

Management Analysis and Innovation Management Model

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ABSTRACT

Today innovation has become a matter of survival for you to organize them. Those who do not seek to innovate in their products or services are destined to lose their market share or even go bankrupt. Aware of this condition, organizations begin to use the methodology called Lean Startup, created primarily for startups. However, it has been observed that organizations that try to use this methodology face a kind of disorganization and create something called "innovation theatres", where great projects are idealized, but it is not possible to deliver any substantive change to a product or service. To reverse this scenario, Steve Blank indicates the use of two corporate strategies in conjunction with the Lean Startup methodology in order to accelerate the innovation process in mature companies, what he calls the model of Lean Innovation Management. The objective of this article, besides pointing out what is Lean Management, is to argue that the adoption of this model in organizations will only be successful if the agile methodologies (which support it) are not considered just an innovation in the process of software development and related services in companies, but a new and competitive management strategy for organizations.

KEYWORDS: Innovation, Management, Model, Technology, Disruptive

INTRODUCTION

Innovation is seen as a powerful competitive weapon by entrepreneurs. Innovation is not only about creating something new, but the practical experimentation or the combination of existing technologies to create value to a business. This includes, in addition to the development of new products and processes, the activities of creating a new market that previously did not exist, the exploration of a new source of supply and the restructuring of organizational methods.

Companies of various natures and structures have been suffering with the dynamics of the market and the constant technological evolution, and a crucial requirement for them to remain competitive is to provide innovation. Companies, in general, have spent the last years increasing their efficiency by reducing costs. But simply focusing on improving existing business models is no longer enough to stay in the market. Most companies understand that they have to deal with external threats more and more. And to ensure their survival and growth, these companies need to seek alternative business models, and this challenge requires new organizational structures and skills.

Aware of this condition, some companies are adopting the methodology called Lean Startup.. This methodology was created essentially for nascent companies (the so-called startups), which are, by definition, temporary organizers looking for a repeatable and scalable business model. From this definition, it is clear that start-ups are extremely flexible organizations, unlike mature companies, which already run a business model, have a well defined culture and hierarchy.

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However, not all organizations are able to adapt to the Lean Startup methodology, and many of these companies suffer a kind of disorganization by creating something similar to "innovation theatres", where great projects are idealized, but it is not possible to deliver any substantive change / innovation for a product or service.

RESEARCH PROBLEM

With a focus more focused on a better understanding of the use of breakthrough innovation in mature companies (a mature company is understood as one that has a business model in execution), this work intends to investigate, from a brief theoretical treatment, the success factors of the *Management Model of Innovation*, trying to understand how it should be implemented, and the benefits of its adoption.

LITERATURE REVIEW

This chapter seeks to establish a conceptual understanding of startup (emerging company) and its difference in relation to the mature company, as well as addressing some interrelated issues such as the different types of innovation, the strategy of Uzbekistan, the model of the Three Horizons of Innovation and the methodology of Lean Startup. This literature review aims to highlight work related to the study themes without following a formal systematic method.

Difference between Startup and mature company
The concept most commonly used to define what a Startup is was coined by Steve Blank, and suggests that

— *Startup is a temporary organization looking for a business model that is repeatable and scalable*". Through this definition it is realized that this type of organization must be flexible to the point of recreating itself in search of the ideal business model.

Another definition of Startup used by Eric Ries, (2011), author of the book *-Lean Startup*", is that a *-Startup is a human institution designed to create new products and services under conditions of extreme uncertainty*". The

main point to look at in this definition is the term *-human institution*", that is, before having a product or an innovation, Startup is an intensely human initiative.

In both Blank's and Reis' definition, understand that startup is created to face an environment of extreme uncertainty due to the fact that it does not have a defined business model. On the other hand, a mature company is considered to be one that runs a business model, has a process, method, defined values, and is profitable.

Startup vs. Mature Company (Pre-IPO/Public)

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| <ul style="list-style-type: none"> • Broad scope/variety of work • Scrappiness with little cash • Small team/solo work • Limited mentorship • Limited structure/best practices • Ambiguity and frequent course corrections • Mixed bag of investors/board • Limited benefits & salary • More equity, but value unknown • Unstable • Unknown Brand | <ul style="list-style-type: none"> • Best practice/mentorship/role models • Clear direction/roadmap • Exposure to success at scale • Narrow scope of the role • May move slower • Less contemporary processes/tools • Multi-functional teams • Mature investors/board • Great benefits & salary • Limited equity, but may have real value • Sales traction and product market fit (PMF) • Brand name |
|--|--|

Types of innovation

An important source of systematizing concepts associated with innovation is that provided by the Oslo Manual (Table-1). This manual was created by the *Organisation for Economic Cooperation and Development - OECD* with the aim of guiding and standardizing concepts, methodologies and construction of statistical data and R&D research indicators for industrialized countries.

The Oslo Manual presents the following definition for innovation: -An innovation is the implementation of a new or significantly improved product (good or service), or a process, or a new marketing method, or a new organizational method in business practices, workplace organization or external relations'.

Table 1 - The four types of innovation as defined in the Oslo Manual

Type of innovation	Characteristics
Product innovation	A good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user-friendliness or other functional characteristics.
Process innovation	A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.
Marketing innovation	A new marketing method involving significant changes in product design and packaging, product placement and promotion, and/or in the pricing of goods and services.
Organisational innovation	A new organisational method involving changes in business practices, workplace organisation or external relations.

Source: OECD, [Oslo Manual](#), 2005.

