

**THE IMPORTANCE OF MARKET INSERTION AND ASSESSMENT IN
COMMERCIALISATION – LESSONS FROM THE ENTREPRENEURIAL
INNOVATION VALUE MODEL**

Peter Malone, University of Western Australia

Tim Mazzarol, University of Western Australia

Sophie Reboud, Burgundy School of Business, Dijon, France

Short Abstract:

This paper examines the key role played by market insertion and assessment in successful commercialisation within innovative small firms (ISFs). This draws upon multiple case study analysis and the Entrepreneurial Innovation Value (EIV) model that emerged from this research. Building on the corpus of research in entrepreneurship and innovation concepts, EIV explains the process through which an ISF navigates the turbulent environment of what is new product development (NPD) and commercialisation. It details the importance of both hard and soft skills and why capabilities architecture is needed for success.

Keywords: ISFs, Entrepreneurial, Commercialisation

Introduction and Research Aim

Innovative small firms (ISFs) comprise a small but important segment of the economy of most OECD nations (Henrekson & Johansson, 2010; OECD, 2010). Innovation occurring in ISFs is typically driven by an entrepreneurial leadership style (Varis & Littunen, 2010), and the effective management of the commercialisation process, which is the key to maximizing value (Ernst, 2002). The ability to understand the factors that drive value can assist entrepreneurs and ISFs undertaking the process of commercialisation, an area that is poorly reported in the extant literature (Adams et al., 2006; Pellikka & Virtanen, 2009). An investigation of the factors influencing successful commercialisation in ISFs built on the existing research literature, and an examination of longitudinal case studies of these firms. This included the role played by dynamic capabilities in securing a competitive advantage (Teece, 2007; 2014). As well as the aim of addressing the need for more theory to guide future research and strategic action within ISFs (Tan, et al., 2009). The aim of this study is:

To understand the role played by market insertion and assessment in the success of commercialisation by Innovative Small Firms (ISFs), and how this is explained within the Entrepreneurial Innovation Value (EIV) model.

We address the following research questions in line with this aim:

RQ1: How important is market insertion and assessment to successful commercialisation?

RQ2: What roles do organisational learning and capabilities play within the innovative small firm where resource scarcity is a key strategic consideration?

RQ3: How important is knowledge management within the top management team and their key employees?

RQ4: What is the importance of third-party networks and complementary actors?

Background and Conceptual Model

The Entrepreneurial Innovation Value Model (EIV) provides strategic framework for understanding the dynamic processes that influence strategic and operational decision making during the commercialisation process of ISFs (Malone et al, 2015; 2020). The EIV builds on work pioneered by Santi et al. (2003) designed to understand the strategic issues impacting successful commercialisation within ISFs (Mazzarol & Reboud, 2011). This identified a three-step process, commencing with an assessment of the potential value (potential rent) of an innovation prior to commercialisation using a conceptual innovation rent framework (Alvarez & Barney, 2004; Alvarez, 2007). This was followed with a second step comprising market insertion and assessment of the competitive forces, and market acceptance of the innovation. Followed by a third step in which the market feedback was examined against the firm's available resources, resulting in a reassessment of the potential value of the innovation (appropriable rent), and then the final value likely to be captured (residual rent) (Duhamel et al., 2014; Do et al, 2014; 2018).

The EIV develops the original innovation rent value capture concepts and extends its with the inclusion of the concepts of dynamic capabilities (DC) (Teece, 2007; 2012; 2014; 2015), and absorptive capacity (ACAP) (Cohen & Levinthal, 1990; Gray, 2006; Zahra & George, 2002). In addition, it demonstrates the importance played by a *Capabilities Architecture*, comprising the soft-systems of knowledge management (KM) (Nonaka & Takeuchi, 1995; Gray, 2006), organisational learning (OL) (Templeton et al., 2004), open innovation (OI) (Chesbrough, 2003), managerial competence (MC) strong entrepreneurial cognition (EC) (Mitchell et al., 2002), entrepreneurial orientation (EO) (Lumpkin & Dess, 1996), and the need to build and sustain social capital (Chesbrough, 2003).

