



The Value of Innovation Models in Business Development

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Abstract- This paper examines the value of innovation models in business development. Innovation involves employing all necessary and relevant models techniques in doing things. Business requires innovation models in the applications of technology to management and production process. The paper also presents managers with valuable opportunities to adopt business innovation models in solving daily problems and in decision making processes. The paper is based on the review of several literatures on the value of innovation models in business development. The objective of the paper is premised on the review of literatures relating to the value of innovation models in business management. The methodology to achieve this objective is through secondary source of thorough analysis of various textbooks, journals, international business publications that are directly related to the topic. The use of deductive and inferential analysis will also be adopted. There will be no testable hypotheses as no quantitative analysis will be required. The paper concludes that business model innovations help companies to identify growth opportunities, generate valuable ideas to deal with the customers, create new systems rules and matrices that enable companies organise itself and appoint better informed decision makers to implement business successfully. It was recommended that organizations must be encouraged to embrace innovation so that necessary tools can be provided to acquire new knowledge of technology and employees, research centers and institutions must be involved in innovation process.

Keyword: *Business development, Business innovation, Decision making, Entrepreneurship, Innovation and Innovation models.*

1.0 Introduction

Business innovation is the introduction of modern techniques of doing business to increase productivity level. For entrepreneurs to commercialise invention, there must have been the use of research and development, for instance, for instance, the importation of new machines and equipments which improve efficiency and increase the level of production (Onabajo, 2001). Entrepreneurship illustrates the contents of business definition, the creative, innovative, risk taken, organisational process and functions of individuals who initiate, run and nurture business ventures (Onabajo, 2011). Generally, entrepreneurial ventures are categorized as, the innovators, the calculating inventors, the over-optimistic promoters and the organizational builders. The types of businesses are not related to the personality but to the type of opportunities that the entrepreneur faces. Onabajo further emphasized that entrepreneur are valuable contributors to the economic development of the nation. Their contributions include, developing new markets, discovering new sources of materials, mobilizing capital resources, introduction of new technologies, industries and products and creating employments (Onabajo, 2013).

Schumpeter and Max identified innovation as the central role of entrepreneurship, herein referred to as the businessman. According to Schumpeter (1934) 'the fundamental impulse that sets and keeps the capitalist engine in motion come from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates' through entrepreneur who is known as the businessman'. This submission differentiates innovation from entrepreneurial invention. Inventions are mere catalysts that will quicken the rate of entrepreneurial diffusion and growth (Onabajo, 2014).

Business model innovation is a wonderful thing. Onabajo (2008) asserts that, at its simplest, it demands neither new technologies nor the creation of brand-new markets: It is about delivering existing products that are produced by existing technologies to existing markets. And because it often involves changes invisible to the outside world, it can bring advantages that are hard to copy. The challenge is defining what business model innovation actually entails. Without a framework for identifying opportunities, it is hard to be systematic about the process, which explains why it is generally done on an ad hoc basis. As a result, many companies miss out on inexpensive ways to improve their profitability and productivity. This paper presents a framework to help managers take business model innovation to the level of a reliable and improvable discipline. Drawing on the idea that any business model is essentially a set of key decisions that collectively determine how a business earns its revenue, incurs its costs, and manages its risks, innovation provides insight into the model as changes to those decisions about what your offerings will be, when decisions are made, who makes them, and why. Successful changes along these dimensions improve the company's combination of revenue, costs, and risks.

The objective of the paper is premised on the review of literatures relating to the value of innovation models in business management. The methodology to achieve this objective is through secondary source of thorough analysis of various textbooks, journals, international business publications that are directly related to the topic. The use of deductive and inferential analysis will also be adopted. There will be no testable hypotheses as no quantitative analysis will be required. However, a comprehensive qualitative analysis of various opinions from textbooks will assist to provide a sound conclusion for the paper.

