Risk priority and innovator types

Innovation success through effective risk management

Conventional wisdom has it that organizations largely owe their success to a few specific factors. Some will argue that leadership holds the key. For others, the plaudits go to the company's business strategy and its execution.

However, in many cases it's surely innovation that really makes a difference. Firms that frequently deliver novel solutions and add value to the customer are better placed than most to profit and grow.

Extant literature notes various types of innovation. Of these, technological innovation often proves a real game-changer. The capacity to develop and exploit new technologies has enabled many companies to get and stay ahead of market rivals in their particular field. Apple with its iPhones, Tesla's automobiles and the pioneering sports offerings from Under Armour are among examples where technological innovation strategies have contributed markedly to brand success.

Not every story has a happy ending though. As BlackBerry can testify. The company led the way with its smartphones but was usurped when the iPhone came along. Touch screen technology introduced by Apple reduced the appeal of phones that used a keypad. BlackBerry lost market share and took a huge financial hit.

Business and risk go hand-in-hand. And various factors determine the extent of risk involved. Leadership and organizational culture are among those frequently cited. Others point to research and development (R&D) problems and poor customer orientation as potential reasons when disaster occurs.

How to manage risk

But the BlackBerry example perfectly illustrates the critical importance of managing the risks associated with technological innovation. By definition, this type of innovation is highly unpredictable. The degree of risk reflects that. Any company with serious ambitions on the innovation front should therefore make the development of an effective risk management strategy a matter of urgency.

The process will typically involve:

- thorough comprehension of the different risk factors involved;
- prioritizing these factors accordingly; and
- creating a solution tailored to the firm's specific needs.

Prior research claims that an innovative organization will be one of six different types. These have been labeled as creators, solution builders, leverages, expanders, defenders and fast followers. It is argued that innovation type will determine which particular risks factors are most salient each firm. So when it comes to developing a risk management strategy, it's important to realize that no one-cap can ever fit all.

In addition, efficient risk management relies on:

- appropriate allocation of resources based on risk priority; and
- emphasis across all the different stages of innovation from development through to beyond point-of-sale.

Some insights from the textile and clothing industry

Current studies addressing the relationship between these factors are minimal. Therefore, Kumarapeli *et al.* (2023) further investigate using qualitative and quantitative data. The work includes examining relevant literature in order to ascertain the defining characteristics of each innovator type. Similar research considering different industries identified 14 risk factors associated with technological innovation. Experts subsequently confirmed that these risks factors are prevalent within the textile and clothing sector.

Initial analysis of textile and apparel firms confirms that salience of risk factors varies by innovator type. It is also evident that each phase of the innovation process requires different levels of consideration where risk management is concerned. One significant conclusion from this is that efforts to develop risk management strategies must proceed on the assumption that technological innovation and innovation type are closely affiliated.

Several of the risk factors identified are or should be top priority for all innovator types. It is thus crucial for companies to be aware that:

- innovations might become redundant sooner than expected due to changing customer demand and other risks largely beyond the firms control;
- intellectual rights associated with an innovation must be adequately protected;
- decline in key organization strengths could have a negative impact. Leadership, human resources and brand salience are some examples; and
- efficiency in communication and project organization help to reduce risks in the research and development (R&D) process.

Obviously, having effective mechanisms in place to help better manage risk is another factor common to all innovator types. Investment, alignment with the company's development plan and an onus on learning from experience are seen as key aspects here.

The significance attached to other risks differs due to the characteristics and aims of each innovator type. Strong innovation ability is a defining feature of creators. Such firms can minimize key risks by ensuring that:

- relevant capabilities needed to advance the creative idea are in place;
- development, execution and output process stages are properly coordinated;
- they remain cognizant of threats posed when new technologies surface; and
- information resources are accurate.

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Solution builders boast in-depth knowledge of their customers and aim to meet their needs through innovative offerings. This objective is likelier to be achieved if these companies control risks associated with:

- ineffective commercialization, such as poor market positioning; and
- developing an innovation without sufficient consideration of customer information.

As with creators, having essential capabilities is also important. The authors also point out that areas where a company has more control tend to be seen as lower risk priorities. Amount of technical prowess and material resources are regarded as such for solution providers.

Creating and exploiting a superior business model is what define leveragers. Therefore, an innovation is placed at risk if they fail to acquire enough customer feedback or information on market rivals and their alternative offerings.

As the name implies, entering related markets is a core purpose of expanders. Risks previously mentioned with other innovator types are predominant for these firms. Hence, managing risks associated with organizational strengths, technological developments and customer feedback must head the agenda.

Similar comments apply to risk priorities of defenders, who focus on innovation to maintain an edge in areas where they are already strong. In light of this, ensuring the flow of information remains relevant and accurate is essential.

Risks associated with lack of information precision are also uppermost for fast followers. This is vital to their aim of using their capabilities to act quickly and provide customers with superior alternatives to what is currently available to them. As already noted with some of the other innovator types, control of risk associated with R&D issues and key organizational strengths is also imperative.

In essence, Kumarapeli *et al.* (2023) provide companies in the textile and clothing industry with a framework for ranking the different risks identified in prior work based on their innovator type. Armed with such knowledge, the focus of these firms can shift from alleviating risks to preventing them in the first place. This is possible for companies in this sector around the world, although the authors do concede that priority strength may vary in certain contexts. Differences in decision-maker expertise and levels of information accuracy are possible explanations for this.

Keywords:
Risk management, Innovator types, Technological innovation risk factors

Comment

The review is based on: "Development of a risk model for different innovator types in textile and apparel industries" by Kumarapeli, U., Ratnayake, V. and Jayawardana, S. S., published in *Research Journal of Textile and Apparel*.

Reference

Kumarapeli, U., Ratnayake, V. and Jayawardana, S.S. (2023), "Development of a risk model for different innovator types in textile and apparel industries", *Research Journal of Textile and Apparel*, doi: 10.1108/RJTA-10-2022-0122.