Panel 2. Innovation & Competitiveness

In the concluding remarks of the European Council 2013, the EU Heads of State and of Government stated that "Investment in research and innovation fuels productivity and growth and is the key for job creation. Member States that have continued to invest in research and innovation have fared better in the current crisis than those that have not".[1]

With the increased globalization of the economy, the term competitiveness has become ubiquitous. But what does it actually mean? Harvard's Michael Porter states, "The only meaningful concept of competitiveness at the national level is productivity."[2] The Global Competitiveness Report released by the World Economic Forum defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country."[3] And IMD's World Competitiveness Yearbook defines competitiveness similarly, but more broadly, as the way an "economy manages the totality of its resources and competencies to increase the prosperity of its population."[4] The true definition of competitiveness is the ability of a region to export more in value added terms than it imports. A competitive economy is one with a trade surplus, few barriers to imports and limited "discounts" to exporters.

While competitiveness is almost always incorrectly equated with productivity, innovation is usually defined more accurately, although usually too narrowly. Many see innovation as only technological in nature; still others believe innovation pertains only to the research and development (R&D) activity occurring in universities, national laboratories and corporations.

The Organization for Economic Cooperation and Development properly defines innovation more broadly as "the implementation of a new or significantly improved product, process, a new marketing method, or a new organizational method in business practices, workplace organization, or external relations." Innovations can arise at many different points in the development process, including conception, R&D, transfer, production and deployment or marketplace usage.

Productivity is, perhaps, the most straightforward and easily defined of the three factors. Productivity is the economic output per unit of input. To understand the sources of productivity, it is important to understand that economies have three ways to grow in the medium and long term: growth in number of workers, growth in across-the-board productivity and growth in the share of activity in high-productivity industries.

Spurring innovation can help productivity and competitiveness. And innovation means that future goods and services will not only be cheaper, but better.

The bottom line is that nations need to have well-articulated and distinct strategies addressing competitiveness, innovation and productivity. No single strategy can effectively address all three factors. The EU's innovation policy therefore aims to create framework conditions that favour innovation and allow bringing ideas to market. Innovation is the only means of tackling the major societal challenges such as climate change, scarce natural resources and an aging society, while fostering jobs and growth.

We hope to raise your interest in this debate: Which one is more important- competitiveness, innovation or productivity in the process of setting up development strategies and tailored policies to ensure a better life for more people?

We welcome papers, research notes, comparative studies that discuss the above-mentioned ideas or/and are oriented towards analyzing:

- the need to invest in R&D and in people, as main condition to achieve a knowledge-driven competitiveness;

- the importance of reforms, such as: structural change for more knowledge–intensive European economy, support research excellence and knowledge circulation, renewal of firm structure by high-growth innovative enterprises, upgrading established industries for competitiveness and jobs;

- the acceleration of the development of a sustainable, competitive, innovative and inclusive information society;

- the renewal brought about by innovation for growth and jobs.

In particular, we are encouraging submission of interesting stories/ case studies of success coming from SME representatives illustrating their "struggle" to become more competitive and to be able to constantly innovate.

1 Máire Geoghegan-Quinn - Commissioner for Research, Innovation & Science, from 2010-2014

2 Michael E. Porter, "The Competitive Advantage of Nations," Harvard Business Review, March 1990,
http:// hbr.org/1990/03/the-competitive-advantage-of-nations/ar/1

3 Klaus Schwab, "Global Competitiveness Report 2012- 2013" (World Economic Forum, September 2012),
http://reports.weforum.org/global-competitivenessreport-2012-2013

4 Atkinson, R.- *Competitiveness, Innovation and Productivity: Clearing up the confusion*, Aug.2013,
http://www2.itif.org/2013-competitiveness-innovation-productivity-clearing-up-confusion.pdf

What do we actually mean by innovation? The answer is not as easy as one may think when first facing the question. Innovation comprises of two parts, the generation of an idea or invention and the fruitful commercialization of the invention/idea (i.e. innovation= invention + exploitation).

