

# Strategic Innovators

Feb-April 2008, Volume 1 Issue 3

www.iipmpublications.com

Rs.100



***Understanding radical transformations in contemporary strategic philosophies***

## Questioning organisational entropy

### INSIDE THIS ISSUE

- 08 MIRAGE AT THE BOTTOM OF THE PYRAMID: ANEEL KARNANI  
PROFESSOR OF STRATEGY, UNIVERSITY OF MICHIGAN
- Proving why C. K. Prahalad's theory of wealth at the bottom of the pyramid is based on weak fundamentals
- 14 INNOVATION JOURNALISM AS A DRIVER FOR ECONOMIC GROWTH: DAVID NORDFORS, STANFORD UNIVERSITY
- Understanding the 'innovation' needs of your target audience is the most critical strategic tool for media
- 20 INCUBATOR FIRM FAILURE OR GRADUATION: ROTHARMEL & THURSBY, NATIONAL BUREAU OF ECONOMIC RESEARCH, US
- A critical perspective on whether university linkages prove strategically healthy for global corporations
- 38 E-COMMERCE WEBSITES: THE CUTTING EDGE STRATEGY KEY: PROFESSOR MAHARANA, DE ANZA COLLEGE, CALIFORNIA
- What do you do when you want to make a difference with your web designs. A radical school of thought...
- 70 THE BUSINESS STRATEGY KEY: JUAN JOSE PESO VINALS, PROF. OF MARKETING, INSTITUTO DE EMPRESA, MADRID
- Explaining why positioning, segmentation and targeting form the critical three-pronged tool for a firm

# Contents

## Strategic Insight



20 14

**David Nordfors**  
 Founder & Program Leader, Innovation Journalism, Stanford University



34

**Dr. Luis F. Brunstein**  
 Professor, Dept. of Economics, Rowan University, New Jersey



56

**Ronald J. Burke**  
 Professor Emeritus of Organizational Behaviour and Industrial Relations, York University



70

**Juan José Peso-Viñal**  
 Professor of Marketing, INSTITUTO de EMPRESA Business Schools

**Mirage**  
 at the Bottom of the  
**Pyramid!**

**8**

**Aneel Karnani**  
 Associate Professor, Ross School of Business, University of Michigan

### Innovation Journalism as a Driver for Economic Growth 14

Whether you call it a horizontal newsbeat or a mindset within traditional newsbeats, the truth is that Innovation Journalism has arrived... and is here to stay!

### Incubator Firm Failure or Graduation? 20

University linkages are often considered healthy for the incumbents. However, this

fact is not wholly true. A strategic perspective about the kind of relationships that should exist

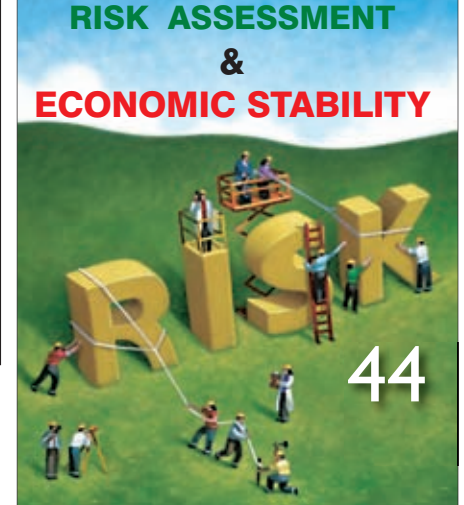
### E-commerce Websites: Cutting Edge Through Web Designing 38

In the midst of the existing clutter of web-designs, there's more than innovation needed to make your efforts count and you Website stand out


### 34 RETAIL BRANDING



### RISK ASSESSMENT & ECONOMIC STABILITY



# Innovation Journalism as a driver for Economic GROWTH



Whether you call it a horizontal newsbeat or a mindset within traditional newsbeats, the truth is that Innovation Journalism has arrived... and is here to stay!



**David Nordfors**

*Founder & Program Leader, Innovation Journalism, Stanford University*

**J**ournalism and mass communication have been overlooked within the studies of innovation, both among researchers and those who set policy. The paradox: if innovation researchers and policy people don't think journalists are important enough to talk about them, why are they eager to talk with them?

This serious conceptual flaw neglects to explain and improve the way innovation happens in society. Journalism is potentially just as important for innovation economies worldwide as it is for democracy.