2.0 Concept of Innovation

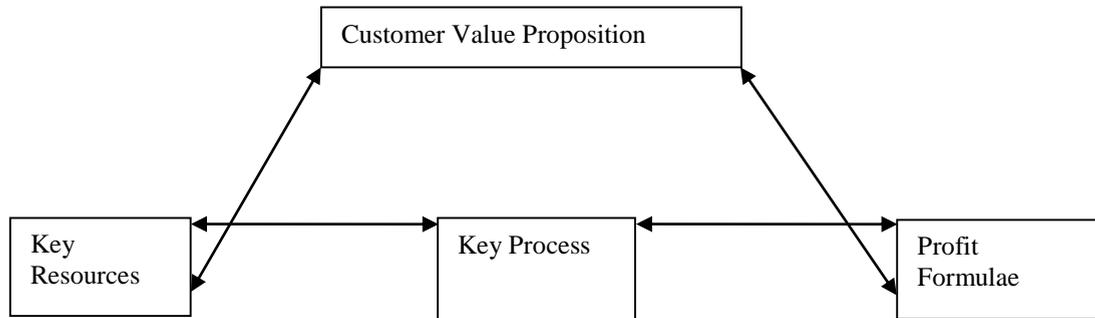
Innovation is conceived as synonymous with technological change and depicted as the function of the heroic entrepreneur who in return gets pioneer profits. Schumpeter (1968) defined innovation as the setting up of a production function or the carrying out of new combination. This was clearly illustrated in Onabajo (2014) without innovative ideas, technological changes may suffer integrated growth. Entrepreneurs intuition will generate technological reasoning that will lead to technical application in terms of manpower, equipment and materials. Onabajo (2014) conceptualised innovations as new things that are technically applied in business of production, distributing and consuming products or services. Onabajo categorised technological innovations into new machines or equipments and new products. He then described technological innovations as the improvements of existing processes and products, which have been established on the basis of some technological change created by the innovator and which are commercially explored.

The overriding motive for innovation according to Mansfield (1982); Galbraith (1967) is the strengthening of the firm's position in the market. This motive may be coming from inherent desire to be the best in a technological sense or it may be forced by the innovative performance of the competitors who are threatening the market share of the firm. Rosenberg (1972) and other economic historians who have actually studied the technological change process, emphasized that minor or incremental changes may, in fact have more cumulative economic significance than major breakthrough. Onabajo (2014) also argued that changes are very important facets of innovation. He contended that the economic significance of any major innovation becomes attainable only after the inevitable modification and numerous minor improvements. He also contended.

3.0 Business Innovation Models

Four Key Elements of a Business Model

Godin (2005) asserted that the power of business model innovation is capable to transform businesses through competitively improved customer value proposition. This is possible because of the innovative ideas that resulted in combining conventional key resources which serve as impetus to create new markets and unlock significant growth in a key process that makes it possible to attain significant growth in production, distribution, marketing and consumption while adequately realising the firm's profit projection



Source: Godin B, (2005) Model of Business Innovation

. Using Karan and Serguei (2014) proprietary framework, business model innovations helps companies:

- Identify a “white space” growth opportunity, which is, tapping into an entirely new customer opportunity with a completely new business model that changes the competitive landscape.
- Generate valuable, new ideas for engaging with customers, designing new or transformed business models that fulfill the jobs customers need to get done more effectively, efficiently and profitably. Successfully enter emerging markets, re- conceiving business models that recognize the unique unmet needs of consumers in these markets, profitably and efficiently.
- Create new systems, rules, and metrics that enable companies to organize for and implement new businesses successfully.
- Appoint a better-informed decision maker:

Focused Business Model

Porter (1983) classifies uncertain demand as a challenge all businesses face and is in most cases their major source of risk. One way to reduce that risk is to make changes to your company’s mix of products or services. In finance, if you have two portfolios offering a 20% return, you choose the less risky one, because it will create more value over time. The same is true with product portfolios. Companies looking to recalibrate their product or service mix have essentially three options Rodriguez-Pose, 1999).

Focus Narrowly.

Focused business models are most effective when they appeal to distinct market segments with clearly differentiated needs. So, if your business currently serves multiple segments, it may be best to subdivide into focused units rather than try to apply one model (Porter, 1983; Cole, 1959).

Porter 1983) however asserted that the main drawback for a focused business is that it must rely on a single product, service, or customer segment and it may omit key customer needs, such as situations where consumer will make a joint demand (purchase of bread and butter).