Methodology

The lifecycle of three ISFs were examined against the EIV model. Skin Elements Ltd (SEL), Scanalyse Pty Ltd (SPL) and Live Technologies Pty Ltd (LTPL) were examined in relation to their lifecycle and how they built capabilities during their commercialisation journey. Case study methodology was employed which followed the three firms over their lifecycles (Eisenhardt, 1991). SEL co-created its innovative organic skincare and therapeutic formulations with its manufacturing partners that allowed the firm to move quickly and see success with world release of its skincare technology. SPL was studied over its lifecycle and though it was quick to insert its technology into the market it realised it would need to pivot and adjust its product to a service offering to succeed. The outcome was successful though the cost of pivoting saw the company sold to its competitive peer. LTPL was followed through case study interviews over the period of its operation though failed to achieve a successful outcome primarily due to not engaging with the market and receiving customer (VOC) validations over its CVP.

Results and Discussion

A key finding was that early market entry and co-creation with lead customers drives commercialisation success. Firms that have high dynamic capabilities and strong absorptive capacity are more likely to overcome weaknesses in their innovation, resources, market, and strategy. The most important success factor was found to be how firms applied the *Capabilities Architecture*. In particular, the ability to engage with key stakeholders in the market (e.g., lead customers, key suppliers, complementary actors), to acquire, assimilate, transform, and exploit knowledge, build trust, and adapt their NPD processes to generate product outcomes likely to gain market diffusion.

Implications for Theory and Practice

The innovative technology is just a start and even the best technology will not commercialise by itself. The technology must be developed concurrently with market insertion, resource, and capabilities development. NPD techniques and business model design are valuable tools but like any tools they are only as good as the skills of the craftsman. The *Capabilities Architecture* is essential to success, and while these are “soft-systems” that can be nebulous, they should be recognised and actively developed from the firm’s inception. The training and education provided to start-up entrepreneurs focuses too much on NPD techniques and business model Design (also design thinking), and not enough on the elements of the *Capabilities Architecture*. The firm’s resource-based view (RBV) (Barney, 1991) is important, and the DC process offers a means of mitigating any resource weaknesses and scarcity within the ISF in the commercialisation process. Governance and ownership structure are also important to the long-term success of the ISF in extracting value from an innovation. And EIV provides the strategic framework to assess the firm’s strategic management of commercialisation.

