

Models of Innovation:

Startups and Mature
Corporations

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The Central Idea

- Published in 2007;
- The innovation process occurs in two ways:

Corporate
Model



Entrepreneurship
Model



What are the similarities and differences between them

Concept

Important Concepts

- Innovation refers to a process that begins with a novel idea and concludes with **market** introduction;

Innovation \neq Invention



Corporations



Existing firms that are older and usually larger



Startups



Firms recently started by entrepreneurs

difference

Corporations x Startups

Corporate
Model

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Entrepreneurship
Model

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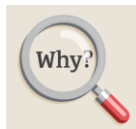
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Fail at
higher
rates



questioning

- Why aren't opportunities always absorbed into the existing industrial structure?
- Why don't the big companies just take them all?



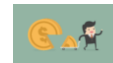
Innovation process

Innovation Process

- The managerial and structural advantages that **established companies** have are the bases of their disadvantages as well;
- Central elements:

Mobility of
resources

Alignment of
incentives



mobility

Mobility of Resources

- Risks are accentuated;
- Prolonged and difficult to predict **product life cycles**;
- Demand is difficult to predict:

Existing resources allocations are
likely to dominate.

incentive

Alignment of incentives

- Under such conditions of risk, the people involved in pushing innovations forward are often put in a position of **risking much in personal terms for unclear payoffs**.



Extraordinary risks are
complemented by extraordinary
rewards when entrepreneurs
succeed

corporation

Alignment of incentives

- In corporations, such extraordinary rewards go against the **norms of equity**.



Innovators often do not benefit innovators in ways that match their risk exposure

slow innov

Factors that slow the innovation process

- In mature corporations this factors can slow innovation:

Mobility of resources

Alignment of incentives

- Than entrepreneurs start and grow new companies;
- Their challenge is to proceed with sufficient celerity to achieve scale and operating efficiencies that will make the young company viable and competitive when the mature corporation are ready.



accelerate

Factors that accelerates the process



- **Venture capitalists:**
 - a class of professional investors who invest relatively large sums of funds as managers and fiduciaries on behalf of others;
- Play an important role in the innovation process:
 - they encourage rapid growth;
 - assist entrepreneurs in focusing attention on building value;
 - are a source and evaluation of investment opportunities;
 - impose an established deal structure framework;
 - develop and maintain social networks.

Success bring

What success brings

- More attention is drawn to the young company;
- Such attention draws competition both from **other startups**, imitating the innovator, and from **existing mature corporations**;
- Nothing breeds competition faster than success.



Replacement entre

What success brings

- Earlier replacement of entrepreneurs by more experienced top managers;
- Due to the rapid increase in problem complexity;
- Managerial work requires more sophisticated skills;
- An entrepreneur capable of managing a company when it has twenty employees may be incapable of managing that company when it has two thousand employees.



Conclusion

- These processes of growth include a transition in the company itself, including:
 - business systems;
 - organizational structures;
 - highly trained managers;
 - organization built for efficiency.
- This robs the young company of the very properties that allowed it to innovate rapidly and seize opportunities engendered by innovation.

The models combine

Conclusion

- The models combine;

Corporate
Model



Entrepreneurship
Model



- Bringing new innovations to market often involves a **partnership**;
- An explicit implementation of business strategy, supported and encouraged by the institutionalized elements of both models.

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ANY QUESTION?

Thank you.

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