



**Innovation as a
KEY DRIVER
in corporate turnaround**

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Short Communication

Innovation as a key driver in corporate turnaround

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This paper constitutes a theoretical and empirical review of existing literature relevant to the subject. The emerging literature indicates that for a corporate body to remain competitive it must take higher than usual levels of risk. Though innovation is a risky business and firms facing decline must undertake product, market and process innovation in order to successfully turnaround.

Key words: Innovations, change and turnaround.

INTRODUCTION

Executives who encounter corporate distress often go through the emotional stages of denial, anger, bargaining, depression, and finally acceptance. The last stage is when most corporations hire turnaround professionals, unless they are forced to do so earlier by a lender, equity sponsor, or bankruptcy court. Corporate leaders who recognize and acknowledge the signs of trouble and get help in the earlier stages have a much better chance of a successful turnaround for their corporation. Signs of corporate distress include high employee turnover, declining profitability, failing governance structures, low morale and poor relations among employees, increasing customer complains, among others. Most businesses in distress display more than one of these external and internal signs of trouble. The businesses yield to pressure to diversify to reduce risk. However, too much diversification may cause a company to spread its managerial, financial, and competitive resources too thin. As a result, the business becomes vulnerable to loss of market share to better competition. Credit is overextended, inventories are accumulating, and fixed assets are underutilized. The introduction of better working capital policies and improved capacity utilization decisions are clearly warranted in such cases. Yet, incumbent management instead often engages in debilitating attempts to grow the company out of its problems.

INNOVATION AND CORPORATE TURNAROUND

According to Bertalanffy (1979), inventor and innovator of

thinking, developed Ludwig von Bertalanffy (LvB) general systems theory (GST) during the early 1940s. It was referred to by critics as "uncommon sense"; as it deviated from the established routines. He invented something that became innovation of culture and thinking: a worldview of holism and a general methodology supporting it.

LvB broke the rule of his and our time, in terms of Einstein's four-step method (Checkland, 1981): LvB found a real problem, as the one of over-specialization endangering survival of humankind and the planet earth, including ecological destruction (Capra, 2002). This wrong human behaviour is based on too one-sided/biased thinking resulting from reductionism and over-specialization, causing critical oversights: many specialists do not feel and apply ethics of interdependence by interdisciplinary approach (Barraba, 2004).

Secondly, LvB stopped using the established routine; he did not invent another specialized science working on another complicated issue, like the traditional sciences do with full right, resulting in both precious results and critical oversights caused by their limitations. He switched from complicatedness to complexity stemming from relations and from overseen synergies making new attributes of the wholes/entities that their individual parts do not possess alone (Christensen and Raynor, 2003).

In the third step, LvB broke the rule, the prevailing rule has kept saying, over several recent centuries, that one must specialise and specialisation is enough: the whole's

attributes were deemed equal to the sum of attributes of its parts. Systemic thinking reaches beyond this limit toward holism, and systems theory tries to follow and support systemic thinking, although not equally in all systems theories current versions. Finally, LvB developed a solution; he worked with an interdisciplinary co-operating team, his result is seminal: GST offers a bridge among many sciences and backs an array of systems theories created later on, partly to be used inside the traditional disciplines, partly to build bridges between them and to enable their co-operation. He indicated the need that humans behave like citizens of the entire world and care for the entire biosphere (Christensen, 1997); this may be understood as total holism, which is the only real holism, by definition, covering all attributes and synergies of all viewpoints without selection/reduction.

According to Dess, Lumpkin and Eisner (2008) innovation is the use of new knowledge to transform organizational processes or create commercially viable products and services. The impact of an innovation is in terms of its degree of innovativeness which is either incremental or radical: radical innovation is one that fundamentally changes the existing practice; while incremental innovation is one that enhances existing practices or makes small improvements in products and processes (Barraba, 2004). Innovativeness has been defined by Capra (2002) as the willingness to introduce novelty through experimentation and creative processes aimed at developing new products and services as well as new processes. Cho, Mathiassen, and Robey (2007) states that innovation is the key to competitive advantage, and attaining innovation often requires taking on higher than usual level of risk; yet, while managers commonly profess support for efforts in innovation, they often emphasize safe, short-term results over more risky, long-term outcomes; as a result, a major challenge to firms is increasing employees' willingness to adopt risky yet more profitable alternatives.

According to Inauen, and Schenker-Wicki, (2011) the openness of the outside-in process in research and development management is of crucial importance for achieving high direct and indirect innovation output effects. In particular, openness towards customers, suppliers and universities has a significant positive impact on the different innovation performance measures. Regarding openness towards cross-sector companies, the analysis reveals a significant negative effect on innovation performance. Johne (1999) argued that there are three types of innovation which contribute to organic business development: product innovation, process innovation and market innovation. He argues that market innovation, defined as improving the mix of target markets and how these are served provides a powerful focus for identifying new business opportunities. Examples from the field of financial services illustrate how skilful market innovation can serve to grow a

business as well as to safeguard it from attacks by competitors. A business which is serious about competing in fast changing markets with fast changing technology must make things happen, it must innovate (Capra, 2002). If a firm does not innovate, it risks being overtaken by competitors and often business underestimates the competitive challenges it faces; the risk of this happening is high when competitors react to potential challenges in much the same way (Christensen and Raynor, 2003).

According to Dess, Lumpkin and Eisner (2008) non-conventional competition has become more and more common in the once stable and regulated industries, such as insurance for example, have in recent years become fragmented by new players such as banks, brokerage firms, retailers, telecommunication and computer services firms. Many of the new entrants in the insurance industry and also in other once stable industries have used market innovation to achieve startling novel results. Varis and Littunen (2010) states that innovations are improving the success and performance of the firms; he further suggested that innovation plays a vital role in generating long term stability, growth in returns on investments, sustainable competitive advantage and profitability.

CONCLUSION

Companies achieving fast growth from concentrating on boosting sales often overlook the need for innovation. They often avoid innovation which carries very high capital investment requirements that includes significant investments in research and development, capacity building and new processes. Gradually, innovative companies gain access into their traditional markets effectively reducing sales and profitability, threatening their survival. To avoid eventual collapse, innovative ways of doing business in a cost effective manner must be adopted to drive the company back to profitability. Innovation plays a vital role in generating long term stability, growth in returns on investments, sustainable competitive advantage and profitability, hence achieving corporate turnaround.

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