Both sides have been blind: innovation has been overlooked equally by journalism. The concept of 'Innovation Journalism' did not exist until I coined it in 2003. In October 2003 a Google search on 'business journalism,' generated 18,400 hits, 'technology journalism' generated 5,120. 'Innovation journalism' had zero hits, except those stimulated by my activities with VINNOVA, the Swedish Government. Since then, much has happened. In these past months, the importance of the Innovation Journalism concept has been stressed by policy makers and journalists alike. The European Commissioner for Science and Research, Janez Potocnik, delivered a prepared 12-minute speech exclusively about Innovation Journalism (*Potocnik 2007*). The European Journalism Center, an independent, international, non-profit institute dedicated to the highest standards in journalism, primarily through the further training of journalists and media professionals, organised a conference on innovation journalism (*EJC 2007*). The concept of Innovation Journalism is becoming integrated into the European innovation ecosystem.

In March 2007, Innovation journalism

was a featured topic at the First the Global Summit on Innovation and Intellectual Property Rights, in New Delhi, organised by CII – the Confederation of Indian Industry – and the US National Academy of Science. The concept of Innovation Journalism has particular potential in India, the world's largest democracy, where freedom of thought, speech and action is at the core of its bullish, emerging innovation economy. It is also a major market opportunity in India, where the news media's economic growth is now in double digits in terms of readerships and revenues, driven by increasing literacy. This is attracting top-talent to the news

**It wouldn't be wrong to assume that perhaps the next 'BBC World' will be from India.**

media, able to penetrate and cover complex issues, like innovation, in ways that appeal to readers. Considering all this, it wouldn't be wrong to assume that the perhaps the next 'BBC World' will be from India.

The Stanford/VINNOVA program 2003 was the first time that public innovation policy in the world included the role of journalism as an independent actor in innovation ecosystems. In doing so, it added the media as a fourth strand to the "triple helix" model of innovation systems, where the three strands represent the co-evolution between business, universities and government. It is the starting point for public innovation policy to approach the attention economy, and the concept of the innovation communication system.

## **What does 'Innovation Journalism' really mean?**

Innovation Journalism (*Injo*) is journalism covering innovation. It covers innovation processes and innovation (*eco*)systems. Traditional newsbeats such as business, technology, science and political journalism look only at certain aspects of innovation processes & ecosystems. Innovation is treated as a topic within each beat, and the bigger picture is chopped up to fit a specific news slot, usually technology or business journalism.

Injo identifies & reports on issues in the innovation ecosystems, such as emerging concepts, the interaction between the main actors, or what is happening in innovation value chains. It spans themes such as science & technology trends, IP issues, finance, standardisation, industrial production processes, marketing of new technologies, radical business models, politics, cultural trends, social impacts and more. In short, it is a 'systemic approach' to journalism, examining the entire process, and therefore becomes much more than the sum of its parts.

## **Introducing Injo**

More people are involved in innovation and understand its importance. There is also sufficient money in the innovation industry. Many policy makers are working on innovation, and it has become a key word in society. In addition, enough research is being done in innovation for it to be a fruitful field for reporting and a lucrative field for publishing. While this enables Innovation Journalism as a newsbeat, it overlaps established beats – mainly business & technology. Today, innovation is seen as a component of these

beats, and the vertical organisation of the traditional newsroom makes it difficult to bridge them.

A study by Nordfors, Kreiss and Sandred (2005) study looked at how journalism in Sweden covers innovation, by interviewing editors from 20 publications across business, technology, science and daily news. It showed that many editors today, consider innovation synonymous and parallel to invention. Of those who distinguish between innovation and invention, many do not know where best to place it in their publications because it falls between business and technology. Of those who do know, most do not even understand how the stories relate to their readerships and thus do not comprehend their readers' news needs.

### Innovation: Indeed the modern keyword for news

Journalism covering innovation is not new. But calling it 'innovation journalism' is. Calling it by a name of its own is important, it makes it possible to discuss best practices, and for people who are interested in it to interact. This applies, for example to the interaction between journalists and communicators. The potential is large, comparable to other news areas with effective communicator-journalism working relations, ranging from sports to politics.