Search for Commonalities across Products

Ronstadt (1984) submitted that commonalities are not just shared components among different products. They may also be the capabilities needed to serve various product, customer, and market segments. Consequently, companies can add to their mix products or services that reflect new applications of their capabilities. Commonality can, however, carry significant costs if components must be engineered for a wide range of makes and models. What’s more, the strategy requires that the component-sharing products not all experience their demand highs and lows simultaneously (Porter, 1983; Desai, 1992).

Pass the Decision Risk to the Party that can best Manage the Consequences:

When cash-strapped, organisations get distributors and publishers to carry slow-moving inventory, rather than stocking the books itself. Partners can’t keep up with Amazon’s growth and quick shipping promise, so the company reverses course and builds its own warehouses. Search for commonalities across products: Success with books leads to expansion into music, video, and games, where the company’s logistics

competencies can be applied. Amazon hosts the websites of Toys “R”Us, Borders, and Target and performs most site development, order fulfillment, and customer service (Rothwell, 1975; Drucker, 1985).

Change the Revenue Stream:

Per-item shipping costs deter many customers, so Amazon offers Amazon Prime: Customers buy a shipping subscription rather than paying for individual shipments. According to Onabajo, (2003) this also encourages impulse purchases.

Postpone the Decision:

The acquisition of Book Surge (on-demand book publishing) and Create Space (self-publishing of books, CDs, DVDs, and video) allows Amazon to delay publication decisions until customer tastes are known (Onabajo, 2003).

Other Innovation Models

Innovation research has generated additional models that attempt to address deficiencies seen in the linear model. Sources of ideas that can generate value have been broadened, recognizing that some highly successful innovations have not been the direct result of application of scientific or technology advances. Liles (1974) posits that variations of the linear model have been developed that include:

Technology Push - This has a small change from the linear model where marketing and sales is added after production. This is obtained in product development system engineered by market need that leads to regular production.

Market Pull - This variant suggests that research and development is responding to a market need, resulting in this modification to the earlier model: Market Need → Development → Production → Sales.

The Phase Gate Model - This modifies the linear model by recognising that there are feedback loops and time variations between steps, and establishes readiness criteria for moving between major phases of innovation development. Phase Gate approaches are often represented by a funnel.

Connect and Develop Model

Proctor and Gamble developed the "Connect and Develop" model to address the increasing costs of keeping all research and development within the company, representing an example of open innovation. In this model, parts of research and development come from outside the company as a result of networking and partnerships.

Linear Innovation Model

Godin, (2005) provides a historical discussion of the Linear Innovation Model. He suggests that the source remains unclear, but he offers an initial early reference from 1945. The model is ultimately summarized with the following steps:

Basic research → Applied research → Development → (Production and) Diffusion.
Godin also presents a time-based taxonomy, suggesting how this model has developed over time. The Linear model emphasizes scientific advance over contributions that come from players later in the process, leading to a key source of criticism. The continuity of use for this model, despite much opposition, is partially attributed to its simplicity.

More importantly, the statistics available based on the linear model, or lack of statistics for alternative models, may be delaying change to other innovation framework options.

Recent Models

The Diffusion of Innovations Models

Recent models such as those promoted by Everett and Geoffrey (2014) have tended to focus on elements of adoption. Rogers focuses on psychological profiles that characterize adopters at various stages of an innovation adoption cycle, enabling a focus on market innovation. Moore's focus on the technology adoption lifecycle points to where innovation is more likely to be effective given the current state of a specific product or service level of acceptance.

Action-Network Model and Social Shaping Technology

Approaches coming from innovation research, such as Actor-Network theory and Social Shaping of Technology, have led to a broader picture of how innovation works. This has led to new types of innovation such as user innovation. Hayes and Abernathy (1980) informed that models are attempting to address

change discontinuities that can disrupt companies and create paradigm shifts. This innovation research can become quite complex, entering areas of philosophy, such as epistemology, the theory of knowledge.

