.

In short, this conceptual shift in understanding innovation **asks policymakers to go beyond the current focus on technical skills and R&D, and focus on holistic approaches to stimulating innovative behaviour, and enabling the results.**

Endnotes

[i] ManETEI (Management of Emerging Technologies for Economic Impact), Coordinator, Proposal Number: 238382, PEOPLE Work Programme 2008, Marie Curie Initial Training Network. Funding: 3.832.975,92€.
Assimakopoulous, D.G., Oshri, I., Pandza, K. (2015). *Managing Emerging Technologies for Socio-Economic Impact*. Edward Elgar Publishing Limited. Cheltenham, UK

[ii] Productivity Leadership Group (2016) How good is your business really? Raising our ambitions for business performance.

[iii] A corporate accelerator is a company or business unit that invests in and supports a number of start-up ventures that have exponential growth; growth rates typically being much higher than their peers (definition adapted from Deloitte).

[iv] The three accelerators in Stockholm, Beijing and Silicon Valley are tasked with finding, selecting, incubating and commercialising promising internal entrepreneurial projects.

[v] Intrapreneurship can be defined as *"acting like an entrepreneur within an established company"* by *"creating a new business or venture within an organisation"*. See here.

[vi] Open Strategy has been defined as *"an openness in terms of inclusiveness, in other words the range of people involved in making strategy; and an openness in terms of transparency, both in the strategy formulation stage and, more commonly, in the communication of strategies once they are formulated"*. From: Seidl, D., von Krogh, G. & Whittington, R. (2019) *Cambridge Handbook of Open Strategy*. Cambridge University Press. Cambridge, UK.

[vii] Productivity Leadership Group (2016) Op cit

[viii] Defined as *"the ability of an organisation to identify and acquire new knowledge, transform existing techniques and capabilities, and apply them commercially"*.