To become a news section, 'innovation' needs to be a key word for news, with the status and coverage of business, technology, cars, or lifestyle in general – each, in many media, the subject of separate 'working' beats or segments. News-bureau material is important for publications that subscribe to news feeds carrying certain keywords. Innovation is not a generally accepted keyword with bureaus such as Reuters nor for press-release distributors such as PR Newswire. So publications cannot subscribe to 'innovation' news feeds, making it costlier to create an 'Innovation' news section. Publishers' and broadcasters' marketing departments are unfamiliar with innovation systems. For example, it is easier to find address lists for biotech engineers or venture capitalists than to find lists for people who live on biotech innovation. Without the address lists, it is

difficult to profile media consumers and measure their response to news, in turn making it more difficult to select news angles and attract advertisers.

### Innovation and Innovation Systems

Innovation and Innovation Systems are key concepts that need to be understood and explained.

**Innovation:** 'Innovation' is often confused with 'invention.' Not surprisingly, they are closely related, for even dictionaries list them as synonyms. Be wary of possible mix-ups in economical or policy related issues, where they stand for different

## Many editors today, consider innovation synonymous and parallel to invention

things. To invent is to create something new. A successful invention may be, for example, connects that function effectively under the right circumstances, to the inventor's pride. To innovate, on the other hand, is to implement something new. Connectors that only the inventor can handle are not an innovation. They become innovations only when turned into generally and wholly useful products or well-acceptable processes.

Inventions and innovations also differ under business definitions: inventing costs money but innovating generates money in successful cases. Consider the differences between innovation and invention. The words are similar, so mix-ups may go undetected or may generate different interpretations of important remarks, almost like a romantic comedy. Consider two important definitions of 'innovation,' worth recapitulating when addressing journalists or other communicators involved in Innovation Communication.

The OECD (1995) defines technological innovation in the Oslo Manual's guidelines on measuring innovation: "Technological product and process (TPP) innovations comprise implemented, technologically new products and processes and significant

technological improvements in products and processes. A TPP innovation has been implemented if introduced to the market (*product innovation*) or used within a production process (*process innovation*). TPP innovations involve scientific, technological, organisational, financial and commercial activities. The TPP-innovating firm is one that has implemented technologically new or significantly technologically improved products or processes during the period under review." Notably this definition stresses implementation, i.e. the difference between innovation and invention already noted. It is and will remain a crucial distinction.

**Innovation Systems:** Innovation processes touch everything from science and technology to finance and marketing. The Innovation System involves participants from all these fields participating in the process of transforming ideas into marketed services or products. An Innovation System includes R&D, manufacturing and marketing organisations, large and small companies, universities and institutes, public authorities, government, lawyers, patent offices, etc. Each of these competence areas increases the value of the innovation by refining its contents or bringing it closer to the consumer. Chris Freeman (1987) coined the concept National Innovation System in the 1980s, defining them as "the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies". Other researchers followed, for example Bengt-Åke Lundvall, who looked deeper into the theoretical aspects of National Innovation Systems (Lundvall 1992). In 1997, the OECD published "National Innovation Systems", an overview of the interactions



underlying technological innovations which gained acclaim on the national scale (OECD 1997).

Michael Porter claims that the national business environment in an innovation-driven economy, the most advanced and prosperous form of economy, is characterised by a large degree of interaction in regional clusters (Porter 2003). Porter says that sophisticated company strategies in innovation-driven economies require, among other things, a skilled workforce, improved infrastructure and more advanced research institutions. Sophisticated company strategies require increased access to better information.

Can journalism therefore better inform company strategists? This is disputable. But journalism is indisputably a regular component of corporate communication strategies. So journalism with high penetration into an innovation-system is an important factor in how the participants position themselves in this system. Looking at Regional Innovation Systems, William Miller is inspired by ecological systems when he describes favourable environments in innovative regions as 'habitats' for innovation and entrepreneurship (Lee/Miller/Gong-Hancock/Rowan 2000). The habitat combines physical, legal and social mechanisms that accelerate product development and inter-organisation learning about both technical and business issues, helping the region adapt to waves of innovation and adjust to economic cycles.

Apart from National Innovation Systems and Regional Innovation Systems, one can also identify Sectoral Innovation Systems, defined as "the set of heterogeneous agents carrying out market and non-market interactions to generate, adopt and use (*new and established*) technologies and to create, produce and use (*new and established*) products pertaining to a sector ("sectoral products")" (Breschi/Malerba 1997, see also Malerba 1999). This differs from the traditional 'industrial sector'. An industrial sector consists of industrial companies doing similar things: construction, services, production. A Sectoral Innovation System encompasses a wide variety of organisations, diverse in

character and output, but jointly creating an innovation value chain in some specific area, for example in biotechnology. Again, we see a strong differentiation between 'vertical' and 'horizontal' interests, between isolated clusters involved in similar activities and systemic phenomena with common needs.