Advantages of Finding the Right Innovation Model

Hirich, Peters and Shepherd (2005) emphasised that, detecting the need for change, or finding new places to generate growth can present significant challenges for any company or organization. Having an innovation model that facilitates and promotes understanding of how things change could make the difference for the long term survival of the business. Hirich, Peters and Shepherd further recalled that, an effective model should:

- Provides a conceptual framework and promotes innovation thought
- Aids faster identification of new sources of innovation
- Facilitates better timing for market introduction
- Helps find innovation opportunities aligned with timeframes needed for the business
- Reduces likelihood of competitive disruption
- Increases return on innovation investment
- Improves ability to anticipate needed innovation
- Sustains competitive advantage and enables long term growth

Meanwhile, Gaudini (2010) pointed out that an innovation model could be a key element for creating competitive advantage and is critical for sustained growth in today's business environment.

One secret to maintaining a thriving business is recognising when it needs a fundamental change. Innosight practices a comprehensive approach to generating and launching these kinds of game-changing innovations. Business model innovations have reshaped entire industries and redistributed billions of dollars of value. Yet cases from well-established companies, like Apple, are rare. An analysis of major innovations within existing corporations over a decade shows that precious few have been business-model related. A recent American Management Association study determined that no more than 10% of innovation investment at global companies is focused on developing new business models (Gaudini, 2010).

Business model innovation is about fundamentally rethinking a business around clear customers' needs, then realigning resources, processes and profit formula with this new value proposition. It is not easy as it can take decision makers out of their comfort zones. But the results can be dramatic.

Choosing an Innovation Model

The right model should be applied to a particular business operation. However, a model attempts to provide a representation that can help us understand how things work. Some attributes to consider before choosing a model of innovation include (Aju, 1994):

What Creates the Need for an Innovation Model?

For most businesses, it is the need for growth. The long term expectation for mature companies is organic growth of 4 to 6 percent, generated by the need to provide a reasonable return to shareholders. For smaller companies, growth demands can be significantly higher. Effective innovation provides the solution to meeting this growth demand. An innovation model provides the conceptual framework for identifying and advancing the change ideas most likely to generate the value needed to create sustained growth (Liles, 1974).

Simplicity - Is the model easy to understand and use?

Descriptive - Is there sufficient detail to enable explanation, comparison, and/or imitation (use)?

Assessable - Does the model enable measurement and provide a vehicle for evaluating alternatives?

Predictive - When model assumptions are true, does the model provide probabilities for described outcomes?

Timely - Does the model provide assessments, measurements, and insights that enable innovation opportunities in a timeframe that will lead to success? The timeliness element for an innovation model can be particularly challenging. Innovation requires decisions for change which are often resisted, particularly when changes may cannibalize current business.

Strategic Application of Innovation Models in Decision Making

Decisions must often be made before managers have enough information to make them with confidence. However, it is more management oriented to be in possession of information before decisions are made. Godin (2005) identified three strategies that, depending on the circumstances, can improve a business innovation model, towards decision making, by changing the timing of decisions.

Postpone the Decision.

In many industries companies make firm decisions about prices well before they actually sell anything. This, of course, often exposes them to risk. It is risky to price airplane seats early, for instance, because demand on any given route is highly contingent on economic and other conditions and can vary by the time of day, the day of the week, or the week of the month. Price quotes can be delayed at the individual level.

Shuffle Order of Performance

Some companies don't have the option of changing the time frame within which they operate, but they can shuffle the order in which decisions are made in order to delay investment commitments until pertinent information is known. Most product development, for example, begins with proposing a solution or a technology for a customer need. If, after initial investments, the solution proves to be a dud, then it is back to the drawing board.

Make Upfront Decision

A similar change in sequence explains the success of one company in the call center industry, LiveOps. Traditional centers make up-front investments in facilities and hard infrastructure (primarily communications) before they sign a single client or take their first call. They must also decide how many agents to hire, at what levels of skill and expertise, and provide training. Next they must sign up clients whose needs match the capabilities they have assembled.

Application of Innovation Model in Decision Making

Many companies find that they can radically improve decision making in the value chain simply by changing the people who make things work. To achieve this, companies can (Carter, 2004):

Appoint a Better-Informed Decision Maker

The whole employee empowerment movement is based on giving decision rights to the most informed person or organization. Google's engineers, for example, have extraordinary freedom to decide what development projects the company should pursue, because Google believes they are better informed about technologies and tastes than the company's executives are.