In looking at the multiplicity of meanings given to innovation, it is possible to distinguish a number of characteristics:

- Innovation as creation (invention): The focus is on use of resources (people, time and money) to invent or develop a new product, service, new way of doing things, new way of thinking about things.
- Innovation as diffusion and learning: The focus is on acquiring, supporting or using a product, service or ideas.
- Innovation as an event: The focus of attention here is on a discrete event, such as the development of a single product, service, idea or decision.
- Innovation as change (incremental or radical): Innovation enacts change. Some innovations are minor adjustments whereas other innovations are radical or discontinuous in nature.
- Innovation as a (firm-level) process: here, innovation is not a single act, but a series of activities that are carried out by a company to lead to the production of an outcome (namely, the innovation).
- Innovation as a context (region, nation, etc) level process: This view sees innovation as an act beyond the limits of an individual or company. The view integrates the institutional frameworks, socio-political networks and proximal factor endowments as important factors in the act of innovation. The focus is switched from the company to the peculiar endowments and characteristics of a specific context (region, nation, etc).

It is clear from the above that innovation is a broad term. The term is often loosely used and is ascribed to a variety of meanings. Scrutiny of the multiplicity of meanings allows two observations worthy to be made.

Innovation can be seen as a value-adding process, as well as an outcome. As a value-adding activity, innovation is an enabling process. As an enabler, innovation is the capacity of the process of adding value to any specified activity or outcome. Being an outcome, innovation embodies the "value-added" in products, services, thoughts and behaviours.

The World Economic Forum's Global Agenda Council on Social Innovation, an advisory body of leading practitioners, think tank leaders and academics, defines social innovation as "the application of innovative, practical, sustainable, market-based approaches to benefit society in general, and low-income or underserved populations in particular". Social innovation means being more strategic, more ambitious and more collaborative in how access and opportunity can be provided for billions of low-income people to participate in the global economy.

What distinguishes social innovation from these traditional approaches is the pursuit of societal challenges in ways that create tangible business benefits. While those methods and approaches can vary, social innovation strategies share certain characteristics:

– They are directly aligned with the company's innovation agenda and business strategy.

– They leverage a company's core for-profit assets, such as human capital, value chains, technology or distribution systems.

– They are increasingly managed from within a company's core operations or business units. [1]

WHAT IS MANAGEMENT INNOVATION?

Management innovation involves the introduction of novelty in an established organization, and as such it represents a particular form of organizational change. In its broadest sense, management innovation can be then defined as *a difference in the form, quality, or state over time of the management activities in an organization, where the change is a novel or unprecedented departure from the past* (Hargrave & Van de Ven, 2006; Van de Ven & Poole, 1995: 512). On the basis of this high-level definition, we have identified four distinct perspectives on management innovation in the literature. These four should be seen as the dominant perspectives around which research clustered in the past, rather than as theoretically comprehensive in terms of the domain that they cover. *Four Perspectives on Management Innovation:*

- *Institutional perspective* – The institutional perspective measures innovation in terms of the discourse around particular ideologies and also at the level of specific practices or techniques. It gives no direct consideration to the role of human agency in shaping the process; instead, it focuses on the preconditions in which an innovation first emerges and then the factors that enable industries to adopt such innovations.

- *Fashion perspective*- The fashion perspective spans the macro and micro levels of analysis, with a concern both for the industry that supplies new management ideas and for the behavioral reasons why individual managers choose to buy into those ideas. Management fashions can exist as abstract ideas or rhetorics, or as specific practices or techniques.

- *Cultural perspective* – Proponents of the cultural perspective attempt to understand how management innovation shapes, and gets shaped by, the culture of the organization in which it is being implemented. It operates at the meso level of analysis by looking at how individual attitudes toward management innovation interact with the organization level introduction of the innovation.

- *Rational perspective* – The rational perspective builds on the premise that management innovations are introduced by individuals with the goal of making their organizations work more effectively.

[1] http://www3.weforum.org/docs/WEF_Social_Innovation_Guide.pdf
Social Innovation – A guide to achieving corporate and societal value; Insight Report – World Economic Forum, February 2016;
[2] Julian Birkinshaw, Gary Hamel, Michael Mol – Management Innovation, Academy of Management Review, 2008, vol. 33, no. 4, 825-845