People working in Innovation Systems want to know what is going on around them. If news is spread to their peers, they want to be informed, too. People want to see what other people see. This creates a market for Innovation Journalism news that in turn opens up possibilities for companies to position themselves much more effectively.

### Innovation as an effective driver of economic growth

Innovation Systems are fundamentally important for economies. Today, all developed industrial economies stand or fall by their industries' abilities to commercialise emerging technologies. Innovation success brings growth and development; failure brings stagnation and decay. Industries and industrial economies that cannot innovate will not survive.

Traditionally, economic growth is stimulated by increased labour or capital input. If more people work longer or more

### Journalism is indisputably a regular component of corporate communication strategies

capital is invested, an economy's GDP grows manifold. Growth can also originate from increased productivity. Productivity increases if people work more effectively or on something more valuable. Increased productivity can come from re-structuring – switching from one known practice to another – or innovation. In many countries, innovation is the most important economic driver. The so-called MFP/TFP – Multifactor Productivity or Total Factor Productivity – measures the joint influences on economic growth of technological change, efficiency improvements, returns to scale, resource

reallocation and other factors. Innovation is arguably a major part of MFP, which grew constantly during the second half of the 20<sup>th</sup> century. In the US, MFP has doubled since 1948. In the majority of OECD countries, worker productivity grew more than worker populations from 1995 to 1998, though each worker worked fewer hours. In many OECD countries, MFP has become a more important driver of labour productivity than higher capital per worker (OECD 2000). So increased productivity, not capital or labour input, drives growth. If the MFP represents innovation, most OECD countries have upgraded their economies from investment-driven to

#### Joseph Schumpeter (1934) defined innovation as:

- Bringing a new product to market;
- Introducing a new method of production;
- Initiating a new market;
- Opening new sources of supply of raw materials or half-manufactured goods;
- Creating a new organization of industry.

innovation-driven. Nations depend on innovation, especially in Europe and the USA where populations are aging, creating a situation in which labour growth will be negative and capital growth will probably not be sufficient to sustain GDP.

Some countries with shrinking labour output per capita can perhaps compensate by increased output of natural resources, or improved handling of finances. In general, they will need to invest in innovation.

At the EU Lisbon Summit (March 2000) the European Union embarked on a strategy to make Europe the world's most competitive innovation- and knowledge-based economy by 2010 – the "Lisbon Process." In 2004, the Council on Competitiveness, a forum including presidents of major U.S. corporations and universities, published the "National Innovation Initiative Report" (Council on Competitiveness 2004) for US leadership

in the global marketplace, technological innovation and education, targeting U.S. political decision makers. So innovation to generate economic growth will increase and must be integrated into public discussion. Business journalism teaches the relationships between interest rates, currencies and stock prices. Innovation Journalism is needed to enhance public debate by generating more common knowledge for all and thorough understanding of productivity and innovation issues, including how innovation affects national economies and how to become more and more productive. This has been recognised by EU commissioner for Science and Research, Janez Potocnik, in his recent speech about the importance of Innovation Journalism (2007). The EU Lisbon Process has not been living up to benchmarks and risks failure, due significantly to the structural inability of the news media to cover innovation issues, thus lowering the priority of innovation issues in the daily work of politicians and other public decision makers.

### The Role of Journalism in Innovation Systems

The identity of a community is closely connected to the common stock of knowledge shared by the community members. A successful Innovation System depends on interaction and shared knowledge between different professions—engineers, business executives, academics and politicians. Innovation Systems are not always conscious communities. The media can thus play a major role in catalysing the growth of shared common knowledge and the subsequent collective identity in Innovation Systems. Many who read a news item see the new knowledge confirmed when others discuss it, especially if the information is not referred to a single source or is repeated in a different news medium. Such news is more likely to be accepted as fact, for good or bad.

News media tell readers more than “This has happened!” They say: “This has happened. Now you know that everyone else knows!” and “This is how people are reacting.” Public announcement of shared knowledge affects societies and markets.

As many communications executives know, media news about their organisations may inform their own employees more effectively than the company newsletter. Employees at all levels from top to bottom want to see what is said about their company in news media read, viewed or heard by people outside their organisations. They also want to know more: not just what happened, but what it means in terms of future effects.

