

WHAT GOOD IS INNOVATION, IF THE INNOVATOR DOESN'T BENEFIT?

History is littered with cautionary tales of inventors, both corporate and individual, who failed to profit from their innovations. Too often it is not the inventor in the garden shed that benefits, or the start-up firm, pioneering some new technology, but someone else; whether it is a firm that is part of the process of getting the innovation to market, or someone producing an imitation or adapted version of the original innovation.

"Innovation is often cited as a core competence for modern firms. Few firms, no matter what business they are in, can achieve sustainable success without innovation - whether product, service or process innovation. There are, however, considerable risks and uncertainties attached to it," says Michael G. Jacobides, Ghoshal Fellow at the Advanced Institute of Management Research (AIM) and London Business School academic.

The usual advice to the innovator is to fiercely protect their innovation, through patents, copyright, litigation. Or take on other parts of the value chain. Don't just create the innovation, but design, market and sell it, for example.

Now, new research from Jacobides and AIM shows that innovators have more options than this, new strategies they can employ to make sure they capture the most value possible from their innovation.

In particular say the authors of the study:

- Innovators should fend off their immediate urge to control everything. Instead, they may want to think about how they can shape their industry's ecosystem – and not only focus on the division of the innovation value pie as the innovation makes its way to market. Instead they must look at the broader picture of the economic network they operate in and their influence on that network.
- The best strategy for innovators is to try to manipulate the architecture of the industry they are operating so that they become points of scarce resource, or bottlenecks. This may be, like the Wintel alliance, through defining industry standards, or through de facto exclusion of other players via expertise, or through redefining markets by bundling products together and changing the nature of the innovation offering.
- In showing how firms can “control without owning”, i.e. by both being vertically focused and managing to command a premium, the research argue that innovators should consider their relationships with other partners in terms of complementarity –how good the fit is, in terms of how much value it creates – and factor mobility – how interchangeable is the other specialised firm – as this partly determines the innovators share of the innovation value pie. And they argue that firms that dominate their sectors (Microsoft and Intel in PC's, Fannie Mae and Freddie Mac in mortgages in the US, Apple in music distribution) are those that allow for complementarity and co-dependence, but

at the same time aggressively manage the mobility of the players that are in other parts of the value chain.

- Still, the authors argue, there are other means to gain value from innovation. Not only should they try to manage their industry architecture to create profits; innovation can lead to wealth creation through asset appreciation, i.e. through ensuring that firms take up positions that will yield substantial benefits even as the sector as a whole becomes competitive. This suggests some surprising possibilities: the best play for an innovator, for instance, may be to encourage imitation of the innovation, and, at the same time invest in complimentary assets, which will then appreciate in value due to the demand created by diffusion of the innovation.

The research provides some invaluable tips for organisations and individuals who want to make the most from their innovation, rather than see someone reap all the rewards. It also, importantly, provides two simple decision-making frameworks which firms can use to guide them when making strategic decisions regarding the best way to capture the value flowing from an innovation.

"Innovating firms need to shift the question from 'how do you protect innovation in order to reap the maximum amount of surplus' to, 'how can you find a way to generate value and capture the greatest possible amount of surplus, regardless of whether others emulate the ideas or not?'" says Jacobides.

For more details of the AIM report "Who does what" and "who gets what": Capturing the value from innovation, please contact: Claire Fitzpatrick, Communications Officer, AIM, email: cfitzpatrick@london.edu or tel: 020 7000 0517

Notes for Editors

AIM Research is funded by the ESRC and EPSRC and was launched in November 2002. AIM's mission is to improve understanding of management's contribution to organizational performance, and thus UK well-being. AIM's more specific objectives are: (i) to conduct research that will identify actions to enhance the UK's international competitiveness; (ii) to raise the scientific quality and international standing of UK research on international competitiveness; (iii) to expand the size and capacity of the active research base for UK research on management; and (iv) to develop the engagement of that capacity with world-class research outside the UK and with practitioners as co-producers of knowledge about management and other users of research within the UK. For more information on **AIM** visit www.aimresearch.org

The **ESRC** is the UK's largest funding agency for research and postgraduate training relating to social and economic issues. It provides independent, high quality, relevant research to business, the public sector and Government. The ESRC's planned total expenditure in 2006/7 is £169 million. At any one time the ESRC supports over 4,000 researchers and postgraduate students in academic institutions and research policy institutes. More at <http://www.esrcsocietytoday.ac.uk>

The Engineering and Physical Sciences Research Council (EPSRC) is the UK's main agency for funding research in engineering and the physical sciences. The EPSRC invests more than £500 million a year in research and postgraduate training, to help the nation handle the next generation of technological change. The areas covered range from information technology to structural engineering, and mathematics to materials science. This research forms the basis for future economic development in the UK and improvements for everyone's health, lifestyle and culture. EPSRC also actively promotes public awareness of science and engineering. EPSRC works alongside other Research Councils with responsibility for other areas of research. The Research Councils work collectively on issues of common concern via Research Councils UK. Website address for more information on EPSRC: www.epsrc.ac.uk/

For more information contact:

Professor Andy Neely, Deputy Director, AIM, email: aneely@london.edu,
Tel: 0870 734 3000 or 07711 140198

Claire Fitzpatrick, Press and Communications, AIM, email: cfitzpatrick@london.edu,
Tel: 020 7000 0517 or 07703 725927