References

- Adams, R., Bessant, J., & Phelps, R. (2006). Innovation Management Measurement: A Review. *International Journal of Management Reviews*, 8(1), 21-47.
- Alvarez, S. A. (2007). Entrepreneurial Rents and the Theory of the Firm. *Journal of Business Venturing*, 22(3), 427-442.
- Alvarez, S. A., & Barney, J.B. (2004). Organizing rent generation and appropriation: toward a theory of the entrepreneurial firm. *Journal of Business Venturing*, 19(5), 621-635.
- Barney, J. B. (1991). "Firm Resources and Sustained Competitive Advantage." *Journal of Management* 17(1): 99-120.
- Chesbrough, H. W. (2003). *Open Innovation: The New Imperative for Creating and Profiting from Technology*. Boston M.A., Harvard Business School Press.
- Cohen, W., & Levinthal, D. (1990). Absorptive Capacity: A New Perspective on Learning and Innovation. *Administrative Science Quarterly*, 35(1), 128-152.
- Do, T. H., Mazzarol, T., Soutar, G. N., Volery, T., & Reboud, S. (2018). Organisational Factors, Anticipated Rents and Commercialisation in SMEs. *International Journal of Innovation Management*, 22(2): 1-30.
- Do, T. H., Mazzarol, T., Volery, T., & Reboud, S. (2014). Predicting anticipated rent from innovation commercialisation in SMEs. *European Journal of Innovation Management*, 17(2), 183-208.
- Duhamel, F., Reboud, S., & Santi, M. (2014). Capturing value from innovations: the importance of rent configurations. *Management Decision*, 52(1), 122-143.
- Eisenhardt, K.M. (1989). Building Theory from Case Study Research. *Academy of Management Review*, 14(4), 532-550.
- Ernst, H. (2002). Success Factors of New Product Development: A Review of the Empirical Literature, *International Journal of Management Reviews*, 4(1): 1-40.
- Gray, C. (2006). Absorptive Capacity, Knowledge Management, and Innovation in Entrepreneurial Small Firms. *International Journal of Entrepreneurial Behaviour & Research*, 12(6), 345-360.
- Hendrekson, M., & Johansson, D. (2010). Gazelles as job creators: a survey and interpretation of the evidence. *Small Business Economics*, 35(2), 227-244.
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. *Academy of Management Review*, 21(1), 135-172.
- Malone, P., Mazzarol, T. & Reboud, S. (2015). *Understanding Commercialization in Entrepreneurial Firms: A Case Example*. International Council of Small Business (ICSB) 60th Annual Conference 2015, 6-9 June, Dubai UAE.
- Malone, P., Mazzarol, T., & Reboud, S. (2020). Skin Elements Ltd - The Importance of Knowledge Management in Commercialisation. In N. Pfeffermann (Ed). *New Leadership in Strategy and Communication: Shifting Perspective on Innovation, Leadership, and System Design*. (pp. 299-328), Singapore, Springer-Nature.
- Mazzarol, T., & Reboud, S., (Eds). (2011). *Strategic Innovation in Small Firms: An International Analysis of Innovation and Strategic Decision Making in Small to Medium Sized Enterprises*. Cheltenham, UK. Northampton, MA USA, Edward Elgar Publishing.
- Mazzarol, T., Malone, P., & Reboud, S. (2017). Scanalyse - A Case Study of the Role of Social Capital, Strategic Networking, and Word of Mouth Communication in the Diffusion of an Innovation. In N. Pfeffermann, & J. Gould, (Eds). *Strategy and Communication for Innovation: Integrative Perspectives on Innovation in the Digital Economy Third Edition*. (pp. 147-174), Switzerland, Springer-Nature.
- Mitchell, R. K., Busenitz, L., Lant, T., McDougall, P.P., Morse, E. A., & Smith, J. B. (2002). Toward a Theory of Entrepreneurial Cognition: Rethinking the People Side of Entrepreneurship Research. *Entrepreneurship Theory and Practice*, 27 (2), 93-104.
- OECD. (2010). *SMEs, entrepreneurship, and innovation*. Paris, www.oecd.org, Organisation for Economic Co-operation and Development.
- Pelikka, J., & Virtanen, M. (2009). Problems of commercialisation in Small Technology-based Firms. *International Journal of Entrepreneurship and Innovation Management*, 9(3), 267-284.
- Santi, M., Reboud, S., Gasiglia, H., & Sabouret, A. (2003). Modèle de valorisation et de protection intellectuelle des innovations des PEI. Rapport de recherche et mode d'emploi. July, HEC/INPI: 63p.
- Tan, J., Fisher, E., Mitchell, R., & Phan, P. (2009). At the centre of the action: Innovation and technology strategy research in the small business setting. *Journal of Small Business Management*, 47(3), 233-262.
- Teece, D. J. (2007). Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance. *Strategic Management Journal*, 28(13), 1319-1350.
- Teece, D. J. (2012). Dynamic Capabilities: Routines versus Entrepreneurial Action. *Journal of Management Studies*, 49(8): 1395-1401.
- Teece, D. J. (2014). A dynamic capabilities-based entrepreneurial theory of the multinational enterprise. *Journal of International Business Studies*, 45(1), 8-37.
- Teece, D. J. (2015). Keynote address to ANZAM Conference, 2 December, Managing for Peak Performance. *29th Australian and New Zealand Academy of Management (ANZAM), Annual Conference*, 2-4 December 2015, Queenstown, New Zealand.
- Templeton, G. F., Morris, S. A., Snyder, C. A., & Lewis, B. R. (2004). Methodological and Thematic Prescriptions for Defining and Measuring the Organizational Learning Concept. *Information Systems Frontiers*, 6(3), 263-276.
- Varis, M., & Littunen, H. (2010). Types of innovation, sources of information and performance in entrepreneurial SMEs. *European Journal of Innovation Management*, 13(2), 128-154.
- Zahra, S., & George, G. (2002). Absorptive capacity: a review, re-conceptualization, and extension. *Academy of Management Review*, 27(2), 185-203.