On a very basic level, journalism introduces ‘neologisms’ - new words and expressions - into communities, which enables them to collectively discuss and act on issues. “Neologism”, according to the dictionary (*Wikipedia, May 2007*), is

### Injo is needed to enhance public debate by generating more common knowledge for all

“a word, term, or phrase which has been recently created (“coined”) – often to apply to new concepts, to synthesise pre-existing concepts, or to make older terminology sound more contemporary. Neologisms are especially useful in identifying inventions, new phenomena, or old ideas which have taken on a new cultural context.

The term e-mail, as used today, is an example of a neologism. “Neologisms often become popular by way of mass media, the Internet, or word of mouth.” “Every word in a language was, at some time, a neologism, though most of these ceased to be such through time and acceptance.”

I have suggested together with Turo Uskali, that neologisms are central for innovation, and that journalism is indeed central for introducing them, using the following intuitive arguments:

1. Innovation is the introduction of something new;
2. In order to introduce something, it needs to be communicated;
3. Communication requires shared language;
4. New things need new words or word combinations to be a part of the

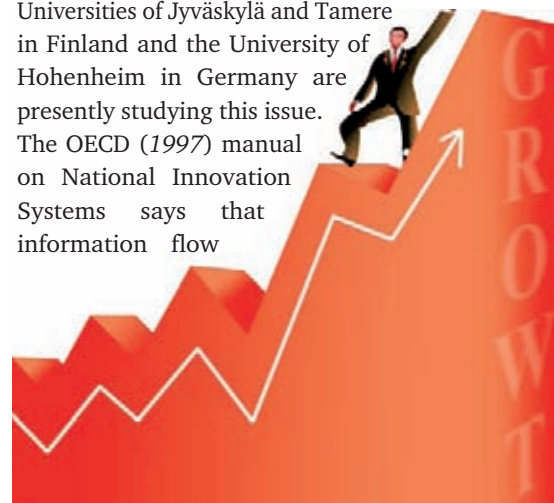
language;

5. The news makes/spreads the new words to us so that the new;
6. Things can be included in our language, discussed and introduced;
7. Therefore, Journalism enables modern society to discuss newer things and introduce innovations.

This applies for all journalism covering innovations. Injo –journalism about innovation processes and ecosystems – is a special case. It introduces language for how innovation happens. So innovation journalism enables society to discuss innovation processes, so that society can improve the rate of innovation. Journalism about how society innovates can drive innovation even more than the journalism about the innovations themselves. An example of this is the expression “Silicon Valley”, originally introduced to the broader public by journalist Don Hoefler (*Uskali Nordfors 2007*), which grew to represent a certain model of an innovation ecosystem, which spread all over the world.

Enormous resources in time, money and effort are spent to influence media content. Obviously, the media can set the discussion agenda like no other force, affecting decisions, careers and brand values. For innovation – introducing something new on the market – the importance of the news is obvious. While journalism’s role in political systems is widely examined, less academic knowledge exists on the role of journalism in economic systems, while journalism’s role in innovation has rarely been addressed by academic research before Nordfors (2004).

Apart from the Sweden–Stanford initiative, researchers at Saïd Business School at Oxford University, the Universities of Jyväskylä and Tamere in Finland and the University of Hohenheim in Germany are presently studying this issue. The OECD (1997) manual on National Innovation Systems says that information flow



among people, enterprises and institutions is key to innovation, in tandem with technology flow. This illustrates the urgent societal need for Innovation Journalism. A big step forward was taken in 2006, when a group of 11 researchers presented an essay with the title “Innovation Journalism: Towards Research on the Interplay of Journalism in Innovation Ecosystems” (Nordfors Ventresca et al, 2006).

### Innovation Systems: Markets for Innovation Journalism

Innovation Systems create value. Some people in those systems get rich by knowing who needs what, who said what about whom, what is ‘cooking,’ what to avoid. With this in mind, Innovation Systems should generate good readerships for Innovation Journalism publications. Innovation Journalism can be a component in existing news media, for example in business or technology news. But Innovation Journalism can also focus on news sources that target Innovation Systems, offering participants valuable information about each other and other issues affecting their system. National, regional and sectoral Innovation Systems offer potential target audiences for Innovation Journalism.

National Innovation Journalism must focus on issues of national concern, targeting the National Innovation System. Presumably, potential groups of news consumers work with finance, law, national economy, academics, public policy and multi-national companies. The attention of the market forces in innovation-driven economies must follow economies’ shift from finance to innovation as the dominant driver of economic growth. As suggested earlier, in investment-driven economies, investments drive innovation whereas in innovation-driven economies, innovation drives investment. Market leaders shift attention from finance to innovation or pass market leadership to entities that do. This process started decades ago and will continue to evolve.