According to this definition, innovation is divided into four types, as presented below:

Another definition for innovation is present in the book *"The Innovation Playbook"* (WEBB; THOEN, 2010): *-Innovation is the process of converting new ideas into value creation, whether through products, methods, services, operations or business models*'. The essential concept in this definition (other than the one present in the previous one) is the term - value creation. This concept is fundamental for the acceptance of the innovation process, since it makes no sense to create innovation if it is not to deliver value.

Joseph Schumpeter, Austrian economist and political scientist, considered one of the most important economists of the 20th century, was one of the pioneers in considering technological innovations as a factor for capitalist development. He argued that economic development is driven by innovation through a dynamic process in which new technologies replace old ones, a process he called

— *creative destruction*." According to Schumpeter, (1934), "radical" innovations engender more intense ruptures, while "incremental" innovations give continuity to the process of change.

Prof. Christensen adopts the terms of *incremental technology* and *breakthrough technology* in his book "*The Innovation Dilemma*". However, for a matter of alignment with the objectives of this work, here it is considered that the term can be approached as incremental and breakthrough innovation, because it understands that innovation is created through technological evolution **vice-versa**.

Incremental innovation

Incremental Innovation aims to improve the performance of established products, along with the performance dimensions that those regular customers have historically valued in major markets. Most innovations in certain sectors are characteristically incremental.

The objective of incremental innovation is to make the company competitive within its market segment, increasing dominance and profit margin by adding value to **existing products and services**.

Disruptive innovation

Disruptive (or disruptive) innovation creates a value proposition very different from that available until then. In general, this innovation has a lower performance than products established in predominant markets. But it contains other additional (and usually new) features and advantages of value to the customer. Products based on this type of innovation are generally cheaper, simpler, smaller and often more convenient to use.

A disruptive innovation is one that transforms a product that historically was so expensive and complex that only a small part of the population could have and use it, into something that is so accessible and simple that a much larger portion of the population can now have and use it.

The impact of incremental and breaking innovation on the market

In order to schematically contextualize how the two categories of innovation manifest themselves in the market, Christensen used the graph (Figure 1) impact of incremental innovation versus disruptive innovation to explain what happened in the "*disk drive*" industry, which can be seen in more detail in his book "*The Innovator's Dilemma*". For this study it is important to understand the dynamics of the market, using as an example the case of Netflix versus Blockbuster.

The vertical axis represents the product performance, considering that the product of both companies is the movie rental service. In the chart two dashed lines are observed, one representing the upper part of the market that contains high profit margin, and the other representing the lower part of the market. It is in the nature of an organization to provide innovation to leave the lower part of the market and reach the upper part, and this transition is achieved through the progress coming from *sustainable technologies* (incremental innovation). Consequently, this type of innovation has the natural support of the company's management, whose goal is to increase its profit margin.

In contrast, disruptive innovation is born in search of reaching the bottom of the market. In the case of the two film rental companies, Blockbuster sought to make improvements in film rental services and in the increase in the number of stores, with the objective of dominating the market with the highest profit margin. Netflix made a different and bold bet, after failing to provide incremental innovation to seek slices of the market dominated by its rival. Thus, it carried out the process of disruptive innovation with the use of *streaming video* technology. At first, with a lower profit margin, but with a higher scalability potential, Netflix soon reached the lower part of the market and later followed the demand of the upper sector of the market.

With a different and cheaper value proposition, Netflix created a new market (with new clients and with a new process) and that supplied the need of what until then existed and was dominated by Blockbuster. The resulting effect of this disruptive innovation was the extinction of the movie rental business model (see Table 1 below with the main predictions of each innovation).

The model for innovation

The lean innovation management model was proposed by Steve Blank and consists of two management strategies already presented in this work, *Organizagao Ambidestra* to execute the existing business model while the company seeks to innovate in parallel, and the other strategy is the *Harakatlar strategiyasi*, consists of separating innovation into three horizons.

These two strategies help to think and organize about the process of innovation in an organization, but they don't concern how to make innovation happen. With the emergence of 21st century tools that make up the Lean Startup methodology, it is possible to adapt these tools to make innovation happen.



Figure-1 Lean innovation model

The combination of the two strategies plus the tools present in the Lean Startup methodology, results in

- A new and lean version of the Three Horizons of Innovation;
- A startup company,
- A management model for mature companies to develop and test new ideas more quickly

CONCLUSION

- Therefore it is clear that the strategy of observing the organization through the organizational structure – *chamber of trade* - is in fact an important vehicle to keep the organization focused on executing its current business while exploring new opportunities. The introduction of the Three Horizons of Innovation strategy helps the organization to organize its innovation process. Simultaneous management of the three horizons allows you to balance and manage your business portfolio. While the opportunities of horizon 1 ensure short term results, those of horizon 2 generate medium term growth and the possibilities included in horizon 3 allow, in the medium term, the existence of long term growth options.
- In turn, through the tools of the Lean Startup methodology, the Management Model of Inovagao Enxuta gains traction to explore innovation in Horizon 2 and 3, significantly increasing the number of initiatives in a short period of time. This is due to the adoption of agile mentality, the principles and values must be part of the organizational culture in order to make the most of the methodology. It is not necessary that all areas of the organization use the same agile tool, but it is extremely important that all areas have absorbed what we can call an "agile attitude".
- Thus, it was possible to observe that *Lean Innovation Management* can be a powerful tool for mature companies to innovate. The entire organization tends to encourage and value the culture focused on innovation not only incremental, but also the adoption of disruptive innovation.

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