The Best-Informed People Aren't Always in the Company

Walmart transferred some decision rights about stocking its store shelves to Procter & Gamble, because it saw that a supplier had the right combination of information and incentives to keep Walmart well stocked with products by optimizing delivery and production schedules. This has become a standard arrangement with the company's large suppliers.

Pass the Decision Risk to the Party that can best Manage the Consequences

A firm will make early prosperity its drop- shipping model, which allowed it to offer more than a million products while stocking only a moderate inventory or so of the most popular brands. For the rest, the firm will forward orders to wholesalers or other subsidiaries, who then often shipped the products directly to customers using the original manufacturer's packaging. In this innovative model, organization's network of wholesalers and subsidiaries independently manage their inventories.

Shifting the Decision Risk to the Party Best Able to Bear it

Shifting the decision risk to the party best able to bear it is often an attractive strategy when no decision maker clearly has superior information. In its early years, Amazon was too small and too cash constrained to stock every single book in its catalog, whereas bigger wholesalers were well positioned to match supply with demand from Amazon and thousands of other small retailers. But for this strategy to work, the replacement decision maker's incentives must be aligned with that of organization seeking the service.

Shifting the Decision to the Decision Maker with the Most to Gain

In many business models, key decisions are made by those with less to gain than others in the chain. A company's customers, for example, often feel that they gain less when they buy a company's products than the company does. That was a problem facing Netafim, the Israeli market leader in drip-irrigation technology.

Influence of Business Innovation Models on Decision Making

When decision makers collaborate to create value, they must also be able to pursue their private objectives without damaging the value chain. Many business model innovations, therefore, come from adjusting decision makers' motivations. There are three ways of doing this (Child, 1989):

Change the Revenue Stream.

Traditionally, when the U.S. Department of Defense bought aircraft, it would agree to a time-and-materials contract, under which suppliers charged for labor and materials consumed (on a cost-plus basis) in the course of each maintenance event, just as a mechanic does for car repairs.

Changing the revenue stream to align the interests of decisions, stakeholders work best when performances can be fully and unambiguously defined. It would be difficult to set reasonable performance standards and develop appropriate metrics for, say, a new airplane that relied on advanced technologies and materials, because the unknowns involved would simply be too numerous.

Synchronize the Time Horizons.

Traditionally, sourcing relied on competitive-bidding rituals that ensured low prices and moderate but acceptable quality. The chosen provider won the business for a relatively short period of time, after which the bidding process was repeated. But as overseas sourcing increased, this model developed flaws. Far away suppliers cut corners on quality control and materials reliability.

Integrate the Incentives.

Companies without a trusted intermediary can develop contractual arrangements and management systems to focus independent agents on maximizing an agreed outcome. This is essentially what one of the most promising reforms to U.S. health care is about: Under the bundled payments system, all parties involved in a patient's treatment agree to measure performance according to the outcome for the patient. Sometimes such contractual arrangements can be so complex that it is easier to simply integrate operations.

4.0 Conclusion and Recommendations

The paper is a review on the value of innovation models in business development. The overriding motive for innovation models is the strengthening of the firm's position in the market.

The power of business model innovation can transform businesses, create new markets and unlock significant growth. Business model innovations help companies to identify growth opportunities, generate valuable ideas to deal with the customers, create new systems rules and matrices that enable companies organise itself and appoint better informed decision makers to implement business successfully.

Detecting the need for change, or finding new places to generate growth can present significant challenges for any company or organization. Having an innovation model that facilitate and promote understanding of how things change could make the difference for the long term survival of the business.

The right model should be applied to a particular business operation, but a model attempts to provide a representation that can help us understand how things work. Many companies can now improve decision making in the value chain by changing and training the people who make thing work.

Based on the above understanding on innovation models, the following are recommended.

Organizations must be encouraged to embrace innovation, in order that necessary tools can be provided to acquire new knowledge of technology. Both employees, research centers and institutions must be involved in innovation process.

The process of training and retraining of personnel must be reinforced and also allow information flows and enhanced a two-way communication channels within organizations.

The government at all levels must give adequate support to technology transfer.

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