Regional Innovation Journalism serves Regional Innovation Systems. Since regional innovative clusters drive the National Innovation System, as shown by

Porter and others, there is a societal need and a market for Innovation Journalism not only in national and international news media but also in local news serving an innovative region. Regional innovation journalism is a potential major market for Innovation Journalism, due to potentially large numbers of market and work opportunities for innovation journalists. Regional innovation areas have been identified worldwide, with Silicon Valley as a notable example.

### How to start an Innovation Journalism Publication

Biotech Sweden is probably the first Swedish publication started with the goal of being a Sectoral Innovation Journalism Publication, though ‘Innovation Journalism’ was then unknown. Instead of targeting bio-technicians, Biotech Sweden targeted those who earned money on biotech innovation. Founding editor Jan Sandred described the process (Sandred 2005): mapping and targeting the Swedish biotech Sectoral Innovation System as its readership, offering technical, business, legal & political aspects of biotech innovations & innovation System.

Biotech Sweden debuted on April 9, 2002. The first issue set an IDG Sweden record for highest ad/editorial ratio – above 40% – of any of its launches. Biotech Sweden was also IDG Sweden’s fastest growing magazine in 2003. Revenue growth was achieved in an otherwise poor ad market. The November 2003 issue was the largest biotechnology magazine ever produced in Sweden, with 96 pages. In Q1 2004, Biotech Sweden increased revenues by a record 125.6%, proving the commercial potential of Sectoral Innovation Journalism. By showing that Sectoral Innovation Journalism is commercially viable & by succeeding, Biotech Sweden showed that the Sectoral Innovation readership can be personified!

That meant that people working in Sectoral Innovation Systems have common interests and want shared knowledge, indicating that a Sectoral Innovation System can have a common identity, which clearly would be the requirement for a self-conscious community. ●

### References

1. Breschi, Stefano;/Malerba, Franco (1997): *Sectoral Systems of Innovation: Technological Regimes, Schumpeterian Dynamics and Spatial Boundaries*, in: Edquist, Charles (Ed.): *Systems of Innovation: Technologies, Institutions and Organisations*, London.
2. Council on Competitiveness (2004): *The National Innovation Initiative Report*. Available at: [http://www.compete.org/pdf/NII\\_Final\\_Report.pdf](http://www.compete.org/pdf/NII_Final_Report.pdf)
3. Freeman, Christopher (1987): *Technology and Economic Performance: Lessons from Japan*, London.
4. Lee, Chong-Moon/Miller, William F./Gong-Hancock, Marguerite/Rowan, Henry S. (Eds.) (2000): *The Silicon Valley Edge – A Habitat for Innovation and Entrepreneurship*, Stanford (CA).
5. Lundvall, Bengt-Åke (Ed.) (1992): *National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning*, London.
6. Malerba, Franco (1999): *Sectoral Systems of Innovation and Production*, Paper presented at the DRUID Summer Conference on National Innovation Systems, Industrial Dynamics and Innovation Policy, Rebild (DK), June 9th-12th, 1999.
7. Mast, Claudia/Huck, Simone/Zerfass, Ansgar (2005): *Innovation Communication. Outline of the Concept and Empirical Findings from Germany*, in: *Innovation Journalism*, Vol. 2, No. 7, pp. 1-14.
8. Nordfors, David (2003): *The Concept of Innovation Journalism and a Programme for Developing it*, VINNOVA Information, Vol. 6, No. 5. Also published in: *Innovation Journalism*, Vol. 1, No. 1, pp. 1-14.
9. Nordfors, David (2004): *The Role of Journalism in Innovation Systems*, in: *Innovation Journalism*, Vol. 1, No. 7, pp. 1-18.
10. Nordfors, David/Kreiss, Dan/Sandred, Jan (2005): *Introducing an Innovation Journalism Index. Benchmarking the Swedish Market*, in: *Innovation Journalism*, Vol. 2, No. 5.
11. Uskali, Turo / Nordfors, David (2007): “The Role of Journalism in Introducing the Metaphor ‘Silicon Valley’” presented at *The Fourth Conference on Innovation Journalism*. <http://www.innovationjournalism.org/ij4/presentations/turouskalidavidnordfors.pdf>.